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11:40 a.m., September 30, 2019

2. Djibouti—2019 Article IV Consultation

Documents: SM/19/218 and Correction 1; and Correction 2; and Correction 3 ; and Correction 4; and Supplement 1; and Supplement 2; SM/19/224

Staff: Roudet, MCD; Porter, SPR

Length: 56 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	**Alternate Executive Directors**
	K. Obiora (AE)
M. Raghani (AF)	
	R. Morales (AG), Temporary
	N. Heo (AP)
	K. Florestal (BR), Temporary
	P. Sun (CC)
	E. Cartagena Guardado (CE), Temporary
	C. Williams (CO), Temporary
	C. Just (EC)
	P. Rozan (FF)
R. von Kleist (GR)	
	N.Thiruvenkadam (IN), Temporary
	Mateus (IT), Temporary
	K. Chikada (JA)
	EL Qorchi (MD)
	D. Fadhel (MI), Temporary
	N. Jost (NE), Temporary
	M. Bernatavicius (NO), Temporary
	L. Palei (RU)
	R. Alkhareif (SA)
	Z.Mahyuddin (ST), Temporary
P. Inderbinen (SZ)	
	J. Stockill (UK), Temporary
	P. Pollard (US), Temporary

C. McDonald, Acting Secretary
K. Hviding, Summing Up Officer
B. Zhao, Board Operations Officer
M. McKenzie, Verbatim Reporting Officer

Also Present
Institute for Capacity Development: N. Feerick. Legal Department: C. El Khoury. Middle East and Central Asia Department: J. Azour, B. Baduel, M. Debbich, T. Koranchelian, J. Li, S. Roudet, T. Stone. Strategy, Policy, and Review Department: N. Porter. World Bank Group: K. Carey. Executive Director: M. Mouminah (SA), L. Villar (CE). Alternate Executive Director: F. Sylla (AF). Senior Advisors to Executive Directors: G.

Gasasira-Manzi (AE). Advisors to Executive Directors: S. Bah (AF), E. Boukpessi (AF), S. Buetzer (GR), M. Kikiolo (AP), H. Mori (JA), A. Olhaye (AF), T. Persico (IT), A. Ribeiro Mateus (IT), N. Shenai (US), D. Shestakov (RU), A. Zaborovskiy (EC), Y. Zhao (CC), Y. Pierre (BR).

2. DJIBOUTI—2019 ARTICLE IV CONSULTATION

Mr. Raghani and Mr. Olhaye submitted the following statement:

On behalf of our Djiboutian authorities, we would like to thank the Executive Board, Management and staff for their continued support to Djibouti's development endeavors. The authorities appreciate the constructive discussions held in Djibouti in the context of 2019 Article IV consultations. They broadly share staff's policy recommendations and remain determined to pursue needed structural reforms to fight poverty and reduce unemployment.

The authorities are implementing an ambitious development agenda to enhance intra-regional interconnectedness and become a transport and logistics hub, taking advantage of Djibouti's geographical position. In this connection, the large infrastructure investment boom that took place in 2014-2017 has strengthened the country's logistic and transport capabilities. Moreover, with the launch of the Djibouti International Free Trade Zone (DIFTZ) that sits adjunct to the Doraleh Multi- Purpose Port, our authorities anticipate an acceleration in trade, investment and growth, in line with Djibouti's Vision 2035.

The 2019 Article IV consultation was an opportunity to take stock of Djibouti's macroeconomic situation and its development aspirations. The country also, greatly benefits from Fund technical assistance (TA) in number of areas which is instrumental to improving institutional and human capacities.

Recent Developments and Outlook

Since the last Article IV consultation, Djibouti's economic performance has continued to be sound. Real GDP growth stood at 5.1 percent in 2017 against an average of 7 percent per annum during the phase of large public investments of 2014-2017. With the resumption of Ethiopia's international trade through Djibouti, real GDP growth rebounded to 5.5 percent in 2018 in a low inflation environment of 0.1 percent. Looking ahead, the authorities anticipate real GDP growth of 7 percent this year and to remain between 7-8 percent in the medium-term notably on the back of the $4-billion gas pipeline, LNG plant and export terminal projects financed through foreign direct investments (FDI). The authorities also remain committed to implementing steadfastly their structural reform agenda to attract private investment and increase productivity.

The fiscal deficit fell sharply from 15.7 percent of GDP in 2015 to 2.5 percent of GDP in 2018 due mainly to the reduction in capital spending. Notwithstanding the limited fiscal space, the authorities have shown a strong will to stabilize the tax burden in the short term, and plan to raise it over the medium-term. They acknowledge that the scaling up in public investment expenditures between 2014 and 2017 to finance critical infrastructure projects, such as the Addis Ababa-Djibouti railway project, led to the accumulation of public debt. The recent agreement to restructure the railway project loan with the principal creditor will significantly ease the debt service as rightly stated by staff. Going forward, there is an agreement with staff that public debt-financed investments should be curtailed, with a greater focus on projects financed by FDI and increase public-private partnerships (PPPs).

In the monetary area, the currency board continues to serve the economy of Djibouti well. Inflation remains low at 0.1 percent and external reserves are broadly adequate by covering 3.2 months of imports. Regarding the financial sector, banks are liquid and nonperforming loans (NPLs) have come down from 22.5 percent in 2016 to 18 percent in 2018. Private sector credit grew by 8.0 percent in 2018 and 10.7 percent in the first quarter of this year. Our authorities are also making progress in upgrading the banking regulatory and supervisory framework including through strengthened prudential regulations in accordance with Basel II/III. These include provisions to address corporate governance, enhance credit risk management, reduce foreign exchange exposure, and improve interbank risk management. The authorities are also advancing access to financial services through the elaboration of a national financial inclusion strategy, with the assistance of the United Nations Development Programme (UNDP).

Our authorities have made good advances in strengthening the anti-money laundering and combatting the financing of terrorism (AML/CFT) framework. Djibouti has recently become a full member of the Middle East and North Africa Financial Action Task Force (MENA-FATF). However, our authorities agree on the need for further efforts to reinforce the effectiveness of the AML/CFT framework and call for Fund TA in this area.

In line with Vision 2035, the authorities have improved the business environment, notably in the areas of business creation, access to finance and registration of properties. This progress is reflected in the large leap in Djibouti's ranking from 171st to 99th in the World Bank's Doing Business over the past two years. Building on these achievements, the authorities aim to reduce factor costs, crucial to spur small and medium-sized enterprises (SME)

development and boost inclusive growth. In this context, they plan to create a conducive environment to liberalize the telecommunication sector.

Policy and Reform Agenda Going Forward

Djibouti's economic prospects remain favorable. However, the authorities are fully cognizant of the downside risks that threaten the outlook, notably related to debt overhang, regional geo-political tensions, escalating international trade disputes and a slowdown of growth in the main trading partners. To hedge against these risks, our authorities are determined to tackle debt vulnerabilities and preserve macroeconomic and financial stability while creating fiscal space for poverty-reducing spending and advancing structural reforms to strengthen governance and foster job creation.

Fiscal and Debt Policies

The authorities fully agreed with the staff on the need to raise domestic revenue mobilization. In this regard, they plan to enhance tax collection and tax administration. Moreover, the authorities appreciate the recommendations laid out in the Fund TA report on tax expenditures and reaffirm their commitment to broaden the tax base. On the spending side, the authorities will step up efforts to contain current expenditures and improve public spending efficiency while increasing social safety net, health and human capital outlays.

The government is determined to put debt-to-GDP ratio on a downward path through a multi-pronged approach and preserving debt sustainability. In this regard, they agree on the need to reduce the pace of borrowing and prioritize concessional financing and FDI. With Fund TA, they plan to strengthen debt management capacity. On the other hand, our authorities are of the view the large strategic investments undertaken in recent years will bear fruits and translate into higher regional trade and growth, which will contribute to further reducing the debt-to-GDP ratio and alleviate debt service burden over the medium term. In addition, they will endeavor to keep close oversight of public enterprise management and indebtedness.

Financial Sector

The authorities are resolved to reinforce financial sector stability. In this respect, they look forward to the Financial Sector Stability Review (FSSR) that will help elaborate a capacity building roadmap to tackle the financial vulnerabilities. The Central Bank of Djibouti (BCD) will build on recent progress made in alleviating pressures on correspondent banking

relationships (CBRs)—including improving the AML/CFT framework, strengthening the Financial Intelligence Unit (FIU), and developing new banking relationships—to make additional strides in enhancing the financial sector resilience. The central bank will continue implementing the remaining recommendations under the safeguard assessment to buttress its governance and adopt international financial reporting standards.

Structural Reforms

Implementing appropriate structural reforms to achieve sustained and inclusive growth ranks high in the authorities' agenda. The authorities aim to reduce the high cost of electricity and ICT services, which will contribute to stimulate private sector activities. In this vein, progress is being made in developing renewable energy to diversify the energy mix, reduce electricity costs, and ensure energy security. Furthermore, Djibouti, the landing point for several international fiber optics lines that facilitates end-to-end telecommunications across continents is also well placed to become a regional ICT hub.

Governance

The authorities are taking steps to address governance issues, in line with their national development strategy under Vision 2035. They will pursue their reform efforts to promote good governance and transparency in public processes and align the AML/CFT framework more closely with international standards. They are also working closely with the IMF, the World Bank and other partners to improve governance across several sectors, including enhancing governance related to SOEs, ameliorating public procurement practices and taking steps to create a Treasury Single Account (TSA).

Statistics and Capacity Building

Our authorities have undergone an intensive process to review their national accounts and balance of payments statistics. With the support of TA from both the IMF and the World Bank, the revised figures now incorporate the transshipment, logistics, freight forwarding and light manufacturing activities that take place in the ports and free trade zones. This first phase of revisions focused on the period 2013 -2017 and resulted in significant upward revisions to nominal GDP. On this basis, the authorities are currently in the process of reviewing national accounts and balance of payments data extending back to 2008.

Djibouti continues to face significant capacity constraints that have often led to delays in policy and reform implementation. Given the country's ambitious development agenda, the authorities recognize the importance of enhancing human and institutional capacities to achieve their objectives. In this respect, the authorities would appreciate timely delivery of Fund and other partners' technical assistance.

Conclusion

Our Djiboutian authorities will continue to make progress in advancing their policy and reform agenda. To this end, they look forward to stronger engagement with the Fund.

Mr. Fanizza, Ms. Mateus and Mr. Persico submitted the following statement:

We thank staff for the informative set of papers and Messrs. Raghani and Olhaye for their helpful buff statement. The infrastructure investment strategy taken by the Djiboutian authorities has helped growth in recent years, but has raised public debt significantly. We agree with staff that to maintain debt sustainability, the authorities should pay close attention to the quality of investments. In addition, we have the following comments.

The authorities should develop a medium-term fiscal and debt management framework, that relies on concessional financing. While the recent decreases in the fiscal deficit constitutes a positive signal, the authorities should broaden the tax base, strength SOEs governance, and monitor their current and contingent liabilities. Moreover, we encourage the authorities to find the needed fiscal space to tackle poverty.

To sustain growth, the authorities should aim at increasing competitiveness, implementing structural reforms and attracting FDI. Improvements in markets for electricity and telecommunications, as well as in the business climate would help increase competitiveness and promote private-led growth. While we stress the importance of strengthening the anti-corruption framework, we share the authorities' caution on the use of the related perception-based indicators.

The authorities should endeavor to make growth more inclusive, by broadening job participation. We praise the authorities' efforts to ensure a favorable environment for refugees. The current low formal levels of labor participation and high unemployment require investing in education and developing contingent plans to deal with new refugees' inflows. We would

appreciate if staff could provide details on the size of the informal sector and its potential role to offer opportunities for refugees' employment.

Finally, we noticed that the authorities are still considering whether to publish the Report. We encourage them to consent to the publication as a way to enhance confidence among investors and development partners.

Mr. Di Tata submitted the following statement:

We thank staff for the comprehensive set of papers and Mr. Raghani and Mr. Olhaye for their helpful buff statement.

Djibouti has experienced strong growth in recent years, fueled by the implementation of large investment projects to develop transport and logistics infrastructure. This has been accompanied by rapid debt accumulation. Real GDP growth averaged close to 7 percent during 2014-17. After slowing in 2017 owing to the completion of major projects, growth is expected to increase to 5.5 percent in 2018. Inflation has been low, and the current account balance has experienced large swings due to fluctuations related to re-export activities, with the underlying balance estimated at -0.8 percent of GDP in 2018. Errors and omissions are large. Official reserves have increased to 3.2 months of imports in 2018, a level that is broadly adequate. Notwithstanding the strong growth performance, poverty and unemployment remain high. Assuming continued efforts to improve the business climate, real GDP growth is projected by staff at 6 percent a year over the medium term. Main downside risks include delays in implementing reforms to ensure debt sustainability, regional geopolitical strains and escalating trade tensions, higher oil prices, and a worsening of global financial conditions. Could staff elaborate further on the differences of opinion with the authorities regarding the prospects for real GDP growth, which the authorities view as more optimistic? What are the main reasons behind the very high rate of unemployment? Also, what is the staff's opinion about recent reliance on FTZs to accelerate economic development?

We agree with staff that a multifaceted approach is needed to address debt vulnerabilities and preserve macroeconomic stability. In this regard, several key projects should be operationalized by addressing bottlenecks to generate the revenues necessary for debt service, the pace of borrowing should be reduced while prioritizing concessional financing and FDI, and the fiscal framework should be strengthened.

We concur on the need to develop a multi-year fiscal framework covering the central government and incorporating the fiscal risks associated with SOEs and PPPs. Staff estimates that bringing the NPV of PPG debt to GDP and the debt service to revenue ratios back to levels consistent with a "moderate" risk of debt distress would require an overall primary surplus of around 0.9 percent of GDP, compared with an implicit primary deficit of 1 ½ percent in the baseline scenario. We agree with staff that, given the central government's limited fiscal space, most of the fiscal effort would need to come from the SOEs, although reforms at the central government level should also play a role. In this connection, we encourage the authorities to strengthen domestic revenue mobilization, including by rationalizing special tax regimes and exemptions; enhance SOEs profitability; and better prioritize spending based on a functional expenditure review. We also encourage them to press ahead with their plans to strengthen SOE governance, public procurement, public investment management, and cash management. At the same time, we welcome the efforts under way to improve targeting and the analysis of poverty reduction programs. Could staff elaborate on the expected timing of approval of the Code of Governance for SOEs, which is delayed?

While the recent restructuring of the railway loan has eased debt service pressures over the next few years and the debt appears to be sustainable, the DSA concludes that Djibouti is at high risk of debt distress. In this regard, we agree with staff on the importance of developing a medium-term debt strategy and strengthening debt management, including by introducing a formal ceiling on external PPG debt and advancing planned reforms aimed at improving inter-agency coordination.

The currency board arrangement has served Djibouti well and should be maintained. However, staff's analysis suggests that the external position is weaker than implied by fundamentals, with a significant overvaluation, which calls for the implementation of structural reforms to improve competitiveness. Could staff comment on the reliability of the EBA-light approach calculations in this case, particularly given the large size of errors and omissions in the balance of payments?

Although the financial sector remains fragile and financial inclusion is low, the Central Bank of Djibouti is implementing a multiyear action plan to strengthen banking regulation and supervision. Progress has been made in reducing NPLs, although these still stood at about 18 percent of total claims in Q1 2019. Going forward, we encourage the authorities to continue with their efforts by implementing newly-adopted regulations for asset classification and provisioning, governance, capital adequacy, and exposures to connected

parties. There is also a need to expand access to financial services while modernizing the credit bureau and operationalizing the new credit guarantee fund. Significant progress has been made in the AML/CFT area, but additional efforts are necessary to strengthen the effectiveness of the framework and avoid pressures on CBRs. The Fund's Financial Sector Stability Review (FSSR) scheduled for later this year will provide a good opportunity to conduct a thorough assessment of the financial sector and design a capacity development plan.

Structural reforms to promote private sector development and job creation are essential to increase competitiveness and reduce poverty. The authorities should be commended for the progress made in recent years in enhancing the business climate, as demonstrated by the improvement in Djibouti's rank in the World Bank's Doing Business report. Going forward, these efforts should be continued, especially by strengthening contract enforcement and property rights. Lowering production costs and raising labor productivity by improving Djibouti's Telecom's governance and the management of the electricity operator are also important to encourage private investment, reduce costs, and enhance service quality. At the same time, the quality of education should be upgraded to address the shortages of skilled labor faced by the private sector. In addition, the anti-corruption framework needs to be enhanced by strengthening the independence and capacity of the National Anti-Corruption Commission, enforcement, and the implementation of the asset declaration system.

We welcome recent progress in statistics, which resulted in significant upward revisions to GDP, and encourage the authorities to address remaining shortcomings. In this regard, it is especially important to strengthen the balance of payments information, given that the large errors and omissions complicate the analysis.

Lastly, we appreciate Annex VII of the report, which presents the capacity development priorities agreed between staff and the authorities for the next 18 months to address Djibouti's significant capacity and development-building challenges.

With these comments, we wish the Djiboutian authorities every success in their future endeavors.

Mr. Obiora and Mr. Essuvi submitted the following statement:

We broadly agree with the thrust of the staff appraisal. Djibouti's economy is continuing to recover from the 2017 slowdown, driven by the Vision Djibouti 2035, which aims to transform the country into a logistics hub within the Horn of Africa region. Despite the positive performance, unemployment and inequality remain high and the vision of transforming the country into a middle-income status has raised the risk of debt distress. Against this backdrop, we welcome the authorities' determination to pursue appropriate structural reforms to attract private investment, increase productivity, and promote inclusive growth, as succinctly highlighted in Mr. Raghani and Mr. Olhaye's adept buff statement. In addition, we urge the authorities to implement supporting policies to ensure macroeconomic stability and address debt vulnerabilities.

Fiscal policy should be geared toward addressing debt vulnerabilities and generating fiscal space for priority social spending. Although Djibouti's public and publicly-guaranteed debt appears currently sustainable, the country is assessed at high risk of distress. In order to reverse this assessment, we encourage the authorities to enhance their debt management capacity and urgently resolve the issues underlying the delays in operationalizing the key infrastructure projects such as the railways. This is critical because revenues from the railway and similar projects could cushion the effects of projected increase in debt service. In the meantime, we agree with staff's recommendation that going forward, the authorities should shift the borrowing strategy towards concessional loans. In addition, augmenting the fiscal space to increase social spending is critical for poverty reduction. This could be achieved by curbing tax exemptions and prioritizing expenditure. While we welcome the authorities' decision to prepare the tax expenditure report, we wonder if staff could comment on the lack of progress in rationalizing tax exemptions.

Addressing persisting vulnerabilities in the financial sector is critical to achieving inclusive growth. While we welcome the authorities' reform of prudential regulations, the high level of NPLs and pressure on corresponding banking relationships (CBRs) are major concerns for the health of the financial sector in particular and the economy in general. Against this backdrop, we urge the authorities to redouble their efforts in reinforcing the banking supervision framework in line with the Standards stipulated by the relevant Basel Committees. We also encourage a significant strengthening of the country's AML/CFT framework as it is imperative to preserve CBRs, enhance transparency and promote financial inclusion. While we welcome the

upcoming Financial Sector Stability Review, we find it strange that data for provisions to non-performing loans were last reported in 2014. Given the criticality of this information for assessing the health of the sector, we welcome staff's comments on the rationale behind this omission.

Improving the business environment and advancing structural reforms are required to enhance competitiveness and reduce poverty. Structural bottlenecks are hampering poverty reduction, inclusive growth and diversification of the Djibouti's economy. Dealing with these challenges would require urgent improvements to the business environment alongside major structural reforms to promote job creation and private sector led growth. To this end, we commend the authorities on the efforts, which precipitated recent improvements on the World Bank's Ease of Doing Business ranking. Notwithstanding these, the perception of corruption remains high. We therefore encourage the authorities to improve public governance and accountability and strengthen the legal and institutional frameworks for fighting corruption.

Mr. Fachada, Ms. Florestal and Mr. Nithder Pierre submitted the following statement:

We thank staff for the informative reports and Messrs. Raghani and Olhaye for their insightful statement. Economic growth in Djibouti is gradually strengthening after the moderate slowdown in 2017, reflecting a recovery in trade flows and logistics activities, underpinned by newly-developed infrastructures. However, poverty remains high and growth has been non-inclusive.

While Djibouti is projected to maintain the path of robust growth over the medium term, significant downside risks persist. We underscore those stemming from potential delays in implementing reforms to ensure debt sustainability in the context of limited fiscal space, insufficient private sector investment despite recent advances in strengthening the business environment, insufficient progress in improving governance particularly at the level of public companies, financial sector vulnerabilities and ML/FT risks, contributing to intensify pressures on correspondent banking relationships (CBRs). The regional security situation and climate change—with the rising flow of refugees—add to the uncertainties. Against this background, we take positive note of the authorities' commitment to strengthen governance while preserving macroeconomic stability and fostering sustainable and inclusive growth.

Public financial management needs to be strengthened to address debt vulnerabilities and enhance fiscal space for poverty reduction and inclusive growth. While the newly publicly-financed infrastructures position Djibouti well to become a trade and logistics hub for the Horn of Africa region, they come at the cost of mounting public debt. Indeed, the country is assessed to be at high risk of debt distress although, according to the DSA, the authorities are expected to be able to service their debt under current terms. In this regard, we welcome the planned technical assistance (TA) for the development of a medium-term debt strategy. In addition, as proposed in the staff report, a multifaceted approach will facilitate the generation of tax revenue for debt service through several key projects. Further actions are needed to strengthen public financial management with regards to public companies and PPPs. On the revenue side, diversifying sources of fiscal revenue given that the fast-growing sectors are largely tax-exempt, is important.

Decisive but still insufficient actions have been taken to maintain financial stability, promote financial inclusion and preserve CBRs. We welcome the Central Bank of Djibouti (CBD) commitment to continue to upgrade banks' regulatory environment and strengthen risk-based supervision. Steps taken to modernize the credit bureau and the payment system, and to operationalize the new credit guarantee fund are valuable in improving access to finance while reducing intermediation costs. Commendable progress was also made recently to strengthen the AML/CFT framework; however, additional actions may be required to more forcefully address CBRs pressures. In this respect, we wonder what other factors come into play for CBRs withdrawals given that Djibouti is a small economy and international banks may not find it profitable under the current state of prudential norms, regulations, and reputational and legal risks to do business with the country. Staff's comments would be welcome.

As underscored in the staff report, given the complex regional security situation, Djibouti has welcomed increasing flows of refugees with a hefty cost on the country's public finances and services. Djibouti was one among the first 14 states identified as qualifying to tap into for the regional sub-window for refugees and host communities for funding under IDA18. We wonder if in recommending that the authorities seek donor assistance, staff has indication that there are other sources of financing for the refugee inflows that they are not taping into presently. Comments would be welcome.

The Fund has a rich program of capacity building with Djibouti and its continuation and intensification is encouraged. Notable progress has been made in improving statistics and in strengthening the exchange of information

and coordination between government bodies. Still, important shortcomings remain with respect to the timely availability of reliable data and information.

Ms. Levonian and Mr. Williams submitted the following statement:

We thank staff for their comprehensive reports and Messrs. Raghani and Olhaye for their insightful buff statement. Djibouti continues to reap rich growth dividends from the recent investment boom. Notwithstanding, extreme poverty and wide income disparity persist. To tackle these and other challenges, the authorities need to remain focused on implementing their ambitious development strategy, Vision Djibouti 2035. We broadly concur with staff's assessments and recommendations and offer the following remarks for emphasis.

Sound macrostructural reforms will be key to sustaining the growth momentum and improving socio-economic outcomes. While Djibouti has been growing robustly, this has not benefited large portions of the population. Poverty remains elevated at around 40 percent and based on staff's assessments the rapid expansion in the trade and logistics sectors has not created large numbers of jobs for Djiboutians. These results underscore the need for a redoubling of efforts to further upgrade the country's human capital stock and promote good governance. We commend the marked progress made in enhancing the business environment that led to a 72-place jump on the World Bank's Doing Business Index and urge the authorities to sustain the ongoing initiatives. Taken together, these undertakings should help to spur greater private investment, support inclusive growth, and advance social upliftment.

The authorities should aim to lock in progress on the fiscal front by prioritizing revenue mobilization while simultaneously improving expenditure efficiency. While large externally-financed public investments have enabled Djibouti to leverage its strategic location to benefit from a hub of trade and logistics activities in the region, they contributed to a doubling of the public debt over the last five years. In this regard, we agree with staff that the government should curb its appetite for borrowing and limit debt raising to concessional financing. Further actions to enhance the efficiency of the tax system, such as by reducing tax expenditures, complemented by implementing critical public financial management reforms covering, inter alia, better cash management and public procurement, will be key to creating fiscal space to support priority spending, including education. These efforts should be augmented by strong and sustained actions to improve oversight of SOEs.

On the financial sector, we commend the ongoing progress while encouraging further steps toward strengthening resilience. The authorities have taken meaningful actions to upgrade the legislative and regulatory framework. The upcoming Financial Sector Stability Review should provide further guidance on additional steps to improve the health of the financial sector. In the meantime, we urge the authorities to continue to take steps to strengthen the AML/CFT framework to, inter alia, alleviate pressures on correspondent banking relationships.

Finally, capacity development (CD) remains paramount for Djibouti to advance its development agenda. While we consider the priorities identified in the CD strategy to be appropriate, they appear burdensome for implementation over the projected 18-month horizon. We invite staff's comments on the authorities' absorptive capacity.

Mr. Villar and Mr. Cartagena Guardado submitted the following statement:

We thank staff for the comprehensive report and Mr. Raghani and Mr. Olhaye for their informative buff statement. We broadly agree with the Staff's assessment.

We welcome advances achieved by Djibouti. Economic growth has been high in recent years, inflation rates kept low, and the authorities have developed a strategic plan and made investments for the country to become a logistic and transport hub in the region. We also welcome the significant improvements in the ranks of Doing Business. That said, we want to emphasize some elements, such as the fiscal risks that may arise from the large public investments, the importance of policies for the most vulnerable population, the financial sector vulnerabilities, and statistical issues.

We welcome Djibouti's significant progress in Doing Business. Djibouti's rank improved significantly from position 171 in 2017 to 99 in 2019, being among the top 10 reformers for two consecutive years, reflecting the authority's commitment to develop the country. We also welcome good governance as one of the pillars of its development strategy, the set of reforms to improve transparency in public processes as well as the creation of institutions to fight corruption, which will help reduce the perception of corruption.

Large public investments' pressures on fiscal stance and prospects. We welcome Djibouti's efforts to position the country as a regional trade and logistics hub, taking advantage of its geographical location. However, we also

notice the significant debt pressures given the large investments in few projects and the Staff's assessment that debt is at high risk of distress. With a debt-to-GDP that reached 71 percent in 2018—almost twice the one of 2013—we consider that the agreement the authorities reached recently is an important step to alleviate the pressures on the fiscal deficit and debt. Ensuring the sound management of SOE, mainly the ones that execute these large investments, also remains a challenge for the authorities. Further comments on the status of the restructuring agreement will be welcomed.

Policy measures to improve social conditions of the most vulnerable population remain a priority. We welcome the high growth levels that the country has achieved and the good prospects for the medium term. The staff report notices that a large part of the population does not participate in the labor force (almost one half), the country has high levels of unemployment (almost half of the labor force), and poverty and inequality remain extremely high among rural and urban areas. The significant inflow of refugees put pressure on the social conditions. Thus, economic policies to improve social conditions should be highlighted in the country's strategic development plan. We concur on the importance to create more spillovers from a dual economy that contains a fast-growing trade and logistic sectors to job creation and poverty reduction.

Reducing vulnerabilities in the financial system remains a challenge. Despite that banking capital metrics are stable, the system's asset quality is fragile (NPLs are still high -close to 18 percent- despite reduction from the 20-plus percent level). The Central Bank's commitment to strengthen financial stability and to reduce financing costs is necessary to reduce the vulnerabilities and to increase financial inclusion. Authorities' commitment to upgrade the banking regulation and supervisory framework is an important step to consolidate the soundness of the financial system.

Improved statistics but still some shortcomings. We welcome the authorities' measures adopted to improve the national accounts statistics and we concur with the Staff on the need to continue enhancing the quality and timeliness of statistics.

Mr. Geadah and Ms. Fadhel submitted the following statement:

We thank staff for the useful set of reports and Mr. Raghani and Mr. Olhaye for the helpful buff statement. Djibouti's economy has grown rapidly in recent years as a result of large-scale infrastructure projects and an expansion in trade and logistics activities. This growth, however, has been

accompanied by rapid debt accumulation which placed Djibouti at high risk of debt distress. We agree with the thrust of staff report and would like to highlight a few points.

Djibouti needs to strengthen its fiscal framework and enhance domestic resource mobilization. With tax expenditures of more than 7 percent of GDP, we agree on the importance of rationalizing special tax regimes and exemptions, including for FTZs. We would look forward to IMF TA in this area. Continuing to enhance tax administration and spending efficiency, while strengthening fiscal governance, including SOEs, is also warranted. Adopting a medium-term budgeting cycle consistent with debt sustainability, enhancing public investment management framework, strengthening procurement practices, and consolidating government accounts into a Treasury Single Account could be policy priorities going forward.

There is a need for a medium-term debt strategy to address debt vulnerabilities, which should include addressing bottlenecks that prevent key infrastructure projects from generating expected revenues, reducing the pace of borrowing, and shifting towards concessional financing and FDIs to finance major projects. In this connection, we see merit in staff recommendation for a formal ceiling on external public and publicly guaranteed debt, which has more than doubled between 2013-18 to 71 percent of GDP.

The financial sector remains fragile, despite progress to clean up bank balance sheets. While bank capitalization appears generally adequate, NPLs are high at 18 percent of loans. We note the efforts to strengthen banking regulation and supervision and look forward to the financial sector stability review, scheduled for later this year, which should help design a plan to address vulnerabilities in the sector. We also take note of the national financial inclusion strategy, elaborated with assistance from UNDP, with the aim of advancing access to financial services. We would appreciate further details on this strategy and its objectives. We encourage further strengthening the AML/CFT framework, particularity in view of the MENAFATF mutual evaluation scheduled for 2023. Progress in this area would hopefully prevent further withdrawal of correspondent banking relationships.

Structural reforms are paramount to help Djibouti improve the business environment. We welcome Djibouti’s Vision 2035, which includes a range of reforms aiming to diversify the economy, improve the business environment, and support SMEs. We concur with staff that reducing production costs, including telecommunication and energy costs, encouraging competition and raising labor productivity are crucial to promote

competitiveness and create jobs that would help address the high unemployment rate and support inclusive growth. Continuing to fight corruption, strengthening the rule of law, and protecting investor rights are crucial to encourage more foreign investment to the economy and present Djibouti as a safe destination for doing business. We welcome the authorities' comments on how they intend to protect foreign investors' rights to encourage more FDI inflows?

Mr. De Lannoy and Mr. Voinea submitted the following statement:

We broadly agree with the thrust of the staff appraisal. Djibouti's strong economic growth in recent years was driven by massive infrastructure investment projects; gradually, net exports favored by the completion of those investments are replacing them as the main driver of growth. These positive developments came at the cost of rising debt vulnerabilities. The share of external public and publicly guaranteed debt-to-GDP doubled in the last five years; state-owned enterprises account for two thirds of it, of which more than half is owed to a single creditor. Moreover, the debt is mostly denominated in US dollars and tied to LIBOR, which makes it vulnerable to changes in the USD exchange rate and US monetary policy.

We would like to emphasize three main issues.

First, the new DSA concludes that Djibouti is at high risk of debt distress, but debt remains sustainable under the baseline scenario. However, the realism tools indicate that the DSA is based on non-conservative assumptions about fiscal adjustment and the fiscal multiplier, raising the risk of higher than projected medium-term debt trajectory if these assumptions do not materialize. In this regard, we note that in the baseline scenario both flow indicators (debt service to revenues) and stock indicators (present value of debt to GDP) exceed their respective thresholds. Therefore, we stress the importance of raising tax revenues, in particular in the context of lower than expected project revenue flows from the large infrastructure projects.

We also stress the importance of improving public debt management. In this context, we welcome the newly created Debt Committee that will focus on improving debt management and coordination among government entities. Taking into consideration the data gaps, the reporting problems, the issue of debt arrears, the need for a medium-term debt strategy, and the structure of public debt, we would like to encourage the authorities to adopt the Voluntary Principles for Debt Transparency promoted by the IIF, as a way to enhance transparency, provide adequate recording and monitoring tools, secure

reporting consistency and improve investors relations. Moreover, we welcome the concessional financing extended to Djibouti by, amongst others, IDA, that will increase the average grant element in the coming years.

Second, we support staff's recommendations to the authorities to address the outstanding issues of strengthening governance (in particular in state owned enterprises), intensifying the fight against corruption, improving the public procurement framework, consolidating the multiple public accounts in a Treasury single account, enforcing the rule of law, effectively implementing the AML/CFT framework. These efforts should be made in parallel with designing a medium-term fiscal framework. Together, they would help improve the business environment, reduce the ratio of non-performing loans, and create employment opportunities for the very high number of unemployed. Overall, these structural reforms would increase Djibouti's resilience and reduce its vulnerabilities.

Finally, we would like to commend staff for their extensive reference to, reliance on and use of World Bank reports, analysis and data from various World Bank projects and sources, such as, but not limited to, Debt Management Performance Assessment, Country Policy and Institutional Assessment, Benchmarking Public Procurement, Enterprise Surveys, Doing Business. We consider that this is a good example of combining the existing knowledge and resources of the IMF and World Bank, and that the needed closer coordination between the Bretton Woods institutions starts from a country-level approach.

Mr. Just and Mr. Zaborovskiy submitted the following statement:

We thank staff for the informative set of papers and Messrs. Raghani and Olhaye for their helpful buff statement. Notwithstanding high economic growth in recent years, emerging debt and external vulnerabilities, high poverty and unemployment pose significant challenges for the Djiboutian economy going forward. Staff rightly recommends a set of reforms on the fiscal, financial, and structural fronts to address the existing weaknesses and unlock the country's economic potential. We concur with the thrust of staff's appraisal and policy recommendations.

Pressing ahead with the ambitious structural fiscal reforms and multifaceted measures to address high debt vulnerabilities should be the main priority. Mounting public and publicly guaranteed debt, which more than doubled over the last five years and reached 71 percent of GDP in 2018, reflects the government's development strategy which is based on external

borrowing for large infrastructure projects. We note staff's conclusions that preserving debt sustainability requires not only refraining from new mega-projects but that existing projects need to generate sufficient revenues for debt service. Could staff elaborate more on the economic viability of the biggest projects also in light of the recent partial debt restructuring? To keep debt under the firm control we encourage the authorities to curb non-concessional borrowing and place higher emphasis on attracting FDI which requires broad-based and comprehensive structural reforms. We agree with staff on the importance of fiscal measures on the revenue and expenditure sides, including domestic revenue mobilization, tax expenditures rationalization, better debt management and overall strengthening of the budget processes and public investment management.

Further financial deepening, advanced liquidity management and strengthened banking supervision remain critical to maintain monetary and financial stability. We concur with staff that the current monetary framework is instrumental to keep inflation under control. However, we would also have preferred a more detailed discussion on the monetary policy stance and liquidity management operations used by the central bank given the structure of the economy and the financial system. The lack of reliable data and significant swings in trade flows complicate the assessment of Djibouti's external position which staff concludes to be weaker than implied by fundamentals and desired policy settings, with a real effective exchange rate overvaluation of between 5 and 26 percent. Given the upcoming debt service payments and risks outlined in the Risk Matrix we welcome staff's further elaboration on the reserve adequacy in Djibouti. Regarding the banking sector, we note staff's assessment that the financial sector remains fragile with nonperforming loans at 18 percent of total claims and financial inclusion still low. Strengthening the banking regulation and supervision as well as a framework for the resolution of distressed credit institutions is critical for preserving financial stability and deepening financial inclusion. We encourage the authorities to advance these reforms and welcome the Financial System Stability Review which is scheduled in 2020.

Broad-based private-sector-led economic growth requires the implementation of ambitious structural reforms. We note the progress recently achieved in improving the business environment and advancing market regulation. However, the analysis presented in the Selected Issues Paper (SIP) on reforms to strengthen governance shows that significant structural impediments to growth persist. We encourage the authorities to press ahead with much-needed reforms along the lines of the SIP with due emphasis on enhancing transparency and the AML/CFT framework. In the broader context,

we would welcome staff's further comments on the prioritization of structural reforms, including the most crucial ones at the current juncture. We also welcome the authorities' efforts to strengthen capacity in statistics and policy implementation.

Mr. Palei and Mr. Shestakov submitted the following statement:

We thank staff for a set of clear and informative reports and Mr. Raghani and Mr. Olhaye for the helpful buff statement. We commend the Djiboutian authorities for facilitating the development of large infrastructural projects, which help leverage the country's location as a regional transport hub and ensure strong export-driven economic growth. We agree with staff that the authorities should enhance domestic resource mobilization to reduce the dependence on external debt.

The large-scale infrastructure projects are financed by external loans and contracted mainly by SOEs. The doubling of the debt-to-GDP ratio and the restructuring of the loan by Exim Bank of China call for further strengthening of fiscal sustainability and public financial management. We agree with the staff proposal to expand the tax base to facilitate the repayment of domestic arrears and build resilience to the risk of debt distress. Broader tax base will support government efforts to spread the growth dividends more widely. Elevated unemployment and stagnant poverty and inequality measures highlight the need for economic growth to become more inclusive and broad-based. Acute regional disparities highlighted by staff point to possibly large labor misallocations, the reduction of which might provide a boost to productivity.

The currency board arrangement remains appropriate as it continues to instill confidence among market participants and makes international transactions more predictable. Over time, deeper structural reforms should support the competitiveness of the economy. The financial sector of the economy should become more resilient to increase financial inclusion. Limited access of the population to financial services curtails economic opportunities and conserves poverty. We commend the progress in reducing NPL, but there is a clear need for improved central bank regulation and supervision. We look forward to the Fund's FSSA to detect financial sector's vulnerabilities and design a plan to build up capacity to address them.

Near monopoly position and lack of oversight and accountability of infrastructure SOE may constrain the efficiency of the public sector and call

for additional governance reforms. We welcome successes in improving investment climate which will help to sustain FDI inflows.

We agree that the authorities need a comprehensive strategy aimed at improving governance and addressing corruption risks. As a part of such a strategy, they should leverage the AML/CFT framework. Strengthening independence and capacity of the National Anti-Corruption Commission and law enforcement agencies should be done with considerations of local environment.

The evidence on the effectiveness of various anti-corruption agencies is controversial and rather mixed. For example, anti-corruption agencies without law enforcement powers might be more versatile, viable and adaptable to a range of conditions[1]. Given the growing prominence of the governance and corruption issues in the Fund's surveillance and program work, including conditionality, we believe that an overview of the empirical literature on this topic and a review of the Fund's experience in this area should inform our upcoming Comprehensive Surveillance Review.

We wish the authorities success in their endeavors and encourage them to consent to the publication of the staff report.

Mr. Rosen and Mr. Shenai submitted the following statement:

We thank Mr. Raghani and Mr. Olhaye for their helpful buff Statement. We commend the authorities for their fast growth. Investments in port and logistics infrastructure have begun to yield dividends. The reduction of the fiscal deficit since 2015 is welcome, and we are encouraged by the government's determination to put debt on a downward path. With the major infrastructure projects now completed, the authorities should urgently enact reforms to address fiscal risks and to reduce the state role in the economy to achieve their ambitious national development goals.

The authorities should continue to address fiscal vulnerabilities to lower debt and to free space for poverty-reduction efforts. Djibouti is at an inflection point. As the staff report makes clear, the state-led economic model has resulted in a rapid rise in public debt. Much of this debt is owed to China Ex-Im Bank, and Djibouti is now at high risk of debt distress. We therefore support staff's recommendation for the authorities to adopt a ceiling on

[1] Gabriel Kuris (2015) Watchdogs or guard dogs: Do anti-corruption agencies need strong teeth?, Policy and Society, 34:2, p. 134.

external PPG debt. We appreciated the Selected Issues paper examining international experience to design a medium-term fiscal framework and encourage the authorities to take advantage of Fund TA to strengthen the fiscal framework. We support staff's recommendations for reforming tax policy and better prioritizing expenditures. The development of a Social Program Registry is a good step.

Reducing SOEs activity and generating revenues is critical to debt sustainability, and we strongly encourage the authorities to take steps to reduce state involvement in the economy and to create space for the private sector. Alarmingly, massive public investment has thus far provided few spillover benefits to the people of Djibouti: unemployment remains close to 50 percent and a fifth of the population still lives in extreme poverty. Staff's baseline assumes that SOEs will generate sufficient cash flow to service debts over the medium-term. Given the opacity of the fiscal operations of the SOEs, as noted in the Selected Issues Paper, we are less confident than staff that the SOEs will be able to service their debts. In this context, efficiency gains among SOE-dominated industries is critical. Given the need to increase private sector participation in the economy, can staff comment on whether privatization in the telecommunications and electricity sectors would yield benefits and enhance inclusive growth?

The upcoming Financial Sector Stability Review will help identify vulnerabilities and providing a roadmap to addressing financial sector risks. Moreover, enhancing AML/CFT supervision and enforcement can safeguard financial market access and boost financial inclusion. We welcome Djibouti's membership in MENAFATF and urge the authorities to use the findings of the ongoing national risk assessment to inform their understanding ML/TF typologies and their financial reform agenda. Improving beneficial ownership due diligence and ML/TF prosecutions should also be prioritized.

We agree with staff that governance in Djibouti is macro-critical and we encourage the authorities to continue to address governance weaknesses identified in the Selected Issues paper. We strongly urge the authorities to improve oversight of SOEs by adopting the implementation decrees of the Code of Good Governance of Public Enterprises.

Finally, we urge the authorities to consent to publish the 2019 Article IV staff report.

Mr. von Kleist and Mr. Buetzer submitted the following statement:

We thank staff for its set of reports and broadly concur with the thrust of the appraisal. We also thank Mr. Raghani and Mr. Olhaye for the insightful buff statement. While Djibouti's new transport and logistics infrastructures place the country in the position to benefit from rapid growth in the region and related net export activity, the high public debt burden and the risk of creating a dual economy resulting from large-scale investment projects in recent years give rise to some concern. Therefore, an ambitious and multi-faceted fiscal policy strategy, accompanied by steadfast structural reforms, is paramount to address debt vulnerability concerns and strengthen inclusive growth. Since we are in broad agreement with staff's assessment, we only want to put emphasis on the following aspects:

The high risk of debt distress underlines the importance of intensifying efforts to develop a medium-term fiscal framework, including a policy anchor consistent with debt sustainability. While we recognize that the overall fiscal deficit has declined significantly, we also take note of Djibouti's high net present value of external debt and debt service-to-government revenue ratio as well as the expected further increase in the debt service burden over the medium term. Moreover, risks to external sustainability are exacerbated by variable interest rates which apply to parts of the contracted external public debt.

Hence, we agree with staff that it is important to step up domestic revenue mobilization, in particular through rationalizing tax exemptions. In addition, as staff points out, fiscal reforms need to focus on SOEs, which carry an especially heavy burden of public debt. Furthermore, we concur with staff that the authorities should enhance the debt management framework and see merit in introducing a formal debt ceiling on external PPG debt. Also, a clear priority should be placed on concessional financing. In light of this, we are somewhat struck by the fact that the average grant element of external borrowing has shrunk in the past few years and that the grant element of new borrowing is projected to further decrease to 31 percent (cf. DSA, para. 7), which falls short of the concessional financing threshold. Staff's comments would be welcome.

Regarding Djibouti's external position, the prospects of the country becoming a trade and logistics hub for the sub-region are encouraging. Nonetheless, we take note that the current external position is weaker than implied by fundamentals and desired policy settings. In order to properly assess the risks to Djibouti's external position and to derive appropriate policy

measures, we echo staff's call for improving the quality and timeliness of statistics. This is especially crucial given the large swings in the current account balance in the past few years and the large and mostly negative errors and omissions.

Against this backdrop, we appreciate the authorities' desire for stronger engagement with the Fund and making use of the Fund's TA, including on strengthening statistics, developing a medium-term fiscal framework, and building capacity more generally.

As regards the financial sector, we welcome the authorities' progress in ensuring compliance with the Basel Committee on Banking Supervision's standards and guidelines while further efforts are needed to strengthen financial stability and financial inclusion. In this context, the Fund's Financial Sector Stability Review later this year could be a useful basis to address vulnerabilities in the financial sector.

Notwithstanding significant progress in recent years in improving the regulatory environment, governance and corruption issues still constitute a major impediment to private-sector led growth and development. We therefore welcome staff's detailed analysis in the report and take positive note of the authorities' commitment to tackle this problem, appropriately giving it a central role in their development strategy.

Finally, we encourage the authorities to consent to the publication of the staff report.

Mr. Heo and Mr. Kikiolo submitted the following statement:

We thank staff for the comprehensive report including the selected issues paper and Mr. Raghani and Mr. Olhaye for their useful buff statement. We commend the authorities for the sustained sound economic performance since 2014 and for investing in critical infrastructures that would support private sector activities and sustain growth. However, risks associated with the large debt overhang and the unfavorable external developments remains. We encourage the authorities to remain vigilant and cushion themselves against these adverse risks as they continue with their ambitious development agenda. We broadly agree with the staff recommendations and support the completion of Djibouti's Article IV consultation and offer these comments for emphasis.

We concur with staff that the fiscal policy should focus on debt reduction and fiscal sustainability. The current investment approach that is

heavily funded through borrowing is unsustainable and efforts are needed to build fiscal space to support the implementation of the Vision Djibouti 2035. The authorities should heed staff's advice to reduce tax exemptions and improve spending efficiency. Improving SOE governance and financial performance is also key to containing debt accumulation. We agree with staff that financing of future capital undertakings should be limited to concessional financing and foreign direct investment.

The authorities should continue to implement measures that safeguard financial stability. We noted that credit to private sector is picking up while non-performing loans remain high despite recent declines. The Central Bank is urged to closely monitor financial sector vulnerabilities and actions to strengthen risk-based supervision and modernize the credit bureau are welcoming steps. Like the authorities, we agree that the Financial Sector Stability Review provides an opportunity to identify areas of vulnerabilities for the authorities to address. We commend the authorities for attaining full membership of the Middle East and North Africa Financial Action Task Force, we agree that the authorities should continue to improve the effectiveness of the AML/CFT framework to limit corrupt activities and preserve correspondent banking relationships. Could staff elaborate on Djibouti's correspondent banking relationship (CBR) experience and any broad noteworthy lessons especially on how they get around to establishing new CBRs?

The external sector assessment in Annex 4 showed the real effective exchange rate was overvalued by 5 percent to 26 percent and the recent strengthening of the dollar may have weakened its external competitiveness. We note the staff's recommendation that the currency board remains appropriate. However, we'd like to hear more from the staff why flexible exchange rate system is not recommended strongly?

The authorities are encouraged to maintain strong government ownership of the reform program to build on past successes and diversify the economy. The significant jump in Djibouti's ranking in the World Bank's Doing Business from 177 in 2017 to 99 in 2019 is laudable. Djibouti's business environment could still be enhanced further if the telecommunication sector is liberalized to promote competition and corrective measures are taken to make the electricity company more efficient. We urge the authorities to implement their plans to diversify into fisheries and tourism sectors to create more job opportunities and reduce poverty. We take positive note of the staff's invaluable support in policy formulation and statistics and emphasize the importance for the authorities to continue implementing the TA recommendations.

With these comments, we wish the authorities all the success in their future development endeavors.

Mr. Tan and Mr. Mahyuddin submitted the following statement:

We thank staff for their comprehensive set of papers and Mr. Raghani and Mr. Olhaye for their buff statement.

Djibouti's economic performance has improved gradually, and overall fiscal deficit has declined significantly in recent years. However, staff's Debt Sustainability Analysis suggests that the country is at high risk of debt distress while its strong growth performance has limited impact in reducing unemployment and poverty. In this context, we emphasize the importance of implementing the necessary reforms to underpin debt sustainability and achieve inclusive growth. We broadly agree with the staff appraisal and offer the following comments for emphasis.

Strong support in developing a medium-term fiscal framework is needed to address structural fiscal challenges and debt vulnerabilities over time. A multi-year fiscal framework and adoption of fiscal anchor consistent with debt sustainability can help Djibouti achieves its fiscal objectives in a sustainable manner. Above all, technical assistance and capacity building in this area is paramount given Djibouti's high capacity development needs and low capacity. We agree that coordinated TA from donors is critical for a multi-year programmatic approach. We welcome staff to comment further on this.

Given staff's projection of significantly lower debt-financed public investment, we are inclined to agree with the authorities that imposing debt ceiling is not an immediate priority. Public corporations represent the bulk of the debt and the government has full control over their borrowings as these corporation cannot borrow externally without a sovereign guarantee. As such, priority should be given to developing a medium-term debt strategy that will facilitate the government to set the necessary provision on public guarantees or borrowing limit under the existing organic budget law. We also note the authorities' view that the DSA thresholds were overly conservative for a small economy with large investment needs. Further elaboration by staff on this and how the authorities could strike the right balance are welcome.

Strengthening the governance and oversight of SOEs is crucial given their role in Djibouti's economy and their large contribution to external public and publicly guaranteed debt. Steadfast implementation on the governance

and oversight of SOEs remains important to address their weak financial performance and its implication on private sector development (particularly in terms of the high cost of electricity and telecommunication services). In this regard, we encourage the authorities to accelerate the implementation of the Code of Good Governance and the preparation of performance contract.

Reforms to improve the business climate and strengthen competition need to be coordinated with Djibouti's Vision 2035. We agree with staff that promoting FDI should be prioritized given the limited fiscal space and scope to take on more debt. To this end, we take positive note on the progress made by the authorities in enhancing the business environment and upgrading the legal and institutional framework for AML/CFT and its anti-corruption framework. Building on these achievements, we encourage the authorities to take further steps to address the high perception of corruption and adopt the comprehensive reforms recommendation to strengthen governance as highlighted in the Selected Issues paper. Full implementation of the AML/CFT and anti-corruption framework and visible efforts toward good governance and transparency in public processes will reduce the perception of corruption and enhance FDI. Human capital development is also key to raising productivity and addressing skill mismatch. To ensure better policy implementation by the authorities, we encourage staff to present its reform recommendations in the context of the national Djibouti Vision 2035 framework.

We note that implementation progress of recommendations from the last Article IV consultation has been uneven. Staff and the authorities highlighted that significant capacity constraints have often led to delays in the implementation progress. While we take positive note of the tailored Fund TA and CD strategy to address this gap, we welcome further elaboration from staff on key lessons that could be drawn from past experiences to better inform the implementation effort for the current recommendations.

Mr. Sigurgeirsson and Mr. Bernatavicius submitted the following statement:

We thank staff for the comprehensive set of reports and Mr. Raghani and Mr. Olhaye for their helpful buff statement. We broadly share staff's appraisal and offer the following comments for emphasis.

The fiscal deficit has declined significantly in recent years, but public debt remains elevated. The key driver for the major increase in public debt since 2013 has been related to large infrastructure projects. We welcome the memorandum of understanding reached on the restructuring of one of the

large loans. This agreement would reduce the present value of debt-to-GDP ratio by 4 percentage points, but notwithstanding that, debt service remains high and is set to increase over the medium term. We encourage the authorities to refrain from further borrowing and to prioritize concessional financing, as the country continues to be assessed at a high risk of debt distress.

A stronger medium-term fiscal framework and reduced reliance on tax exemptions will be needed to enhance revenue mobilization and create additional fiscal space towards poverty and debt reduction. We welcome the authorities' commitment to broaden the tax base as indicated in the BUFF statement and we support staff proposals aimed at reducing the implicit costs from tax exemptions and special tax regimes. There is an urgent need to develop adequately financed social policies, as a fifth of the population still lives in extreme poverty and significant inequalities persist between urban and rural areas.

The currency board arrangement has served the country well and should be maintained. We note, however, that the external position is assessed to be weaker than implied by fundamentals and should be strengthened to support the currency peg.

External competitiveness remains weak amid high production costs and low labor productivity. Recently implemented structural reforms in improving the business environment are positive steps in the right direction, but more needs to be done to support private sector development, especially in view of the authorities' objectives towards becoming a regional trade and logistics hub. Despite relatively high economic growth in recent years, the unemployment rate remains exceptionally high at almost 50 percent. Raising labor productivity and enhancing the skills of Djiboutian nationals through education and training will be key towards reducing unemployment. Strengthening the governance of SOEs, which currently play a key role in the economy, and reforming the inefficient judicial system could boost external competitiveness and encourage private sector investment. Urgent reforms are also needed to reduce the cost of electricity and telecommunications, which remains high compared to other countries in the region. There is also a need to further strengthen the financial sector, increase financial inclusion and reduce NPLs, which remain high at about 18 percent.

We welcome joint efforts in setting-up priorities for capacity development activities. As acknowledged in the BUFF statement, Djibouti continues to face significant capacity constraints that have often led to delays

in policy and reform implementation. In this context, it is important to aim at having capacity development activities targeted and adhere to identified priorities.

We would also like to encourage the authorities to consent to the publication of the reports.

Mr. Mojarrad and Mr. Belhaj submitted the following statement:

We thank staff for the comprehensive report, and Mr. Raghani and Mr. Olhaye for the insightful buff statement. We broadly share staff's assessment and offer the following comments.

Djibouti's Vision 2035 development plan is ambitious in promoting economic growth. The authorities' efforts to diversify the economy and to integrate it across the Horn of Africa in search of higher growth opportunities are commendable. Trade through Djibouti's ports is expected to grow rapidly in parallel with the expanding economy of Ethiopia and the recent launch of the largest African Free Trade Zone will also accelerate trade, investment and growth. The finalization of the submarines cable project will develop new service and technology industries and help push the Djibouti telecom operator to a dominant position. Could staff indicate to what extent all these projects and initiatives would contribute to bolstering regional economic integration and creating more business opportunities?

We encourage the authorities to increase fiscal space. To compensate for limited progress in revenue mobilization and the Tax/GDP ratio we encourage the authorities to enhance tax and customs administrations and to reduce tax exemptions and special regimes to increase revenues. This will create fiscal space for debt service and social expenditures, thus contributing to reducing poverty and unemployment.

The soaring debt burden is concerning and the DSA shows that the country is at a high risk of debt distress. Without the recent restructuring part of its liabilities, Djibouti's debt repayment capacity would have been at risk. This calls for more caution in undertaking new expensive large-scale projects and better financing schemes. As recommended by staff, kick-starting delayed projects, reforming revenue, enhancing governance and project management, and rationalizing new public and publicly guaranteed debt should contribute to relieving the debt burden over the medium term. Moreover, we encourage the authorities to promote private sector participation in the economy--notably

through an improved business environment--which would help relieve funding pressure on the government.

Areas of vulnerability in the financial sector need to be addressed. Despite recent efforts, NPLs are still high, and more efforts should be done to strengthen the financial stability and improve financial inclusion. This requires a strong commitment from the authorities, and we take positive note of staff and authorities' converging views on the needed action going forward.

Some progress has been made in structural reforms and improvement of the business environment, notwithstanding certain delays. The country's Doing Business ranking improved substantially thanks to recent measures. However, more steps are needed to improve SOEs' governance and to boost private entrepreneurship and competitiveness. We welcome the authorities determination to strengthen the AML/CFT framework further to curtail opportunities for corruption and to help reduce pressures on CBRs.

We welcome the commitment of the authorities to the implementation of the Fund technical assistance. We encourage the authorities to benefit from the tailored Fund TA and training to improve institutional and human capacities.

Finally, we would appreciate staff elaborations on the reasons behind the delay in completing this year's Article IV consultation, noting that the last one was completed in February 2017.

With these comments, we wish the authorities every success.

Mr. Inderbinen and Mr. Danenov submitted the following statement:

We thank staff for the insightful set of papers and Mr. Raghani and Mr. Olhaye for their informative buff statement. The economy of Djibouti has continued on its strong growth pace, backed by the large-scale investment projects and the improved business environment. However, the rising debt vulnerabilities and the instability in neighboring countries weighs on the outlook. Consolidating Djibouti's advantage as a transport and logistics hub, while reducing the public debt and advancing structural reforms, will be key to ensure sustainable and more inclusive growth.

Strengthening the fiscal and debt management frameworks will be critical. We welcome the authorities' awareness of the importance of raising domestic revenue mobilization and broadening the tax base. The key

challenge is to reduce debt vulnerabilities and generate fiscal space for priority social spending. We agree that restructuring the railway project loan will ease the debt service and that the investments in transport and logistics should contribute to reducing the debt-to-GDP ratio over time. However, the long-term response should be prioritizing foreign direct investments and concessional borrowing. Could staff comment on the authorities' response to the advice on adopting a fiscal anchor consistent with debt sustainability?

Reinforcing SOE governance is key. Given the major share of SOEs in GDP and public debt, we encourage the authorities to enforce the existing legal framework and to improve governance and oversight. We agree with staff that oversight needs to be centralized in the Ministry of Finance, and that more systematic sharing of financial information is required. There is a need for a centralized decision-making process on the creation of subsidiaries by the SOEs and on their investment strategies.

More efforts are needed to maintain the stability of the financial sector. Although the volume of nonperforming loans has declined, its level is still quite high. We commend the Central Bank of Djibouti's measures to upgrade the banking regulatory and supervisory framework and we look forward to the results of the Financial Sector Stability Review. We encourage the authorities to continue to undertake all the necessary measures to strengthen the AML/CFT framework. This would also serve to alleviate the remaining pressure on correspondent banking relationships. We support the authorities' request for further Fund TA on AML/CFT.

We encourage the authorities to continue their efforts to further improve the business environment. We commend the authorities for the efforts that led to recent improvements in the World Banks' Doing Business ranking. The measures to support private sector development should go hand in hand with strengthening the rule of law. We call on the authorities to ensure contract enforcement and the protection of property rights, and to improve communication in order to build investors' confidence. An update by staff on the situation around Doraleh Container Terminal would be welcome.

Mr. Ronicle, Mr. Rozan, Mr. Bouvet and Ms. Stockill submitted the following joint statement:

We thank staff for the rich set of reports and Messrs. Raghani and Olhaye for their insightful buff statement. We concur with staff's analysis that Djibouti should make the most of the current favorable outlook to address its vulnerabilities, chief of which is the high risk of debt distress. We therefore

encourage the authorities to increase the fiscal space, mainly through revenue mobilization and a prudent borrowing strategy, and to deepen structural reforms aiming at improving governance and market competitiveness. Relying on Fund TA would be conducive to timely implementation of reforms. We associate ourselves with the thrust of the staff appraisal and wish to provide the following comments for emphasis.

We welcome the strengthening of growth in Djibouti and encourage the authorities to take advantage of the current tailwinds to engage in sound fiscal policies and growth-enhancing reforms. On the back of reforms to position the country as a logistics and infrastructure hub, economic activity has been accelerating in Djibouti, contributing to the reduction of the fiscal deficit, while the underlying current account, albeit highly volatile when including re-export activity, has remained close to balance. This economic outlook offers an opportunity for the authorities to address Djibouti's vulnerabilities, in particular the high level of debt, through a streamlined borrowing policy, a prudent fiscal stance, a closer monitoring of fiscal risks and a set of structural reforms aiming at spurring growth – to that end, we think the framework outlined by staff in the Selected Issues papers is a credible starting point for reform.

We encourage the authorities to adjust the fiscal stance so as to rein in debt and gradually converge in the medium term towards a debt sustainability analysis reflecting a moderate risk of debt distress. To this end, we share staff's view that fiscal policies should aim at achieving a primary surplus of around 1 percent of GDP sustained over a multi-year period. Therefore, improving domestic revenue mobilization is warranted, which requires limiting erosion of the tax base, assessing the efficiency of tax expenditures and streamlining them when necessary. As noted by staff, reducing tax expenditures is paramount to creating fiscal space for social spending and debt reduction. Could staff share its cost-benefit analysis of the efficiency of tax expenditure in Djibouti, and Free Trade Zones in particular? Such fiscal adjustment should be complemented with measures alleviating its impact on the most vulnerable people, as the prevalence of extreme poverty in Djibouti remains stubbornly high. We encourage the authorities to refrain from further non-concessional debt financing to help curb debt-service pressures and increase the resilience of debt in the event of an exogeneous shock. Strengthening public financial management drawing on Fund Technical Assistance – in the areas of debt and cash management, tax collection, medium-term and program budgeting, SOEs management – would also be conducive to the successful implementation of a prudent fiscal strategy.

Having a better understanding of the scope of SOEs and the fiscal risks they entail is critical. Although SOEs bear the bulk of public debt and play a pivotal role in the economy, their monitoring by the authorities remains loose. We encourage the authorities to strengthen their oversight of SOEs and better identify and consolidate in the budget all assets and liabilities borne by public entities in order to improve their assessment of fiscal risks stemming from SOEs. Enhanced governance of SOEs should also contribute to preventing further debt accumulation at SOE-level that would be inconsistent with the authorities' medium-term debt strategy. In this respect, we concur with staff that effective implementation of the Code of Good Governance for SOEs is warranted.

We commend the authorities for progress made in the areas of banking regulation, supervision and AML/CFT. We encourage them to continue in this direction by swiftly implementing recent regulations aiming at managing and strengthening banks' balance sheets. The Central Bank's involvement in putting in place an AML/CFT framework is a welcome first step and it is now critical to ensure the operationalization and effectiveness of the framework in all areas laid out by staff.

Efforts to improve the business climate in Djibouti are commendable and, if sustained, will yield benefits in term of competitiveness, investments and growth. We echo staff's call to keep up with this positive dynamic by deepening reforms. Governance reforms aiming at better enforcing property rights and contracts and strengthening the rule of law would foster competitiveness as well as hinder corruption. Could staff provide an update as regards the potential fiscal, reputational and competitiveness consequences of the nationalization of the Doraleh Container Terminal from DPW? Moreover, as SOEs are overwhelmingly dominating various sectors of the economy, fairer and stronger market regulation through competition policy would help reducing rents, foster private investment and let the market determine the price of goods and services, hence lowering production costs.

Mr. Chikada and Ms. Mori submitted the following statement:

We thank staff for the comprehensive papers and Mr. Raghani and Mr. Olhaye for their informative buff statement. While the authorities' development strategy has generated strong economic growth and positioned Djibouti as a regional logistics hub, the external debt funded large-scale public investments have also increased debt vulnerabilities. Furthermore, despite the strong growth, improvement in fiscal revenues is limited thus far and unemployment and poverty remain high. Against this background, we

encourage the authorities' further effort to reduce debt vulnerabilities, increase revenue mobilization, strengthening governance and oversight of SOEs and improve business climate, which will help realizing its potential as a regional trade and logistics hub. As we broadly concur with the thrust of staff appraisal, we will limit our comments to the following;

Addressing rapidly accumulating debt is indispensable to preserve debt sustainability and macroeconomic stability. While we acknowledge that the infrastructure investments have had positive impacts on the economic growth, careful selection of projects as well as financing options and realistic planning are essential accounting the small size of Djiboutian economy and their debt service capacity. We welcome that the restructuring of part of debt reached an understanding and which will smooth the debt repayment profile. We support staff's advice of a multi-faced strategy including ramping up operations of key projects, reducing the pace of borrowing, prioritizing concessional financing and FDI, developing a medium-term fiscal framework and strengthening public investment management. In this context, we believe that TAs from IMF and World Bank can play very important role and welcome that the TA agenda aims at supporting the authorities in their efforts to ensure debt sustainability and improve debt management in line with staff recommendation. Could staff elaborate more on the progress made so far, major impediments for reform and future TA plans in areas related to debt sustainability and debt management?

Enhancing domestic revenue mobilization and spending efficiency are needed to create fiscal space for poverty reducing expenditure and debt reduction. We agree with staff that tax policy reforms to rationalize special tax regimes and exemptions and broaden the tax base should be the key priority. We note the Djiboutian low tax revenue rate compared to its peers and the implicit costs of more than 7 percent of GDP from FTZ regimes. In this regard, we would like to hear staff's sense on how the change of tax regime affect the attractiveness of Djibouti, whether the structural reforms could substitute the incentive of tax, and balance between tax incentive to attract private investment and increase tax revenue to finance priority spending.

Addressing impediments to private sector activities are important to achieve inclusive growth. In this regard, improving governance and efficiency of SOEs is crucial given the prominent role of SOEs in the economy. We welcome reforms implemented over the past few years which led to significant improvement in the Doing Business rank. Over the medium term, lowering electricity and telecommunication prices through enhancing governance and efficiency of the SOEs are crucial to reduce operation costs

and improve competitiveness. We also encourage the authorities to address the shortage of skilled labor by improving the quality of the education system and labor productivity so that growth contributes to employment and poverty reduction.

Mr. Siriwardana and Mr. Natarajan submitted the following statement:

We thank the staff for their detailed analysis and Mr. Raghani and Mr. Olhaye for their comprehensive buff statement. At the outset, we appreciate the persistent efforts of the authorities for the recovery of economic growth, low inflation and decline in fiscal deficit of Djibouti.

We acknowledge the ambitious development effort of authorities in developing infrastructure facilities to become a transport and logistics hub in the region. While agreeing with the staff assessment that this should provide good growth opportunity, we also note the concerns of staff in respect of increased debt to GDP. The spurt in external debt raised to fund infrastructure projects requires to be addressed. We encourage a multifaceted approach to address debt vulnerability and enhance debt sustainability. This can include medium-term debt strategy by having a fiscal framework to account for fiscal risks and contingent liabilities. We welcome the authorities agreeing to curtail public debt-financed investment and long-term strategy regarding funding and focus on projects financed by FDI and public-private partnership (PPP) looks interesting. However, PPPs require deeper understanding of the issues of ownership, risk-sharing and viability. Can the staff give an assessment of challenges in structuring viable PPPs and difficulties in implementation of these projects?

On the fiscal front, the declining trend in fiscal deficit in conjunction with strong projected growth is encouraging. In addition, tax policy reforms to enhance domestic resource mobilization can generate fiscal space and help debt reduction. This can enhance funding required for social spending and anti-poverty measures. We agree with staff on the need for strategy to reduce cost of tax exemptions. Further, we welcome the commitment of authorities to SOEs governance reform.

In the monetary area, we are encouraged to observe that the currency board has served the country well. Low inflation and reserves can help to bolster the external competitiveness. We commend the progress made by Central Bank of Djibouti (CBD) in implementing the multiyear action plan to strengthen banking regulation and supervision and compliance to standards. Stepping up of efforts by the authorities to strengthen anti-money laundering

and combatting financing of terrorism (AML/CFT) supervision of banks are steps in the right direction. Further, efforts suggested by the staff like strengthening financial intelligence unit, enhancing risk-based supervision and properly prosecuting offenders can strengthen the AML/CFT framework.

We appreciate the authorities for large leap made by Djibouti in ranking in World bank's Doing Business in the last 2 years. We are optimistic that Djibouti Vision 2035 which aims at strengthening economic diversification through range of reforms can enhance private sector investment and job creation. The authorities focus on small and medium-sized enterprises (SME) can boost development along with inclusive growth. We welcome the intention of authorities to reduce high cost of energy by developing renewable energy that can enhance energy security and diversify energy mix. The staff suggestion for enhancing the skills of the nationals is key for rising labor productivity and growth is important for the long-term development of the country.

We commend the significant progress made by the authorities in improving national account statistics and financial soundness indicators. Continuing similar effort in state owned enterprises, as brought out by staff, can help better monitor public sector's financial condition. Finally, we welcome the agreement between the staff and authorities on capacity and institution-building challenges and welcome a time-bound effort to achieve the intended purpose.

Mr. Mouminah, Mr. Alkhareif and Ms. Alzamel submitted the following statement:

We thank staff for the well-structured reports and Mr. Raghani and Mr. Olhaye for their insightful statement. We are in broad agreement with staff's assessment and policy recommendations and would therefore limit our comments to the following few issues for emphasis.

We welcome Djibouti's Vision 2035 and take positive note of the strong economic performance thus far. This has been due to the large-scale investments in transportation and logistics infrastructure as well as the authorities' various efforts to support the business environment. However, debt vulnerabilities have continued to build up while unemployment and poverty remain high. Also, regional geopolitical tensions and refugees' inflows continue to pose challenges. Therefore, it is imperative going forward to focus on policy actions that preserve macroeconomic stability and foster higher and more inclusive growth.

We encourage the authorities to step up their efforts to address debt vulnerabilities. To this end, reducing the pace of new borrowing, while prioritizing concessional financing and FDI are warranted. At the same time, we agree on the need for continued efforts to improve revenue mobilization, including through enhancing tax administration and phasing out exemptions, and to rationalize public spending. We also share staff's recommendations on the importance of strengthening SOEs' governance and oversight, debt management capacity, and public investment framework.

We take positive note of the recent efforts of the Central Bank of Djibouti (CBD) to strengthen the AML/CFT framework. In our view, joining the Middle East and North Africa Financial Action Task Force (MENAFATF) membership is a step in the right direction. That said, efforts to enhance the effectiveness of the AML/CFT framework should be sustained to limit correspondent banking relationship pressures. We also encourage the authorities to take further actions to address remaining fragilities in the financial sector and further enhance financial inclusion. This could be achieved by reinforcing risk-based supervision and further improving the regulatory framework and access to finance.

We emphasize the importance of continued implementation of structural reforms to foster private sector development, promote job creation, and reduce poverty. We take positive note of the significant increase in Djibouti's ranking in the World Bank's Doing Business from 177 in 2017 to 99 in 2019. In this vein, we concur with staff on the necessity of enhancing competitiveness, including through strengthening the anti-corruption framework. Also, raising labor productivity by enhancing the skills of nationals through education and training is important given the shortage of skilled labor. Finally, we see a need to further strengthen social protection programs to support the most vulnerable households.

With these comments, we wish the authorities success in their future endeavors.

Mr. Jin and Ms. Zhao submitted the following statement:

We thank staff for the set of papers and Mr. Raghani and Mr. Olhaye for their helpful buff statement. Supported by new transport and logistical infrastructure investments under the authorities' development strategy, Djibouti has recorded strong economic growth in recent years. Nevertheless, significant challenges still remain, including rising public debt, high poverty,

and widespread unemployment, calling for well-calibrated reform actions. We would like to offer the following comments.

The recent rapid increase in public external debt is driven by an investment boom in long-term infrastructure, whose growth implications deserve more attention. Infrastructure investment such as railway, port, and water pipeline could strengthen Djibouti's competitiveness as a commercial and logistics hub in the region and is conducive to boosting growth while reducing debt in the long run. A well-functioning currency board and high concessionality of loans also provide important mitigating factors.

For infrastructure projects, tremendous investments are often required in the early phase, but returns may take much longer to materialize, which explains why it can be difficult for many countries to mobilize resources for infrastructure investments. However, in the medium and long term, the railroad and port investments in Djibouti will bring positive spillovers not only on fiscal revenues and job creation, but also by improving the business environment, leveraging private investments, attracting FDIs and diversifying the economy. We take positive note that the Djibouti's rank in the World Bank's Doing Business has significantly improved from 171st to 99th between 2017 and 2019. In addition, the infrastructure investment will not only benefit Djibouti itself, but also benefit many other countries in East Africa. Therefore, we encourage staff to adopt a growth-and-development-oriented approach when evaluating the impacts of the infrastructure investment, so as to make a more comprehensive and objective adjustment. Staff's comments are welcome.

That said, we stress the importance of ensuring debt sustainability by strengthening public debt management. We welcome the authorities' reform plan to develop a medium-term strategy and encourage the authorities to advance the reforms, including by operationalizing the recently-created national committee in charge of public debt issues. Adopting a top-down budget approach and moving progressively towards a programmatic basis for budget allocations would also help. We encourage the Fund to provide technical assistance in such areas as debt policy, debt management, and tax reforms.

We encourage the authorities to take swift measures to foster higher and more inclusive growth. Lowering production costs and raising labor productivity is necessary to boost external competitiveness and job creation. We take note that "securing the railway and electricity supply to limit interruptions" is helpful to maximize returns on some key projects. Efforts

should be made to enhance the governance and management of the national electricity operator and to seek efficiency gains.

With these remarks, we wish the Djiboutian authorities every success in their reform endeavors.

The Acting Chair (Mr. Furusawa) made the following statement:

Djibouti has recently experienced strong economic growth, fueled by large-scale investment projects. Djibouti's Vision 2035 aims to transform the country into a regional trade and logistics hub within the Horn of Africa. These investments are, however, accompanied by a rapid debt accumulation, and unemployment and poverty remain high. In their gray statements, Directors have underscored the need for a medium-term fiscal policy strategy anchored in debt sustainability, and steadfast structural reforms to ensure sustainable and inclusive growth.

The staff representative from the Middle East and Central Asia Department (Mr. Roudet), in response to questions and comments from Executive Directors, made the following statement:[2]

Staff has provided written responses to the questions raised by Directors in their gray statements. I would like to focus my oral intervention on four key themes: Djibouti's investment strategy, the reliance on tax incentives, the exchange rate regime, and the prioritization of structural reforms and capacity development.

Several Directors inquired about the tradeoffs entailed by Djibouti's strategy of investing in large infrastructure projects. Staff recognizes the likely benefits for the Djiboutian economy and the regional dimension of the projects implemented in recent years. The new infrastructure is expected to underpin robust growth over the medium term, with positive spillovers to the rest of the region. Nonetheless, these projects are particularly large compared to the size of the economy and financed through borrowing. This means they will need to produce large returns to generate the resources necessary to repay the debt. External public and publicly guaranteed debt have increased significantly over the past few years, and part of the debt has already had to be restructured. Notwithstanding this restructuring, debt service is still projected to increase over the medium term. This highlights the importance of tackling

[2] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

the existing debt vulnerabilities by ramping up project operations to ensure that debt can be serviced and by increasing public sector savings through additional domestic revenue mobilization and enhanced spending prioritization. Staff has also emphasized the need to strengthen public investment management to ensure that, in the future, investment decisions prioritize projects with high expected economic returns and for which financing conditions are consistent with these expected returns.

Some Directors also asked about the reliance on tax incentives, including, in the case of free trade zones, to support economic development. We need to acknowledge that assessing the extent to which the tax exemptions and special regimes have helped attract investment is a difficult exercise. It requires making a judgment as to what the level of investment would have been in the absence of these tax incentives. In the case of Djibouti, investment in the free trade zones appears to have played an important role in driving economic growth. However, the massive tax incentives have led to a significant disconnection between overall economic growth and the evolution of the tax base, hampering the redistribution of growth dividends more widely. These investments have also failed to create enough jobs for the population. Staff's advice has, therefore, been to reconsider the balance of these incentives to allow for higher domestic revenue mobilization and to focus on improving the business environment and governance to keep Djibouti an attractive investment destination.

This is consistent with the 2015 Board paper on tax incentives in low-income countries (LICs) that showed that there is often ample room for more effective use of investment tax incentives in LICs and that these tax incentives generally rank low in investment climate surveys.

There was also a question on the merits of a more flexible exchange rate. Staff is of the view that the currency board arrangement is adequate. It has been critical in instilling confidence and improving the predictability of international transactions. This is an important feature, given the heavy reliance of the Djiboutian economy on international trade. It has also brought about a high level of monetary stability and low inflation. In addition, the structure of the economy is such that the sensitivity of the current account to real exchange rate movements is likely to be low. Indeed, foreign trade comprises mainly basic food and fuel imports, with low elasticity to price movements and little possible substitution; exports of services are largely priced in U.S. dollars; and rents of military bases are set in long-term contracts. In this context, gains in external competitiveness are best achieved

by reducing the high cost of doing business and by improving governance and the investment climate.

Finally, against the backdrop of low implementation capacity, several Directors raised questions about the prioritization of structural reforms and capacity development activities. Staff advises prioritizing reforms in those areas that are critical to achieving several concomitant objectives. Strengthening state-owned enterprise (SOE) governance falls squarely in this category given its potential to reduce contingent liabilities and the pace of debt accumulation; to reduce the perception of corruption and, thus, improve the business environment; and to bring down the cost of public services, hence, improving private sector competitiveness.

Given the significant macroeconomic vulnerabilities stemming from the accumulation of debt, improving the fiscal framework and debt management, and reducing tax expenditures are also important priorities. The latter would help generate resources to foster poverty reduction.

Finally, structural reforms to spur higher private sector-led growth are also critical to improve Djibouti's standard of living while limiting the risks stemming from debt vulnerabilities.

To improve the traction of its policy advice, staff has also tried to better integrate surveillance and capacity development activities. The Middle East and Central Asia Department (MCD) team has strengthened its coordination with functional departments, both before and after technical assistance (TA) missions, and has deepened its engagement with the authorities and other development partners to better consider capacity constraints and to improve the link between surveillance priorities and TA delivery.

Before I conclude, I would like to thank the authorities for their hospitality and constructive engagement, as well as Mr. Raghani and Mr. Olhaye for their support.

Ms. Florestal made the following statement:

We thank staff for answering Directors' questions and for this morning's additional presentation. Both of the questions in this chair's gray statement were answered. However, we still wonder how Djibouti could address the correspondent banking relationship (CBR) issue, if the size of the market is the source of shrinking interest on the part of correspondent banks.

This was our intuition, and staff confirmed that it may be a business reason. How can Djibouti address these problems beyond Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)?

Second, could staff indicate what the authorities could do to increase their supply of concessional financing? Has staff identified available resources that Djibouti is currently not tapping into? You have clarified that the additional concessional resources you were referring to were not limited to refugee financing, but where else could they tap for concessional finances? What do you think they could do to increase that flow?

Mr. Obiora made the following statement:

We thank staff for the report and the accompanying papers. We also thank Mr. Raghani and Mr. Olhaye for the insights provided in their buff statement.

As stated in our gray statement, we broadly agree with the thrust of the staff appraisal, and we welcome the opportunity to discuss this consultation on Djibouti.

It appears Djibouti's story is that of a quintessential coin with two sides, a country of compelling contrasts. On the back of the authorities' investment strategy, aimed at transforming the country into a transport and logistics hub, we have seen rapid economic growth in recent years. Indeed, significant valued additions generated in the trade and transport sectors have contributed to a 38 percent upward revision in nominal GDP. Yet we cannot and should not ignore the fact that this has come at a significant cost of debt accumulation and associated vulnerabilities.

Worryingly as well, poverty and unemployment remain quite high. This contrast needs to be addressed urgently. The authorities need to walk toward ensuring that the recent episode of great growth is not just rapid but inclusive, broad-based, and poverty-reducing. They need to now focus on creating an environment conducive to private sector development and job creation, while efforts are intensified to improve governance and the efficiency of public enterprises.

On debt, we welcome the authorities' determination to implement a multi-pronged approach to address vulnerabilities and engender sustainability. To this end, we support the view of the authorities, as highlighted in Mr. Raghani and Mr. Olhaye's buff statement, that the strategic investments in

recent years will soon begin to bear fruit through higher regional trade and foreign direct investment (FDI). I believe this is a sentiment also reflected in Mr. Jin's gray statement.

We hope, though, that with core infrastructure now in place, there will be a significant reduction in debt accumulation. We take comfort in staff's projection that the country's debt-to-GDP ratio will decline to about 60 percent by 2024. We also hope that a combination of steady growth and disciplined repayment will now be deployed by the authorities to urgently address the debt situation.

With these remarks, we wish the authorities well in their endeavors.

Ms. Fadhel made the following statement:

We thank Mr. Raghani for the helpful buff statement and staff for the useful answers to our technical questions and their remarks. We issued a gray statement and would like to take this opportunity to emphasize the following.

We believe that structural reforms are paramount to help Djibouti improve its business environment—most important of all, to continue fighting corruption, strengthening the rule of law, and protecting investor rights, which are crucial to encouraging more foreign investment and presenting Djibouti as a safe destination for doing business.

In this regard, we would appreciate comments from the authorities on how they intend to protect foreign investors' rights to help encourage more FDI inflows. In particular, we would like to know how the authorities intend to proceed with the ongoing dispute with DP World over the revoked contract to manage the Doraleh Container Terminal.

Ms. Pollard made the following statement:

Let me begin by thanking Mr. Raghani and Mr. Olhaye for their buff statement and staff for the report and also for the very helpful remarks.

I can be brief because Mr. Obiora said much of what I was going to say and more eloquently than I would have said it. The point about there being two sides—infrastructure investment resulting in very high growth rates but very high debt levels and not much benefit to the population—is not unique to Djibouti. We have been seeing it in several countries that have come to the

Board recently. This issue deserves far more attention, to look beyond growth to the quality, sustainability, and inclusivity of growth.

I hope that it is true that now that the infrastructure projects are complete, debt will be reduced. But much more needs to be done to bring the benefits to most of the population. I hope that staff will look at this issue and at how to encourage the authorities to develop private business that can support the population now while also working to support human capital development.

Mr. Just made the following statement:

We thank staff for the introductory remarks and would like to make three points.

First, in view of the data issues, for example, on the contingent liabilities of SOEs and the enhanced uncertainty about the payoffs of the infrastructure projects in terms of higher growth and fiscal revenues, the true debt picture is probably more complicated since, ipso facto, the Debt Sustainability Analysis (DSA) is fairly uncertain. Therefore, going forward, the DSA should continue to be fairly conservative in its underlying assumptions, as well as rigorously stress-tested and reevaluated over time.

We encourage the authorities to advance their fiscal risk management and strengthen their framework for economic evaluation of public investments. Like other speakers, we would also support more of a look into how to make the investments benefit the entire population. We would also reiterate our call for broadening the set of data required for surveillance, including on SOEs and all levels of government.

Second, the prioritization of structural reforms proposed by staff in response to our questions is well defined, and we support it. We agree with the strong emphasis on SOE reform. To advance this agenda, strong institutions, better governance, and anti-corruption reforms are critical. In our view, these are important preconditions for preceding with the privatization of SOEs.

Third, like many other Directors, we welcome the growing Fund engagement with the country, based on an integrated TA and surveillance strategy. We are also looking forward to the forthcoming Financial Sector Assessment Program (FSAP).

Like many other Directors, we encourage the Djiboutian authorities to consent to the publication of the report.

Mr. El Qorchi made the following statement:

We thank staff for the excellent report and the informative oral remarks and Mr. Raghani and Mr. Olhaye for their helpful buff statement.

We issued a gray statement, in which we commended the authorities for their efforts to support growth. Like other Directors, we stressed the importance of vigilance with respect to the accumulating debt. I would like to add the following points.

First, Djibouti has potential to develop the private sector's contribution to economic growth, which is currently limited. There is a risk of excessive dependence on the public sector that could lead to additional pressure on public finances in the future.

Second, it is essential to prepare the Djiboutian economy for greater openness and competitiveness to improve the business climate and remove obstacles to private entrepreneurship. The prevalence of the rule of law, reducing inequality and corruption, and improving governance are key factors in building trust and promoting private initiative.

With these comments, we wish the authorities every success.

Mr. Rozan made the following statement:

I thank staff for their report and their very detailed answer to our technical question and Mr. Raghani for his comprehensive buff statement.

We issued a gray statement with our British colleagues, and I will just limit myself to a few comments.

Thanks to the policies implemented and strong investment, there is strong growth momentum in Djibouti. We encourage the authorities to make the most of the current momentum to carry out the economic reforms that the country needs to diversify its economy and to ensure a stronger private sector. In this regard, a strong effort of Fund TA would be useful. We thank staff for the information provided in the annex of the report.

On public finances, we thought that the selected issues paper on the fiscal framework was very useful. The growth outlook should facilitate a fiscal adjustment. Clearly, there is a need to have stronger revenue mobilization.

We thought that the responses on the free trade zones were interesting. The authorities should ensure that the population is able to reap the benefits of the strong investments that they have allowed in the free trade zones to ensure that there are shared benefits, as others have said. It would be useful to have stronger social safety nets to have broad-based ownership of these investments.

Beyond this issue, improving the governance of SOEs will be important, and consolidating them in the budget will be instrumental to better monitor their finances and to mitigate any related fiscal risks.

Finally, as others have said, the authorities should continue their efforts to improve the business climate and strengthen governance and the rule of law so as to improve the country's competitiveness, building on the positive track record over the last few years. In this regard, we welcome the authorities' resolve expressed in the buff statement.

Mr. Jost made the following statement:

We thank staff for the explanation and Mr. Raghani for his buff statement. I would like to make a point on the Risk Assessment Matrix, a positive one.

This chair has made a point about the fact that weather-related risks should be qualified as external. We have taken positive note of the fact that weather-related risks have been put into the Global Risk Assessment Matrix. In this case, it is welcome that they have been qualified as external. To our colleagues from the Strategy, Policy, and Review Department (SPR), we took positive note of them.

The other issue is in relation to the SOEs. We would like to support the points made by Mr. Just on the importance of having DSA coverage that is as vast as possible to capture those risks as fully as possible.

In the DSA, and the two tables on the first page, I take positive note that the staff explained very well why there is a difference in the use of this analysis. The table that explains which sectors are covered and which ones are

not is still not extremely clear, but I do welcome the explanation staff has given in the DSA on what is covered and what is not.

We should work toward having the broadest coverage possible for the DSA to cover the SOEs and extra-budgetary funds and so on. Going forward, that would be helpful.

Mr. Sun made the following statement:

We thank staff for the good set of papers and their answers to the technical questions. We also thank Mr. Raghani and Mr. Olhaye for their helpful buff statement.

We have issued a gray statement, and I would like to comment on the issue of infrastructure investment for emphasis.

Supported by transport and infrastructure investment under the authorities' development strategy, Djibouti has recorded strong economic growth in recent years. The recent rapid increase in public external debt is driven by the long-term infrastructure investment, the growth implications of which deserve more attention.

We thank staff for their candid response to our technical questions. The infrastructure investment will bring positive externalities and spillovers to the rest of the economy, as well as its neighboring countries in the investment-long lifecycle. However, it may be difficult to evaluate both the explicit and implicit benefits of such investment in the short run and from a non-accelerating inflation rate of unemployment (NAIRU) perspective. Therefore, we encourage a growth- and development-oriented approach when evaluating the impact of such infrastructure investment.

Given that grants have been declining in the past few years, we should not exclude normal nonconcessional financing as long as the program can enhance the country's productive capacity and generate economic benefits that can offset the associated debt repayments.

Take my own country, China, as an example. Our experience with poverty reduction suggests that a growth-oriented program can be more effective than a grant or concessional lending support. From the borrower's perspective, productive investment can fundamentally improve growth potential in the medium to long run. From the lender's perspective, less concessional loans are more sustainable, especially when concessional

resources are insufficient. It is more important to teach the borrower how to fish, rather than just to give him or her a fish.

With these remarks, we wish the authorities all success in their policy endeavors.

Mr. von Kleist made the following statement:

We have issued a gray statement, and let me just emphasize.

Obviously, the questions: “Is the investment a good one?” and “Is it worth taking on debt for that?” can only be proven through time. At the moment, I am happy to give the authorities the benefit of the doubt that these investments make good business sense, that they would develop the country, and in the end, that they will also help the citizens. But whether they make good business sense, like with any investment, that is something we will have to see down the road.

Some other good news is that Djibouti has made progress on the regulatory side. We welcome that and their impressive jump in the Ease of Doing Business Index, from 171 to 99 over the past two years. Of course, from 99 further into the queue, there is still some more room to move. We welcome that.

At the same time, the debt needs to be sustainable, and that means the authorities need to have a sustainable medium-term fiscal framework.

Lastly, we welcome that the authorities strive for stronger engagement with the Fund, especially including TA. We wonder whether the authorities have given consent to the publication of the report. That would be the right thing to do.

Mr. Cartagena made the following statement:

We thank staff for the comprehensive report and for their answers to our questions and for their opening remarks. We also thank Mr. Raghani and Mr. Olhaye for their informative buff statement. We broadly agree with the staff’s assessment and want to emphasize the following points.

We would like to highlight the significant improvement by 72 places in the Doing Business indicators. Being also among the 10 largest reformers

for two years is a great achievement. It reflects the authorities' commitment to take actions to develop the country.

We also welcome Djibouti's efforts to position the country as a regional trade and logistics hub, taking advantage of its geographical location.

But we also notice that the debt pressures have risen significantly, given the large investments. We concur with staff that a key priority for the country is to reduce its vulnerabilities.

We welcome the high growth levels that the country has achieved and the good prospects for the medium term, but we also notice the challenge that the country faces in terms of poverty and inequality.

We concur with the staff on the importance of creating more spillovers from a dual economy that contains fast-growing trade and logistics sectors to job creation and poverty reduction.

With this, we wish the authorities success.

Mr. Inderbinen made the following statement:

We join others in thanking staff for the documentation and for their introductory remarks. We also thank Mr. Raghani and Mr. Olhaye for the buff statement. We are encouraged that there is broad agreement, as underlined in the buff statement, with staff's policy recommendations.

In our gray statement, we acknowledge the continued strong growth of Djibouti and also the improved business environment. We underlined the importance of reducing public debt and advancing with structural reforms in order for Djibouti to realize its potential as a transporter and logistics hub in the region.

We also emphasized the importance of the strengthening the fiscal framework. We had a question on how the authorities had received the advice on adopting a fiscal rule or a debt target, and we thank the staff for the response. It is encouraging that the authorities gave shown interest in this. Staff also mentioned that they would be looking forward to capacity development in this area.

I had a question on this that staff may wish to answer. I am grateful for the elaborations on the efforts to integrate capacity development with surveillance.

Looking at the annex on capacity development, which we found very good, public financial management (PFM) is listed among the priorities for the next 18 months. The development of a medium-term fiscal framework is also mentioned there. Is the specific issue of the debt target/fiscal rule also on the agenda of the Fiscal Affairs Department (FAD) when it comes to providing assistance to the authorities?

Finally, we join others in encouraging the authorities to publish the report, as they did in last year's Article IV cycle.

Mr. Alkhareif made the following statement:

I would like to join others in thanking staff for the high-quality work and Mr. Raghani and Mr. Olhaye for their informative buff statement. We have issued a gray statement, so I will be brief and focus on specific points.

I join Mr. Inderbinen in commending the authorities for their efforts to improve the business environment. The substantial increase in the World Bank's Ease of Doing Business rankings is a clear indication of the authorities' efforts on this front.

Mr. Sun raised an important point on the role of infrastructure investments in enhancing growth and job creation. We encourage staff to take into account the spending composition going forward and its implications for debt sustainability.

Ms. Pollard raised a point on the inclusiveness of growth. Focusing on growth per se is not enough. We encourage staff to take into account how growth can be inclusive, with a view to enhance opportunities for all, which is important going forward.

Like many other Directors, including Mr. El Qorchi, Mr. Rozan, and others, we urge the authorities to address fiscal vulnerabilities and to accelerate their efforts to improve debt management and rationalize the pace of new public borrowing to the extent possible, particularly loans on nonconcessional terms. Saudi Arabia is supportive of the efforts to improve fiscal sustainability, including by providing concessional financing.

We also encourage the authorities to promote long-term equity investment and improve local currency financing, including through the development of the domestic equity market. We believe this is an area that is worth focusing on in the next Article IV consultation with Djibouti.

On capacity development and the need to enhance the relationship between the Fund and the authorities, I echoed the points raised by Mr. Rozan on the need to support Djibouti with TA in various sectors, including on the fiscal front.

To conclude, I would like to echo the points raised by my colleagues on the need to step up their efforts to improve the AML/CFT framework. In our view, joining the Middle East and North Africa Financial Action Task Force (MENA FATF) is a step in the right direction.

With these remarks, we wish the authorities further success.

Ms. Pollard made the following statement:

I just wanted to add one point to my intervention. I agree with the comments made by Mr. Just and Mr. Jost on the importance of improving coverage in the debt data, and this is to include also the SOEs.

The staff representative from the Middle East and Central Asia Department (Mr. Roudet), in response to further questions and comments from Executive Directors, made the following additional statement:

I will take three of the following questions that were raised.

The first one had to do with the CBR pressures and what could the authorities do if these pressures came from factors related to the size of the economy and the lack of profitability of these types of transactions? The first point that is important to underline is that the authorities have been successful in stemming the pressures over the past few years. They have managed to replace some of the CBRs that were under pressure.

This success can berelated to the authorities' efforts to improve the AML/CFT framework, but we also need to emphasize the gap that remains and the efforts that still need to be made on that front, especially keeping in mind that there will be the MENA FATF Mutual Evaluation in 2023. That is important from a signaling point of view.

They have also engaged with foreign regulators and international banks and have been quite successful in this respect. One of the aspects that needs to be emphasized here is their engagement. They should sustain the communication with the foreign regulators and international banks and explain what is being done in the country.

There was also a question about the supply of concessional financing and how to increase it. We also need to recognize the challenges. It is not always easy to mobilize concessional financing for foreign infrastructure projects. Staff's sense is that some efforts could still be made on that front, and there is room for the authorities to try to reach out more to donors. The approach ideally would be to identify projects ex ante and to prioritize them and then to seek financing. The approach has not always been that. It has sometimes been that when investors come with projects, together with the financing, it is difficult for the authorities to resist, and sometimes the financing conditions are not always as concessional as one would want. We feel that by changing that approach and looking at what are the priority projects and then looking for financing and enhancing outreach to potential donors, there could be room for raising more concessional financing.

Another point on that front is that some of the donors have offered more concessional loans, and I am talking about single creditors that have different characteristics. Some of the loans are more concessional than others. That seems to indicate that there would be room for more concessional lending or for loans with higher grant elements available to Djibouti.

Finally, there was a question on TA. Yes, we have identified PFM as a key priority area for the next 18 months. In our view, moving to a debt target is not the main priority for the next 18 months. The main priority is establishing or developing a medium-term framework.

At the moment, the fiscal framework is one where there are annual incremental budgets that are somewhat disconnected from the macro environment. We see moving to a more medium-term approach to budgeting and also to a more top-down approach as two key priorities before establishing a debt target.

Mr. Jost made the following statement:

Coming back to the issue of SOEs. When I go through the DSA, it says that there are data missing and the SOEs are not covered. Given that two

other chairs also raised this point, is there a way of having the debt coverage expanded for next year's Article IV consultation?

The staff representative from the Middle East and Central Asia Department (Mr. Roudet), in response to further questions and comments from Executive Directors, made the following additional statement:

I should clarify. The coverage of the DSA is relatively broad. It includes SOEs, because it includes all externally public and publicly guaranteed debt. The vast majority of SOEs debt is guaranteed by the government, so it is included in the stock of debt that is analyzed in the context of the DSA.

Mr. von Kleist made the following statement:

I was just wondering about publication. Have the authorities decided on whether the report will be published?

The staff representative from the Middle East and Central Asia Department (Mr. Roudet), in response to further questions and comments from Executive Directors, made the following additional statement:

I believe that they have not made a decision on publication yet, but we are hopeful that they will decide positively in favor of publication.

Ms. Florestal made the following statement:

I find the two answers very interesting.

First, with regard to the concessional financing and the CBRs, it sounds like these are examples that could be useful for other countries. The communication aspects, even if there is a business reason for CBRs to withdraw, this is something that could be used by other teams for other countries, as advised.

Second, with regard to concessional financing and the strategy, it will probably be part of the strategy that they are getting help on. But many other countries could benefit from that kind of advice, which is to try as much as possible to have projects ready, to look for concessional financing because there is so little of it. Maybe that could work.

Ms. Pollard made the following statement:

I just want to come back to this issue of SOE debt in the DSA. My understanding, from looking at the debt coverage page in the DSA, it says that for external debt, to the extent that SOE debt is guaranteed by the government, it is covered. If it is not guaranteed, it is not covered. But domestic debt of SOEs is not captured. The question is whether there could be contingent liabilities from this SOE debt or to what extent, particularly on the domestic side, any of that could come back and be a liability of the government.

The staff representative from the Middle East and Central Asia Department (Mr. Roudet), in response to further questions and comments from Executive Directors, made the following additional statement:

What is included in the DSA is external debt, the part that is guaranteed by the government. It is really the bulk of it because the Djiboutian banking sector is very small and the loans to SOEs from the banking sector are very small. They are not included because we do not have the numbers, but they are probably very small. I do not want to say that there are no contingent liabilities related to that. These are provided that we can access the information, and we will definitely aim to broaden the scope

Mr. Raghani made the following concluding statement:

Let me first thank Directors, management, and staff, for their support to my Djiboutian authorities, who greatly appreciate the constructive policy discussions that were held in the context of the 2019 Article IV consultation. I would particularly like to thank the mission chief, Mr. Roudet, and his team for their dedicated work on Djibouti and for their comprehensive answers to the questions raised by Directors.

I take note of Directors' helpful comments and policy recommendations, which I will faithfully convey to my authorities.

My Djiboutian authorities are determined to pursue their reform efforts to further strengthen macroeconomic stability and achieve sustainable high growth to enhance job creation and reduce poverty, in line with the Djibouti's Vision 2035.

Let me now turn to some specific issues raised by Directors.

First, several Directors emphasized the importance of a multifaceted approach to address debt vulnerabilities. I would like to reassure Directors that our authorities remain attentive to the vulnerabilities associated with the debt pattern. They are confident that the rapid increase of trade in the region, accompanied by a growing focus on enhancing intra-regional commerce, will boost revenues from the vital projects that will contribute to a greater national output, reducing the debt ratio, and improving the debt burden over the medium term. They are also making progress in strengthening debt coordination and management among public enterprises and line ministries, including reducing nonconcessional borrowing in favor of concessional financing and FDI, as underscored by Directors in their gray statements.

Second, the authorities fully grasped Directors' call for enhancing fiscal sustainability while increasing domestic resource mobilization to expand fiscal space for priority social spending. The authorities are determined to make headway to broaden the tax base and improve tax administration and collection. They are also increasing their efforts on social protection, building on the success of their social program register. They are now working with the World Bank on a new project that will enlarge the social registry, enhance the social safety net system, and support access to basic services in targeted poor communities.

Third, on structural reforms, the authorities are committed to continue their efforts to bolster inclusive growth and expand structural reforms to promote private sector development and job creation. They are mindful that reducing the high factor costs will be key to boost private sector development, including leveraging the country's location as a regional trade and logistics hub, which is in line with the authorities' main objectives.

To conclude, let me reiterate our authorities' strong commitment to implementing reforms aimed at enhancing macroeconomic stability, accelerating growth, and substantially reducing poverty and unemployment. In this endeavor, they highly value the continued support of the Fund and other development partners.

The Acting Chair (Mr. Furusawa) noted that Djibouti is an Article VIII member and no decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the strong economic growth, low inflation, and improved business environment, but noted the heightened debt vulnerabilities, as well as high poverty and unemployment. In this context, Directors underscored the need for a multi-faceted approach to reduce debt vulnerabilities combined with accelerated structural reforms. Steadfast implementation of this strategy is paramount to leverage the country's location as a regional trade hub and to ensure sustainable and inclusive long-term growth.

Directors called for the development of a medium-term fiscal policy framework, with a policy anchor consistent with debt sustainability. They noted that the infrastructure boom had been accompanied by a rapid increase in external public and publicly guaranteed debt, and recommended reducing the pace of borrowing, including through strict limits on government guarantees and SOE borrowing, and prioritizing concessional financing.

Noting that tax revenues had lagged growth due to large tax expenditures, Directors highlighted the need to enhance domestic resource mobilization to create fiscal space for poverty-reducing spending and debt reduction. They welcomed the authorities' plans to enhance tax collection and customs administration and urged them to design and implement a strategy to reduce tax exemptions and special regimes. In this regard, Directors supported continued Fund assistance on capacity development.

Directors noted that strengthening fiscal governance would help enhance government efficiency. They welcomed ongoing efforts to enhance the public procurement framework effectiveness and called on the authorities to improve SOEs governance to reduce their risks to debt sustainability, including by implementing performance contracts, in order to reduce costs, improve public services quality, and control debt accumulation.

Directors also stressed that deepening structural reforms was critical to achieve broad-based private-sector led growth, job creation, and poverty reduction. They welcomed the improved business environment and called for strengthened contract enforcement and respect for property rights. They recommended further efforts aimed at reducing production costs, particularly in the electricity and telecommunications sectors, and at raising skills of Djiboutian nationals to enhance labor productivity. They called for full implementation of the anti-corruption framework, including by strengthening the institutional capacity, to stimulate private investment.

Directors concurred that the currency board arrangement had provided an effective nominal anchor for Djibouti and remained appropriate. With the external position weaker than implied by fundamentals and desired policy settings, they highlighted the importance of reforms aimed at enhancing external competitiveness.

Directors noted that financial sector policies should continue to focus on strengthening stability and inclusion, including by upgrading banks' regulatory environment and strengthening supervision. They recommended making the AML/CFT framework more effective to limit opportunities for corruption and preserve correspondent banking relationships.

It is expected that the next Article IV consultation with Djibouti will be held on the standard 12-month cycle.

APPROVAL: May 21, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. ***Could staff elaborate further on the differences of opinion with the authorities regarding the prospects for real GDP growth, which the authorities view as more optimistic?***

- The authorities envisage a continuous increase in real GDP growth to about 8 percent. Staff's growth projections are underpinned by the analysis in Annex IV which shows that achieving such a growth rate in the medium-term would require much higher productivity gains (contributions in the order of 2 percent a year, compared to close to zero over the past 15 years) and more ambitious structural reforms given the slowdown in publicly-financed capital expenditure.

2. ***What are the main reasons behind the very high rate of unemployment?***

- Djibouti's high rate of unemployment is mainly of a structural nature. Investment has been concentrated in capital-intensive activities (ports, logistics services) which rely heavily on high-skilled foreign labor, notably because of skill mismatches and high unit-labor costs of the Djiboutian workforce. The formal private sector is very small beyond the trade and logistics activities and has failed to generate enough jobs for the Djiboutian population, especially the youth.

3. ***What is the staff's opinion about recent reliance on FTZs to accelerate economic development?***

- The authorities' efforts to develop transport and logistics infrastructures, including through FTZs, have positioned Djibouti well to become a regional logistics and trade hub. And FTZs have reportedly been relatively successful in attracting investment and have played a growing role in driving economic growth.
- However, the strategy of using tax incentives to attract investment has led to a significant disconnection between overall economic growth and the growth in the tax base. The latter has lagged significantly, somewhat hampering the redistribution of growth dividends and jobs to other sectors. As a result, despite some progress on social indicators, unemployment and poverty have remained high. Staff's advice has therefore been to reconsider the balance of fiscal incentives to allow for higher domestic revenue mobilization and focus on improving the business environment and governance to keep Djibouti as an attractive investment destination.

4. ***Could staff indicate to what extent all these projects and initiatives would contribute to bolstering regional economic integration and creating more business opportunities?***

- Djibouti's development strategy seeks to put the country at the center of this regional economic integration plan. The logistics and transport infrastructures developed in recent years position the country well in this respect. They offer an opportunity to leverage the strong growth in neighboring Ethiopia. Should regional diplomatic tensions continue to ease, there could be further opportunities to promote regional integration, growth and job creation.

5. ***The Article IV staff report notes that Djibouti's high level of dependence on Ethiopia is a risk. We would be interested in your assessment on whether competition from neighboring countries (such as Somalia and Eritrea) could also present a risk to Djibouti's- port-based approach to growth.***

- Staff's assessment is that increased competition from neighboring countries could present risks to the outlook, but not in the immediate future. In the short to medium term, because of its recently upgraded logistics and transport infrastructure, Djibouti is particularly well positioned to become the key logistics and trade hub for the region. Djibouti is also geographically closer to Addis Ababa than other ports and benefits from high-quality roads and a new railway for the transport of merchandises. In addition, developing ports and other transport infrastructures in neighboring countries will take time. Given Ethiopia's size and projected GDP growth, its demand for trade and logistics services will likely continue to increase at a rapid pace over the medium term. Thus, even with some diversification in Ethiopia's trade partners, and provided Djibouti sustains efforts to improve external competitiveness, the country is likely to continue to play a key role.

Debt management and sustainability

6. ***Further comments on the status of the restructuring agreement will be welcomed.***

- Staff has not received any further information on the implementation of the debt restructuring agreement with Exim Bank of China since the issuance of the staff report. The memorandum of understanding signed in early August was not shared with staff given its confidential nature but, according to the authorities, the new terms include an extension of the grace period (by 5 years) and the maturity of the loan (by 10 years) as well as a reduction of the interest rate (to LIBOR + 210 bps, from LIBOR + 300 bps). Pending administrative and legal processes, the Djiboutian authorities expected the agreement to be finalized within the next few months.

7. ***We are somewhat struck by the fact that the average grant element of external borrowing has shrunk in the past few years and that the grant element of new borrowing is projected to further decrease to 31 percent (cf. DSA, para. 7), which falls short of the concessional financing threshold. Staff's comments would be welcome.***

- The average grant element has shrunk in the past few years owing mainly to significant borrowing from Exim Bank of China on non-concessional terms. As of end-2018, debt owed to China represented more than half the stock of total external debt.
- The grant element is projected to increase over the next few years—peaking at 37 percent in 2021—owing mainly to significant concessional financing from IDA and the Saudi Fund for Development, and because projects financed on non-concessional terms (notably from Exim Bank of China) reach completion and related disbursements stop.
- The grant element is projected to decrease thereafter, reflecting new disbursements of non-concessional loans. In staff's projections, the latter are a combination of disbursements of loans already identified by the authorities and disbursements projected by staff. Staff's projections are based on conservative assumptions that are consistent with the financing terms of past disbursements. The authorities could improve their debt profile compared to staff's baseline projections should they seek more concessional terms than assumed by staff.

8. ***The infrastructure investment will not only benefit Djibouti itself, but also benefit many other countries in East Africa. Therefore, we encourage staff to adopt a growth-and-development-oriented approach when evaluating the impacts of the infrastructure investment, so as to make a more comprehensive and objective adjustment. Staff's comments are welcome.***

9. ***We also note the authorities' view that the DSA thresholds were overly conservative for a small economy with large investment needs. Further elaboration by staff on this and how the authorities could strike the right balance are welcome.***

10. ***Could staff elaborate more on the economic viability of the biggest projects also in light of the recent partial debt restructuring?***

- Staff recognizes the large investment needs facing Djibouti and the regional dimension to the infrastructure projects the country has been implementing. This investment strategy is expected to generate robust growth in the country over the medium term, with positive spillovers to the rest of the region.

- Nonetheless, the authorities have been implementing projects that are particularly large compared to the size of the economy. This means that they will need to post large returns to generate the resources necessary to repay the related debt. The new infrastructures are expected to deliver strong real GDP and export growth, and these projections are already embedded in staff's projections and considered in the context of the LIC DSA framework.
- Because the infrastructure projects have been financed via external loans, external public and publicly guaranteed debt has increased significantly over the past few years. Part of the debt has already had to be restructured. And notwithstanding this restructuring, debt service is still projected to increase over the medium term.
- This highlights the importance of tackling existing debt vulnerabilities. Increasing public sector savings through additional domestic revenue mobilization and enhancing spending prioritization is important in this respect. It is also critical to for the authorities to strike a better balance between investing to create the conditions for sustainable growth and ensuring a sound investment and financing strategy.
- Staff has not conducted economic viability analysis of the various projects implemented by the government. It has, however, emphasized the need to strengthen public investment management to ensure that in the future, investment projects be only implemented when they are projected to yield significant economic and social benefits and when the financing conditions (including the repayment schedule) envisaged for these projects are consistent with their expected returns.
- While the authorities are of the view that most projects satisfy these conditions, this was not the case of the railway project. While significant benefits are expected from this new infrastructure over time (as operations are being ramped up), the initial terms of the loan were not consistent with the profitability of the project due to delays in implementing and operationalizing it. The recent agreement reached on the restructuring of the loan as well as planned actions to tackle bottlenecks to ramping up operations will help address related challenges.

Fiscal Policy and Governance

11. ***Do you have an assessment on whether education spending has increased since the last Article IV and whether donors remain active in this sector?***

- Published data on education spending cover the period up to 2016, so staff is not able to assess the evolution of this aggregate over the past few years. However, according to the latest World Bank's Poverty and Equity Assessment, the authorities have made significant efforts to increase access to schooling in recent years, resulting in increased educational attainment of younger cohorts compared to previous generations. For example, the literacy rate of the 10-14 years old is 85 percent against 30 percent for the 40-60 years old.

- Several donors are active in this domain. These include the French Development Agency, USAID, the African Development Bank, the UNICEF, JICA, the UNHCR, the Kuwait Fund, China and the World Bank.

12. ***Could staff elaborate on the expected timing of approval of the Code of Governance for SOEs, which is delayed?***

- The code of Good Governance of Public Enterprises was adopted in 2016. However, several executive regulations (decrees) necessary for its application have yet to be enacted. The authorities have expressed a strong commitment to adopt these soon but have not provided staff with a specific timeline.

13. ***While we welcome the authorities' decision to prepare the tax expenditure report, we wonder if staff could comment on the lack of progress in rationalizing tax exemptions.***

- The tax expenditure report has allowed the authorities to make progress on measuring the revenue impact of tax exemptions and special regimes. Further work needs to be done in this area, notably to estimate the tax expenditure related to the free trade zones. Nonetheless, this was an important first step to increase accountability and transparence and create the basis for rationalizing tax expenditure.
- Rationalizing these tax expenditure schemes is a complex task, which partly explains the lack of progress on this front. This requires devising and implementing a comprehensive strategy which balances the authorities' objectives of maintaining a tax system that is still perceived as being attractive for potential foreign investors and that allows for mobilizing enough domestic resources to share growth benefits more widely. The authorities expressed some interest for potential technical assistance in this area, where benefiting from international experience and best practice could be particularly useful.

14. ***Could staff share its cost-benefit analysis of the efficiency of tax expenditure in Djibouti, and Free Trade Zones in particular?***

15. ***In this regard, we would like to hear staff's sense on how the change of tax regime affect the attractiveness of Djibouti, whether the structural reforms could substitute the incentive of tax, and balance between tax incentive to attract private investment and increase tax revenue to finance priority spending.***

- Staff has not had access to information that would allow for assessing the extent to which the tax exemptions and special regimes have helped attract investment. This is in any case a difficult exercise that requires making a judgment as to what the level of investment would have been in the absence of tax incentives. At the same time, the

estimation of tax expenditure is still work in progress. In particular, because of a lack of access to data, the tax administration has not yet been able to assess the magnitude of the tax expenditure costs related to the free trade zones regimes.

- The IMF board paper on tax incentives in LICs (2015) shows that there is often ample room for more effective and efficient use of investment tax incentives in LICs. It also shows that tax incentives generally rank low in investment climate surveys in low-income countries, and there are many examples in which they are reported to be redundant—that is, investment would have been undertaken even without them.
- In the case of Djibouti, against the backdrop of a low and rapidly declining tax base relative to GDP and given the significant needs for domestic resources to reduce public debt as well as to fight poverty, staff is of the view that a reduction in tax expenditure is of the essence at the current juncture.
- Djibouti faces many other critical constraints to private sector investment that should be tackled as a priority and could have a more significant impact than tax incentives. Priority reforms include reducing factor costs (particularly labor, electricity, and telecommunications), continuing to improve) the business environment, and enhancing the skills of the Djiboutian workforce, consistent with private sector needs.

16. ***Could staff comment on the authorities' response to the advice on adopting a fiscal anchor consistent with debt sustainability?***

- The authorities broadly agreed with staff's recommendations and welcomed Fund support in terms of capacity development in these areas. While they did not see setting a specific anchor or debt limit as an immediate priority, they concurred that efforts to strengthen inter-agency cooperation and better manage public sector resources would be important steps towards strengthening the fiscal position and reducing debt vulnerabilities.

17. ***Can the staff give an assessment of challenges in structuring viable PPPs and difficulties in implementation of these projects?***

- PPPs can offer significant value by tapping the expertise of the private sector to implement or manage development projects. However, fully benefiting from this form of financing requires having built institutions that allow country authorities to select viable projects that offer value-for-money and that limit the potential fiscal risks for the government. Djibouti is only starting to develop such institutions, and staff would therefore recommend caution in implementing such projects in the short run.

External sector and monetary and exchange rate policy

18. ***Could staff comment on the reliability of the EBA-light approach calculations in this case, particularly given the large size of errors and omissions in the balance of payments?***

- As noted in the staff report, the large error and omissions create difficulties in assessing the external position and in applying the EBA-lite methodology. This is particularly the case for the EBA-lite current account model, since the large error and omissions may reflect unrecorded imports, and significant variation in the current account in Djibouti is driven by re-export related trade flows. The weaknesses in balance of payment data are less of a problem for using the two other EBA-lite methodologies, namely the real effective exchange rate model and the external sustainability approach, as these are based on different sets of data. All in all, staff's overall assessment of the external position reflects judgment based on the various EBA-lite results but also the reserve position.

19. ***Given the upcoming debt service payments and risks outlined in the Risk Matrix we welcome staff's further elaboration on the reserve adequacy in Djibouti.***

- The current reserve coverage at 3.2 months of imports (excluding imports for re-exports) is assessed as broadly adequate. Under staff's baseline scenario, which accounts for the projected debt service, the reserve coverage is expected to remain stable at around 3-3.2 months of imports. This is broadly consistent with the optimal benchmark (3.4 months of imports) estimated with a model-based framework for low-income credit-constrained economies. The framework assesses the optimal level of reserves balancing the absorption smoothing benefits of reserves in the event of adverse shocks against the opportunity cost of holding reserves.

20. ***However, we'd like to hear more from the staff why flexible exchange rate system is not recommended strongly?***

- There are two main reasons for which staff considers the currency board arrangement (and hence a fixed exchange rate regime) adequate. First, the arrangement has been critical in instilling confidence and improving the predictability in international transactions (an important feature given the reliance of the economy on international trade). It has also brought about low inflation and a high degree of monetary stability.
- Second, the structure of the economy is such that the sensitivity of the current account to real exchange rate movements is likely to be low. Gains in external competitiveness are therefore best achieved by reducing the high cost of doing business and improving governance and the investment climate. Indeed, Djibouti depends heavily on imports of food and other staples, and the scope for production is

very constrained by non-price factors, and thus imports are not elastic with respect to exchange rate movements. Moreover, the main sources of foreign exchange—port services and rental fees for military bases—are not sensitive to exchange rate changes as they are both set in long-term contracts or priced in U.S. dollars.

Financial sector

21. ***We wonder what other factors come into play for CBRs withdrawals given that Djibouti is a small economy and international banks may not find it profitable under the current state of prudential norms, regulations, and reputational and legal risks to do business with the country. Staff's comments would be welcome.***

22. ***Could staff elaborate on Djibouti's correspondent banking relationship (CBR) experience and any broad noteworthy lessons especially on how they get around to establishing new CBRs?***

- There have been several drivers to the CBRs pressures experienced by Djiboutian banks. While weaknesses in the AML/CFT framework and related risks may have played a role, Djiboutian banks and the authorities indicated that international banks have also highlighted profitability concerns as a reason to scale back their engagement in the region.
- As outlined in the selected issues paper, Djibouti has made efforts in recent years in strengthening the AML/CFT framework, including supervision by the Central Bank. Such progress has been successfully communicated to foreign banks and relevant regulators. For instance, the Central Bank and the Financial Intelligence Unit conducted regular outreach with foreign supervisors to assist the domestic banks in reestablishing CBRs and easing pressure to preserve financial flows and stability.

23. ***While we welcome the upcoming Financial Sector Stability Review, we find it strange that data for provisions to non-performing loans were last reported in 2014. Given the criticality of this information for assessing the health of the sector, we welcome staff's comments on the rationale behind this omission.***

- These data are neither part of the core nor the additional financial soundness indicators (FSIs) submitted by the authorities to STA. As such, the data were not automatically updated in the table and were transmitted to staff in paper format. Based on this, we have issued a correction to reflect the available information.

- Provisions to non-performing loans decreased until 2016, before increasing in 2017 (see table below), owing to the authorities' effort to accelerate the write-off of several loans.

	2013	2014	2015	2016	2017	2018	2019Q1
Provisions to nonperforming loans	67.8	62.4	61.2	61.2	76.7	70.2	67.9

24. ***We also take note of the national financial inclusion strategy, elaborated with assistance from UNDP, with the aim of advancing access to financial services. We would appreciate further details on this strategy and its objectives.***

- The authorities have developed a national financial inclusion strategy in coordination with UNDP. The strategy aims at advancing access to financial services to alleviate poverty and foster sustainable development. It focuses on developing specialized financing funds to support national development priorities, including through climate finance, SMEs support and effective social protection. The project is currently at an early stage, focused on arbitrating between potential areas of support and designing institutional arrangements and operating procedures for managing the funds.

Structural reforms

25. ***We would appreciate if staff could provide details on the size of the informal sector and its potential role to offer opportunities for refugees' employment.***

- The informal sector represents a significant share of the economy in Djibouti. A World Bank analysis based on data from the 2017 household expenditure survey indicates that some 46 percent of employment is in the private informal sector, predominantly in low-value added wholesale and retail trade activities.
- As noted in Annex II of the staff report, refugees have in some instances created businesses in retail services and restauration, mostly in the informal sector. However, there is a correlation between informal work and poverty and it is unlikely that the informal sector can provide opportunities to refugees beyond subsistence work.

26. ***In the broader context, we would welcome staff's further comments on the prioritization of structural reforms, including the most crucial ones at the current juncture.***

- Staff advises prioritizing reforms in those areas that are critical in achieving several concomitant objectives. Strengthening SOE governance falls squarely in this category, given the potential for these reforms to help reduce contingent liabilities as well as the pace of debt accumulation, to reduce the perception of corruption and, thus, improve the business environment, and to bring down the cost of public

services, including telecommunication and electricity prices, hence improving private sector competitiveness.

- Given the significant macroeconomic vulnerabilities stemming for the accumulation of debt, improving the fiscal framework and debt management and reducing tax expenditure are also important priorities. The latter would also help generate resources and redistribute growth dividends more widely and foster poverty reduction.
- Finally, structural reforms to spur higher private sector-led growth are also critical to improve Djibouti's standard of living while limiting the risks stemming from debt vulnerabilities.

27. ***Given the need to increase private sector participation in the economy, can staff comment on whether privatization in the telecommunications and electricity sectors would yield benefits and enhance inclusive growth?***

- While privatization of the two government-owned operators in the telecommunications and electricity sectors could eventually be envisaged, this is not the model currently being proposed by World Bank experts. Importantly, many reforms are necessary on the road to modernizing the two sectors, before a privatization could be envisaged. These include revamping these companies' governance, generating efficiency gains and strengthening the financial positions of the two companies, revamping the regulatory environment, including by creating independent regulators, and gradually opening the sectors to competition.

28. ***Djibouti was one among the first 14 states identified as qualifying to tap into for the regional sub-window for refugees and host communities for funding under IDA18. We wonder if in recommending that the authorities seek donor assistance, staff has indication that there are other sources of financing for the refugee inflows that they are not taping into presently. Comments would be welcome.***

- Staff's recommendation has been to seek concessional financing for projects in general (i.e. not specifically for refugee-related projects) to address debt vulnerabilities. As far as donor support related to refugee inflows is concerned, the World Bank approved in May 2019 an IDA package of $15 million to support the social safety nets system to improve access to basic services in targeted poor communities. The latter included a US$5 million grant from the IDA18 Sub-Window for Refugees and Host Communities. Other partners (for example UNHCR, USAID) also aid support the authorities' efforts in these areas.

29. ***An update by staff on the situation around Doraleh Container Terminal would be welcome.***

30. ***Could staff provide an update as regards the potential fiscal, reputational and competitiveness consequences of the nationalization of the Doraleh Container Terminal from DPW?***

- Staff has not received any new information since the issuance of the report. Following seizure of the terminal by the government in 2018, it has been operated by a government related entity. The London Court of International Arbitration ruled that the contract could not be revoked. The Djiboutian authorities indicated to staff that they were not represented in court, and that they were contesting the decision, finding the initial contract unbalanced. They also indicated they were willing to discuss a possible compensation with DP World.
- A possible compensation could generate fiscal costs. Staff does not, however, have an estimate of the possible costs. The authorities have indicated that these could potentially be incurred gradually, for example using the profits from the ports. As far as the reputational costs are concerned, the authorities have tried to minimize those by better communicating the reasons behind their decision and the steps they were willing to take to find a settlement. Finally, staff is not aware of immediate consequences on competitiveness. Should the decision have an impact on future FDI flows, it could affect the economy's competitiveness over the medium term.

Engagement

31. ***While we consider the priorities identified in the CD strategy to be appropriate, they appear burdensome for implementation over the projected 18-month horizon. We invite staff's comments on the authorities' absorptive capacity.***

- Given the need to balance significant CD needs and limited absorptive capacity, staff has engaged extensively with the authorities (both ahead of and during the mission) but also CD-delivering departments to identify priorities and deliverables consistent with absorptive capacity.
- The summary table on page 19 of the staff report reflects these discussions. It should also be noted that several of the areas flagged in this table (statistics, and financial sector regulation/supervision for example) reflect ongoing TA programs, not new TA areas that risk crowing out resources or other priorities. In addition, all proposed TA do not necessarily rely on the same resources on the authorities' side; nor are they targeted to the same administrative units, hence limiting the risks related to absorptive capacity.

32. ***Strong support in developing a medium-term fiscal framework is needed to address structural fiscal challenges and debt vulnerabilities over time. A multi-year fiscal framework and adoption of fiscal anchor consistent with debt sustainability can help Djibouti achieves its fiscal objectives in a sustainable manner. Above all,***

technical assistance and capacity building in this area is paramount given Djibouti's high capacity development needs and low capacity. We agree that coordinated TA from donors is critical for a multi-year programmatic approach. We welcome staff to comment further on this.

- Staff is planning to support the authorities with TA in these areas and has been closely engaged with partners, particularly the World Bank, to align priorities and coordinate capacity development delivery.

33. ***We note that implementation progress of recommendations from the last Article IV consultation has been uneven. Staff and the authorities highlighted that significant capacity constraints have often led to delays in the implementation progress. While we take positive note of the tailored Fund TA and CD strategy to address this gap, we welcome further elaboration from staff on key lessons that could be drawn from past experiences to better inform the implementation effort for the current recommendations.***

- Staff is of the view that, to enhance progress in implementing policy recommendations, actions must be taken on several fronts. The authorities need to turn to a more results-based approach to policy implementation. In many instances (for example in the areas of SOE governance and anti-corruption), sound legal and regulatory frameworks have been put in place, but these are not fully implemented. On its side, staff has tried to better integrate surveillance and capacity development. The MCD team has strengthened its coordination with functional departments and TA experts, before and after TA missions, and has deepened engagement with the authorities to better consider capacity constraints and improve the link between surveillance priorities and TA delivery. Having reached agreement with the authorities on a TA strategy should help in this respect.

34. ***Could staff elaborate more on the progress made so far, major impediments for reform and future TA plans in areas related to debt sustainability and debt management?***

- In cooperation with the World Bank, the authorities have prepared a debt management reform plan aimed at improving coordination between relevant debt management entities, increasing transparency through regular reports publishing, and developing a medium-term strategy. Progress has already been made in improving coordination between relevant agencies. In this respect, a national committee in charge of public debt issues was recently created.
- However, there has been a lack of progress in developing a medium-term debt strategy, partly reflecting capacity and resource constraint. This is an area where staff

has proposed Fund TA support. Other ongoing capacity development actions include training on the new IMF-WB DSA framework for low-income countries.

35. ***Finally, we would appreciate staff elaborations on the reasons behind the delay in completing this year's Article IV consultation, noting that the last one was completed in February 2017.***

- The delays initially reflected the need to organize a management visit and staffing issues. Following a change in mission chief, in mid-2018, an initial Article IV consultation mission took place in December 2018. However, the revision of official national account and balance of payment statistics in early 2019 caused further delays and made it necessary to organize a subsequent mission in June 2019. The finalization of debt restructuring discussions over the summer also caused additional delays.