Executive Summary

Focus of the report

The discussions for the 2007 Article IV consultation with Djibouti focused on (a) the medium-term growth prospects and policies necessary to ensure that growth is broad-based and accompanied by sufficient employment creation, (b) policies to enhance medium-term fiscal sustainability, while reducing poverty, and (c) key financial sector reforms.

Background

Real GDP growth is estimated at 4.8 percent in 2006, driven by fiscal expansion, and a sizeable private investment in the port and construction sectors. Consumer price inflation has increased slightly from 3.1 percent on average in 2005 to 3.6 percent in 2006, reflecting mainly increases in the prices of food, housing, and water and electricity. Broad money growth remained stable in 2006. Domestic liquidity grew, supported by the favorable economic environment and financing conditions. The fiscal stance was slightly restrictive in 2005, but expansionary in 2006, with the base fiscal deficit—domestic revenues minus domestically financed spending—widening from 2 percent of GDP in 2005 to 7.1 percent in 2006. The external current account is estimated to have shifted from a small surplus in 2005 to a deficit of 9 percent of GDP in 2006, following a surge in imports mostly related to new foreign direct investment.

Views of the authorities

The authorities are aware of the need to ensure that favorable growth prospects are not limited to an enclave around the port, but generate sufficient employment for all Djiboutians and help reduce poverty. In this context, the president launched a "National Initiative for Social Development." The authorities also indicated that the government intends to reduce the base fiscal deficit. At the same time, they intend to review the overall tax framework, including by preparing the introduction of a value-added tax (VAT), and a Common External Tariff (CET). The authorities view the current currency board arrangement as necessary to maintain financial stability. They have requested an evaluation program under the joint Fund-World Bank Financial Stability Assessment Program to help address the new challenges raised by the rapid expansion of the banking system.

Staff recommendations

The staff encouraged the authorities to develop a medium-term poverty reduction strategy with the assistance of the World Bank, and to enhance competitiveness through macroeconomic and structural reform measures. Key structural reforms include adopting an integrated strategy to reduce energy production costs, fully implementing the new labor code, and improving the efficiency of the judiciary system and good governance. Staff stressed the need to improve tax revenues by simplifying the tax regime and reviewing tax exemptions, and to reduce the size of the wage bill, by implementing effectively the ongoing civil service reform, including through the elimination of all ghost workers. It also underscored the need for greater fiscal discipline through strict adherence to the budget, and no accumulation of new domestic or external arrears. Staff also urged the authorities to strengthen the architecture of the financial sector, develop new monetary policy instruments to gain better control over monetary liquidity, and enhance the supervision capabilities of the central bank. It urged the authorities to strengthen the statistical base to facilitate the formulation and monitoring of macroeconomic policies.

I. INTRODUCTION

1. **Djibouti's performance under a previous PRGF arrangement and two staff-monitored programs (SMP) was mixed** (Box 1). Real GDP growth accelerated somewhat in recent years, and consumer price inflation remained low (Figure 1). Fiscal performance was, however, generally weak, although improving in 2005 as the result of expenditure restraint (Figure 2). Cash management was typically strained, with the recurrent emergence of new external and domestic arrears. Implementation of structural reforms has generally been slow.

Box 1. Performance Under the July–December 2005 Staff-Monitored Program (SMP)

All quantitative fiscal targets were largely met (Table 8). However, mostly because of higher-than-programmed reimbursements of domestic and external arrears, the cash situation of the treasury remained strained resulting in the accumulation of new domestic and external arrears, and some small deviations from the quantitative monetary targets.[1] Most external arrears accumulated in 2005 have been repaid in early 2006.

On the structural side, only limited progress was made in making the economy more competitive and improving fiscal management. A new Labor Code was adopted in December 2005; most technical work related to the introduction of a single registry file for the civil service has been completed; and several steps were taken towards the introduction of a value-added tax (Table 9).

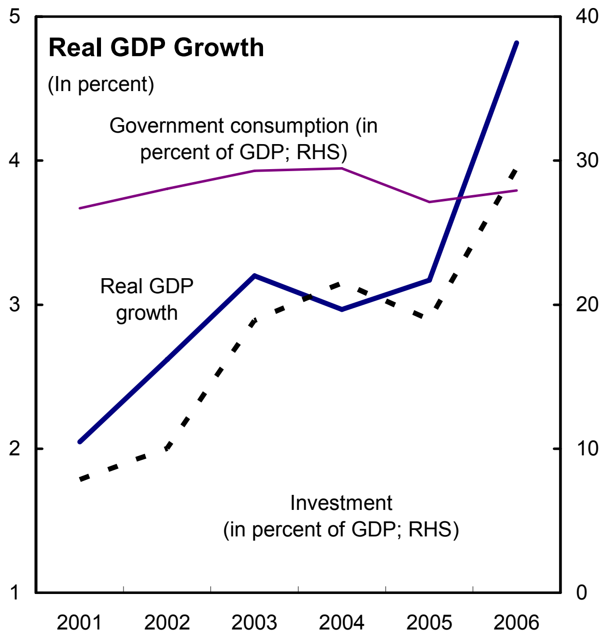
[1] This accumulation of arrears resulted from a large repayment of arrears towards Arab donors ahead of the December Round Table, and the unbudgeted repayment of one additional month of wage arrears.

2. **Djibouti's growth prospects have improved considerably, anchored in the development of the port.** The authorities' strategy has been to foster the involvement of foreign investors and Arab donors in building essential infrastructure. As a result, very large foreign direct investment will help develop services around the port and the expansion of exports over the medium term.

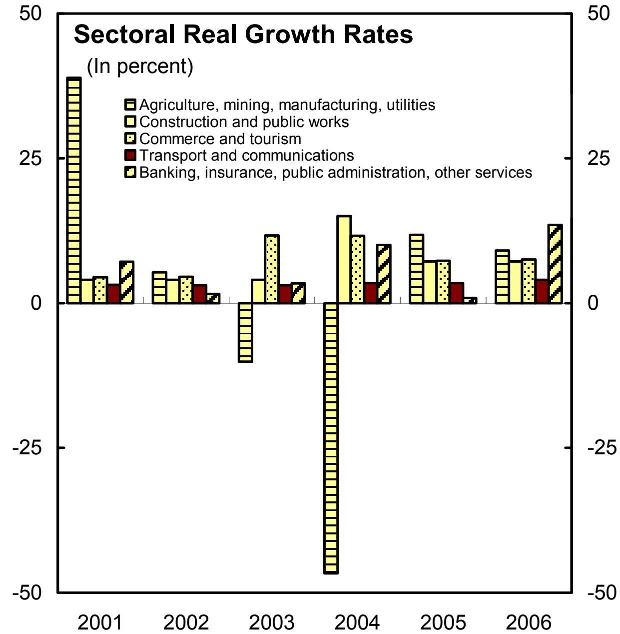
3. **The main policy issues discussed during the consultations were (a) the need to ensure growth is broadly based and accompanied by sufficient employment creation, (b) policies to enhance medium-term fiscal sustainability, while reducing poverty, and (c) key financial sector reforms.** Djibouti is facing particularly high unemployment and poverty rates—respectively estimated at 50–60 and 42 percent in 2002, albeit informal employment is largely underestimated. A major challenge ahead for Djibouti is therefore to ensure that growth is not confined to an enclave around the port, and results in an increase of local employment and improved fiscal revenue. This will require measures to significantly improve competitiveness and more determined implementation of structural reforms.

Figure 1. Djibouti: Real Sector, 2001–06

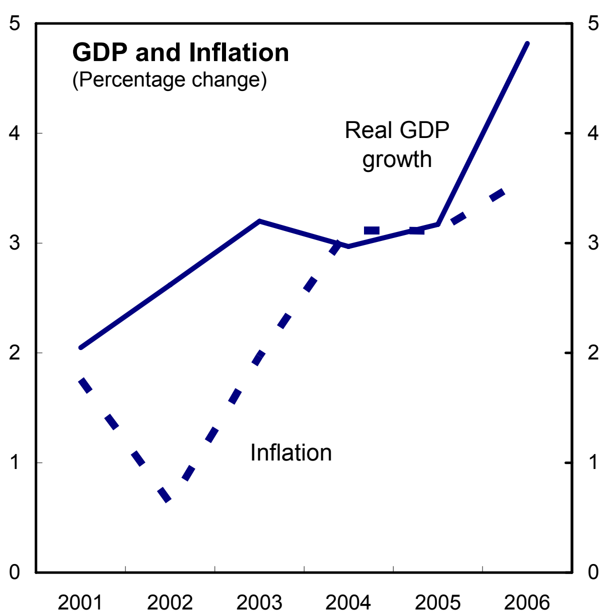
Increased investment in port related sectors and government consumption underpinned strong growth…



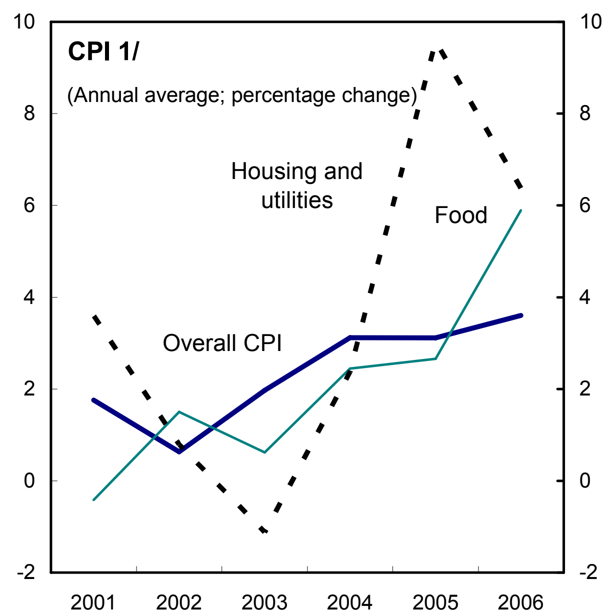
...supported by the services, construction, and financial sectors…



...but accompanied by higher inflation in 2006…



...owing to energy and food inflation.

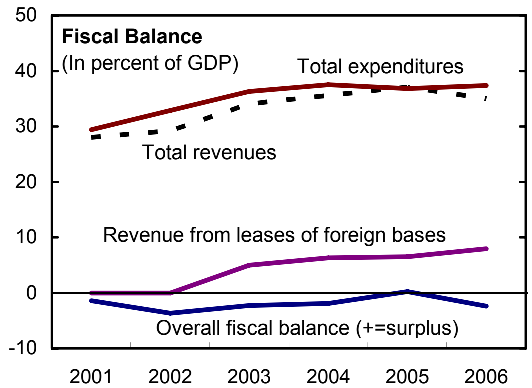


1/ For 2006, September.

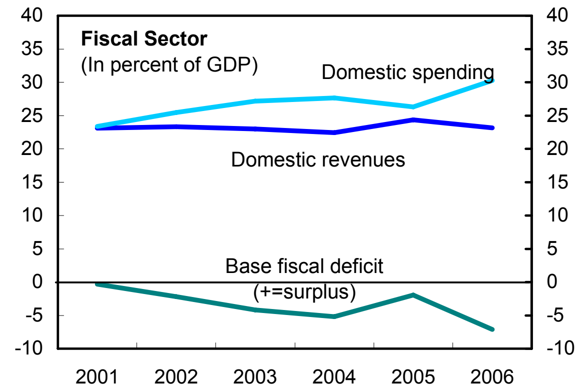
Sources: Djibouti authorities; and Fund staff calculations.

Figure 2. Djibouti: Fiscal Developments, 1998–2006

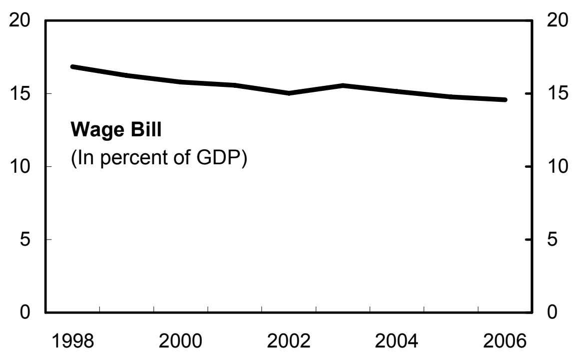
The overall fiscal balance has deteriorated, despite an increase in foreign revenues.



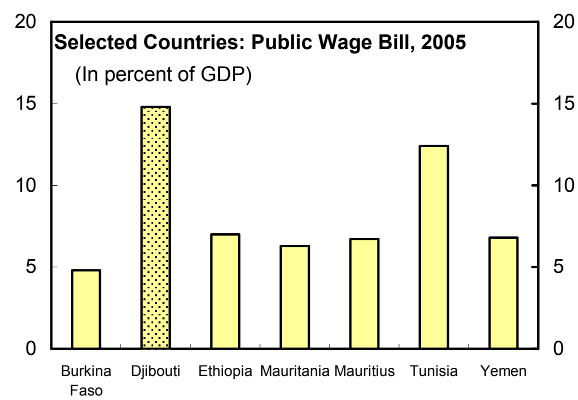
The base fiscal balance has also worsened, reflecting stronger domestic spending…



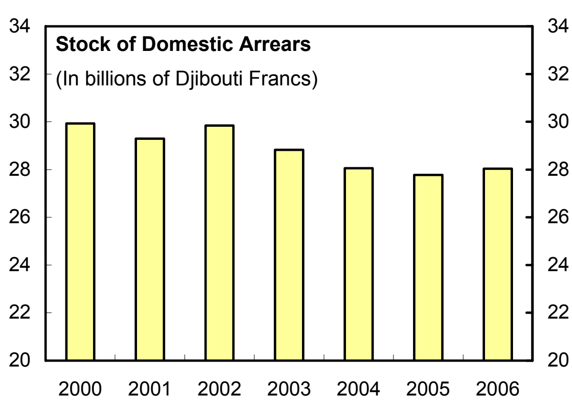
…related to a high wage bill to GDP, although declining over time,…



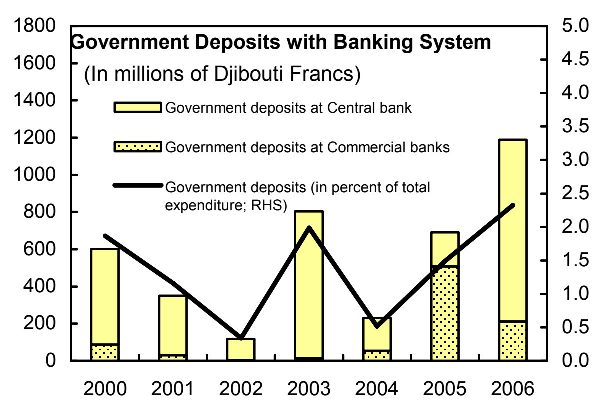
...but still higher than in comparator countries.



The stock of domestic arrears remains large…



...constrained by erratic and low levels of government deposits with the banking system.



Sources: Djibouti authorities; and Fund staff calculations.

II. Recent Developments

4. **Growth was strong in 2006.** Real GDP growth is estimated at 4.8 percent in 2006, driven by fiscal expansion, and large foreign direct investment (FDI) in the port and construction sectors. The share of investment in GDP grew from 19 percent in 2005 to about 30 percent in 2006. Consumer price inflation is estimated to have risen slightly from 3.1 percent on average in 2005 to 3.6 percent in 2006, reflecting mainly increases in the prices of food, housing, water, and electricity.

5. **Broad money growth continued its trend deceleration of the past few years in 2006** at about 10 percent (Figure 3). Domestic liquidity grew, supported by the favorable economic environment and financing conditions. The share of foreign currency deposits in total deposits decreased slightly to 56 percent in 2006. After several years of decline, credit to the private sector increased by about 9 percent, primarily benefiting those sectors with business related to the direct or indirect implementation of foreign direct investment.

6. **A surge in imports largely financed by foreign investment led to a deterioration of the trade and current account balances** (Figure 4). As a consequence the external current account is estimated to have shifted from a small surplus in 2005 to a deficit of 9 percent of GDP in 2006. However, the large capital and financial account surplus has more than offset the deficit in the current account, resulting in an increase in gross official reserves to US$117 million at end-2006 (equivalent to 3.2 months of imports of goods and services and a currency board cover of 109 percent).

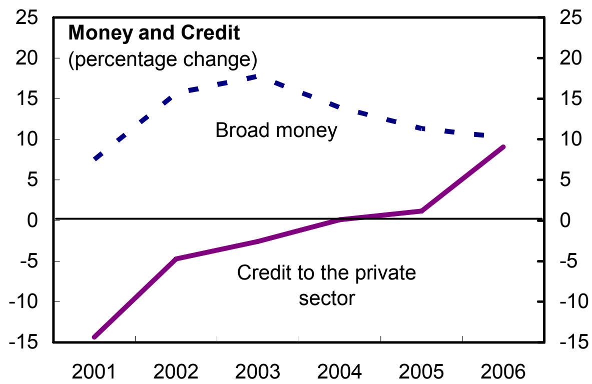
7. **The Djibouti franc has continued to depreciate in real effective terms in 2006 but competitiveness remains weak** (Box 2**).** Tentative staff's estimates of the equilibrium real effective exchange rate suggest that the actual real effective exchange rate was substantially overvalued in the 1990s (about 40 percent above the equilibrium rate in 1994–96), but the gap with the equilibrium rate has since narrowed significantly, as a result of higher efficiency and productivity of the port and the depreciation of the U.S. dollar vis-à-vis the Euro since 2001.[1] These estimates do not, however, take into account recent and projected future current account deficits and the expected sharp increase in external debt over the medium term. More generally, a variety of indicators suggest that competitiveness remains weak, as reflected by high electricity, labor, and other domestic production costs, low skill levels, a labor productivity negatively affected by *khat*[2] consumption, and a weak institutional environment

[1] Estimates are derived using coefficient estimates in IMF's Working Paper No. 06/236, which applies Edwards' methodology to a panel of WAEMU countries. These estimates are not based on Djibouti-specific parameter estimates, and should be seen as only suggestive of changes of Djibouti's equilibrium real effective exchange rate, and as an additional indicator of developments of Djibouti's competitiveness over the past 25 years.

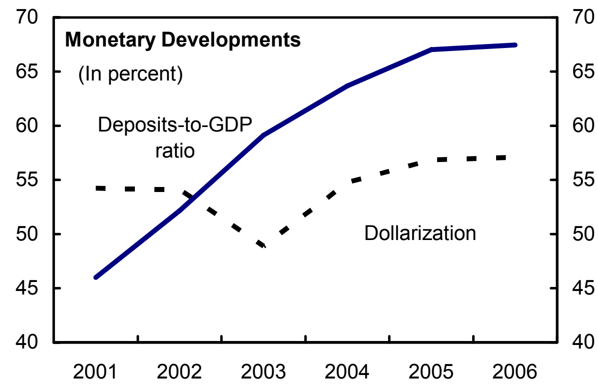
[2] Leaves of the *khat* tree contain the alkaloid cathinone, a mild amphetamine-like stimulant. *Khat* leaves are chewed fresh, usually in the afternoon since most of the khat consumed in Djibouti arrives on a special midday flight from Ethiopia and is then swiftly distributed throughout the country.

Figure 3. Djibouti: Money and Finance, 1999–2006

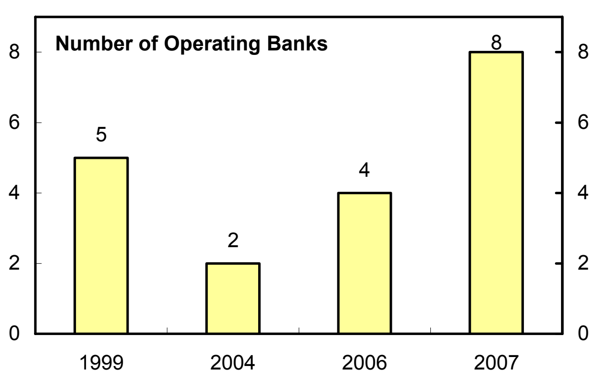
Intermediation and private sector credit improved with higher growth and FDI.



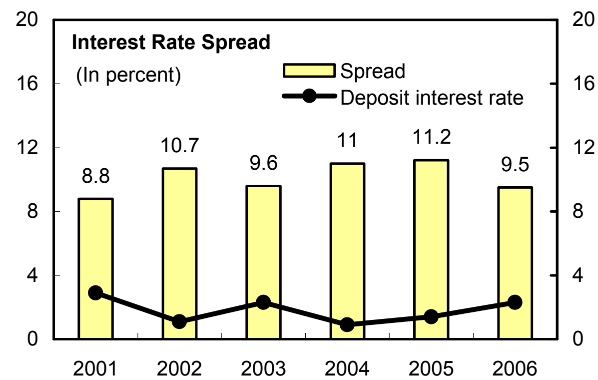
Deposits have grown steadily, with a still high degree of dollarization.



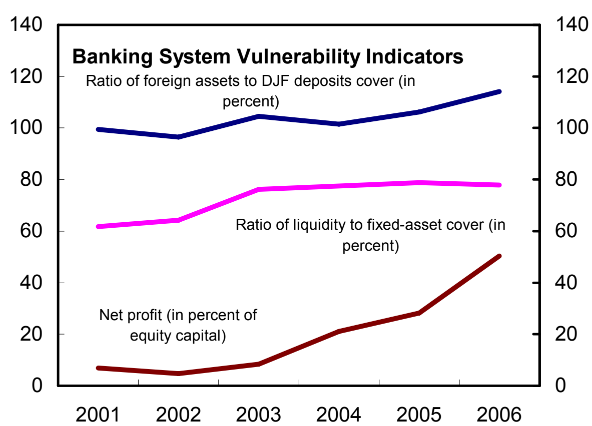
After closure of ailing banks, the banking sector is becoming attractive to foreign investors…



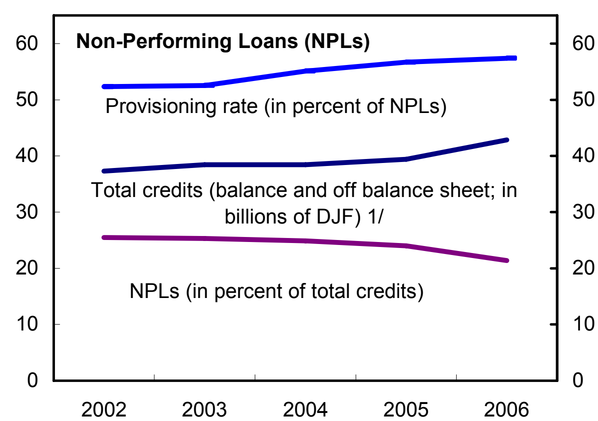
…leading to higher competition and the gradual narrowing of the spread in 2006.



The financial system has become sounder…



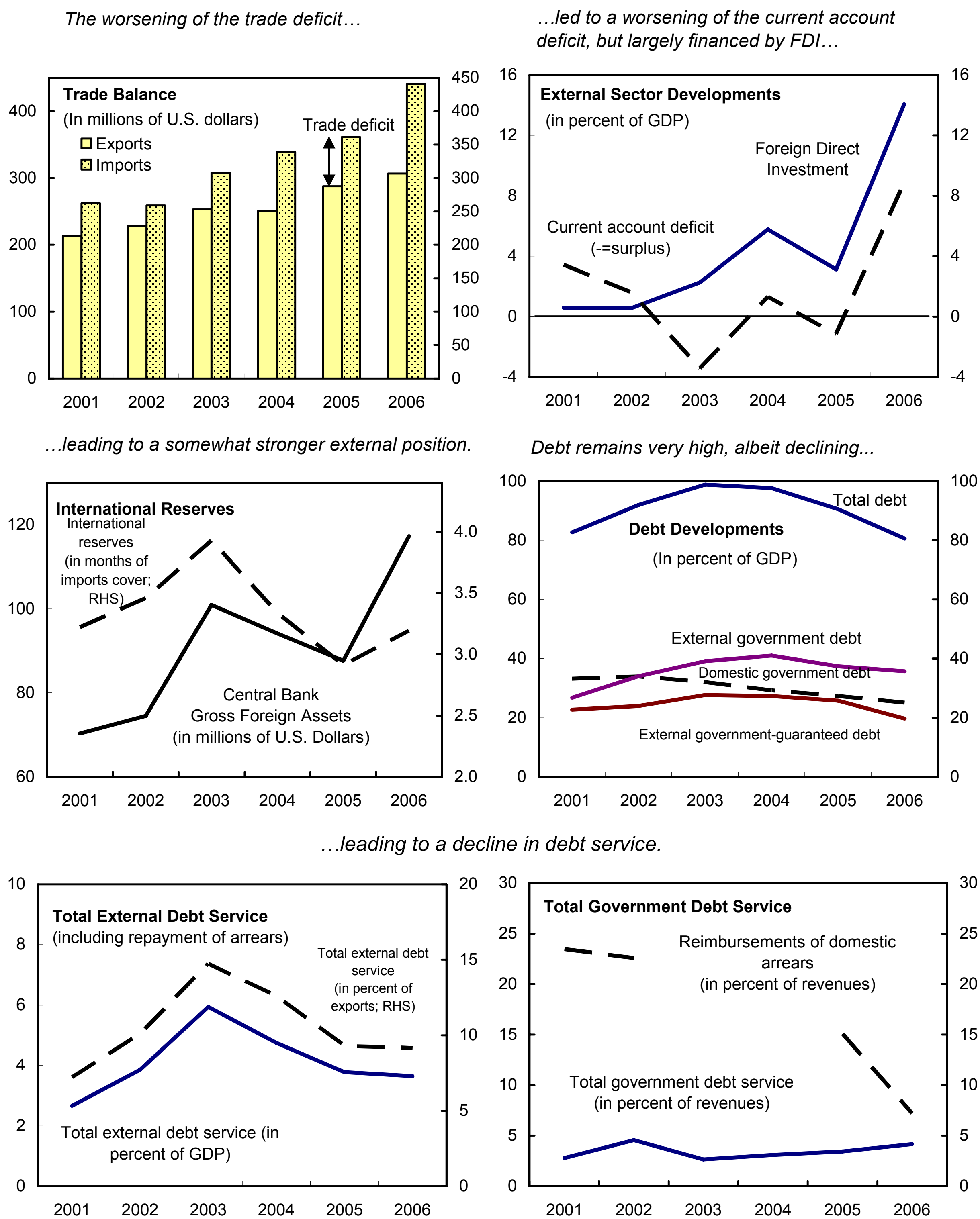
…with high but declining non-performing loans.



1/ For 2006, September.

Sources: Djibouti authorities; and Fund staff calculations.

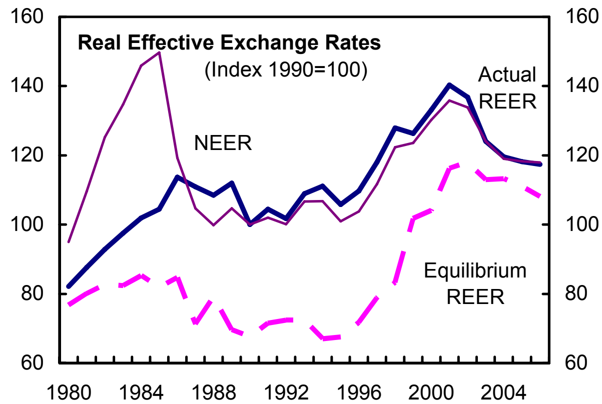
Figure 4. Djibouti: External Sector, 2001–06



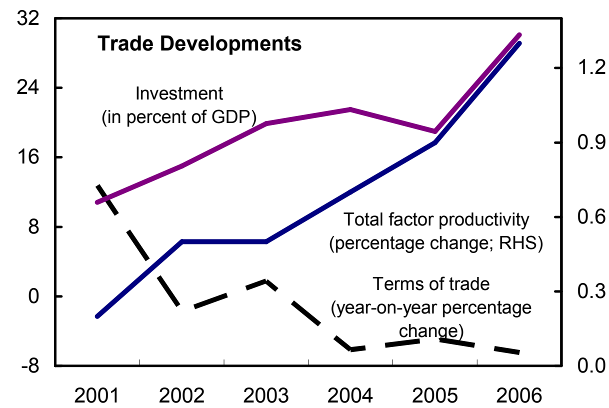
Sources: Djibouti authorities; and Fund staff calculations.

Box 2. Djibouti: Competitiveness, 1980–2006

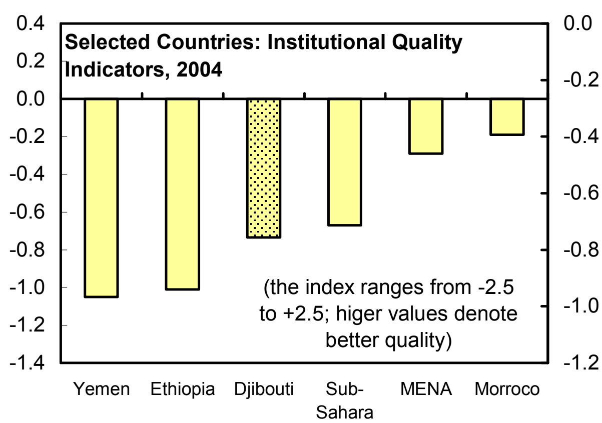
Competitiveness is improving with the real effective exchange rate (REER) and equilibrium REER spread narrowing…1/



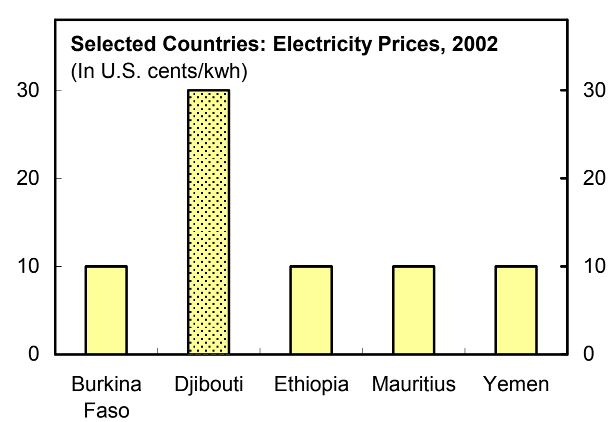
…driven by high foreign direct investment, and improvements in total factor productivity and in the terms of trade.



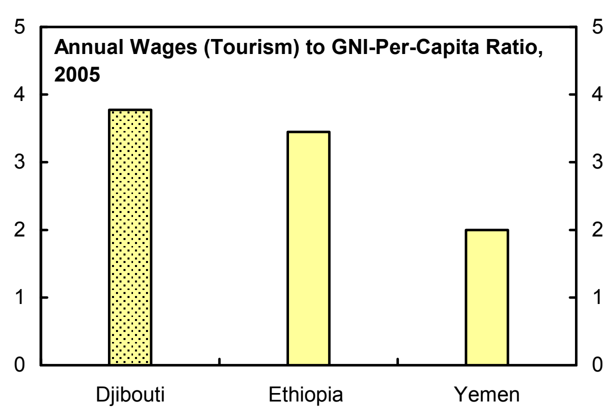
...but institutional quality is relatively low by regional standards...



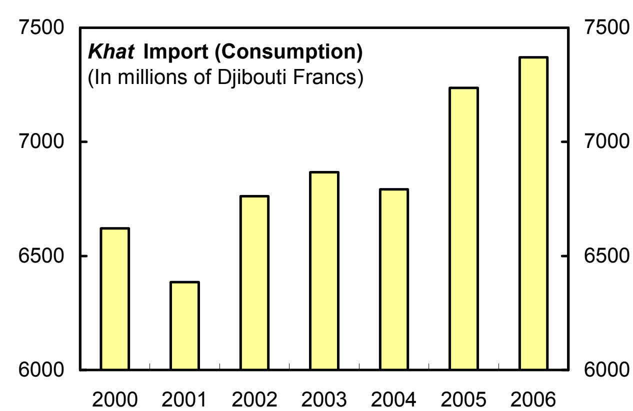
…factor costs (electricity) are high...



…wages to GNI are also higher than in neighboring countries…



…and increased khat *consumption is still threat to productivity.*



Sources: Djibouti authorities; World Bank; and Fund staff calculations and estimates.

1/ Estimates are derived using coefficient estimates in IMF's Working Paper No. 06/236, which applies Edwards' methodology to a panel of WAEMU countries. Caveats are discussed in paragraph 7.

8. **The fiscal stance turned from slightly restrictive in 2005 to strongly expansionary in 2006.** The base fiscal deficit—domestic revenues minus domestically financed spending—widening from 2 percent of GDP in 2005 to 7.1 percent in 2006, as outlays related to regional elections and the summit of Common Market for Eastern and Southern Africa (COMESA) countries were only partly offset by the good revenue performance. The overall fiscal balance on a commitment basis also worsened slightly from a surplus of 0.2 percent of GDP in 2005 to a deficit of 2.4 percent in 2006, despite higher payments from the United States for the lease of their military base. The stock of domestic arrears increased by 0.2 percent of GDP in 2006.

9. **After a period of downsizing with the closure of troubled banks, the banking sector has been rapidly expanding**. The banking sector is well capitalized and profitable, and banks have progressively reduced their portfolio of nonperforming loans. The arrival of two new foreign banks in 2006, with four more slated in 2007, is expected to foster competition by reducing borrowing costs and widening the range of financial instruments such as off-shore and Islamic type products, and instruments for small- and medium-sized enterprises, away from traditional trade financing.

10. **The implementation of structural reforms remained weak.** The adoption of a new—more flexible—labor code in December 2005 is yet to be enforced by the adoption of implementation decrees and the renegotiation of sectoral collective agreements. The single registry file for the civil service is well-advanced, but not yet implemented. A civil service reform was initiated in early 2006, but the physical audit of the civil service has not been finalized, and the subsequent phases, the organizational and strategic audit are yet to start.

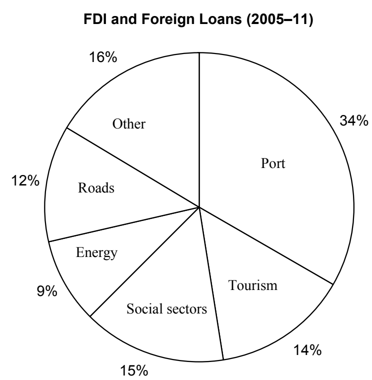
III. Policy Discussions

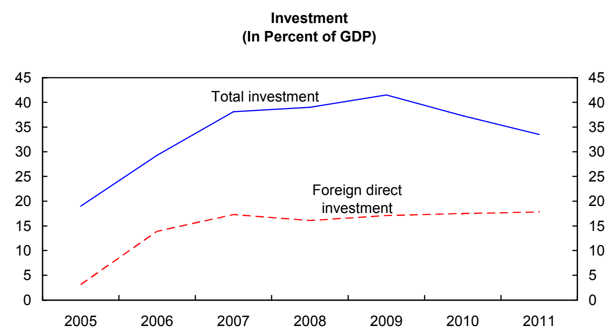
11. **Medium-term growth prospects have improved considerably as a result of the government's development strategy to transform Djibouti into a trade and services platform for the COMESA region, centered around a modern deepwater port** (Box 3). This made it possible to attract at least US$1.4 billion (equivalent to 180 percent of 2006 GDP) of confirmed foreign financed investment, mostly private, over 2005–11.

12. **The authorities are determined to ensure that growth is not limited to an enclave around the port, and that it generates sufficient employment for all Djiboutians and helps reduce poverty.** In this context, the president announced in January 2007 a "National Initiative for Social Development" that aims at promoting basic social services particularly to the vulnerable segments of the population, and modernizing production to create more jobs. The mission welcomed the initiative, and encouraged the authorities, with the assistance of the World Bank, to translate it into a time-bound action plan with specific benchmarks defined within a medium-term fiscal framework possibly in the context of the preparation of a draft new PRSP. The mission also urged the authorities to maintain macroeconomic stability, and to implement decisively the structural reforms needed to foster the development of small- and medium-sized enterprises.

Box 3. Growth Prospects and Key Challenges in Djibouti

Building on its strategic location on the horn of Africa and political stability, Djibouti has succeeded in attracting at least $1.4 billion of confirmed FDI and loans from mostly Arab creditors over 2005–11 (equivalent to 180 percent of its 2006 GDP).[1/] These investments are anchored on the development of the port, managed by Dubai Ports World (DPW), and are aimed at transforming Djibouti into a regional service hub through the creation of a modern deep-sea port (with a 240,000 cubic meters storage oil terminal, a container terminal, and a bulk terminal); an upgrade of Northern and Southern roads to Ethiopia, and new access roads to Northern parts of the country; the modernization of the railway to Ethiopia under private management by COMAZAR; the transformation of the airport in a regional cargo hub; and increased competition in telecommunications. These large investments will put the economy on a higher growth path in the range of 5–7 percent annually for the next few years.





Sources: National authorities and Fund staff projections.

The main growth sectors are:

- Cattle trade for up to 4 million of sheep, camels, and cows per year, from Djibouti, Ethiopia, Kenya, and Somalia, to Saudi Arabia, and potentially other Middle-Eastern countries such as Egypt, Jordan, and Syria;
- Tourism sector with the construction of one 5-star hotel (to be expanded to 1,000 rooms) and potentially several other 4- and 5-star hotels, and the development of diving sites and casinos;
- A commercial and industrial Free Trade Zone (FTZ) around the port expected to attract businesses currently in Dubai FTZ to cater for the COMESA market;
- Construction of private housing and industrial buildings;
- Banking system with the establishment of at least six new banks, in addition to the two existing French bank subsidiaries, and the provision of new financial products, such as Islamic financing and possibly off-shore banking for the region.

There are, however, considerable challenges ahead to ensure a steady flow of FDI, and generate broad-based, pro-poor growth that is accompanied by the creation of sufficient productive employment opportunities for the local labor force:

- Continued commitment to macroeconomic stability in the face of large capital inflows, particularly a prudent fiscal stance to contain potential inflationary pressures;
- Substantial improvement in external competitiveness;
- Development of the private sector outside of the FTZ, in particular the creation of small- and medium-sized enterprises;
- Other structural reforms, including reduction in the production cost of electricity; training of the labor force to meet new market needs; and improvement in the business environment and the judiciary system.

1/ Loans are at concessional terms with terms varying from interest rate of 0.75 percent, 10 year grace period, and 50 year maturity, to interest rate of 3 percent, 5 year grace period, and 20 year maturity.

13. **Medium-term growth prospects are not without risks.** A possible worsening of the political and security situation in Somalia and in the rest of the region could adversely affect Djibouti's development prospects, which are highly dependent on regional trade. In addition, sustaining high levels of investment will require sounder and more effective institutions. On the positive side, the current favorable growth prospects could be considerably enhanced if an oil refinery project of $4–6 billion (equivalent to 7–9 times the 2006 GDP), with a capacity of 250,000 barrels a day, currently under discussion with potential investors, is firmed up.

A. Fiscal Policy

14. **Fiscal policy in 2007 will continue to be expansionary.** The overall deficit is projected to widen to 3.4 percent of GDP, reflecting planned disbursements of investment loans from Arab donors. The base deficit is assumed to narrow to 3.7 percent of GDP, mostly as result of keeping the wage bill constant in real terms, and limiting expenditure on goods and services to their medium-term level (excluding the one-time spending related to the COMESA summit in 2006). Tax revenues are projected to remain constant in terms of the GDP outside of the FTZ. The authorities also intend to slow down the repayment of domestic arrears to DF 1.2 billion per year, and to increase somewhat the stock of government deposits at banks to facilitate cash management.

15. **The authorities aim at a modest reduction of base fiscal deficit in the medium term.** The staff argued that this would leave little room for potential slippages, and that the base fiscal balance should be in surplus over the medium term. This would ensure sufficient rebuilding of government reserves at the central bank to help avoid the recurrent emergence of arrears, and allow the repayment of accumulated domestic arrears in line with the original 10-year plan adopted in 2002.

16. **The authorities intend to review the overall tax framework with a view to facilitate the creation of new enterprises, starting with the introduction of a value-added tax (VAT) and a Common External Tariff (CET) to replace the existing consumption tax, in the context of the COMESA** (Box 4)**.** In cooperation with customs from Dubai and with the help of external technical assistance, they also intend to strengthen revenue administration. The staff concurred on the need for an in-depth review of the tax system ahead of the introduction of a VAT, and against the backdrop of a potential erosion of the tax base resulting from advantages granted in the context of the FTZ.

Box 4. Tax Reform and the Introduction of VAT

In line with their commitment with the COMESA and the European Union under the Economic Partnership Agreement, the authorities are planning to adopt a Common External Tariff (TEC) and a Value-Added Tax (VAT) in 2008–09 to replace the existing consumption tax.

In that context, the authorities have made some progress in improving tax administration, most notably through the modernization of the department of indirect revenues with the introduction of the MIRSAL and SAS software, and an improvement in the functioning of the Large Taxpayer Office (LTO).

Several key measures need to be taken before the introduction of the VAT, including:

- In the tax policy area, the adoption of the structure of the CET, the revision of exemption regimes, and the determination of the rates for the VAT;

- In the tax administration area, the enhancement of the LTO, the adoption and implementation of a strategy to improve tax compliance and recover tax arrears, and enhanced cooperation between customs and tax departments.

A permanent project team in charge of the introduction of the VAT, with external technical assistance, and a clear timetable, is also essential.

17. **On the expenditure side, the staff urged the authorities to take additional measures to reduce the size of the wage bill to less than 10 percent of GDP to reduce the base fiscal deficit and finance potential additional spending entailed by the National Initiative for Social Development.** While the authorities noted that several measures were currently being contemplated to contain the public wage bill, including increasing the number of hours worked by teachers and possibly extending it to the entire civil service, laying off ghost workers, and rationalizing the system of indemnities, they indicated that no political decision had yet been taken. The staff also urged them to effectively implement the ongoing civil service reform with technical assistance of the World Bank, with a view to reducing the size of the wage bill and increasing substantially productivity, while ensuring that developmental and social needs are covered and that the sustainability of the pension funds is ensured.

18. **The authorities indicated that negotiations were under way to purchase oil at a preferential price from Arab countries, and that subsidies or transfers to the Electricity Company would be therefore halted, and electricity tariffs would not be raised further.** A grant of about US$7 million had already been received in 2006 for the purchase of fuel in July and August. Investment financed by Arab donors would also help replace inefficient turbines.

The staff underscored that if no agreement was reached on preferential oil prices for the electricity company, substantial spending cut elsewhere (up to 1 percent of GDP) will be needed to avoid raising further electricity tariffs, which would hurt the economy and the poor. It also stressed the need to develop a strategy to substantially reduce electricity costs and put the electricity company on a sound financial footing. The authorities indicated that they intended to divest industrial public enterprises.

19. **The staff urged the authorities to strengthen considerably public financial management and fiscal transparency in order to avoid unbudgeted expenditures and the recurrent emergence of arrears** by tightening cash management, streamlining government accounts with a view to introducing a single treasury account, incorporating extra budgetary funds and accounts in the budget, revising budget classification in line with 2001 *GFS Manual*, and reinforcing controls on budget execution. The staff also stressed the need to develop a medium-term budget framework. The authorities noted that they will review the bidding process for public projects with the assistance of the World Bank.

20. **The authorities concurred with the staff that the ongoing rapid accumulation of new debt put the country at a high risk of debt distress** (Appendix I). Notwithstanding the fact that most of the projected investment is privately financed, the stock of public debt would increase substantially from 56 percent of GDP in 2006 to 71 percent in 2011. The staff therefore urged the authorities to reevaluate the prioritization of new projects and their effectiveness in reducing poverty in the context of their forthcoming medium-term strategy. It also stressed the need to receive external financing mostly in the form of grants or highly concessional loans, and to strengthen considerably debt management, including through the development of a medium-term debt strategy.

B. Exchange Rate, Monetary, and Financial Policies

21. **The authorities view the currency board arrangement as appropriate to maintain financial stability and to develop Djibouti as a financial center.** They noted that the currency board and stable parity since 1973 have helped maintain low inflation, attract large deposits from neighboring countries, and encourage a large flow of foreign investment. The staff agreed that maintaining the currency board arrangement—as opposed to moving to a more flexible exchange rate policy—would be more appropriate at present in view of the high degree of dollarization in the economy and the limited development of financial markets. However, staff noted that despite recent developments further improvement in competitiveness is needed, and this will require macroeconomic and structural measures (Box 2).

22. **The authorities view the development of monetary instruments as useful to mitigate possible inflationary pressures in coordination with tighter fiscal policy.** The staff urged them to consider introducing new instruments such as reserve requirements within the framework allowed by the Banking Law, financial securities issued by the central bank. To preserve the integrity of the currency board, which does not allow for the financing of

government deficit, the authorities would not favor the issuance of Treasury bills. Increased competition among banks should also lead to a reduction of the spread between lending and deposit rates.

23. **The authorities are aware of the challenges stemming from the expansion of the banking system, particularly with regard to Islamic and offshore operations.** They view these developments as potentially stimulating competition among banks and widening the offer of financial products. The staff reiterated the importance of strengthening the financial sector. In this context, it supported the authorities' request for an evaluation program under the joint Fund-World Bank Financial Stability Assessment Program, scheduled for the Fall 2007, to assess the vulnerabilities of the newly enlarged banking system, and develop recommendations regarding its architecture.

23. **The authorities concurred on the need to strengthen banking supervision.** The staff underscored the importance of (i) amending the banking law to incorporate accounting and regulations standards appropriate for banks that operate in accordance with Islamic principles; (ii) conducting risk self assessments of banks; (iii) improving the central bank's staffing and staff skills in banking supervision and draw a plan for more regular onsite and offsite supervision; (iv) developing an early warning system to detect bank vulnerability and crisis situations; (v) granting banking licenses in line with Basle core principles; and (vi) developing an action plan to deal expeditiously with troubled banks. The authorities also intend to take steps to modernize the payments system.

24. **The authorities are taking steps to strengthen Anti-Money Laundering regulations,** notably to incorporate references to the financing of terrorism with the assistance of the United Nations Office on Drugs and Crime. The mandate of the Financial Intelligence Unit in place at the Central Bank since 2006 will also be clarified.

C. Structural Reforms and Poverty Reduction Strategy

25. **Discussions on structural issues focused on reforms needed to enhance competitiveness and on the authorities' Poverty Reduction Strategy (PRS).** The staff, in coordination with the World Bank, stressed the need to develop without delays an overall strategy in the energy sector to reduce production costs and integrate various ongoing initiatives, such as the planned connection with the Ethiopian grid, the installation of wind farms, the development of geothermal energy, and the possible installation of an oil refinery. Reducing energy costs is also important to give to the poor greater access to basic services. The staff welcomed the adoption of the new labor code as a first step towards enhancing the flexibility of labor markets, and urged the authorities to speed up its full implementation. The staff also underscored the need to enhance the efficiency of the judiciary system.

26. **With the technical assistance of the World Bank, the authorities are finalizing a Progress Report for the first PRS paper covering the period 2004–06.** A draft full PRS paper covering the period 2008–10 is expected to be finalized by end-2007, and a full PRSP will be prepared in 2008 on the basis of a new population census and household income and expenditure survey.

D. Data and Other Issues

27. **Data provision is barely adequate for surveillance purposes.** Weaknesses are particularly significant in the area of national accounts, the trade balance, and external debt management. In addition, key data, particularly inflation and fiscal data, are produced with considerable lag. The staff welcomed the authorities' metadata submissions, which will eventually lead to Djibouti's participation in the General Data Dissemination System.

28. **Djibouti participated in its first WTO trade policy review in 2006**. Although some progress was recognized by the WTO, several concerns were raised, such as Djibouti's high consumption tax which is not paid on domestically produced goods and services. This concern should be allayed by the planned introduction of a value-added tax (VAT) by 2008–09.

29. **The authorities have expressed the wish to begin discussions on a PRGF-supported program.** They consider such a program as potentially enhancing Djibouti's attractiveness to foreign investors and helping mobilize donor assistance to reduce poverty.

IV. Staff Appraisal

30. **Medium-term growth prospects are favorable, but may not be sufficient to lead to a significant reduction in unemployment and poverty.** While the authorities' strategy to attract foreign direct investment is starting to bear fruit, reforms to enhance Djibouti's competitiveness and prudent economic policies are critical to ensure a broad-based growth that is accompanied by sufficient employment creation. It is important that these challenges be addressed in the new National Initiative for Social Development.

31. **Containing potential inflationary pressures and ensuring fiscal and debt sustainability will require a cautious fiscal stance.** In light of the erosion of the tax base related to the FTZ regime, it is essential to enhance tax revenues by a simplification of the tax system, a reduction of tax exemptions, and effective preparation for the introduction of the VAT. The size of the wage bill should be reduced over time by a decisive implementation of the ongoing civil service reform, including the elimination of all ghost workers and putting in place meaningful controls on hiring. It is also essential to strengthen debt management in the period ahead given the high risk of debt distress.

32. **Greater fiscal discipline and transparency is needed through strict adherence to the budget.** Keeping expenditure within the budget ceiling is particularly important given the risk posed by possible losses of the electricity company. Cash management should also be greatly improved, and the accumulation of any new external or domestic arrears avoided.

33. **The rapid expansion of the financial system is expected to lead to increased competition, but will require a strengthening of the role of the central bank.** In particular, it is essential that the central bank reinforces substantially its supervision capacities, and that central bank and banking laws and regulations be adapted to tailor for the introduction of new financial instruments. The central bank should also start developing monetary policy instruments.

34. **The staff agrees with the authorities' decision to maintain the existing peg to the dollar under the currency board arrangement**—as opposed to moving to a more flexible exchange rate policy—given the high degree of dollarization of the economy, the limited domestic financial markets, and the lack of available monetary instruments. However, while improving in recent years, competitiveness of the economy needs to be strengthened further through macroeconomic and structural reform measures. The latter should include, inter alia, the adoption of a strategy to reduce electricity production costs, full implementation of the new labor code through the completion of sectoral collective agreements, improvement in the functioning of the judiciary, and good governance.

35. **Improving the statistical base is essential to facilitate the formulation and monitoring of macroeconomic policies.** The development of an effective strategy to alleviate poverty and reduce unemployment will also be greatly facilitated by the planned population census, and labor market and household income and expenditure surveys.

36. **Regarding the authorities' wish to begin discussions on a PRGF-supported program, staff agrees that such program would enhance prospects of structural reforms.** While discussions could be initiated as soon as key structural benchmarks not met under the 2005 SMP have been implemented and the authorities have prepared a medium-term reform strategy, agreement on a potential new PRGF arrangement would require the authorities to produce a new PRSP document, and on agreement on measures to improve data provision, strengthen fiscal discipline, and enhance external competitiveness.

37. It is proposed that the next Article IV consultation discussions with Djibouti be held on the standard 12-month cycle.

Table 1. Djibouti: Selected Economic and Financial Indicators, 2003–07
(Quota: SDR 15.9 millions)
(Per-capita GDP: $894)
(Unemployment rate: 56 percent (2002))
(Poverty rate: 42 percent (2002))

	2003	2004	2005 Prel.	2006 Prel.	2007 Proj.
National accounts					
Nominal GDP (in millions of Djibouti francs)	111,530	118,400	125,976	136,803	148,380
Nominal GDP per capita (in U.S. dollars)	820	855	894	947	1,002
Real GDP per capita	538	544	552	564	577
Real GDP per capita (annual percentage change)	1.2	1.1	1.4	2.3	2.2
Real GDP (annual change in percent)	3.2	3.0	3.2	4.8	4.8
Consumer prices (annual average)	2.0	3.1	3.1	3.6	3.5
	(In percent of GDP)				
Investment and saving					
Total fixed capital investment	18.9	21.5	19.0	29.5	38.1
Private	12.2	13.8	9.7	22.0	25.6
Public	6.7	7.7	9.3	7.5	12.4
Gross national saving	22.3	20.2	20.1	20.7	24.2
Savings/investment balance	3.4	-1.3	1.2	-8.9	-13.9
Budgetary operations					
Total revenue and grants	34.0	35.6	37.1	35.0	35.0
Of which: Tax revenue	20.6	20.0	20.0	20.3	19.6
Expenditure and net lending	36.3	37.5	36.8	37.4	38.4
Current expenditure	29.6	29.8	27.5	29.8	26.0
Capital expenditure	6.7	7.7	9.3	7.5	12.4
Balance (payment order basis)	-2.3	-1.9	0.2	-2.4	-3.4
Domestic financing	0.2	0.4	-0.3	-0.6	-0.9
External financing 1/	4.7	2.7	2.9	2.7	5.0
Change in domestic and external arrears (decrease -) 2/	-2.7	-1.1	-2.4	0.2	-0.8
Primary balance	-1.9	-1.6	0.7	-1.9	-2.9
Base fiscal balance (excl. French and U.S. contributions) 3/	-4.2	-5.2	-2.0	-7.1	-3.7
Base fiscal balance (incl. French and U.S. contributions) 3/	0.8	1.1	4.6	0.9	3.6
	(Annual change in percent, unless otherwise				
Monetary sector					
Net foreign assets	26.8	18.6	12.0	15.3	14.7
Net domestic assets	-5.8	-2.7	8.7	-11.9	2.3
Of which: Claims on the central government (net)	6.8	12.7	-4.9	-14.3	-24.0
Claims on the economy	-2.9	-0.5	1.0	8.3	13.0
Broad money	17.8	13.9	11.3	10.2	12.9
Velocity of broad money (ratio)	1.4	1.3	1.3	1.3	1.2
Commercial lending interest rate (in percent)	11.9	11.9	12.6	...	...
Stock market index	n.a.	n.a.	n.a.	n.a.	n.a.
	(In millions of U.S. dollars, unless otherwise				
External sector					
Exports of goods and services	253.0	250.7	287.9	306.7	484.1
Imports of goods and services	-308.3	-338.6	-361.1	-440.8	-654.2
Current account balance	21.5	-8.7	8.3	-68.3	-116.0
(in percent of GDP)	3.4	-1.3	1.2	-8.9	-13.9
Balance of goods and services	-55.3	-87.9	-73.2	-134.1	-170.1
Stock of external public and publicly guaranteed debt 4/	419.1	455.6	428.9	427.4	485.7
(in percent of GDP)	66.8	68.4	60.5	55.5	58.2
Gross official reserves	100.9	94.2	87.7	117.3	133.1
(in months of imports of goods and services)	3.9	3.3	2.9	3.2	2.4
Memorandum items:					
Currency board cover (in percent) 5/	113.9	116.4	107.6	108.7	107.7
Exchange rate (DF/US$) end-of-period	177.7	177.7	177.7	…	…
Real effective exchange rate (annual average; 2000 = 100)	93.2	89.8	88.8	87.8	…
(End-year change in percent; depreciation -)	-9.3	-3.6	-1.1	-1.1	…

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

1/ Includes external arrears on amortizations.
2/ Domestic arrears include wage arrears and arrears to private and public suppliers for goods and services, to the pension fund, and to public enterprises. External arrears include arrears on interest only (arrears on principal are counted as an item of "external financing").
3/ Defined as domestic revenue minus expenditure financed from domestic sources.
4/ Includes external arrears and debt owed to Italy and Spain.
5/ Gross foreign assets of the Central Bank of Djibouti (CBD), in percent of monetary liabilities (reserve money and government deposits at CBD).

Table 2. Djibouti: Central Government Fiscal Operations, 2003–07

(In millions of Djibouti francs)

	2003	2004	2005	2006	2007
				Prel.	Proj. 1/
Revenues and grants	37,966	42,156	46,714	47,866	52,000
Tax revenue 2/	22,930	23,640	25,133	27,814	29,059
Direct taxes	10,282	11,042	11,573	13,190	13,796
Indirect and other taxes	12,648	12,598	13,560	14,624	15,263
Nontax receipts (domestic)	2,711	2,921	5,552	3,849	3,623
French and U.S. contributions	5,583	7,502	8,246	10,926	10,926
Grants	6,742	8,093	7,783	5,277	8,393
Investment	849	3,499	4,757	1,720	5,551
Current expenditure	4,543	4,543	3,026	1,926	2,842
Budget support	1,350	51	0	1,631	0
Total expenditure	40,491	44,399	46,410	51,118	57,010
Current expenditure	33,055	35,282	34,699	40,816	38,558
Wages and related expenditure	17,338	17,933	18,607	19,926	20,533
Wages and contributions	15,819	16,291	16,862	17,879	18,432
Housing subsidies 3/	1,519	1,642	1,745	2,047	2,102
Goods and services	7,992	9,354	7,653	12,359	9,065
Civil expenditure 4/	5,783	6,516	5,439	9,264	6,115
Military expenditure	2,209	2,838	2,214	3,095	2,950
Maintenance	480	695	640	660	680
Transfers 5/	3,385	3,358	3,294	4,470	3,984
Interest	389	403	543	612	712
Foreign-financed current spending	3,471	3,539	3,961	2,789	2,842
Investment expenditure	7,436	9,117	11,711	10,302	18,452
Domestically-financed	2,224	2,501	3,504	4,528	3,645
Foreign-financed	5,212	6,616	8,207	5,774	14,807
Grants	849	3,499	4,757	1,720	5,551
Loans	4,363	3,117	3,450	4,054	9,256
Overall balance (commitment basis)	-2,525	-2,243	304	-3,252	-5,010
Change in arrears (cash payments = -)	-3,031	-1,265	-3,054	219	-1,200
Domestic arrears	-3,065	-1,251	-3,151	259	-1,200
External arrears (interest)	34	-14	97	-40	0
Overall balance (cash basis)	-5,556	-3,508	-2,750	-3,033	-6,210
Financing	5,556	3,508	2,750	3,033	6,210
Domestic financing (net)	212	518	-363	-840	-1,278
Bank financing	308	614	-267	-744	-1,182
Central bank	477	905	-78	-1,117	-949
Commercial banks	-169	-291	-189	373	-233
Nonbank financing	-96	-96	-96	-96	-96
External financing (net)	5,257	3,221	3,594	3,756	7,488
Disbursements	5,697	3,875	4,385	4,917	9,256
Amortization payments	-440	-654	-791	-1,161	-1,768
Current obligations	-645	-724	-1,152	-1,181	-1,351
Net change in arrears 6/	205	70	361	20	-418
Residual/financing gap	87	-231	-481	117	0
Memorandum items:					
Primary balance	-2,136	-1,840	847	-2,640	-4,298
Base fiscal balance (excl. French and U.S. contributions) 7/	-4,650	-6,166	-2,457	-9,742	-5,529
Base fiscal balance (incl. French and U.S. contributions) 7/	933	1,336	5,789	1,184	5,396
Domestic revenue	25,641	26,561	30,685	31,663	32,682
Domestically-financed expenditure	30,291	32,727	33,142	41,405	38,211
Revenue from the military bases	5,583	7,502	8,246	10,926	10,926

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

1/ Projections are based on the 2007 budget.
2/ Excluding the French contribution.
3/ Previously included in transfers.
4/ Estimates for 2006 are preliminary, and reflect mostly expenditure related to the COMESA meeting in November 2006. Some of this spending might need to be reclassified as investment expenditure.
5/ Excluding housing subsidies. In 2006, it includes subsidies to the EDD for DF 500 million to cover losses incurred in 2005. These subsidies are not projected to reoccur in the medium term, as the EDD intends to contain costs by purchasing oil at concessional prices from Arab donors, as in 2006, and by developing alternative sources of energy.
6/ For 2007, it is assumed that the government will repay all outstanding arrears, excluding those relating to debt toward Spain and Italy that has not been restructured.
7/ Defined as domestic revenue minus expenditure financed from domestic sources.

Table 3. Djibouti: Central Government Fiscal Operations, 2003–07

(In percent of GDP)

	2003	2004	2005	2006 Prel.	2007 Proj. 1/
Revenues and grants	34.0	35.6	37.1	35.0	35.0
Tax revenue 2/	20.6	20.0	20.0	20.3	19.6
Direct taxes	9.2	9.3	9.2	9.6	9.3
Indirect and other taxes	11.3	10.6	10.8	10.7	10.3
Nontax receipts (domestic)	2.4	2.5	4.4	2.8	2.4
French and U.S. contributions	5.0	6.3	6.5	8.0	7.4
Grants	6.0	6.8	6.2	3.9	5.7
Total expenditure	36.3	37.5	36.8	37.4	38.4
Current expenditure	29.6	29.8	27.5	29.8	26.0
Wages and related expenditure	15.5	15.1	14.8	14.6	13.8
Wages and contributions	14.2	13.8	13.4	13.1	12.4
Housing subsidies 3/	1.4	1.4	1.4	1.5	1.4
Goods and services	7.2	7.9	6.1	9.0	6.1
Civil expenditure 4/	5.2	5.5	4.3	6.8	4.1
Military expenditure	2.0	2.4	1.8	2.3	2.0
Maintenance	0.4	0.6	0.5	0.5	0.5
Transfers 5/	3.0	2.8	2.6	3.3	2.7
Interest	0.3	0.3	0.4	0.4	0.5
Foreign-financed current spending	3.1	3.0	3.1	2.0	1.9
Investment expenditure	6.7	7.7	9.3	7.5	12.4
Domestically-financed	2.0	2.1	2.8	3.3	2.5
Foreign-financed	4.7	5.6	6.5	4.2	10.0
Grants	0.8	3.0	3.8	1.3	3.7
Loans	3.9	2.6	2.7	3.0	6.2
Overall balance (commitment basis)	-2.3	-1.9	0.2	-2.4	-3.4
Change in arrears (cash payments = -)	-2.7	-1.1	-2.4	0.2	-0.8
Domestic arrears	-2.7	-1.1	-2.5	0.2	-0.8
External arrears (interest)	0.0	0.0	0.1	0.0	0.0
Overall balance (cash basis)	-5.0	-3.0	-2.2	-2.2	-4.2
Financing	5.0	3.0	2.2	2.2	4.2
Domestic financing (net)	0.2	0.4	-0.3	-0.6	-0.9
Bank financing	0.3	0.5	-0.2	-0.5	-0.8
Central bank	0.4	0.8	-0.1	-0.8	-0.6
Commercial banks	-0.2	-0.2	-0.2	0.3	-0.2
Nonbank financing	-0.1	-0.1	-0.1	-0.1	-0.1
External financing (net)	4.7	2.7	2.9	2.7	5.0
Disbursements	5.1	3.3	3.5	3.6	6.2
Amortization payments	-0.4	-0.6	-0.6	-0.8	-1.2
Current obligations	-0.6	-0.6	-0.9	-0.9	-0.9
Net change in arrears 6/	0.2	0.1	0.3	0.0	-0.3
Residual/financing gap	0.1	-0.2	-0.4	0.1	0.0
Memorandum items:					
GDP	111,530	118,400	125,976	136,803	148,380
Primary balance	-1.9	-1.6	0.7	-1.9	-2.9
Base fiscal balance (excl. French and U.S. contributions) 7/	-4.2	-5.2	-2.0	-7.1	-3.7
Base fiscal balance (incl. French and U.S. contributions) 7/	0.8	1.1	4.6	0.9	3.6
Domestic revenue	23.0	22.4	24.4	23.1	22.0
Domestically-financed expenditure	27.2	27.6	26.3	30.3	25.8
Revenue from the military bases	5.0	6.3	6.5	8.0	7.4

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

1/ Projections are based on the 2007 budget.
2/ Excluding the French contribution.
3/ Previously included in transfers.
4/ Estimates for 2006 are preliminary, and reflect mostly expenditure related to the COMESA meeting in November 2006. Some of this spending might need to be reclassified as investment expenditure.
5/ Excluding housing subsidies. In 2006, it includes subsidies to the EDD for DF 500 million to cover losses incurred in 2005. These subsidies are not projected to reoccur in the medium term, as the EDD intends to contain costs by purchasing oil at concessional prices from Arab donors, as in 2006, and by developing alternative sources of energy.
6/ For 2007, it is assumed that the government will repay all outstanding arrears, excluding those relating to debt toward Spain and Italy that has not been restructured.
7/ Defined as domestic revenue minus expenditure financed from domestic sources.

Table 4. Djibouti: Monetary Survey and Banking Sector Indicators, 2003–07

(End-of-period, in millions of Djibouti francs; unless otherwise indicated)

	2003	2004	2005	2006	2007
				Prel.	Proj.
Broad money	77,057	87,754	97,709	107,718	121,623
Currency in circulation	11,113	12,358	13,272	15,445	17,076
Deposits	65,944	75,396	84,437	92,273	104,547
Demand deposits	31,737	35,085	34,456	40,924	46,368
Djibouti francs	21,072	23,721	23,746	26,371	29,879
Foreign currency	10,665	11,364	10,710	14,553	16,489
Time deposits	34,207	40,311	49,981	51,349	58,179
Djibouti francs	11,765	9,099	10,850	13,743	15,571
Foreign currency	22,442	31,212	39,131	37,606	42,608
Net foreign assets	59,947	71,101	79,604	91,766	105,301
Central bank	13,775	12,290	11,241	16,954	20,391
Assets	17,940	16,736	15,581	20,843	23,655
Liabilities	4,165	4,446	4,340	3,889	3,264
Commercial banks	46,172	58,811	68,363	74,812	84,910
Assets	52,636	66,261	76,533	85,301	95,504
Liabilities	6,464	7,450	8,170	10,489	10,594
Net domestic assets	17,110	16,653	18,105	15,952	16,322
Claims on government (net)	4,845	5,459	5,192	4,448	3,380
Central bank	3,539	4,444	4,366	3,249	2,300
Commercial banks	1,306	1,015	826	1,199	966
Claims on nongovernment sector	26,226	26,090	26,346	28,523	32,231
Public enterprises	1,259	1,099	1,064	951	951
Private sector	24,967	24,991	25,282	27,572	31,280
Capital accounts	-10,477	-9,309	-8,471	-8,687	-8,687
Other items (net)	-3,484	-5,587	-4,962	-8,332	-10,602
	(Change from previous year; in percent of broad money)				
Broad money	17.8	13.9	11.3	10.2	12.9
Currency in circulation	1.4	1.6	1.0	2.2	1.5
Demand deposits	9.8	4.3	-0.7	6.6	5.1
Time deposits	6.5	7.9	11.0	1.4	6.3
Net foreign assets	19.4	14.5	9.7	12.4	12.6
Central bank	5.4	-1.9	-1.2	5.8	3.2
Commercial banks	14.0	16.4	10.9	6.6	9.4
Net domestic assets	-1.6	-0.6	1.7	-2.2	0.3
Of which: Claims on government (net)	0.5	0.8	-0.3	-0.8	-1.0
Claims on nongovernment sector	-1.2	-0.2	0.3	2.2	3.4
Memorandum items:					
Monetary authorities:					
Net international reserves ($ mn.)	12.2	13.3	6.3	9.4	9.5
Gross foreign assets (GFA) ($ mn.)	100.9	94.2	87.7	117.3	133.1
GFA in percent of foreign currency deposits of banks	54.2	39.3	31.3	40.0	40.0
GFA in percent of total banking system deposits	27.2	22.2	18.5	22.6	22.6
Banking system:					
Share of foreign currency deposits/ total deposits	50.2	56.5	59.0	56.5	56.5
Commercial banks' foreign assets/liability ratio	1.3	1.3	1.3	1.4	1.4
Money multiplier	5.1	6.2	6.8	5.9	5.9
Money multiplier (excl. foreign currency deposits)	2.9	3.2	3.3	3.1	3.0
Money velocity	1.4	1.3	1.3	1.3	1.2
Money velocity (excl. foreign currency deposits)	2.5	2.6	2.6	2.5	2.4

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

Table 5. Djibouti: Balance of Payments, 2003–11

(In millions of dollars, unless otherwise indicated)

	2003	2004	2005	2006	2007	2008	2009	2010	2011
			Prel.	Projections					
Current account (including grants)	21	-9	8	-68	-116	-155	-181	-178	-168
(In percent of GDP)	*3.4*	*-1.3*	*1.2*	*-8.9*	*-13.9*	*-16.9*	*-17.9*	*-15.9*	*-13.7*
Balance of goods and services	-55	-88	-73	-134	-170	-219	-229	-216	-212
(In percent of GDP)	*-8.8*	*-13.2*	*-10.3*	*-17.4*	*-20.4*	*-24.0*	*-22.6*	*-19.3*	*-17.4*
Credit	253	251	288	307	484	604	769	912	1,039
Exports of goods, f.o.b. 1/	37	38	40	50	146	237	317	403	480
Exports of services 2/	216	213	248	257	338	367	451	509	559
Of which: services to foreign military bases	128	126	154	155	216	223	230	237	245
maritime transportation	39	38	43	48	60	69	123	144	164
Debit	-308	-339	-361	-441	-654	-823	-997	-1,127	-1,252
Imports of goods, f.o.b. 3/	-238	-261	-277	-346	-514	-649	-796	-902	-1,002
Of which: investment goods	-61	-90	-74	-199	-185	-207	-245	-236	-225
cattle	...	...	...	...	-81	-165	-241	-318	-388
Imports of services	-70	-77	-84	-95	-140	-174	-201	-226	-250
Net income from abroad 4/	51	65	67	85	64	74	57	49	57
Of which: income related to the lease of military bases	31	42	46	61	61	63	63	63	64
Net current transfers from abroad	26	14	14	-19	-10	-10	-9	-11	-13
Private (net)	-14	-14	-14	-37	-38	-39	-41	-42	-44
Of which: unrecorded workers' remittances (net) 5/	-12	-12	-12	-36	-37	-38	-39	-41	-42
Official (net)	40	28	28	18	28	30	31	31	31
Capital and financial account	-6	1	-1	99	132	185	211	202	199
Net capital transfers	-7	20	27	10	34	20	23	23	23
Private (net) 6/	-12	0	0	0	0	0	0	0	0
Official (net)	5	20	27	10	34	20	23	23	23
Net portfolio investment	0	0	0	0	-39	-12	-33	-31	-17
Foreign direct investment 7/	14	39	22	108	135	135	156	177	199
Public sector (net)	38	14	4	18	58	103	133	95	52
Disbursements	53	31	23	36	79	124	153	116	76
Repayments	-15	-17	-19	-18	-21	-21	-20	-21	-25
Commercial banks (- = increase in NFA)	-51	-71	-54	-36	-57	-60	-68	-61	-57
Errors and omissions	-16	-10	-13	-15	0	0	0	0	0
Overall balance (deficit -)	-1	-17	-6	16	16	30	30	24	31
Financing	1	17	6	-16	-16	-30	-30	-24	-31
Monetary movements (increase -) 8/	-28	7	6	-32	-19	-34	-34	-28	-35
Exceptional financing 9/	29	10	0	17	4	4	4	4	4
Memorandum items:									
Exports of the free-trade zone	0	0	0	0	0	38	95	189	265
Central bank gross foreign assets	101	94	88	117	133	163	193	218	250
Official external debt (inc. public enterprises)									
In millions of U.S. dollars	419	456	429	427	486	588	721	816	869
In percent of GDP	66.8	68.4	60.5	55.5	58.2	64.3	71.3	73.1	71.0
In percent of exports of goods and services	165.6	181.7	149.0	139.4	100.3	97.3	93.8	89.5	83.6
Net external assets (in percent of GDP) 10/	-13.0	-8.3	2.7	11.6	12.8	10.8	6.7	5.6	8.3
Debt service 11/									
In millions of U.S. dollars	19	23	26	25	28	29	30	33	39
In percent of GDP	3.0	3.4	3.7	3.2	3.4	3.2	2.9	3.0	3.2
In percent of exports of goods and services	7.5	9.1	9.0	8.1	5.8	4.8	3.9	3.6	3.7

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

1/ The increase since 2007 derives from enhanced exports of cattle and fish.
2/ Includes value-added produced in the free-trade zone.
3/ The increase in imports during the projection period reflects rising investment on the new port facility and free zone, as well as imports of cattle for re-export.
4/ Includes the French and U.S. contributions for the military bases.
5/ Previously counted as errors and omissions.
6/ Outflows in 2003 reflect an exceptional repatriation of illegal immigrants (authorities' estimates).
7/ Reflects FDI on oil terminal, the new port facility, the free zone, and other projects (hotels, cattle exports, etc).
8/ Including repayments to the IMF.
9/ Includes both changes in overdue and non-overdue obligations, secured debt relief, and program financing from IMF, AMF, World Bank, and AfDB. Positive values after 2006 are related to the accumulation of arrears on debt service obligations to Spain under dispute.
10/ Equal to the NFA of the banking system minus gross external debt.
11/ Based on obligations after rescheduling.

Table 6. Djibouti: Medium-Term Macroeconomic Projections, 2005–11

	2005	2006	2007	2008	2009	2010	2011
	Prel.	Prel.	Projections				
National accounts							
Nominal GDP (in millions of Djibouti francs)	125,976	136,803	148,380	162,401	179,845	198,430	217,537
Nominal GDP per capita (in U.S. dollars)	894	947	1,002	1,070	1,156	1,244	1,331
Real GDP per capita	552	564	577	595	621	646	668
Real GDP per capita (annual percentage change)	1.4	2.3	2.2	3.2	4.4	4.0	3.3
Real GDP (annual change in percent)	3.2	4.8	4.8	5.7	7.0	6.6	5.9
Consumer prices (annual average)	3.1	3.6	3.5	3.5	3.5	3.5	3.5
	(In percent of GDP)						
Investment and saving							
Total fixed capital investment	19.0	29.5	38.1	39.0	41.5	37.3	33.5
Private	9.7	22.0	25.6	26.7	31.6	29.2	27.5
Public	9.3	7.5	12.4	12.3	9.9	8.0	6.0
Gross national saving	20.1	20.7	24.2	22.1	23.7	21.4	19.8
Savings/investment balance	1.2	-8.9	-13.9	-16.9	-17.9	-15.9	-13.7
Budgetary operations							
Total revenue and grants	37.1	35.0	35.0	31.4	30.2	29.2	27.9
Of which: Tax revenue	20.0	20.3	19.6	19.1	18.7	18.1	17.7
Expenditure and net lending	36.8	37.4	38.4	36.7	33.5	31.0	27.8
Current expenditure	27.5	29.8	26.0	24.4	23.6	23.0	21.8
Capital expenditure	9.3	7.5	12.4	12.3	9.9	8.0	6.0
Balance (payment order basis)	0.2	-2.4	-3.4	-5.4	-3.3	-1.8	0.1
Domestic financing	-0.3	-0.6	-0.9	-1.0	-0.8	-0.6	-0.5
External financing 1/	2.9	2.7	5.0	7.1	4.8	3.0	0.9
Of which: New disbursements	3.5	3.6	6.2	8.1	5.6	3.9	2.0
Change in domestic and external arrears (decrease -) 2/	-2.4	0.2	-0.8	-0.7	-0.7	-0.6	-0.6
Primary balance	0.7	-1.9	-2.9	-4.9	-2.8	-1.3	0.7
Base fiscal balance (excl. French and U.S. contributions) 3/	-2.0	-7.1	-3.7	-3.5	-3.2	-3.0	-2.6
Base fiscal balance (incl. French and U.S. contributions) 3/	4.6	0.9	3.6	3.4	3.0	2.6	2.6
	(In millions of U.S. dollars, unless otherwise indicated)						
External sector							
Exports of goods and services	287.9	306.7	484.1	604.1	768.7	911.8	1,039.4
Imports of goods and services	-361.1	-440.8	-654.2	-823.1	-997.3	-1,127.3	-1,251.9
Current account balance	8.3	-68.3	-116.0	-154.7	-181.1	-177.6	-167.8
(in percent of GDP)	1.2	-8.9	-13.9	-16.9	-17.9	-15.9	-13.7
Balance of goods and services	-73.2	-134.1	-170.1	-219.0	-228.6	-215.5	-212.5
Gross official reserves	87.7	117.3	133.1	163.3	192.9	218.2	249.9
(in months of imports of goods and services)	2.9	3.2	2.4	2.4	2.3	2.3	2.4

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

1/ Includes external arrears on amortizations.

2/ Domestic arrears include wage arrears and arrears to private and public suppliers for goods and services, to the pension fund, and to public enterprises. External arrears include arrears on interest only (arrears on principal are counted as an item of "external financing").

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

Table 7. Djibouti: Financial Soundness Indicators, 2000–06
(In percent unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006
Capita adequacy							
Tier I capital to risk-weighted assets	17.3	18.5	21.7	19.1	15.0	15.7	17.4
Regular capital to risk-weighted assets	2.3	2.6	2.5	2.7	2.1	2.0	1.7
Reported total capital to risk weighted assets (K1-1)	114.2	99.5	96.5	104.5	101.5	106.2	102.7
Asset quality 1/							
Nonperforming loans to gross loans	17.8	23.4	25.5	25.3	24.9	24.0	21.4
Nonperforming loans net of provisions to capital	49.6	50.4	59.0	60.5	67.0	73.7	69.6
Provisions to nonperforming loans	54.7	55.5	52.3	52.5	55.1	56.6	57.4
Banks exceeding maximum single borrower limit 2/	1	0	0	2	1	0	1
Earning and profitability							
Reported return on assets (ROA) 3/	4.8	4.2	2.1	2.8	2.1	1.9	1.9
Reported return on equity (ROE) 3/	13.1	11.7	7.9	8.5	21.1	28.2	52.4
Interest margin to gross income	33.5	31.7	26.3	22.3	22.7	40.5	…
Noninterest expenditures to gross income	59.0	60.0	64.7	71.2	72.2	56.4	…
Salary expenditures to non-interest expenditures	60.9	62.9	61.8	60.7	54.0	59.1	…
Liquidity							
Liquid assets to total assets	44.4	54.6	60.8	66.3	70.3	72.8	73.4
Liquid assets to short-time liabilities	284.4	455.0	490.3	722.2	710.7	736.3	627.1
Liquid assets to demand and saving deposits	164.0	180.1	188.7	175.8	209.1	226.6	218.5
Liquid assets to total deposits	60.6	72.9	78.3	81.9	84.9	87.0	88.1
Sensitivity to market risk							
Net open position in foreign exchange to capital	77.4	79.1	66.8	63.3	80.1	101.5	84.9

Sources: Central Bank of Djibouti; and Fund staff estimates.

1/ Nonperforming loans include three loan classifications: watch, doubtful, and loss.
2/ Maximum single borrower limit is defined as 25 percent of capital (K3-1).
3/ From 2000-03, three banks reporting; from 2004 onward two banks reporting.

Table 8. Djibouti: Revised Indicative Targets in the Staff-Monitored Program (SMP)

(In millions of Djibouti francs; unless otherwise indicated)

	Cumulative Flows From January 2005 (unless otherwise indicated)					
	Real.	Real.	Prog.	Real.	Prog.	Real.
	Mar. 31	June 30	Sept. 30	Sept. 30	Dec. 31	Dec. 31
1. Ceiling on the wage bill	3,918	8,438	12,353	12,242	16,870	16,862
2. Ceiling on expenditure on goods, services, and transfers domestically financed	3,487	6,575	9,527	8,752	11,909	11,592
3. Ceiling on the basic fiscal deficit (excluding military-related receipts from France and the United States)	-2,386	-3,087	-4,115	-2,732	-4,733	-2,457
4. Ceiling on the net credit of commercial banks to the government	-86	-409	-201	-280	-201	-189
5. Ceiling on the net credit of the central bank to the government	-16	-235	-150	77	-322	-78
6. Floor on the repayment of domestic arrears	-267	85	0	-1,054	-730	-3,151
7. Floor on currency board cover	115.4	109.8	100.0	106.8	100.0	107.6
8. Ceiling on accumulation of new domestic arrears	1,183	1,164	0.0	1,136	0.0	1,176
9. Ceiling on accumulation of new external arrears (except toward Italy and Spain)	...	...	0.0	662	0.0	870
10. Ceiling on new non-concessional loans	...	...	0.0	0.0	0.0	0.0

Sources: Djibouti authorities; and Fund staff estimates.

Table 9. Djibouti: Structural Benchmarks for the July–December 2005 Staff-Monitored Program 1/ (continued)		
Structural Reforms	Scheduled for Adoption	Progress
Publish the 2003 report of the Chamber of Accounts and Fiscal Discipline in the *Journal Officiel.*	End-September 2005	Completed.
Publish a detailed report on priority social expenditure for 2004 on the ministry of finance website.	End-September 2005	Completed.
Adoption of the new labor code by the National Assembly.	End-December 2005	Completed: Code adopted by the National Assembly in December 2005 and published in the *JO* on February 28, 2006.
Publish the audited 2004 financial statements of public enterprises (Djibouti Télécom, EDD, and ONED)		Partially completed. Financial statements approved by the board of directors but not published in overall form on the IMF website.
Finalize the project to unify and simplify the system of tax exemptions by merging the various preferential tax regimes and including the remaining exemptions in the general tax code.	End-December 2005	Partially completed. Coordination of the investment code and the general tax code completed. The texts on investment still need to be harmonized and the exemptions granted by special decree prior to introduction of the VAT need to be eliminated.
Finalize the unified registry of civil servants in 2005 and adopt it in 2006.	End-December 2005	Partially completed. The IT application seems to have been finalized and tested. However, the payroll and civil service records are still not integrated. Final record expected in the first half of 2007.
Finalize the computerization of the expenditure chain.	End-December 2005	Partially completed. New software (WMONEY) apparently in use in the MF. Development of the conceptual scheme, as well as of all the specified functionalities, pilot testing, and the connection of other ministries to the network remain to be done.
1/ For the last four structural targets, the outcome only applies to the July–December 2005 program.		

Table 9. Djibouti: Structural Benchmarks for the July–December 2005 Staff-Monitored Program 1/ (concluded)		
Structural Reforms	Scheduled for Adoption	Progress
Establish a new timetable for finalizing the code of commerce in 2006	End-December 2005	Partially completed, but no recent progress. Mid-term report submitted in mid-February 2006. A new schedule has been completed by the consultant on December 6, 2006.A provisional code is expected to be discussed with the authorities between June-September, 2007 before being finalized.
Adopt proposed measures for the VAT.	End-December 2005	Partially completed. Implementation of the envisaged actions has fallen behind the initial schedule. The transfer of the management of the business license tax and real property to the SGE, the start of the work of the survey teams, the system-wide IT rollout, and the inauguration of the power of the government to supervise enterprises in the free trade zone remain. Implementation of the action plan for the introduction of the VAT (project group, timetable, work sequence) will require external technical assistance.
Adhere strictly to the monthly cash flow plan.	Ongoing	Partially completed.
Eliminate the practice of check exchanges with ONED and Djibouti Télécom.	Ongoing	Not completed. The practice of exchanging checks continues.
Limit pre-payment order expenditure to expenditure covered by legislation.	Ongoing	Mostly completed, although there are transfers between budget categories.
The government will report monetary and external debt data and the TOFE to the IMF each quarter, within a period of four weeks.	Ongoing	Completed as far as the monetary data are concerned. Partially completed for the TOFE, which is sometimes submitted late. Partially completed for the debt figures, which are submitted late.
1/ For the last four structural targets, the outcome only applies to the July–December 2005 program.		

Table 10. Djibouti: Selected Income and Social Indicators

	Djibouti					Region 1/	
	1980–85	1990	2000	2003	2005	Low-Income Countries	Sub-Saharan Africa
Income							
Nominal GDP per capita (U.S. dollars)	1,036 2/	1,245.8	777.5	820.3	...	432.4	513.7
Fertility rate, total (births per woman)	6.6	6.2	5.3	5.0	...	3.7	5.2
Immunization							
DPT (percent of children ages 12–23 months)	15.8	85	46	68	...	66.6	58.7
Measles (percent of children ages 12–23 months)	20	85	50	66	65	65.5	60.8
Life expectancy at birth							
Female (years)	46.6	52.3	53.9	54.1	...	58.9	46.3
Male (years)	43.4	49.2	51.2	51.7	...	57.3	44.9
Total (years)	45.0	50.7	52.5	52.9	...	58.1	45.6
Mortality							
Adult, female (per 1,000 female adults)	428.4	386.7	541.0	...	...	...	...
Adult, male (per 1,000 male adults)	527.3	471.6	590.0	...	...	...	...
Infant (per 1,000 live births)	137.0	122.0	107.0	97.0	...	79.8	101.0
Under-5 (per 1,000)	199.0	163.0	136.0	138.0	133.0	123.4	171.2
Population 3/	402,656 2/	557,992	714,574	764,838	793,078	...	...
Public spending on health, total (in percent of GDP)	...	...	3.1	2.8	...	...	...
Public spending on education, total (in percent of GDP)	...	...	8.9	9.0	...	...	...
School enrollment							
Primary (percent gross)	...	34.5 4/	33.4	38.0	39.1 5/	...	...
Secondary (percent gross)	...	10.7 4/	14.4	19.5	...	...	...
Tertiary (percent gross)	...	...	0.3	1.3	...	...	...
Urban population (percent of total)	76.2	76.0	83.3	85.0	86.1	30.4	36.5

Sources: Djibouti authorities; and Fund and World Bank staff estimates.

1/ Data correspond to 2003.
2/ 1985.
3/ WDI data, in line with recent updates by the United Nations Population Division.
4/ 1991
5/ 2004

Table 11. Djibouti: Millennium Development Goals, 1990–2015

	1990	1994	1997	2000	2003	2005	2015 Goal
Goal 1: Eradicate extreme poverty and hunger							
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...		
Population below $2 a day (in percent)	...	...	...	...	42 1/		28 2/
Population below minimum level of dietary energy consumption (in percent)	...	...	...	...	...		
Poverty gap ratio at $1 a day (incidence x depth of poverty)	...	...	...	...	...		
Poverty headcount, national (percent of population)	...	...	...	...	...		
Prevalence of underweight in children (under five years of age)	22.9	...	18.2	...	...	26.8	
Goal 2: Achieve universal primary education							
Net primary enrollment ratio (percent of relevant age group)	31.3	...	31.3	27.7	32.0	32.2	
Primary completion rate, total (percent of relevant age group)	32.0	28.2	26.0	29.3	31.1	34.1	100
Proportion of pupils starting grade 1 who reach grade 5	87.3	...	76.7	87.7	...		
Youth literacy rate (percent of ages 15–24)	...	...	...	...	...		
Goal 3: Promote gender equality and empower women							
Proportion of seats held by women in national parliament (in percent)	...	...	...	...	11	11	
Ratio of girls to boys in primary and secondary education (in percent)	70.0	...	71.0	71.0	73.5		100.0
Ratio of young literate females to males (percent of ages 15–24)	78.1	83.2	86.6	89.5	91.2		
Share of women employed in the nonagricultural sector (in percent)	...	...	...	...	...		
Goal 4: Reduce child mortality							
Immunization, measles (percent of children ages 12–23 months)	85	42	31	50	66	65	
Infant mortality rate (per 1,000 live births)	122	111	...	107	97		
Under 5 mortality rate (per 1,000)	163	160	...	136	138	133	58.3
Sources: World Development Indicators (WDI), April 2007; World Bank; Djibouti authorities; and Fund staff estimates.							
Births attended by skilled health staff (percent of total)	...	...	...	...	61		
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	730	...		130
Goal 6: Combat HIV/AIDS, malaria, and other diseases							
Contraceptive prevalence rate (percent of women ages 15–49)	...	...	...	...	...		
Incidence of tuberculosis (per 100,000 people)	608.2	637.5	668.0	699.9	733.4		
Number of children orphaned by HIV/AIDS	...	...	...	4,100	5,000		
Prevalence of HIV, total (percent of population aged 15–49)	...	...	...	2.80	3.12	3.11	
Tuberculosis cases detected under DOTS (in percent)	...	...	99.3	63.2	49.1	43.0	
Goal 7: Ensure environmental sustainability							
Access to an improved water source (percent of population)	72	...	...	...	73 3/		
Access to improved sanitation (percent of population)	79	...	...	...	...		
Access to secure tenure (percent of population)	...	...	...	...	...		
CO2 emissions (metric tons per capita)	0.6	0.6	0.6	0.5	...		
Forest area (percent of total land area)	0.3	...	...	0.3	...	0.3	
GDP per unit of energy use (2000 PPP $ per kg oil equivalent)	...	...	...	...	...		
Nationally protected areas (percent of total land area)	...	...	...	...	...		
Goal 8: Develop a global partnership for development							
Aid per capita (current U.S. dollars)	347.3	215.6	132.2	99.9	103.2		
Debt service (percent of exports)	...	5	...	7.6	7.5	9.0	
Fixed line and mobile phone subscribers (per 1,000 people)	11.0	13.3	14.2	15.7	49.7		
Internet users (per 1,000 people)	...	0.2	0.9	2.0	8.5		
Personal computers (per 1,000 people)	1.8	6.9	7.7	9.1	19.0		
Unemployment, youth female (percent of female labor force ages 15–24)	...	...	...	...	...		
Unemployment, youth male (percent of male labor force ages 15–24)	...	...	...	...	...		
Unemployment, youth total (percent of total labor force ages 15–24)	...	...	...	...	...		
Other							
Fertility rate, total (births per woman)	6.2	...	5.6	5.3	5.0		
GNI per capita, Atlas method (current U.S. dollars)	...	880	780	780	880	1020	
GNI, Atlas method (current U.S. dollars) (billions)	...	0.5	0.5	0.6	0.7	0.8	
Gross capital formation (in percent of GDP)	22.1	15.4	9.6	8.8	18.9	19.0	
Life expectancy at birth, total (years)	50.8	51.8 4/	52.2	52.5	52.9		
Literacy rate, adult total (percent of people ages 15 and above)	53.0	...	...	...	...		
Population, total (in millions)	0.6	0.6	0.6	0.7	0.8		
Trade (in percent of GDP)	...	98.0	89.2	84.7	89.4	91.6	

Sources: Djibouti authorities; and Fund and World Bank staff estimates.

1/ 2002.
2/ 2010 goal.
3/ 2004
4/ 1995

Appendix I. Djibouti: Joint Fund-World Bank Debt Sustainability Analysis (DSA)

This DSA, prepared in close cooperation between the Fund and Bank staff, updates the previous DSA prepared in September 2005. The results show that despite a realistic high-investment, moderate-growth baseline scenario, the long-term risk of debt distress is high. Specifically, the NPV of the debt-to-GDP ratio remains well above the policy-dependent threshold over the entire projection period. Furthermore, stress tests indicate that Djibouti remains vulnerable to adverse shocks, notably the risk of lower-than-projected growth of GDP and exports. It is therefore important that the authorities focus their efforts on achieving prudent macroeconomic management and maintaining a careful approach to new borrowing, obtaining external assistance in the form of grants or highly concessional loans.

I. Data and Methodology

1. **This DSA focuses on external public and publicly-guaranteed debt, and on domestic government debt.** While data on private debt are not available, it is believed to be negligible, although it could increase in relation to forthcoming foreign private investment. Domestic government debt consists mainly of domestic arrears towards employees, public enterprises, social security funds, and private suppliers, and also includes past loans from the banking system. Fiscal sustainability is assessed excluding government-guaranteed debt of public enterprises that is not in arrears (i.e., explicit contingent liabilities) from the definition of the public sector. However, in assessing vulnerability to adverse shocks, the government's contingent liabilities were subjected to sensitivity analysis (Appendix Table 16; Appendix Figure 6).

II. Changes Compared to the DSA in the 2005 Article IV Consultations

2. **The 2005 DSA for Djibouti included a baseline scenario based on relatively low foreign direct investment but wide-ranging structural reforms that enabled the country to achieve sustained growth rates**, and an alternative low-investment, low-growth scenario. Under the assumptions for the baseline scenario, the debt sustainability indicators improved over time, but vulnerabilities appeared under stress test conditions.

3. **The present DSA incorporates recent economic developments including large foreign direct investment (FDI), that are projected to put Djibouti on a growth-path slightly lower than the one under the baseline scenario in the 2005 DSA.** These changes include large FDI flows to finance new port and transport infrastructure and the expansion of port-services, the development of a new free-trade zone, and the development of tourism, mining, and cattle trade (Box 3). The present DSA does not include an alternative reform scenario which would put the country on a higher growth path.

III. Djibouti's Debt Situation

4. **Djibouti has continued to incur arrears—albeit mostly temporary—in servicing its external debt obligations reflecting weaknesses in public cash management.** While new arrears outstanding at end-2005 were paid in 2006, the stock of outstanding arrears has increased from $31.5 million in 2005 to $33.2 million in 2006, of which $3 million were incurred in December 2006.

5. **In February 2006, an agreement was reached with Italy concerning the restructuring of debt in the framework of the May 2000 Paris Club agreement**.[1] The agreement, which covers debt contracted before March 1998, entails the transformation of debt service obligations into a specified list of projects of social interest. This effectively reduced Djibouti's external debt by about $15 million.[2]

6. **At end-2006, the total stock of external debt was estimated at $427 million, equivalent to 56 percent of GDP (Appendix Table 12).** Almost all borrowing is from official lenders, and most of it is concessional. The largest creditors are the World Bank ($125 million) and the African Development Bank (AfDB) ($94 million), followed by Kuwait and Saudi Arabia ($23 and $21 million respectively); 30 percent of total debt is from Arab creditors, and about one-third ($152 million) is government-guaranteed debt of public enterprises.

7. **Over the next five years, disbursements of external loans are projected to increase to an annual average of $110 million**, bringing the total external debt to $869 million, equivalent to 71 percent of GDP. The new borrowing comes in the wake of the November 2005 Round Table of Arab creditors, resulting in pledges of $370 million to finance investment in infrastructure and social development to be disbursed over the next five years. In addition, an AfBD loan of $25 million is expected for the financing of the interconnection with the Ethiopian power grid.

8. **Government debt outstanding at end-2006 amounted to about $467 million, equivalent to 61 percent of GDP**. This included external debt toward official creditors for about $295 million (of which some $20 million is external government-guaranteed debt in arrears), and domestic public debt of $172 million. Most of this debt consists of arrears toward public employees, pension funds, public enterprises, and other suppliers for about $158 million (compared to $156.5 million in 2005), scheduled to be repaid by 2020.

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[1] Djibouti signed the Paris Club agreement on May 25, 2000, and receives treatment under Classic terms, whichare the standard terms applied to a debtor country coming to the Paris Club. Specifically, credits (whether ODA or non-ODA) are rescheduled at the appropriate market rate with a repayment profile negotiated on a case-by-case basis. In Djibouti's case, this involves treatment of maturities falling due from October 31, 1999, up to June 30, 2002.

[2] The Paris Club agreement also covers debt owed to France and Spain; an agreement with France was reached in 2003, whereas negotiations with Spain are still under way.

Appendix Table 12. Djibouti: Stock of Debt at End-2006
(In millions of dollars)

1. Domestic government debt	171.6
Debt toward non-bank entities	161.7
Of which: Arrears	157.8
Outstanding credit from the banking system	9.9
2. External government debt	275.4
Debt toward bilateral creditors (excl. arrears)	32.7
Debt toward multilateral creditors (excl. arrears)	229.5
Debt in arrears	13.2
3. Government-guaranteed external debt	152.0
Debt toward bilateral creditors (excl. arrears)	52.1
Debt toward multilateral creditors (excl. arrears)	79.9
Debt in arrears (3.1)	20
Memorandum items:	
Total external debt (2+3)	427.4
Total government debt (1+2+3.1)	467.0

Sources: Djibouti authorities; and Fund staff estimates.

IV. Evaluation of External Debt Sustainability

9. **The baseline scenario, developed on a realistic set of assumptions about economic policies and outcomes (see Appendix Box 5), shows that, although Djibouti's large external debt may be manageable, there is a high risk of debt distress**. The analysis was conducted under the debt sustainability framework for low-income countries (LICs). According to the World Bank CPIA rating, Djibouti's policies and institutions are assessed as those corresponding to a "poor performer." The debt-burden thresholds for countries in this category are: (a) NPV of the debt-to-exports of goods and services of 100 percent; (b) NPV of the debt-to-GDP of 30 percent; and (c) NPV of the debt-to-fiscal revenues of 200 percent. The relevant debt service thresholds are: (a) 15 percent of exports of goods and services and (b) 25 percent of revenues.

10. **Under the baseline scenario, the NPV of the external debt-to-GDP ratio is projected to breach the policy-dependent threshold throughout the period,** peaking at 60 percent in 2010 and remaining above 40 percent until at least 2027. The risks that this poses for external solvency are mitigated somewhat by the growth in financial inflows associated with the projected strong increase in exports. Hence, the NPV of the external of debt-to-export ratio is projected to decline from 125 percent in 2006 to 88 percent in 2007 and then decrease further to about 46 percent by 2027, well below the 100 percent threshold. Meanwhile the external debt service-to-export ratio (equal to 9 percent in 2006) is projected to remain comfortably below the 15 percent policy-dependent threshold (Appendix Table 13) throughout the projection period.

Appendix Box 5. Macroeconomic Assumptions

Real GDP is projected to grow by 6–7 percent a year in the medium term and by 3½–5 percent per year in the long run, spurred by foreign direct investment (FDI) and by exports of goods and services. It is assumed that large-scale investment in transport infrastructure and in the free-trade zone (FTZ), as well as progress in the implementation of the COMESA customs area, will strengthen Djibouti's integration with the other economies in the region and transform it into a regional trading hub, attracting further flows of foreign direct investment and enhancing the country's export and productive capacity in the long run. A large share of the new borrowing over 2006–11 is expected to finance social projects that are projected to have an impact on growth only in the very long run.

Exports of goods and services are projected to increase threefold in value between 2006 and 2011, as a result of services related to the expansion of the port and of tourism, as well as of exports of cattle and the free-trade zone; in the long run, exports are projected to continue growing by 7–8 percent a year.

The **current account deficit** is projected to rise to 14–18 percent of GDP between 2007 and 2011, driven by a surge in investment-related imports, and to gradually decline to about 8 percent by 2027 as a result of sustained export growth. It is however largely financed by the projected high flow of FDI.

The **overall fiscal deficit** is projected to temporarily increase in the medium term owing to the restructuring of port management, but the restraint in expenditure announced by the authorities is expected to restore balance by 2011. In the long run, the fiscal deficit is projected to increase to 3–3½ percent of GDP as tax revenues are projected to decline, partly as a result of tax exemptions granted in the free-trade zone. Spending would evolve in line with revenue, but, owing to rigidities in several expenditure areas, the shortfall in revenue will need to be compensated in part by additional external financing. Domestic arrears to public employees, pension funds, public enterprises, and private suppliers, currently estimated to $158 million, are projected to be repaid by 2020 in line with the schedule announced by the authorities.

Projections of **external borrowing terms** incorporate authorities' data for identified project loans, and are based on the assumption that additional loans would continue to be extended by official creditors to the government (or under government guarantee) on concessional terms. The large debt disbursements between 2007 and 2011 will finance mainly social and infrastructure projects that have only a long-term impact on growth.

11. **The less favorable outcome obtained from the stress tests reflects the high vulnerability of external debt solvency to adverse shocks.** Under the historical scenario—which assumes that key macroeconomic variables evolve in line with the record of the past seven years, before the current increase in foreign investment started to stimulate growth and trade—the NPV of the external debt-to-GDP ratio peaks at 73 percent in 2012 and then remains above 50 percent. Additional tests assessing the sensitivity of debt sustainability indicators to less favorable lending conditions—specifically, export and real GDP growth, and inflation and exchange rate developments—also yield less favorable sustainability indicators

(Appendix Table 14; Appendix Figure 5). Under the "most extreme stress test"—corresponding to a one-time 30 percent nominal depreciation in 2008, equivalent to a 22 percent decline in nominal GDP—the NPV of the external debt-to-GDP ratio would be about 20 percentage points higher than in the baseline, and the NPV of the external debt-to-exports ratio would breach the 100 percent threshold until 2017.

V. Evaluation of Fiscal Sustainability, 2007–27

12. **Under baseline assumptions, the NPV of the government debt-to-GDP ratio is projected to decline below the policy-dependent threshold only by 2015**. The NPV of the government debt-to-revenue, which is projected to stay below the 200 percent threshold, keeps an upward trend after 2020. The government debt service-to-revenue ratio, instead, is projected to remain well below the 25 percent threshold (Appendix Table 15). The stock of domestic debt arrears is scheduled to be repaid only by 2020.

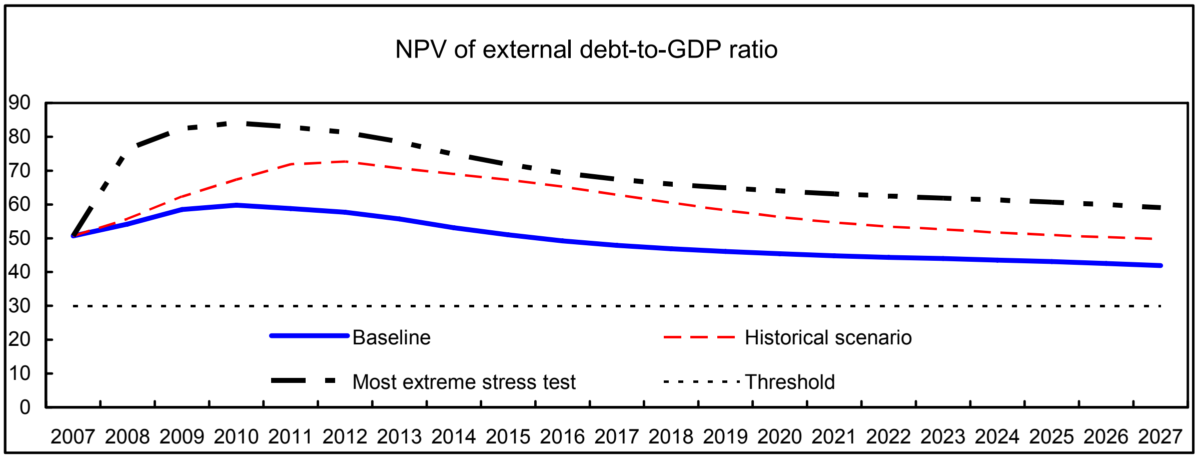
13. **The prospects of long-term fiscal sustainability could substantially worsen under adverse circumstances simulated by the stress tests.** Under the "most extreme" stress test (featuring real GDP growth at its historical average minus one standard deviation) the NPV of the debt-to-GDP ratio would remain above 35 percent throughout the period, increasing after 2020, and the NPV of the debt-to-revenue ratio would break the 200 percent threshold in 2025. Under another stress test—assuming that the government primary balance would remain at its projected 2007 level—the NPV of the government debt-to-revenue ratio would increase above 150 percent by 2027, again raising concerns about long-term sustainability. If instead both real GDP growth and the primary deficit remained at the average level of the past seven years, the outcome would closely reflect projections under the baseline scenario (Appendix Table 16; Appendix Figure 6).

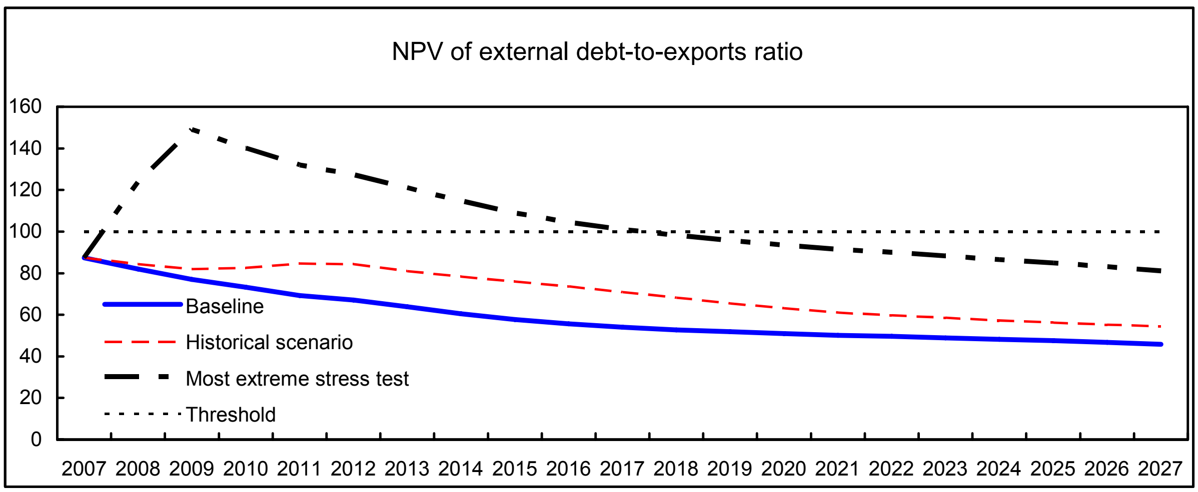
14. **The contingent liabilities related to the government-guaranteed external debt pose a major risk for fiscal sustainability.** If the government was called to honor all these guarantees (equivalent to 1-2 percent of GDP per year) until 2027, the NPV of the government debt-to-GDP ratio would remain almost always above the 30 percent threshold and keep an upward trend after 2020, and the NPV of the government debt-to-revenue ratio would rise to 170 percent by 2027.

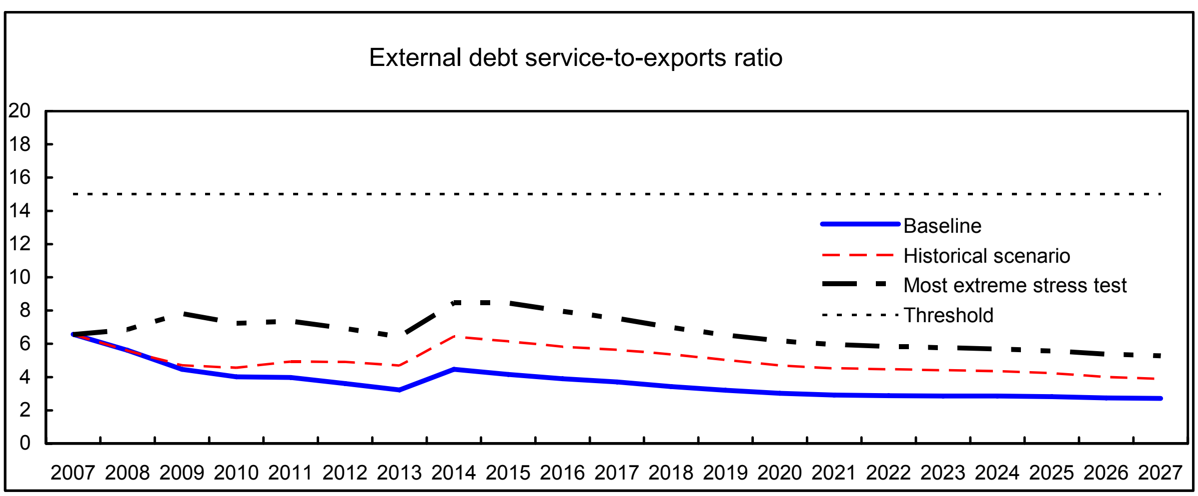
VI. Conclusions

15. While the updated DSA for Djibouti projects moderate GDP and export growth rates, largely propelled by high levels of foreign direct investment, the country's risk of debt distress is high. In addition to a sustained and significant breach of the policy-dependent threshold for the NPV of debt-to-GDP ratio, Djibouti has incurred external arrears over the past few years. Moreover, substantial domestic arrears have accumulated, equal to 20 percent of GDP. Unless Djibouti follows prudent macroeconomic policies—supported by a shift in the composition of external financing from concessional loans to grants, combined with concerted efforts to clear substantial arrears and lower domestic debt—the country's vulnerability to adverse shocks will increase. Given the continuing risks, development of a comprehensive public debt management strategy, taking into account public enterprises and contingent liabilities, should be a priority.

Appendix Figure 5. Djibouti: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007–27
(In percent)

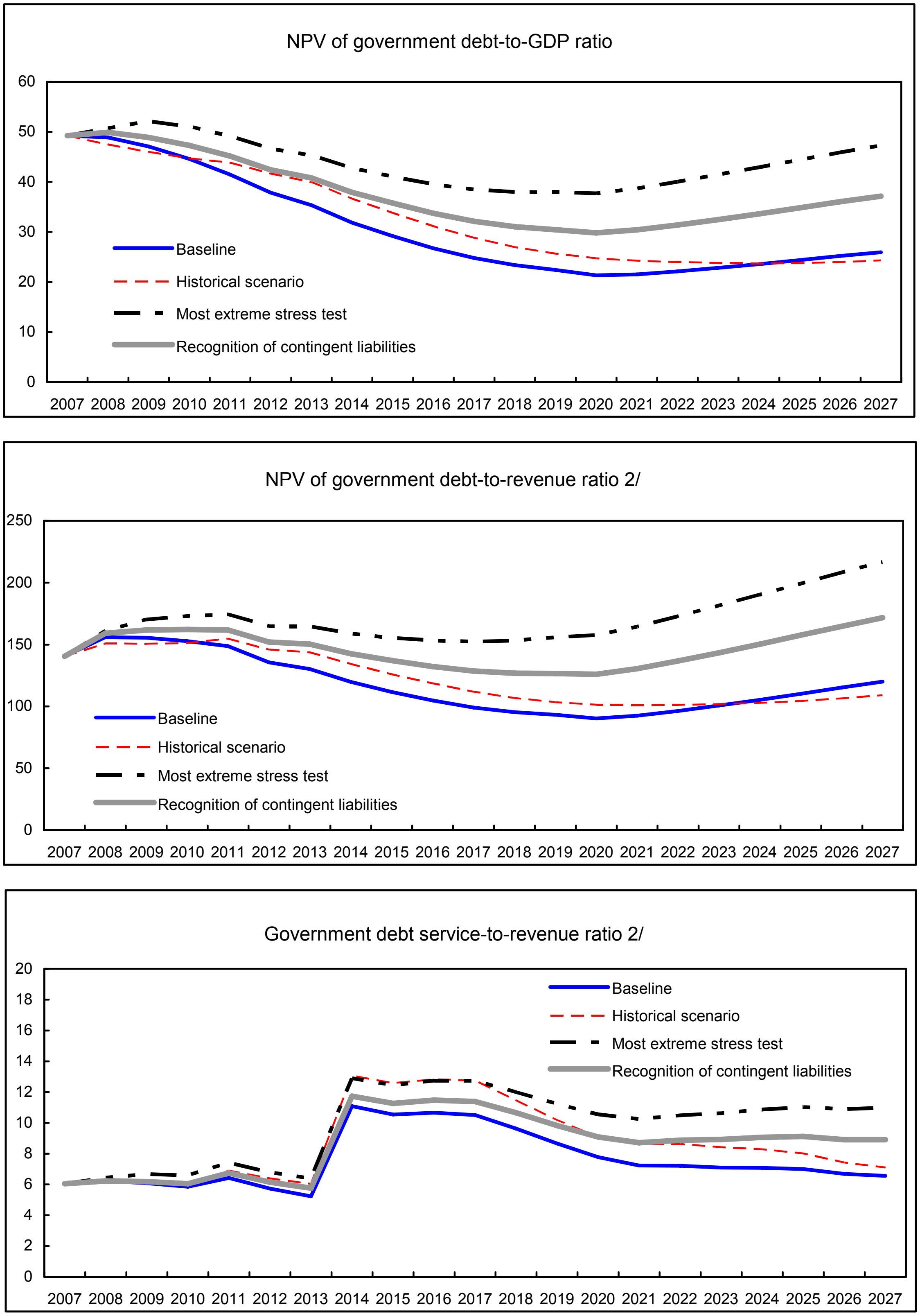






Source: Staff projections and simulations.

Appendix Figure 6. Djibouti: Indicators of Public Debt Under Alternative Scenarios, 2007–27 1/



Source: Staff projections and simulations.
1/ Most extreme stress test is test that yields highest ratio in 2016.
2/ Revenue including grants.

Appendix Table 13. Djibouti: External Debt Sustainability Framework, Baseline Scenario, 2003–27 1/

(In percent of GDP, unless otherwise indicated)

	Actual				Historical Average 6/	Standard Deviation 6/	Projections										
	2003	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007–12 Average	2017	2022	2027	2013–27 Average
External debt (nominal) 1/	**66.8**	**68.4**	**60.5**	**55.5**			**58.2**	**64.3**	**71.3**	**73.1**	**71.0**	**68.8**	**67.8**	**61.6**	**59.7**	**57.9**	**61.2**
Of which: public and publicly guaranteed (PPG)	66.8	68.4	60.5	55.5			58.2	64.3	71.3	73.1	71.0	68.8	67.8	61.6	59.7	57.9	61.2
Change in external debt	8.8	1.6	-7.9	-5.0			2.7	6.2	6.9	1.8	-2.1	-2.2	2.2	-1.0	-0.2	-0.6	-0.7
Identified net debt-creating flows	-8.6	-8.3	-8.4	-10.0			-4.7	-0.9	-1.6	-4.2	-6.5	-1.5	-3.2	1.9	1.5	0.9	1.2
Non-interest current account deficit	**-4.1**	**0.4**	**-2.1**	**8.0**	**2.3**	**4.5**	**13.0**	**16.0**	**16.9**	**14.8**	**12.5**	**12.9**	**14.4**	**9.6**	**7.7**	**6.6**	**8.6**
Deficit in balance of goods and services	8.8	13.2	10.3	17.4			20.4	24.0	22.6	19.3	17.4	17.6	20.2	13.1	10.3	8.7	11.7
Exports	40.3	37.6	40.6	39.8			58.0	66.1	76.0	81.7	84.9	86.2	75.5	88.7	89.6	91.5	89.4
Imports	49.1	50.8	50.9	57.3			78.4	90.1	98.6	101.0	102.3	103.7	95.7	101.8	99.8	100.2	101.1
Net current transfers (negative = inflow)	-4.2	-2.2	-2.0	2.4	-2.1	2.1	1.2	1.1	0.9	1.0	1.0	1.1	1.0	1.2	1.3	1.3	1.2
Other current account flows (negative = net inflow)	-8.7	-10.7	-10.4	-11.8			-8.6	-9.0	-6.6	-5.5	-5.8	-5.7	-6.9	-4.7	-3.9	-3.4	-4.3
Net FDI (negative = inflow)	**-2.3**	**-5.8**	**-3.1**	**-14.1**	**-3.5**	**4.7**	**-16.1**	**-14.7**	**-15.4**	**-15.9**	**-16.2**	**-12.3**	**-15.1**	**-6.5**	**-5.2**	**-4.9**	**-6.3**
Endogenous debt dynamics 2/	**-2.2**	**-2.9**	**-3.2**	**-3.9**			**-1.5**	**-2.1**	**-3.1**	**-3.2**	**-2.8**	**-2.2**	-2.5	**-1.1**	**-0.9**	**-0.8**	**-1.1**
Contribution from nominal interest rate	0.7	0.9	0.9	0.9			0.9	0.9	1.0	1.1	1.2	1.2	1.0	1.1	1.2	1.2	1.2
Contribution from real GDP growth	-1.8	-1.9	-2.0	-2.7			-2.5	-3.1	-4.1	-4.3	-3.9	-3.3	-3.5	-2.3	-2.1	-1.9	-2.2
Contribution from price and exchange rate changes	-1.1	-2.0	-2.1	-2.1			…	…	…	…	…	…	…	…	…	…	…
Residual (3-4) 3/	**17.4**	**10.0**	**0.5**	**5.0**			**7.4**	**7.0**	**8.5**	**6.1**	**4.4**	**-0.7**	**5.4**	**-2.9**	**-1.7**	**-1.5**	**-1.9**
Of which: exceptional financing	-4.7	-1.5	0.0	-2.2			-0.4	-0.4	-0.4	-0.3	-0.3	-1.5	-0.6	-1.1	-0.9	-0.7	-1.0
NPV of external debt 4/	58.7	55.9	52.3	49.7			50.7	54.2	58.5	59.8	58.8	57.8	56.6	47.9	44.4	42.0	46.7
In percent of exports	145.6	148.6	128.7	124.8			87.4	81.9	77.0	73.2	69.3	67.0	76.0	54.0	49.6	45.8	52.3
NPV of PPG external debt	**58.7**	**55.9**	**52.3**	**49.7**			**50.7**	**54.2**	**58.5**	**59.8**	**58.8**	**57.8**	**56.6**	**47.9**	**44.4**	**42.0**	**46.7**
In percent of exports	145.6	148.6	128.7	124.8			87.4	81.9	77.0	73.2	69.3	67.0	76.0	54.0	49.6	45.8	52.3
Debt service-to-exports ratio (in percent)	8.4	9.4	9.6	9.0			6.6	5.6	4.5	4.0	4.0	3.6	4.7	3.7	2.9	2.7	3.3
PPG debt service-to-exports ratio (in percent)	8.4	9.4	9.6	9.0			6.6	5.6	4.5	4.0	4.0	3.6	4.7	3.7	2.9	2.7	3.3
Total gross financing need (billions of U.S. dollars)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.1	0.1	0.2	0.1
Non-interest current account deficit that stabilizes debt ratio	-12.9	-1.2	5.8	13.0			10.3	9.8	10.0	13.0	14.6	15.1	12.1	10.6	7.9	7.2	9.3
Key macroeconomic assumptions																	
Real GDP growth (in percent)	3.2	3.0	3.2	4.8	2.7	1.3	4.8	5.7	7.0	6.6	5.9	5.1	5.9	3.9	3.7	3.6	3.9
GDP deflator in U.S. dollar terms (change in percent)	2.0	3.1	3.1	3.6	2.4	1.7	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Effective interest rate (percent) 5/	1.2	1.5	1.4	1.6	1.5	0.2	1.8	1.7	1.7	1.7	1.7	1.8	1.7	2.0	2.1	2.1	2.0
Growth of exports of G&S (U.S. dollar terms, in percent)	11.0	-0.9	14.8	6.5	5.2	7.1	57.8	24.8	27.3	18.6	14.0	10.4	25.5	7.6	7.4	7.7	8.0
Growth of imports of G&S (U.S. dollar terms, in percent)	19.2	9.8	6.6	22.1	6.5	10.5	48.4	25.8	21.2	13.0	11.1	10.3	21.6	7.3	6.9	7.3	7.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	...	27.5	26.6	25.6	25.3	24.8	31.1	26.8	36.8	36.8	36.8	36.3
Memorandum item:																	
Nominal GDP (billions of U.S. dollars)	0.6	0.7	0.7	0.8			0.8	0.9	1.0	1.1	1.2	1.3		2.0	2.8	4.0	2.5

Source: Staff simulations.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that NPV of private sector debt is equivalent to its face value.

5/ Current-year interest payments devided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past ten years, subject to data availability.

Appendix Table 14. Djibouti: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27
(In percent)

	Projections												
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2026	2027
						NPV of debt-to-GDP ratio							
Baseline	51	54	59	60	59	58	56	53	51	49	48	43	42
A. Alternative scenarios													
A1. Key variables at their historical averages in 2007–26 1/	51	56	62	67	72	73	71	69	67	65	63	50	50
A2. New public sector loans on less favorable terms in 2007–26 2/	51	60	68	71	70	69	69	67	66	66	65	68	68
B. Bound tests													
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	51	57	64	66	65	64	61	59	56	54	53	47	46
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	51	64	68	68	67	65	63	60	58	55	53	45	44
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	51	56	62	63	62	61	59	56	54	52	51	45	45
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008	51	62	75	75	73	72	69	66	63	60	58	47	46
B5. Combination of B1-B4 using one-half standard deviation shocks	51	64	71	72	71	69	67	64	61	59	57	50	49
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	51	76	82	84	83	81	79	75	72	69	67	60	59
						NPV of debt-to-exports ratio							
Baseline	87	82	77	73	69	67	64	60	58	56	54	47	46
A. Alternative scenarios													
A1. Key variables at their historical averages in 2007–26 1/	87	84	82	83	85	84	81	78	76	74	71	55	54
A2. New public sector loans on less favorable terms in 2007–26 2/	87	91	89	87	83	80	79	77	75	74	74	74	74
B. Bound tests													
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	87	82	77	73	69	67	64	60	58	56	54	47	46
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	87	124	149	140	132	127	121	115	109	105	101	83	81
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	87	82	77	73	69	67	64	60	58	56	54	47	46
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008	87	94	98	92	86	83	79	75	71	68	66	52	51
B5. Combination of B1-B4 using one-half standard deviation shocks	87	113	127	121	114	110	105	99	94	91	88	74	73
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	87	82	77	73	69	67	64	60	58	56	54	47	46
						Debt service ratio							
Baseline	6.6	5.6	4.5	4.0	4.0	3.6	3.2	4.5	4.2	3.9	3.7	2.7	2.7
A. Alternative scenarios													
A1. Key variables at their historical averages in 2007–26 1/	7	6	5	5	5	5	5	6	6	6	6	4	4
A2. New public sector loans on less favorable terms in 2007–26 2/	7	5	5	4	5	6	6	6	6	6	5	5	1
B. Bound tests													
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	7	5	4	4	4	4	4	5	5	4	4	3	3
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	7	7	8	7	7	7	6	8	8	8	8	5	5
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	7	5	4	4	4	4	4	5	5	4	4	3	3
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008	7	5	5	5	5	4	4	5	5	5	5	3	3
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	7	6	7	6	6	8	7	7	7	5	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	7	5	4	4	4	4	4	5	5	4	4	3	3
Memorandum item:													
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	32	31	30	29	27	26	25	25	24	23	23	16	15

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Appendix Table 15. Djibouti: Public Sector Debt Sustainability Framework, Baseline Scenario, 2003–27
(In percent of GDP, unless otherwise indicated)

	Actual				Historical Average 5/	Standard Deviation 5/	Projections										
	2003	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007–12 Average	2017	2022	2027	2013–27 Average
Public sector debt 1/	70.0	70.1	64.4	61.0			60.6	61.4	59.4	56.3	51.8	46.6	56.0	35.4	33.6	35.6	35.8
Of which: foreign-currency denominated	38.0	39.8	36.1	34.5			36.7	40.2	40.6	39.6	36.8	34.2	38.0	31.7	33.6	35.6	33.3
Change in public sector debt	6.6	0.1	-5.7	-3.4			-0.5	0.9	-2.0	-3.2	-4.5	-5.2	-2.4	-1.2	0.5	0.2	-0.7
Identified debt-creating flows	-1.2	-2.4	-4.5	-2.7			-1.4	0.1	-2.7	-3.7	-5.1	-3.7	-2.7	-0.2	1.2	0.8	0.1
Primary deficit	1.9	1.6	-0.7	1.9	1.5	1.1	2.9	4.9	2.8	1.3	-0.7	0.0	1.9	1.8	2.8	2.5	2.1
Revenue and grants	34.0	35.6	37.1	35.0			35.0	31.4	30.2	29.2	27.9	27.9	30.3	25.0	23.0	21.6	24.0
Of which: grants	6.0	6.8	6.2	3.9			5.7	3.8	3.8	3.4	3.1	3.9	3.9	2.9	2.3	1.8	2.6
Primary (noninterest) expenditure	36.0	37.2	36.4	36.9			37.9	36.2	33.0	30.5	27.2	27.9	32.1	26.8	25.8	24.2	26.1
Automatic debt dynamics	-2.8	-3.7	-3.8	-4.6			-4.3	-4.7	-5.4	-5.0	-4.4	-3.7	-4.6	-2.1	-1.7	-1.7	-2.0
Contribution from interest rate/growth differential	-2.8	-3.7	-3.8	-4.6			-4.3	-4.7	-5.4	-5.0	-4.4	-3.7	-4.6	-2.1	-1.7	-1.7	-2.0
Of which: contribution from average real interest rate	-0.8	-1.7	-1.6	-1.7			-1.5	-1.4	-1.4	-1.3	-1.3	-1.2	-1.3	-0.7	-0.5	-0.5	-0.6
Of which: contribution from real GDP growth	-2.0	-2.0	-2.2	-3.0			-2.8	-3.3	-4.0	-3.7	-3.1	-2.5	-3.2	-1.4	-1.2	-1.2	-1.4
Contribution from real exchange rate depreciation	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other identified debt-creating flows	-0.3	-0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recognition of implicit or contingent liabilities	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt relief (HIPC and other)	-0.3	-0.2	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other (specify, e.g., bank recapitalization)	0.0	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Residual, including asset changes	7.7	2.5	-1.2	-0.7			0.9	0.7	0.7	0.6	0.6	-1.5	0.3	-1.0	-0.7	-0.7	-0.9
NPV of public sector debt	58.3	56.6	62.0	54.6			49.3	48.9	47.1	44.6	41.5	37.9	44.9	24.8	22.1	26.0	25.4
Of which: foreign-currency denominated	...	...	33.7	28.0			25.4	27.7	28.2	27.9	26.5	25.5	26.9	21.0	22.1	26.0	22.8
Of which: external	...	...	33.7	28.0			25.4	27.7	28.2	27.9	26.5	25.5	26.9	21.0	22.1	26.0	22.8
NPV of contingent liabilities (not included in public sector debt)	...	...	...	15.8			15.3	16.6	20.5	22.4	23.1	23.7	20.3	25.9	27.1	25.7	26.1
Gross financing need 2/	3.0	2.5	0.6	3.6			5.0	6.8	4.6	3.0	1.1	1.6	3.7	6.0	5.4	4.8	5.1
NPV of public sector debt-to-revenue ratio (in percent) 3/	...	...	167.2	156.0			140.6	155.9	155.6	152.7	148.8	135.7	148.2	99.2	96.4	120.0	105.7
Of which: external	...	...	90.8	80.0			72.3	88.2	93.3	95.6	95.0	91.3	89.3	84.2	96.4	120.0	95.9
Debt service-to-revenue ratio (in percent) 3/ 4/	3.2	2.8	3.6	4.8			6.0	6.2	6.1	5.8	6.4	5.7	6.1	10.5	7.2	6.6	8.2
Primary deficit that stabilizes the debt-to-GDP ratio	-4.7	1.5	5.0	5.3			3.3	4.0	4.8	4.5	3.9	5.2	4.3	3.1	2.4	2.4	2.9
Key macroeconomic and fiscal assumptions																	
Real GDP growth (in percent)	3.2	3.0	3.2	4.8	1.3	2.4	4.8	5.7	7.0	6.6	5.9	5.1	5.9	3.9	3.7	3.6	3.9
Average nominal interest rate on forex debt (in percent)	0.9	1.1	1.3	1.3	1.2	0.2	1.5	1.5	1.5	1.5	1.5	1.5	1.5	1.7	1.9	2.1	1.8
Average real interest rate on domestic currency debt (in percent)	-1.6	-3.1	-3.2	-3.3	-1.8	1.0	-3.3	-3.3	-3.4	...	...	...	-3.3	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Inflation rate (GDP deflator, in percent)	2.0	3.1	3.1	3.6	2.3	0.8	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Growth of real primary spending (deflated by GDP deflator, in percent)	14.4	6.4	1.1	6.3	1.1	9.3	7.7	0.9	-2.5	-1.4	-5.4	7.6	1.2	2.6	3.8	1.9	2.9

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

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues including grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.