

or the corrective measures undertaken by the authorities. The Board also granted a waiver for the non-observance of the external payments arrears performance criterion following minor data revision after the completion of the fourth review under the ECF arrangement.

The ECF arrangement for Djibouti was approved in September 17, 2008 (see [Press Release No. 08/211](#)) for an amount to SDR 12.72 million (about US\$19.66 million, or 80 percent of the country's quota in the Fund). On January 7, 2011, the ECF arrangement was extended by 9 months, through June 16, 2012 (see [Press Release No. 11/3](#)).

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

“Djibouti has been hit hard by the spike in commodity prices and the Horn of Africa drought, which have affected particularly the poorest households. These shocks have hiked imports, especially on food and fuel, thus increasing the current account and external financing needs, and have put pressure on fiscal space through lower tax revenues and higher fuel subsidies. The augmentation of access of 60 percent of quota under the ECF will help Djibouti meet the additional financing needs stemming from the two exogenous shocks.

“Looking ahead, strong commitment to the ECF-supported program is necessary to maintain macroeconomic stability and reduce poverty. Fiscal policy should focus on increasing revenues and controlling expenditure, while protecting priority social expenditure and capital investment. Further progress on public financial management will strengthen the budget process. Pursuing prudent debt policies, including avoiding non-concessional borrowing remain critical for maintaining debt sustainability.

“Strengthening bank supervision and regulation will help address the challenges posed by the rapid development of the financial sector. Structural reforms should aim at improving competitiveness and fostering private sector development. Reforming the state-owned energy company will lower energy costs and reduce government transfers.”

**Statement by Kossi Assimaidou, Executive Director for Djibouti**  
**February 6, 2012**

**Introduction**

1. On behalf of my Djiboutian authorities, I thank management and staff for the continued support to their efforts to implement the economic and financial program under the ECF arrangement. At this juncture, Djibouti is facing tremendous challenges stemming from capacity constraints and a difficult environment characterized by elevated commodity prices, insecurity in the Horn of Africa, and a severe drought that heavily affected the region. These shocks have affected the implementation of the program—notably on the fiscal front—and widened the financing needs for 2011-12 despite the pledges from the international community to support the country in responding to the impact of the drought. Nevertheless, the authorities' commitment to prudent policies and the implementation of adjustment measures, helped to maintain the program on track, although some performance criteria, quantitative indicative targets and structural benchmarks were missed for end-June 2011.

2. Despite the challenges Djibouti is facing, the authorities remain committed to the objectives of the program. They intend to pursue their efforts to strengthen the implementation of the adjustment program under the ECF, which is aligned with the National Social Development Initiative (INDS).

3. Based on their commitment to sound policies under the program, my authorities request Directors' support for the completion of the fifth review under the ECF-supported arrangement. They also request Directors' support for the waivers of the nonobservance of the end-June 2011-performance criteria on the fiscal balance and net credit to the government, and of the continuous performance criteria on the non-accumulation of domestic arrears and external arrears. Moreover, to complement the financing committed by multilateral and bilateral donors in meeting the financing needs generated by the exogenous shocks, the authorities request an augmentation of access and the related rephasing.

**Recent economic developments: impact of the drought**

4. The population and economy of Djibouti have been heavily hit by the severe drought in the Horn of Africa, insecurity in the region and the increase in global commodity prices. In this context, the authorities' prudent policies and the recovery of transshipment and of trade to Ethiopia have led to an increase in economic activity in 2011. As a result, real GDP is estimated to have grown by 4.4 percent against 3.5 percent in 2010. However, due to higher imports to address the drought's effects as well as substantial rise in world food and fuel prices, inflation rose to 5.3 percent in 2011 from 4.0 percent in 2010. The current account deficit widened significantly. As for the gross international reserves, they stood at US\$231 million, at end-2010 and despite heavy strains from higher imports and less vigorous than expected resummptions of FDI, they remained broadly stable at end-2011.

5. The fiscal performance notably in the first semester of 2011 reflected the adverse effects of the exogenous shocks. On the revenue side, tax collection was lower than expected due

mainly to the drought. On the expenditure side, the authorities maintained discipline while addressing the adverse impact of the drought and instability in neighboring countries. In view of the shortfall in revenues, the authorities had to reduce expenditures heavily, including social spending. Diesel prices were also increased in October, November and December 2011 by a cumulative total of 4 percent, thus helping to reduce the subsidy, and the impact on the budget.

6. The Djiboutian authorities have made important progress in their efforts to further boost economic growth and alleviate poverty. In this regard, the cost of electricity and availability of water, defined as key obstacles to development in Djibouti, are being addressed. On the electricity front, the interconnection with the Ethiopian grid should help to meet about 50 percent of Djibouti's electricity needs at a lower cost and help EDD absorb the losses incurred from high oil prices. As for water, a desalination plant funded by the European Union will be completed in 2015 and will contribute to address Djibouti's medium-term water needs.

7. As regards the drought in the Horn of Africa, Djibouti is one of the most affected countries in the region. Indeed, 50 percent of the rural population or 15 percent of the total population were hit. With around 20,000 refugees, the drought has exacerbated a structurally critical food security situation with 14.5 percent of the urban population living in food insecurity. To alleviate this hardship, the authorities launched an appeal for emergency aid to their partners. In the same vein, an inter-ministerial drought committee, including representatives of donors, was set up to follow up this emergency aid. My authorities welcome the positive response received so far from their development partners. However, the drought occurred at a time when there was also a strong surge in world food and fuel prices. In order to meet the additional balance of payments financing needs in 2011-12, my Djiboutian authorities are requesting an augmentation of access to ECF resources of 60 percent of quota.

## **Macroeconomic Policies and Structural reforms for 2012**

### ***Fiscal policy***

8. My Djiboutian authorities will pursue their efforts focused on fiscal consolidation to maintain debt sustainability and non-monetary financing of fiscal deficit, safeguarding fiscal space for social expenditure and modernizing fiscal management. In this respect, the 2012 Budget law approved in December 2011 is in accordance with the objectives of the ECF-arrangement and the INDS framework. In particular, the authorities aim at maintaining the tax revenue-to-GDP ratio constant at the 2011 level with reforms of the VAT and exemptions, as well as further tax collection efforts. They will also raise capital expenditure in sectors with growth potential while pursuing the fiscal restraint given the constraints on the revenue side. Furthermore, my authorities are committed to maintain the hiring freeze in the public sector with the exception of health and education sectors.

9. Efforts to push forward with fiscal reforms will be intensified to enhance capacities for tax collection, expenditure control, and fiscal management. In the context of FY 2012, a commission was established with a mandate to initiate and recommend new tax measures to

strengthen the level of fiscal revenues and simplify the business environment. The coordination between the entities managing the VAT and direct tax will be strengthened based on the single taxpayer identification number.

### ***Debt management and sustainability***

**10.** The authorities will continue their efforts to enhance the debt management. They aim at reducing the stock of domestic arrears with possible assistance from donors, and preventing further accumulation. To this effect, controls on the expenditure chain will be strengthened so as not to accumulate further arrears. Prudence in budget appropriations for current expenditure and social spending will also be pursued.

**11.** With regard to the external debt, the authorities are committed to avoid any future accumulation of arrears including those arising from public enterprises. They will also strengthen capacities in monitoring debt service payments in collaboration with external partners, including the IMF. To preserve Djibouti's debt sustainability, the authorities will contract only concessional loans and prioritize projects to be funded under the INDS. Public enterprises are required to refrain from contracting non-concessional debt excluding those enterprises managed on a purely commercial basis. In addition, progress has been made on debt rescheduling efforts, with agreements signed on the Paris Club agreement with the remaining official bilateral creditors.

### ***Monetary and financial issues***

**12.** My authorities' monetary policy will continue to be underpinned by the currency board arrangement to meet the needs of the economy and ensure price stability. They remain strongly committed to maintain a rate of coverage higher than 105 percent of reserve money and government deposits with the Central Bank of Djibouti.

**13.** In the wake of the banking sector's expansion, efforts to reform the banking supervision have been undertaken and will continue in accordance with the guidelines of the Financial System Assessment Program and in collaboration with the Fund and other partners. In addition, the charter of foreign exchange bureaus will be reviewed to comply with the new banking law. Moreover, efforts to develop the financial sector and access to finance will be intensified with the support of Djibouti's development partners including the World Bank and UNDP.

**14.** The authorities remain committed to implementing the recommendations of the safeguards assessment to enhance the governance of the Central Bank and ensure the integrity of its operations. Starting with the 2011 financial year, financial reports will be completed and published within six months from the end of the exercise. The creation of an audit committee is underway with a view to provide oversight and prepare an audit charter. After amending the laws on combating money laundering and financing terrorism, the authorities are seeking long-term technical assistance from their development partners.