Djibouti

Recent macroeconomic and financial developments

The economy began to recover in 2021 with GDP growth of 3.9%, up from 1.2% in 2020. This pickup was supported by a revitalized services sector, which generates about three-fourths of GDP, port activities in particular. On the demand side, exports and investment remained the key factors, with an estimated contribution in 2021 of 14.6% and 4.8%. Djibouti is following an expansionary monetary policy to support economic recovery and avoid cash depletion. Credit to the economy grew 24.1% year on year through June 2021 but remains relatively low as a share of GDP. Inflation is estimated at 1.2% in 2021, higher than the 0.3% in 2020, and is attributable to moderate pressure from internal demand. NPLs in the banking system remained stable at 13.3% in 2021.

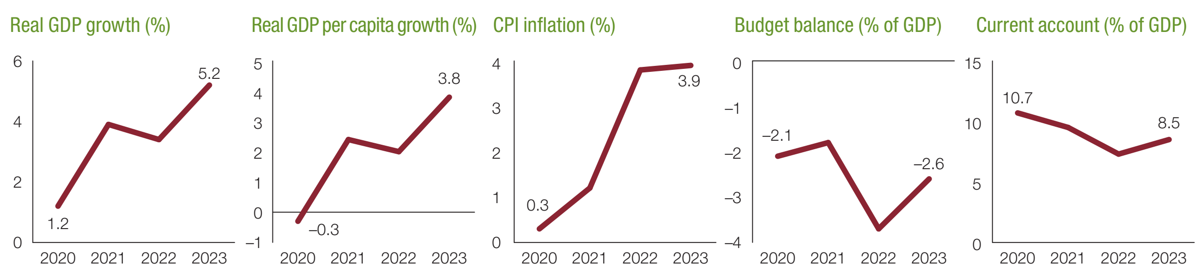
The budget deficit narrowed slightly, from 2.1% in 2020 to 1.8% of GDP in 2021, due to a 7% decrease in current spending tied to pandemic management and a 2.4% increase in public revenue stemming from the economic recovery. The country received $43.3 million under the IMF allocation, but earmarking has yet to be determined. Exchange reserves are estimated at 3.2 months of imports in 2021. Public debt declined in 2021 to 67.7% of GDP from 73.1% in 2020, though the risk of debt distress remains high. The current account surplus fell in 2021 to 9.5% of GDP from 10.7% in 2020, reflecting slow growth in the surplus on the services balance. The poverty rate declined from 35.9% in 2020 to 34.1% in 2021.

Outlook and risks

The outlook is positive. Average GDP growth over 2022–23 is forecast to reach 4.3% and remain supported by port and investment activities. Inflation is likely to increase, owing to the rising prices of food products and oil due to the Russia–Ukraine conflict, as is the budget deficit, given government subsidies to mitigate higher consumer prices. The current account surplus is projected to continue falling due to the declining surplus in services and the rise in imports. In 2022, public debt is forecast to decline further to 64.5% of GDP, and foreign exchange reserves remain at 3.2 months of imports. Risks to the outlook include, primarily; a possible falloff in external trade because of the crisis in Tigray, which could cause a drastic drop in customs revenues—about 90% of Ethiopia's foreign trade transits through Djibouti's ports; and the resurgence of COVID-19. To mitigate these risks, Djibouti strongly supports mediation efforts in the war in Ethiopia and promotes vaccination against COVID-19.

Climate change issues and policy options

Djibouti is 65 on the 2021 GCRI. Recurrent droughts, increasingly acute water stress, flooding, and recent cyclones attest to climate change. It is one of the countries that signed the Kyoto protocol in 1997 and endorsed the Paris Agreement in November 2016. Within the framework of the 2015 NDC, it committed to reduce GHGs by 40% relative to the 2030 reference scenario. In adaptation, Djibouti has implemented numerous national plans and programs to reduce vulnerability to drought, protect itself from rising sea levels, develop access to drinking water, protect biodiversity, and reinforce the resilience of rural populations. The energy sector has been identified as a focal point for reduction, given the country's potential in RE. The development of solar, wind, and geothermal power continues, so as to meet national needs in electricity, to reduce the price of electricity, and to achieve a 100% green energy mix by 2025. The investment necessary to maintain an emissions level similar to that of 2010 is $5.5 billion. Reaching SDG 13 on climate action is on track, but major challenges remain.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.