Djibouti

Recent macroeconomic and financial developments

Djibouti has not faced as severe an outbreak of COVID–19 as some countries. After the first reported case, measures to curb the spread of COVID–19 were taken by the government, including a curfew, a lockdown, a broad range of social distancing, and a mass testing campaign. These measures yielded positive results that led to the lifting of the lockdown and opening up of the country. The government maintained minimum security measures such as social distancing, mask-wearing, and systematic testing at entry points into the country.

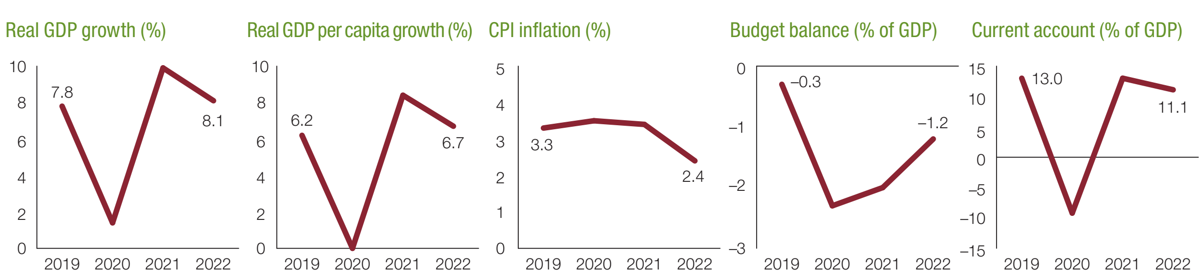
Overall, its economy has suffered from the pandemic's weakening of global demand, which caused a sharp slowdown in re-export activities from the Doraleh terminal—Djibouti's main growth engine. Real GDP growth slowed to 1.4% in 2020 from 7.8% in 2019. Total revenues, excluding grants, fell from 19.4% of GDP in 2019 to 17.5% of GDP in 2020, which led to a widening of the budget deficit to 2.3% of GDP from 0.5% of GDP in 2019. The value added by the services sector, which usually generates nearly 70% of Djibouti's growth, increased only 2% in 2020, compared with 8.2% in 2019. The COVID–19 crisis has also resulted in a sharp deceleration of investments, which increased by only 10.3% of GDP in 2020 after growing by 26.3% of GDP in 2019. Inflation remained stable at about 3.5% in 2020, despite steps by the central bank to foster growth —including an exceptional overdraft mechanism and temporary easing of bank capital requirements, which resulted in money supply growth of 9.39% from September 2019 to September 2020. A decline in foreign direct investment (FDI) and port revenues weakened the current account balance, which showed a deficit of 9.2% of GDP in 2020, compared with a surplus of 13% of GDP a year earlier.

Outlook and risks

The Djiboutian economy should recover well—with projected real GDP growth rates of 9.9% in 2021 and 8.1% in 2022—if the global pandemic subsides. Djibouti's growth prospects are supported by a rapid recovery of port activities as international trade and world demand perk up. Free zones and the expected return of FDI would also support the economic recovery. This return to activities and investments with the support of development partners should bring Djibouti's economy back to its precrisis situation, with decreasing budget deficits projected at 2.0% of GDP in 2021 and 1.2% in 2022. The current account is projected to be in surplus by 13% in 2021 and 11.1% in 2022. Pursuit of monetary policy based on pegging the national currency to the US dollar should lead to low and stable inflation of 3.4% in 2021 and 2.4% in 2022. However, should the pandemic persist beyond the second half of 2021, this scenario could be delayed or compromised.

Financing issues and options

Because the country makes public investments in major infrastructure projects, Djibouti's public debt has increased sharply—from 50.2% of GDP in 2015 to an expected 72.9% in 2020—and could become a potential vulnerability for the country. Financing the economy could be boosted by greater fiscal discipline, strengthened domestic resource mobilization, improved management of state-owned enterprises, and diversifying its external financing sources.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.