Public Disclosure Authorized

DJIBOUTI

Table 1	2023
Population, million	1.1
GDP, current US$ billion	4.1
GDP per capita, current US$	3606.4
International poverty rate ($2.15)[a]	19.1
Lower middle-income poverty rate ($3.65)[a]	43.8
National poverty rate[a]	21.1
Gini index[a]	41.6
School enrollment, primary (% gross)[b]	64.4
Life expectancy at birth, years[b]	62.3
Total GHG emissions (mtCO2e)	1.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ WDI for School enrollment (2022); Life expectancy (2021).

In 2023, Djibouti's economy rebounded impressively with a GDP growth of +6.7 percent, but Djibouti's growth model faces vulnerabilities, including heavy dependence on global maritime transport and exposure to conflict-prone neighbors. Ethiopian demand for transport and logistics services and domestic infrastructure projects are expected to drive growth, with GDP forecasted to gradually increase to 5.1 percent in 2024-2025. Poverty at 14.7 percent in 2024 (international poverty line) is expected to decline, yet risks persist amid the fragile regional context.

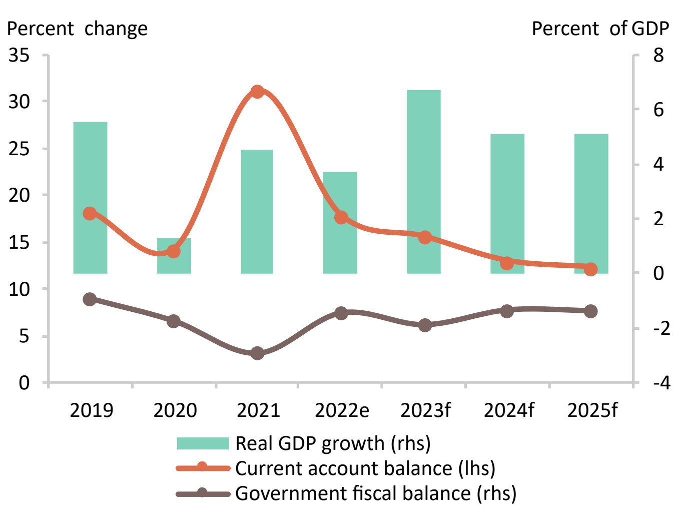
Key conditions and challenges

Djibouti experienced rapid economic growth, averaging over 4 percent annually over the period 2000-21, driven by significant investments in transport and port infrastructure. However, this growth, financed by increasingly expensive borrowing, has heightened debt vulnerabilities, thereby limiting fiscal space for essential social spending. The pandemic, conflict in neighboring Ethiopia, and the Russian invasion in Ukraine exacerbated economic and fiscal strains through foreign trade, financial, and commodity price channels, rendering debt unsustainable since February 2022. Also, Djibouti's ambition to better exploit its unique geographic position at the entrance of the Red Sea and become a major transport and logistics hub faces challenges. Heavy dependence on imports exposes the economy to global price fluctuations and transport disruptions. Moreover, Djibouti's subsidy for fuel pricing strains government finances without effectively reducing poverty, necessitating alternative approaches. This is particularly true as the fuel subsidy is primarily consumed by richer households. Still, poverty rates are projected to have declined from their 19 percent baseline in 2017 to around 14.7 percent in 2024. This is a slower reduction than previously anticipated, primarily due to factors influenced by COVID-19 and regional instability. Poverty at the lower middle-income poverty line remains high at around 36 percent, down from 44 percent in 2017. Ongoing disruptions in the Red Sea produce mixed impacts. On the one hand, Djibouti's port activity has surged because of the ship diversion, notably in transshipment services, to the point that it is overwhelming its (new) port capacity. On the other, escalating sea freight costs and higher insurance premiums due to maritime risks are anticipated to increase consumer goods prices, exacerbating Djibouti's vulnerability to such fluctuations. Additionally, the Red Sea tensions may have significant fiscal implications, potentially impacting customs revenue, and fuel pricing strategies.

Recent developments

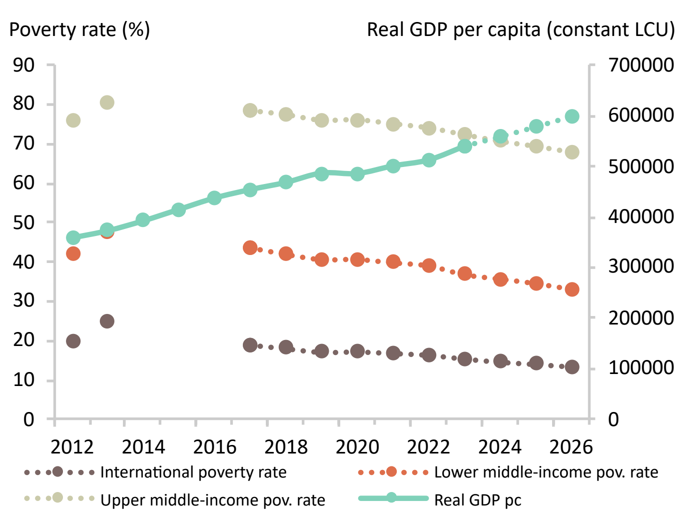
In 2023, Djibouti experienced a robust economic rebound, with GDP growth surpassing expectations at 6.7 percent. This resurgence was fueled by a significant increase in port activity, particularly in container traffic, which increased by 41 percent in 2023 compared to 2022, driven by renewed trade with Ethiopia following the peace agreement reached in November 2022 between the federal government and the Tigrayan People's Liberation Front. Despite disruptions in the Red Sea, Djibouti's port activity continued to increase in January 2024, driven by the strong boom in transshipment activity as carriers have rapidly expanded transshipment operations in Djibouti, strategically positioned in the south of the Red Sea, to circumvent the Red Sea corridor and Houthi-impacted

FIGURE 1 Djibouti / Real GDP growth, fiscal, and current account balances



Sources: Government of Djibouti and World Bank staff projections.

FIGURE 2 Djibouti / Actual and projected poverty rates and real GDP per capita



Sources: World Bank. Notes: see Table 2.

areas. Domestically, construction and public works sectors thrived, with cement sales surging by 80 percent as projects previously disrupted by the COVID-19 pandemic resumed. Inflation peaked at 11 percent in July 2022 but decelerated to 3.8 percent by December 2023, attributed to global food price slowdowns and government measures. However, Djibouti continued to face fiscal challenges marked by a decline in (already low) revenues due to new tax exemptions introduced in the 2023 budget. Total public spending surged, driven by increased capital expenditure, widening the budget deficit to 1.9 percent of GDP. External debt reached 69.4 percent of GDP in 2023 from 66.5 percent of GDP in 2022, due to new loans and inclusion of last year's debt arrears. Also, Djibouti's stock of external arrears increased significantly to 6 percent of GDP by the end of September 2023. Djiboutian authorities reached a preliminary agreement for debt reprofiling in late 2023 with its main creditor, EXIM-BANK CHINA, including a 4-year moratorium for rail and water supply projects, aiming to secure more favorable terms. However, addressing outstanding arrears with other creditors remains crucial to mitigate continued debt distress. Authorities engaged with the Paris Club for arrears clearance plans and intend to also reopen discussions with Exim Bank India for debt restructuring. On the external front, Djibouti's sector exhibited positive trends, recording a notable current account surplus due to increased trade and logistics demand from Ethiopia. Foreign exchange reserves remained strong, providing sufficient coverage for prospective imports for four months. Despite previous challenges, the banking sector remained stable, reflecting the resilience of Djibouti's economy.

Outlook

Djibouti's economic outlook is heavily influenced by regional uncertainties, including exposure to conflict-prone neighbors and unexpected inflationary pressures, which pose challenges to its trajectory. Recent developments in Ethiopia, such as defaulting on euro bond payments and imposing restrictions on imports, further add to uncertainties. Additionally, Ethiopia's pursuit of direct access to the Red Sea evidenced by recent agreements with Somaliland and a recent MOU signing in Lamu complicates further the regional landscape. Despite this, Djibouti maintains confidence in its strategic position and world-class port complex, fortified over the past three decades. In the medium term, Djibouti's economic prospects appear promising, driven by foreign trade and public works. GDP is forecasted to remain strong at 5.1 percent from 2024 to 2026, propelled by continued Ethiopian demand for transport and logistics services. Locally, the development of the Damerjog Industrial Park Project and infrastructure programs under the National Development Plan (NDP) are expected to boost Gross Fixed Capital Investment. Fiscal consolidation measures, including reprioritizing central government investment spending and improving fiscal management, aim to gradually reduce the budget deficit, stabilizing at 1.4 percent of GDP by 2025-2026. Projected poverty rates are expected to decline alongside GDP growth, with poverty rates projected to reach 13.5 percent in 2026 (at the international poverty line) and 33.1 percent (at the lower middle-income poverty line). However, there are risks, including the ongoing accumulation of public debt and arrears, regional tensions, and climatic shocks. The persistence of these risks could jeopardize Djibouti's ability to manage future challenges and fund essential public services, particularly given its reliance on trade and transport activities with Ethiopia.

TABLE 2 Djibouti / Macro poverty outlook indicators (annual percent change unless indicated otherwise)

	2021	2022	2023e	2024f	2025f	2026f
Real GDP growth, at constant market prices	4.5	3.7	6.7	5.1	5.1	5.2
Private consumption	9.6	-0.6	4.4	5.0	5.0	5.0
Government consumption	-2.5	-14.3	8.1	2.9	2.2	2.2
Gross fixed capital investment	4.9	2.7	12.4	8.5	6.8	7.6
Exports, goods and services	29.5	-12.5	8.4	9.0	10.0	10.0
Imports, goods and services	18.2	-6.2	10.4	11.0	11.3	11.3
Real GDP growth, at constant factor prices	4.1	4.0	6.7	5.1	5.1	5.2
Agriculture	16.5	-0.5	5.9	5.5	5.5	5.5
Industry	11.4	7.2	10.0	10.0	10.0	10.0
Services	2.5	3.4	6.0	4.0	4.0	4.0
Inflation (consumer price index)	1.5	5.1	1.4	2.6	2.0	2.5
Current account balance (% of GDP)	31.2	17.9	15.6	13.0	12.3	11.2
Fiscal balance (% of GDP)	-2.9	-1.4	-1.9	-1.3	-1.4	-1.4
Revenues (% of GDP)	20.0	18.9	18.9	18.9	18.9	18.8
Debt (% of GDP)	71.3	66.5	69.4	66.6	63.7	61.0
Primary balance (% of GDP)	-2.7	-0.7	-1.1	-0.5	-0.5	-0.6
International poverty rate ($2.15 in 2017 PPP)[a,b]	16.9	16.5	15.5	14.7	14.1	13.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	39.9	39.1	36.9	35.8	34.6	33.1
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	75.2	74.2	72.5	70.8	69.5	68.0
GHG emissions growth (mtCO2e)	0.2	-0.4	0.0	0.2	0.3	0.3
Energy related GHG emissions (% of total)	23.8	23.3	22.9	22.4	21.9	21.4

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices. Emissions data sourced from CAIT and OECD.
Notes: e = estimate, f = forecast.
a/ Calculations based on 2017-EDAM. Actual data: 2017. Nowcast: 2018-2023. Forecasts are from 2024 to 2026.
b/ Projection using neutral distribution (2017) with pass-through = 0.7 (Low (0.7)) based on GDP per capita in constant LCU.