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]	62.9
Total GHG emissions (mtCO2e)	1.4

Source: WDI, Macro Poverty Outlook, and official data.
a/ Most recent value (2017), 2017 PPPs.
b/ Most recent WDI value (2022).

Djibouti's economic activity showed modest improvement in 2024H1, leading to an upward revision of real GDP growth to 5.9 percent in 2024—0.8 percentage points higher than in the spring forecast. This improvement in economic activity and growth in real GDP per capita are expected to contribute to a reduction in poverty. Risks to the outlook are skewed to the downside, with heightened chances of a hard landing. Real GDP growth is projected to 5.1 percent in 2025-26, supported by increased transshipment as Ethiopia's imports rise.

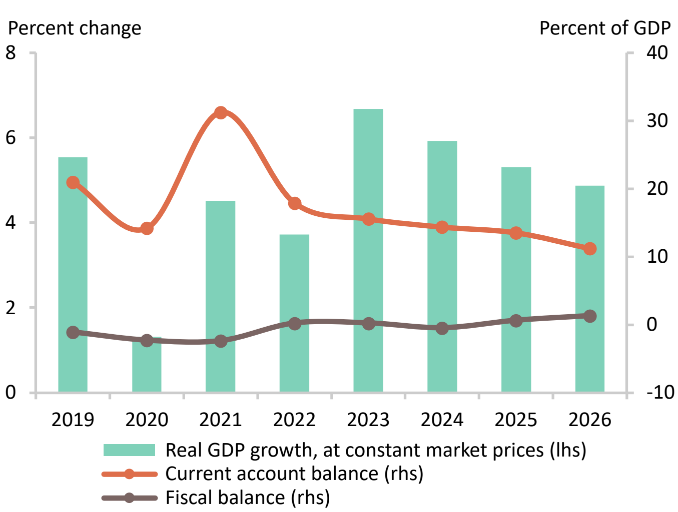
Key conditions and challenges

Despite experiencing rapid economic growth over the past decade, Djibouti continues to grapple with macro-social challenges. Economic growth, averaged over 6.2 percent annually from 2011-19, largely driven by substantial investments (largely debt-financed) in transport and port infrastructure. However, this growth, fueled by increasingly costly borrowing, has heightened debt vulnerabilities, constraining fiscal space for critical social spending. High electricity costs continue to hamper private sector development, while weak economic fundamentals, including limited TFP, remain a significant concern for long-term growth. Human capital remains low. A large proportion of the population is poor: in 2017, 19.1 and 43.8 percent lived on less than the international poverty thresholds of $2.15 and $3.65 per person per day (in 2017 PPP), respectively. Djibouti is among the most unequal countries in the region (Gini of 41.6). This reflects regional disparities with significantly higher poverty and poorer access to basic services outside of the urban core as well as disparities in living standards within the capital city. Relative to its small population size, Djibouti hosts a large number of migrants, displaced, and undocumented people. The labor market is marked by low participation, high unemployment, and a small formal private sector. Overlapping crises including the COVID-19 pandemic, conflict in Ethiopia, and the Russian invasion of Ukraine worsened economic and fiscal pressures. These events triggered trade disruptions, financial instability, and commodity price fluctuations, rendering the country's debt unsustainable. While Djibouti aims to leverage its strategic location at the entrance of the Red Sea to emerge as a major transport and logistics hub, it faces considerable hurdles in achieving this goal amidst the current economic pressures. The economy's heavy reliance on imports makes it vulnerable to global price volatility. Additionally, the government's fuel subsidy strains public finances without effectively addressing poverty, as the benefits are mainly enjoyed by wealthier households. The Red Sea disruptions have led to a surge in transshipment services, straining the port's capacity.

Recent developments

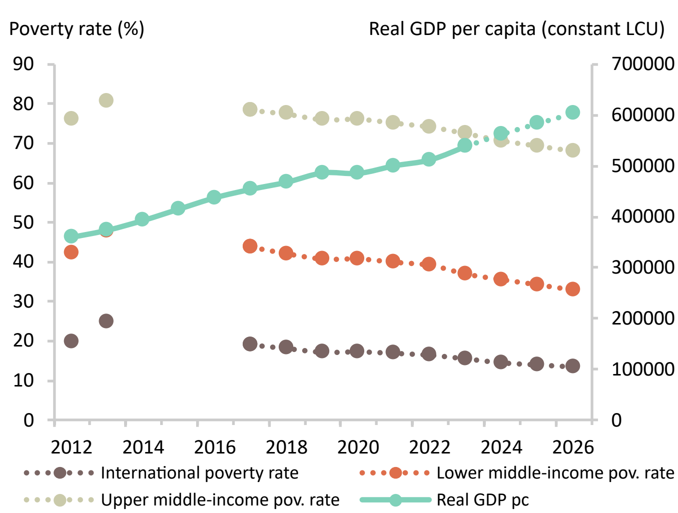
Djibouti's economic activity regained strength in 2024H1, mainly thanks to a significant increase in port activity, particularly container traffic. The port's activity grew by an impressive 70.3 percent year-on-year during this period, due to the growing transshipment sector. This growth reflects the strategic shifts in regional shipping patterns, as shipping companies increasingly opted to continue avoiding the conflict zones in the Red Sea. Energy production also experienced a substantial 17 percent y-o-y increase in 2024Q1, reflecting a significant boost in output. In contrast, the construction sector

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



Source: World Bank. Notes: see Table 2.

contracted by 10 percent in the same period, mainly due to disruptions in the supply chain. The rise in freight costs—soaring to US$4,500 per trip in June 2024, up from US$1,400 a year earlier amid the ongoing Red Sea crisis—contributed to domestic price increases in 2024H1. CPI inflation rose by 3.2 percent, y-o-y, in the first half of 2024, driven by higher food prices (3.6 percent) and energy costs (3.2 percent). The international poverty rate (living on below US$2.15/person/day in 2017 PPP) is estimated to have declined from 19.1 percent in 2017 to around 15.5 percent in 2023 thanks to continued economic growth. Similarly, poverty at the lower-middle-income threshold is also estimated to have fallen, from 43.8 percent in 2017 to around 36.9 percent in 2023, but this poverty level remains high. These positive trends are expected to continue into 2024. On the fiscal front, limited domestic resource mobilization coupled with the ongoing developments in the Djibouti Duty-Free Zone (DDID FTZ), in which the government holds a stake, have further strained fiscal buffers in the first half of 2024. These factors have contributed to keeping public debt at a high level. As of March 31, 2024, public debt remains above 63 percent of GDP, with 76.1 percent of this debt attributable to state-owned enterprises (SOEs). As of December 2023, Djibouti's debt arrears totaled US$311.34 million (7.74 percent of GDP). While the country secured a temporary moratorium on debt servicing from Exim Bank of China, negotiations with India are ongoing, and discussions with the Paris Club remain on hold. External sector developments were mixed in 2024H1. The trade balance registered a deficit of 2.3 percent, driven by a rise in imports related to ongoing major developments in the DDID FTZ. However, net foreign exchange reserves remained strong, covering four months of projected imports.

Outlook

The medium-term outlook remains cautiously optimistic. Real GDP growth is now projected to reach 5.9 percent in 2024, a 0.8 percentage point increase from the spring forecast. This upward revision reflects stronger growth in transshipment activities and expectations of increased Ethiopian demand following the IMF's approval of a new funded program for Ethiopia in July. Growth is expected to moderate to 5.1 percent in 2025-26, supported by export earnings from logistics and re-exports to Ethiopia. Inflation is projected to rise to 3.0 percent in 2024 due to higher freight costs, before easing to an average of 1.7 percent in 2025-26 as global prices stabilize. Poverty in 2024 is estimated at 14.5 percent (international poverty line) and 35.5 percent (lower middle-income poverty line), subject to substantial risks given the high public debt and ongoing regional tensions. Debt-restructuring agreements expected by late 2024 will allow for fiscal consolidation, with the fiscal balance moving from a deficit of 0.5 percent of GDP in 2024 to a surplus of 1.0 percent in 2025-26. Public debt is projected to decrease to 58.4 percent of GDP by 2026 as external financing remains limited, while the robust implementation of the new public finance reforms strategy is expected to enhance fiscal sustainability. The current account is expected to maintain a surplus, at 14.4 percent of GDP in 2024 and 12.4 percent in 2025-26, as IMF and World Bank funding to Ethiopia is likely to restore some degree of financial stability to the country, boosting Ethiopian imports through Djibouti.

Risks to the outlook are tilted to the downside and include potential escalations in Red Sea tensions, an influx of refugees, and delays in implementing macro-fiscal reforms. Additionally, shifts in regional trade—particularly if Ethiopia redirects imports through Somaliland's Berbera port—and the normalization of the Red Sea shipping corridor could divert traffic to alternative routes or competing ports.

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

	2021	2022	2023	2024e	2025f	2026f
Real GDP growth, at constant market prices	4.5	3.7	6.7	5.9	5.3	4.9
Private consumption	9.6	-0.6	4.4	4.4	5.0	5.5
Government consumption	-2.5	-14.3	8.1	3.3	1.7	4.4
Gross fixed capital investment	4.9	2.7	12.4	7.9	6.8	7.1
Exports, goods and services	29.5	-12.5	8.4	7.4	8.0	8.0
Imports, goods and services	18.2	-6.2	10.4	8.0	9.0	10.0
Real GDP growth, at constant factor prices	4.1	4.0	6.7	5.9	5.3	4.9
Agriculture	16.5	-0.5	5.9	5.9	5.9	5.9
Industry	11.4	7.2	10.0	9.7	9.2	8.7
Services	2.5	3.4	6.0	5.1	4.4	3.9
Inflation (consumer price index)	1.5	5.1	1.4	3.0	1.8	1.5
Current account balance (% of GDP)	31.2	17.9	15.6	14.4	13.5	11.2
Fiscal balance (% of GDP)	-2.4	0.2	0.2	-0.5	0.6	1.3
Revenues (% of GDP)	20.1	19.1	19.1	19.1	19.5	20.1
Debt (% of GDP)	71.3	66.5	69.4	63.8	59.9	58.4
Primary balance (% of GDP)	-2.2	1.0	1.0	0.2	0.9	1.0
International poverty rate ($2.15 in 2017 PPP)[a,b]	16.9	16.5	15.5	14.5	14.0	13.5
Lower middle-income poverty rate ($3.65 in 2017 PPP)[a,b]	39.9	39.1	36.9	35.5	34.1	32.8
Upper middle-income poverty rate ($6.85 in 2017 PPP)[a,b]	75.2	74.2	72.5	70.6	69.3	67.9
GHG emissions growth (mtCO2e)	4.5	0.2	0.3	0.2	0.3	0.4
Energy related GHG emissions (% of total)	21.5	20.8	20.5	19.6	18.7	17.9

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.