Djibouti and the International Monetary Fund

Statement on Art IV IMF consultation for Djibouti in 2009 fiscal year.
Released January 24th 2011

Bank of Djibouti, Avenue St Laurent du Var, Djibouti City

See IMF Article IV consultation document - http://www.imf.org/external/np/sec/pn/2011/pn1109.htm

Jan 25th 2011 I am grateful to the Executive Board of the International Monetary Fund for the formal completion of the Article IV consultation process for fiscal year 2009. Their highly focused work and solid, courteous advice is greatly appreciated, and I congratulate the team that conducted their visits to Djibouti.

In 2009, the period for this consultation, fiscal and economic governance in Djibouti started its rapid decline. A decline which has continued, sadly, in 2010 and 2011, to the detriment of the citizens of my country.

One has to look past the customary politeness and warm encouragement from the IMF, and consider the underlying messages and the history of advice unheeded, to get a real-world take on what is unfortunately going on in Djibouti.

Within the 2009 Article IV consultation, the start of the rapid economic decline comes through.

The slowdown in growth is not primarily the result of global economic conditions. The main reason is that foreign investors from Europe and the Gulf States have got the message that the President's intention is to acquire all key commercial assets and drive out investors. Direct confiscations of assets and a particular campaign against investors from UAE have frightened away new investors and caused existing investors to 'look to their lawyers'. This is the reason for the further decline in FDI during 2010.

This is reflected in the IMF Art IV comment; *'Achieving growth hinges on attracting foreign direct investment to finance infrastructure projects, and strengthening the competitiveness of the economy through structural reforms.'*

Secondly, the fiscal position started its downward slide in 2009. A budget deficit of 4.6 percent of GDP, compared with the program target of 1.8 percent of GDP shows that government spending and revenue and debt management are out of control. The 2010 target of 0.5% annual budget deficit was always a flight of fancy. We don''t have 2010 figures yet but my estimate is that it will exceed 4% again. Aggregate debt at the end of 2009 was a whopping 58% of GDP - very high for a small 'one-sector' nation. But it is worse than it looks. There are significant hidden debts, for example the state enterprises had been suffering from non-payment of bills by government in 2009, and these parastatals had been seeking non-concessional finance internationally, and spending money on the direction of the President and his wife, to keep some spending off the national budget..

That's why the IMF Art IV say *'Directors stressed the need to avoid extra-budgetary expenditures and the accumulation of domestic arrears. Djibouti remains at a high risk of debt distress. They encouraged the authorities to refrain from non-concessional borrowing, including by state-owned enterprises, and to undertake a comprehensive review of debt-financed projects.'*

The figure of 58% of GDP aggregate debt, is therefore an underestimate. The 2010 budget deficit target will be missed and I would be very surprised if the deficit does not reach 62% of GDP or more by the beginning of 2011.

The money laundering and banking scandals in Djibouti worsened in 2009, with still no banking supervision, and licenses being issued without proper provisions or enforcement capacity. This is behind the IMF's comment that *'Given the rapid expansion of the banking system and credit growth, Directors highlighted the urgency of strengthening supervision, updating the regulatory and legal framework'.* Below I list the history of Djibouti-IMF relations, and from this the resistance to reform and the determination to have a murky banking sector is clear.

The IMF's job of undertaking an Article IV consultation and analysis is made very difficult by the lack of data. Djibouti does not have proper national accounts and there are no proper audits of government departmental spending, nor of debt management, nor of state enterprises. It's a free-for-all in the Presidency. The management of debt is nothing other than reckless and neglectful. This lies behind the IMF's comments that *'Directors*

expressed concern about the continuing weaknesses in statistics, particularly on national accounts. Directors highlighted the urgency of improving liquidity management'

Being an admirer of the IMF's calm, even euphemistic, approach I make no criticism of their politeness and caution. I attach my analysis of the specific reforms being resisted, and the remedies I will pursue if I am elected to the Presidency in April this year.

Abdourahman Boreh