SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from Djibouti

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Key messages

- The Ministry of Health in Djibouti has reported a total of 90 cases and 9 recoveries.
- Djibouti is likely to be strongly affected by a global economic slowdown and international trade disruptions, owing to its openness to international trade and its reliance on Ethiopia's economy.
- The social impact is also likely to be tangible in a country in which a fifth of the population is extremely poor and informal employment is high.
- State revenues are likely to be negatively affected and Djibouti already has high levels of public debt.
- The World Bank has announced financial support of $5 million to assist the efforts of the Ministry of Health, and the government has announced a $5.5. million solidarity and emergency fund to respond to both the health and the economic crises.

Introduction

As of 6 April, the Ministry of Health in Djibouti has announced a total of 90 cases (higher than the figure of 59 reported by Johns Hopkins University). Nine of these have recovered.

All commercial flights were suspended from 18 March, and surveillance has been increased at all points of entry into the territory. The president announced a lockdown on 27 March. Schools are shut until at least 9 April. Non-essential businesses are expected to transition to remote working or to close, while non-essential public service workers were given a week of leave (resuming work on 5 April). Essential businesses (including the food industry, essential public services and the port) remain open. Trade has been maintained at this point but transportation of passengers by train has been disrupted. It is unclear how long the lockdown will last.

Djibouti's economy, with GDP of approximately $2 billion, is highly interconnected with Ethiopia's. An arid country with no natural resources, it is a net importer of energy, food and water. Most economic activity is dependent on the country's state-of-the art port and its main trade partner Ethiopia. The economy has been growing at a high rate – 8.4% in 2018 and an estimated 7.7% in 2019 according to public authorities (though the IMF reports growth rates of 5.5% and 6%, respectively) – driven by public investments in infrastructure and external trade. At around 70%, the debt to GDP ratio is high for a lower-middle-income country, with nearly 100% of this external. Half of the debt is owned by Exim Bank of China, which financed the Djibouti–Addis Ababa railway project. The IMF concluded last year that Djibouti was at a high risk of debt distress.

Despite Djibouti having one of the highest GDP rates per capita in Africa (approximately $2,000), an estimated 40% of its population is still considered poor, and around 20% extremely poor (national data). Unemployment sits at 47% according to most recent data. In 2016, government health spending was $55.8 purchasing power parity (PPP) per capita while external health spending was $34 PPP per capita.

Economic and social impacts

Trade and production impacts to far

GDP forecasts: The national government's growth forecast for 2020 was 8.3% (the IMF's was 6%), driven mainly by strong growth forecasts in the trade and transportation sectors, based on Ethiopia's external trade forecasts. No revision has yet been announced and no impact assessment has been made available on the impact of COVID-19 on the economy. The government is currently updating its models.

Socioeconomic impact: The authorities reported inflation of 3.3% last year. No data are available for inflation for early 2020.

Employment: In a country with around a million inhabitants and only 70,000 declared jobs, informal employment is high. Impacts are at this point unclear but the temporary shutdown of many SMEs and local businesses is putting a large share of the workforce at risk. The World Bank reported that 47% of employment was vulnerable in 2019.

Fiscal impacts

Government revenues are likely to be badly affected by the current crisis. The tax-to-GDP ratio has fallen over the past five years (from 14.1% in 2015 to an estimated 12.9% in 2019), owing to a large tax exemption scheme. However, revenues are relatively stable in Djibouti (and not dependent on natural resources prices), given the relatively high contribution made by military bases, which account for 20% of total revenues.

Djibouti's debt levels have recently risen as a result of (i) public investments to reinforce its trade and transportation infrastructure (notably a railway) and (ii) pressure on revenues as a consequence of tax exemptions. The debt-to-GDP ratio was 71% in 2019. This will likely rise further with the expected decline in government revenues and the additional spending associated with COVID-19. A revised budget is yet to be announced.

Monetary and financial policy

The Djibouti franc has a fixed exchange rate with the US dollar and has seen a stable monetary situation over recent years. The Central Bank has not yet announced any measures.

Fiscal policy

On 1 April, an emergency and solidarity fund was established by presidential decree to finance the purchase of medicines and medical equipment and to assist those companies and workers most affected by the crisis. The state added DJF 1 billion (around $5.5 million). The president himself added DJF 10 million to the fund and the minister for the economy DJF 5 million. Parliamentarians added a further DJF 8 million. A supervisory board has been created to manage the fund.

The Ministry of Budget has announced that it is extending the deadline to submit tax reports by at least 15 days.

Other policy

A health action plan has been prepared to respond to the COVID-19 crisis but has not yet been publicised, while the Ministry of Social Affairs has announced the distribution of food supplies to 4,500 households. On 25 March, the Chamber of Commerce gathered the most important importers and sellers of food products to discuss increasing strategic supplies. In a country that imports almost all its food supply, concerns over shortages may emerge. Nevertheless, the Ministry of Trade has issued a communiqué to reassure the population that provisions have been made, and has also warned that it will fine businesses that increase the prices of basic products.

Donor support

On 2 April, the World Bank announced that it was supporting Djibouti to 'prevent, detect, and respond to the rapid spread of COVID-19'. The credit will be used in the Djibouti COVID-19 Response Project, to be implemented by the Ministry of Health. Key deliverables include reinforcing quarantine sites, increasing testing capacities, training of health personnel and communication targeting behavioural change.

The United Nations Economic Commission for Africa) has announced that it is collaborating with Djibouti.

The Jack Ma Foundation has given medical supplies (masks, test kits and PPE) to East African countries, including Djibouti.

The director of CAC Bank International has given DJF 20 million to the minister of health.

Information in this note is correct as of 6 April 2020.
The author is an ODI Fellow with the Ministry for the Economy in Djibouti. This note is written in a personal capacity. Comments welcome to w.ramnauth.fs@odi.org.uk