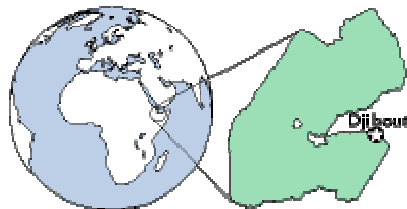


COUNTRY REVIEW

Djibouti



1 March 2010

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EULER HERMES COUNTRY RISK GRADE: D

**Country Risk Grades are on a scale of AA, A, BB, B, C, D
where AA is the lowest and D the highest risk.**

COUNTRY PROFILE

Capital city:	Djibouti
GDP:	USD960mn (2008e)
Population:	0.8mn (2008e)
GDP per capita:	USD1,200 (2008e)
Currency:	Djibouti franc (DJF)
Form of state:	Republic
Head of government:	President Ismail Omar Guelleh
Next elections:	Presidential by April 2011, legislative by February 2013

The Rassemblement populaire pour le progrès (RPP, People's Rally for Progress) party has ruled since independence in 1977 and currently leads a coalition government, Union pour la majorité présidentielle (UMP). The RPP won all seats in local and regional elections in March 2006 and dominated legislative polls in February 2008. President Guelleh was elected to office in 1999 and again in April 2005 (as sole candidate he won 100% of the votes cast). **The electoral process and mechanisms for the transfer of power are considered to be ineffective and the government style is perceived as veering towards autocracy and nepotism.** The minority ethnic group—the Afars—remains all-but excluded from power by the dominant Issa community, and dissent in general is repressed. Associated resentment of the Afars periodically turns violent and a civil war ended as recently as 2001. Moreover, in the wider region, **the Horn of Africa (Djibouti has land borders with Somalia, Eritrea and Ethiopia) is prone to violence, lawlessness and heightened insecurity.**

International relations are affected by perceptions of corruption, the degree of domestic suppression and allegations of torture. Nevertheless, **France and the United States maintain military bases** in Djibouti as part of a regional defence force, although France has downsized its presence in the country and it is uncertain that it will offer financial assistance in the event of a crisis. Although the IFIs have been hesitant in offering support because of Djibouti's poor track record with keeping to conditionality clauses of loan agreements, the **IMF is currently offering assistance through a Poverty Reduction and Growth Facility (PRGF)**, which subjects Djibouti to commitments to improve fiscal management.

The World Bank classifies Djibouti as a lower-middle income country—per capita incomes are around USD1,200. In the **absence of commercially-exploitable natural resources**, the economy is reliant on services, with **foreign exchange receipts deriving from port revenues from trans-shipment trade**—since Eritrean independence most of Ethiopia's trade is shipped through Djibouti's port—and inflows deriving from the international military bases within its territory. The port, customs and free trade zone are now managed by DP World, which is based in the UAE. Annual average real **GDP growth was around 6% in 2008-09, largely reflecting port investments and, notwithstanding a weak global economic recovery, we forecast this rate to continue in 2010-11.** Monetary policy centres on use of a currency board arrangement (CBA)—established in 1949—that helps to subdue annual inflation, despite high prices for imported energy. Under the CBA, the exchange rate will remain fixed at DJF177.72:USD1, mitigating transfer risk. Strong import flows associated with work at the ports has widened trade deficits and, although there will be corresponding increases in inflows on the services account, the **current account will continue to register deficits equivalent to 15-20% of GDP**, thereby indicating financing problems, largely covered by inward FDI. Nevertheless, FX reserves have accumulated to around USD220mn at end-October 2009 and provide **over three months of import cover.** Debt/GDP is relatively high for such a small economy, at over 50%—and an estimated 120% of export revenues—and the debt service ratio is relatively uncomfortable at 6%. Moreover, both principal and interest arrears remain outstanding on foreign debt.

The structural business environment is weak and there are serious impediments (including limited banking provision, poor protection of property rights and onerous regulations) to private sector activity.

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