
Country Report

Djibouti

November 2006

The Economist Intelligence Unit
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United Kingdom

The Economist Intelligence Unit

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ISSN

Symbols for tables

"n/a" means not available; "-" means not applicable

Printed and distributed by Patersons Dartford, Questor Trade Park, 151 Avery Way, Dartford, Kent DA1 1JS, UK.

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Djibouti

November 2006

Summary

- Outlook for 2007-08** The president, Ismaël Omar Guelleh, and the government of his coalition, Union pour la majorité présidentielle (UMP), will remain firmly in power over the forecast period. However, the UMP's unity could be threatened by ethnic tensions between its members. The Economist Intelligence Unit expects that the IMF is likely to await the outcome of the 2007 budget-planning process before reaching a decision on a new poverty reduction and growth facility for Djibouti. Real GDP growth is forecast at 4.7% in 2007 and 5% in 2008, reflecting the military presence of the US and France, and construction work on the new port at Doraleh. The Djibouti franc will remain pegged to the US dollar at the current rate of Dfr177.72:US\$1, but—in line with the US dollar—it is expected to depreciate against the euro in 2007-08.
- The political scene** Opposition parties have announced plans for a series of demonstrations during the summit of the Common Market for Eastern and Southern Africa (Comesa) in Djibouti in November, but these are likely to be suppressed by the government. Djibouti has been trying to mediate in the conflict in Somalia by seeking to persuade both sides, and neighbouring countries, to engage in dialogue without the involvement of foreign forces. A court in France has issued international arrest warrants against two senior Djibouti officials as part of its enquiry into the death of a French judge, Bernard Borrel, in 1995. Djibouti has condemned the move and the case continues to cloud relations with France.
- Economic policy** International bodies have warned that the level of rainfall over the summer months was insufficient to restore food security in the Horn of Africa, including Djibouti. The continued rise in prices of essential food and non-food items, along with the resumption of education-related expenses, has hit Djibouti's poor especially hard. The government has started the 2007 budget process against a background of a growing fiscal deficit and borrowing requirement. The IMF has called for action to curb the fiscal deficit.
- The domestic economy** Real GDP growth has been estimated at 4.2% in 2006 as the effects of port investment make themselves felt. Engineers have been appointed to start the construction of an interconnection cable to make cheap Ethiopian hydro-electric power available in Djibouti. The government has given an exclusive concession to a local company, Société d'exploitation du Lac Assal (Selac), for the large-scale exploitation of the vast salt flats around Lake Assal.
- Foreign trade and payments** Djibouti has been preparing for the arrival of the Comesa heads of state for their annual summit on November 6th-16th. Customs revenue grew by 31% in September 2005-September 2006 as a result of privatisation and new investment.
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Next report: Full schedule on www.eiu.com/schedule

Political structure

Official name	République de Djibouti	
Form of state	Unitary republic	
Legal system	Based on the Napoleonic Code; a referendum in September 1992 endorsed a new constitution, which allowed for a maximum of four political parties; this limit was removed by a constitutional amendment in September 2002	
National legislature	National Assembly; 65 deputies, elected by universal suffrage, serve a five-year term; the UMP coalition holds all of the seats	
National elections	January 2003 (legislative) and April 2005 (presidential); next elections due in January 2008 (legislative) and April 2011 (presidential)	
Head of state	President, elected by universal suffrage; serves a term of six years	
National government	The president and his appointed Council of Ministers	
Main political parties	The 2003 legislative election was contested by two coalitions, which between them comprised all of the legal political parties; all of the seats were won by Union pour la majorité présidentielle (UMP), which is dominated by Rassemblement populaire pour le progrès (RPP), the former sole legal party, and also contains Parti nationale démocratique (PND), Front pour la restauration de l'unité et de la démocratie (FRUD) and Parti populaire social démocrate (PPSD); the losing coalition, Union pour l'alternance démocratique (UAD), comprises Alliance républicaine pour la démocratie (ARD), Mouvement pour le renouveau démocratique et le développement (MRD), Union djiboutienne pour la démocratie et la justice (UDJ) and Parti djiboutien pour le développement (PDD; expelled from the UAD in December 2004); personality and clan are more significant than party labels	
	President	Ismaël Omar Guelleh
	Prime minister	Dileita Mohamed Dileita
Cabinet ministers	Agriculture, livestock & the sea	Abdoulkader Kamil Mohamed
	Communication & culture	Ali Abdi Farah
	Defence	Ougoureh Kifleh Ahmed
	Economy, finance, planning & privatisation	Ali Farah Assoweh
	Education	Abdi Ibrahim Absieh
	Employment	Mohamed Dini Farah
	Energy & natural resources	Mohamed Ali Mohamed
	Equipment & transport	Ismail Ibrahim Houmed
	Foreign affairs & international co-operation	Mahamoud Ali Youssouf
	Deputy (foreign affairs)	Hawa Ahmed Youssouf
	Health	Abdallah Abdillahi Miguil
	Housing	Elmi Obsieh Wäis
	Interior	Yacin Elmi Bouh
	Justice	Mohamed Barkat Abdillahi
	Deputy (justice)	Cheick Mogueh Dirir Samatar
	Presidential affairs & investment promotion	Osman Ahmed Moussa
	Trade & industry	Rifki Abdoulkader Bamakhrama
	Women, family & social affairs	Aïcha Mohamed Robleh
	Youth, sport, leisure & tourism	Hassan Farah Miguil
Central bank governor	Djama Mahamoud Haïd	

Economic structure

Annual indicators

	2002 ^a	2003 ^a	2004 ^b	2005 ^c	2006 ^c
GDP at market prices (Dfr bn)	105.2	110.1	118 ^d	126	135
GDP at market prices (US\$ m)	592	619.3	663.8 ^d	709	760
Real GDP growth (%)	2.6	3.5	3.0	3.2	4.2
Population (m)b	0.69	0.7	0.71	0.72	0.73
Consumer price inflation (%; av)	0.6	2.0	3.1 ^a	3.5	3.0
Exports fob (US\$ m)	83	89 ^b	90	94	100
Imports fob (US\$ m)	287	338 ^b	373	420	440
Current-account balance (US\$ m)	-40	-47 ^b	-53	-63	-70
Reserves excl gold (US\$ m; year-end)	73.7	100.1	93.9 ^a	89.2 ^a	115
Total external debt (US\$ m; year-end)	335	396	403	415	430
External debt-service ratio, paid (%)	7.4	7.9 ^b	7.5	7.2	7.0
Exchange rate Dfr:€ (av)	167.3	200.8	220.4 ^a	220.4 ^a	222.2
Exchange rate Dfr:US\$ (av)	177.7	177.7	177.7 ^a	177.7 ^a	177.7

^a Actual. ^b IMF estimates. ^c Economist Intelligence Unit estimates. ^d Banque centrale de Djibouti estimate.

Origins of gross domestic product 2004 ^a	% of total	Components of gross domestic product 2002	% of total
Primary sector	3.6	Private consumption	79.7
Secondary sector	17.0	Government consumption	25.1
Construction & public works	7.4	Gross domestic investment	10.2
Tertiary sector	79.4	Exports of goods & services	45.9
Transport & communications	28.6	Imports of goods & services	-60.8

Exports 2002	% of total	Principal imports fob 2002 ^b	% of total
Re-exports	81.5	Food & beverages	31.2
Locally produced goods	18.5	Petroleum products	14.5
		Khat	10.4
		Machinery & electrical equipment	8.7

Destination of exports 2005 ^c	% of total	Origin of imports 2005 ^c	% of total
Somalia	66.3	Saudi Arabia	21.9
Ethiopia	21.4	India	18.6
Yemen	3.4	China	10.1
India	1.0	Ethiopia	4.8
UK	0.7	France	4.5

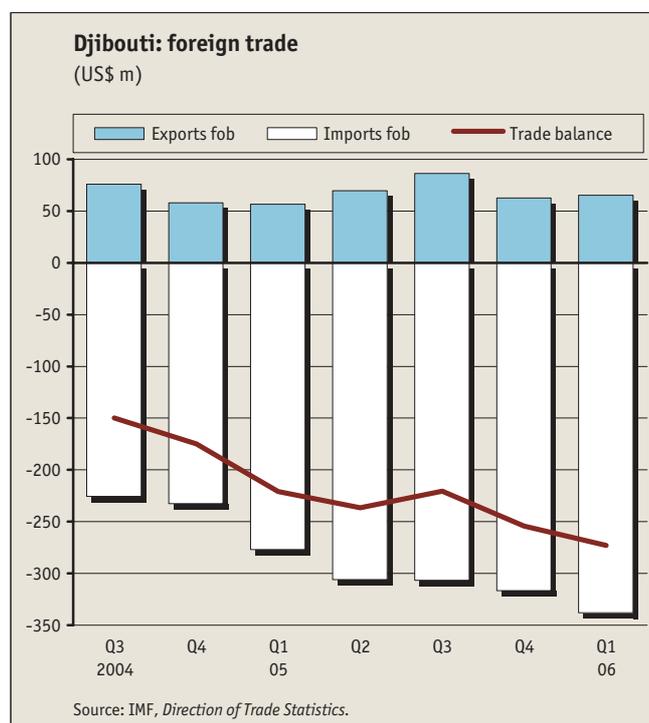
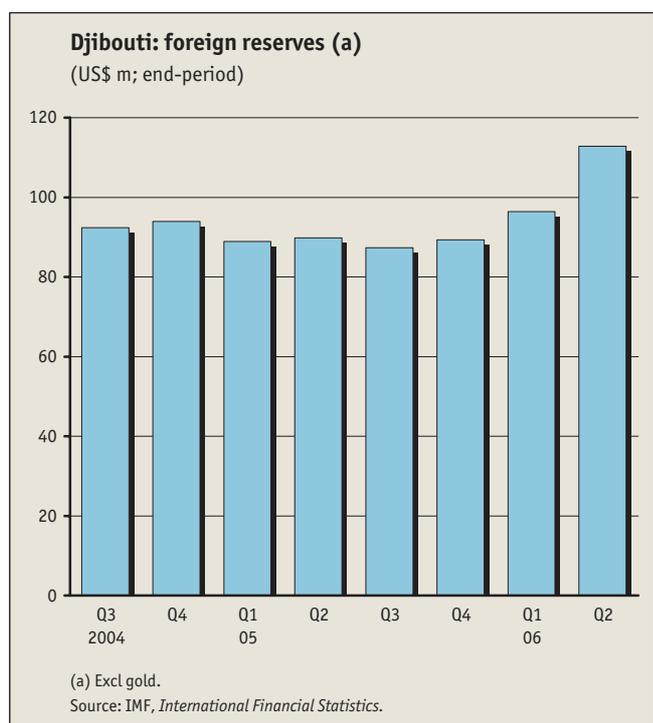
^a Official estimates. ^b Excluding goods for re-export. ^c Based on partners' trade returns; subject to a wide margin of error.

Quarterly indicators

	2004		2005				2006	
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Financial indicators								
Exchange rate Dfr:US\$ (av)	177.72	177.72	177.72	177.72	177.72	177.72	177.72	177.72
Exchange rate Dfr:US\$ (end-period)	177.72	177.72	177.72	177.72	177.72	177.72	177.72	177.72
Exchange rate Dfr:€ (av)	217.17	230.38	233.01	223.91	216.73	211.23	213.62	268.39
Deposit rate (av; %)	0.80	0.80	0.80	0.79	0.89	0.90	0.65	0.65
Lending rate (av; %)	11.23	11.15	11.15	11.15	11.15	11.15	11.39	11.64
M1 (end-period; Dfr m)	44,647	47,443	51,244	49,625	49,341	47,728	52,224	51,963
M1 (% change, year on year)	9.8	10.7	16.7	6.5	10.5	0.6	1.9	4.7
M2 (end-period; Dfr m)	85,018	87,754	90,817	95,370	96,523	97,709	101,814	102,681
M2 (% change, year on year)	17.0	13.9	14.6	16.8	13.5	11.3	12.1	7.7
Foreign trade^a (US\$ m)								
Exports fob	75.89	58.02	56.51	69.68	86.34	62.63	65.36	n/a
Imports fob	-225.89	-233.04	-277.43	-306.35	-306.97	-316.90	-338.46	n/a
Trade balance	-150.00	-175.02	-220.92	-236.67	-220.63	-254.27	-273.10	n/a
Foreign reserves (US\$ m)								
Reserves excl gold (end-period)	92.4	93.9	88.9	89.8	87.3	89.3	96.4	112.8

^a DOTS estimates.

Sources: IMF, *International Financial Statistics*; *Direction of Trade Statistics*.



Outlook for 2007-08

Political outlook

Domestic politics Following his re-election in April 2005, the president, Ismaël Omar Guelleh, and the government of his coalition movement, Union pour la majorité présidentielle (UMP), will remain firmly in power over the forecast period. Rassemblement populaire pour le progrès (RPP)—the dominant partner in the ruling UMP coalition—won a landslide victory in local and regional elections in March 2006 and will have sole control of all local and regional assemblies for the next five years. Mr Guelleh now has virtually total power in Djibouti from the national to the local level. However, the RPP's main government partner, Front pour la restauration de l'unité et de la démocratie (FRUD), performed badly in the elections and immediately joined the opposition in claiming electoral irregularities. The president was accused of going back on commitments to introduce electoral reform made in the 2001 peace plan that ended the civil war between Afar rebels, represented by the FRUD, and Issa government forces, represented by the RPP. FRUD disaffection will lead to divisions in the government, and, although this will not weaken the dominant position of Mr Guelleh and the RPP, it could make the ethnic equilibrium in Djibouti between the Afars and Issas increasingly fragile.

In addition, there have been reports of renewed armed conflicts between government forces and Afar rebel groups in the mountains north of Djibouti city. The government launched a military offensive against these rebels in May 2006 and made widespread arrests. These developments could also undermine stability over the forecast period. Nonetheless, the regime's tight control of public order will continue to keep protest off the streets, and a pliant judiciary will reject any attempt by the opposition to challenge the electoral process through the courts. The opposition will remain weak and without influence, and suppression of Islamist opposition to the presence of US troops in Djibouti will continue. If the FRUD were to leave the UMP formally and join the opposition, this would give a major boost to the opposition's position in the country, but the chances of this happening will remain very slim.

International relations US forces serving in the joint task force for counter-terrorist operations in the Horn of Africa and the Red Sea region will remain stationed in Djibouti throughout the forecast period. In the interests of preserving Djibouti's political stability, the US administration will continue to turn a blind eye to civil and human rights abuses by the regime, but will apply some behind-the-scenes pressure on the government to improve its record. In an effort to maintain good diplomatic relations with the host of its only permanent military base in Sub-Saharan Africa, the US will support Djibouti's negotiations with international financial institutions.

Djibouti also hosts France's largest military base in Africa and is therefore important to France's political and strategic interests on the continent. France is Djibouti's main donor, and its military presence in Djibouti is estimated by the French military authorities to bring at least US\$150m into the country each year.

However, an allegation that Mr Guelleh was involved in the murder of a French judge in 1995, which has gained momentum in the past year, is placing an increasing strain on the relationship between the two countries. The suspension by the Djibouti government of formal judicial co-operation with France and its request to the International Court of Justice in The Hague to assume responsibility for the case makes a long-drawn-out battle likely. Attempts by the government to develop Djibouti's economic ties with Middle Eastern countries may weaken France's influence, but the value of its support will continue to reinforce its strategic alliance with Djibouti.

Djibouti port is the mainstay of the country's economy, and Ethiopia is its most important customer. It is in the interests of both countries to maintain good commercial and diplomatic relations, and throughout 2007-08 Ethiopia will continue to rely on Djibouti for the shipment of a substantial proportion of its foreign trade. However, in the long term Ethiopia will seek to develop other trading routes to the outside world, through Sudan, Somaliland and Kenya.

In the interests of Djibouti's long-term development, the government will continue to foster good relations with the Gulf states. A Kuwaiti company, Independent Petroleum Group, is currently planning to build an oil pipeline from Djibouti to Addis Ababa. In addition, the United Arab Emirates, particularly Dubai, will remain an important ally. Dubai Ports International has a 20-year contract to manage Djibouti's port and its international airport, and is developing and financing a new deepwater port complex at Doraleh, 10 km from the old port. Other Dubai-based investors are planning to make major investments, including the new five-star Djibouti Palace Kempinski hotel, to develop Djibouti as a luxury tourist destination. The government has signed trade agreements with Iran and Qatar in recent years, as well as co-operation agreements with China.

Economic policy outlook

Policy trends The IMF has called for major changes to Djibouti's economic policy over the next two years as a precondition for a new poverty reduction and growth facility (PRGF). The IMF's frustration with the lack of progress made by the government under its 12-month staff-monitored programme (SMP) in 2004 was illustrated by the Fund's demand for an additional six-month SMP (for the period June-December 2005). Since its expiration in December 2005 there has been no formal announcement regarding performance under the second SMP. The IMF will remain reluctant to agree a new PRGF. However, the situation could be changed by the severe drought and famine that hit Djibouti in the first half of 2006, as the IMF has indicated that it would be prepared to consider additional long-term assistance for countries that experience drought-related balance-of-payments problems.

Nevertheless, the IMF is likely to insist that the 2007 budget, currently being prepared, shows a clear commitment to tackling the fiscal deficit before it agrees a new PRGF. If the government could also give some assurance that it was willing to address structural objectives, it is possible that, under these new circumstances, the IMF, possibly at the urging of the US (because of its strategic

interests in Djibouti) would award a new PRGF by mid-2007. A new PRGF would probably have the same objectives as recent SMPs, targeting improvements in fiscal management and the overall economic environment. However, the government's success in meeting its performance targets and carrying out reforms is likely to be patchy at best, and this will probably influence both the timing and the content of any IMF decision.

Economic forecast

Economic growth

Real GDP growth in 2006 is estimated to have risen to around 4.2%, partly as a result of the activities of foreign troops stationed in Djibouti, but largely owing to the strong growth of public and private investment, particularly in port infrastructure. Over the forecast period investment in new port equipment and systems will help to overcome handling problems at the existing port, and public and private investment in developing the new port complex at Doraleh will continue. The project, estimated to cost around US\$400m over five to seven years, comprises three main elements: a commercial and industrial free zone, a container terminal, and an oil terminal. The oil terminal was inaugurated in February 2006, and work on the container terminal is due to be completed by 2008. The Economist Intelligence Unit therefore forecasts that real GDP growth will accelerate over the forecast period, to 4.7% in 2007 and 5% in 2008. Although drought ravaged the country in early 2006, agriculture's share of GDP—at just under 4%—means that real GDP growth rates are not heavily affected by weather patterns

Inflation and exchange rates

High international oil prices, combined with higher economic growth and continued high public spending, will cause continued inflationary pressure over the forecast period, although monetary policy may help to contain much of this. In addition, although we expect that oil prices will start to ease in 2007, prices are likely to fall only gradually. As a result, we expect inflation to remain relatively high by recent standards, averaging 3% in 2007-08. The Djibouti franc is expected to remain pegged to the US dollar, at Dfr177.72:US\$1, and as a result it will mirror US dollar movements against the euro in 2007-08.

External sector

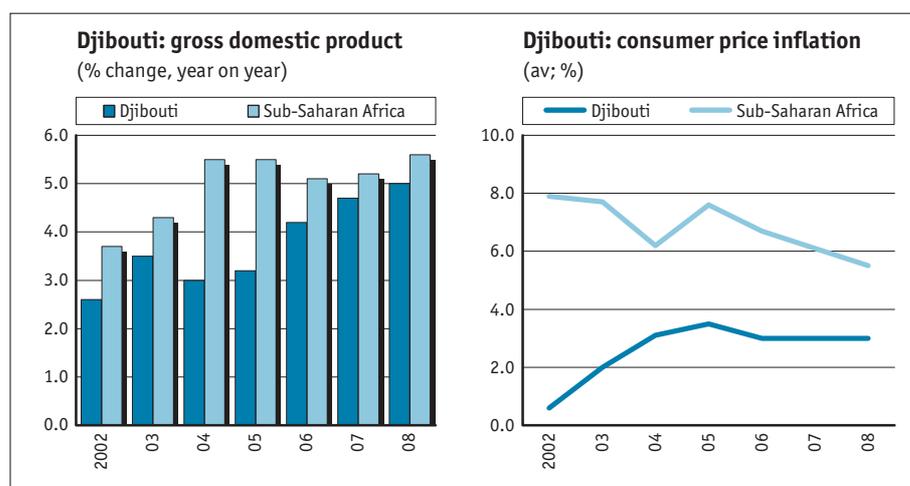
Exports are forecast to rise steadily in 2007-08, but rising investment and public spending will result in a sharper increase in imports and a consequent widening of the trade deficit. However, rising inflows on the services account as activity in the free zone and oil terminal takes off will keep the services account firmly in surplus. This, together with small surpluses on the income and current transfers accounts, will help to keep the current-account deficit broadly stable at an estimated 9.2% of GDP in 2006 and around 9% in 2007-08.

Djibouti: forecast summary

(% unless otherwise indicated)

	2005 ^a	2006 ^b	2007 ^c	2008 ^c
Real GDP growth	3.2	4.2	4.7	5.0
Consumer price inflation (av)	3.5	3.0	3.0	3.0
Exports of goods fob (US\$m)	94	100	110	120
Imports of goods fob (US\$m)	420	440	460	470
Trade balance (US\$m)	-326	-340	-350	-350
Current-account balance (US\$m)	-63	-70	-75	-80
Current-account balance (% of GDP)	-8.9	-9.2	-9.1	-9.0
Exchange rate Dfr:US\$ (av)	177.72 ^d	177.72	177.72	177.72
Exchange rate Dfr:€ (av)	220.4 ^d	222.2	241.7	238.1

^a IMF estimates. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d Actual.



The political scene

Opposition parties plan protests at Comesa summit

Opposition parties in Djibouti are planning a series of demonstrations during the Common Market for Eastern and Southern Africa (Comesa) heads of state summit on November 6th-16th. The president, Ismaël Omar Guelleh, is known to be keen to use this high-profile international gathering to showcase the country and its potential. It will take place in Djibouti's only five-star hotel, the newly built Djibouti Palace Kempinski, which is opening with the summit on November 6th (see Foreign trade and payments).

The demonstrations are expected to be organised by Alliance républicain pour la démocratie (ARD), which is the strongest party in the opposition coalition, Union pour l'alternance démocratique (UAD). A UAD spokesman, Maki Houmedgaba, said that the opposition wanted to take advantage of this occasion to bring the suppression of democratic politics and human rights in Djibouti to the attention of international heads of state. In recent months the government of Djibouti has arrested trade union and opposition leaders, and in recent years it has been accused of manipulating the electoral system and suppressing the opposition in order to secure power for Mr Guelleh and the ruling Union pour la majorité présidentielle (UMP), which won all of the seats

in the 2003 national elections. Opposition parties plan to present documentary evidence of alleged widespread abuses to the Comesa heads of state. It is likely, however, that any demonstrations will be completely suppressed by the government.

Djibouti seeks to mediate in Somalia conflict

Djibouti has criticised calls for international peacekeepers to be sent into Somalia and has offered to mediate in the conflict between the beleaguered Transitional Federal Government (TFG) and the fundamentalist Union of Islamic Courts (UIC). Government ministers have been in negotiations with the two parties and with neighbouring countries, especially Eritrea and Ethiopia, who each back different sides and who themselves fought a bitter border war in 1998-2000, which has still not been resolved. Djibouti argues that moves by the Intergovernmental Authority on Development (IGAD) and the African Union (AU) to send in peacekeepers will exacerbate the conflict. The TFG, which is recognised by IGAD, the AU and the UN, but which controls only a relatively small part of the country around the town of Baidoa, has little grass-roots support, whereas the UIC controls the capital, Mogadishu, and much of the southern part of the country.

Mr Guelleh considers himself widely respected in Somalia because of his role in establishing the former transitional national government, led by Abdikassim Salat Hassan, in 2000. Djibouti has also been strengthening its relations with Eritrea (August 2006, The political scene), which the UN accuses of supplying the UIC with troops and arms. Djibouti's minister of defence, Ougoureh Kifleh Ahmed, met Eritrea's president, Isaias Afewerki, on September 2nd and urged Eritrea to accept the need for a military truce. On September 15th Mr Guelleh met a delegation from the UIC in Djibouti and urged it to strengthen the troubled Khartoum peace talks between the two sides. He also used his visit to Iran in September to try to persuade the Iranian government to support this position. On October 9th Djibouti's minister of foreign affairs, Mahamoud Ali Youssouf, met Ethiopia's prime minister, Meles Zenawi, and conveyed Mr Guelleh's offer to invite the key parties to Djibouti to seek an agreed solution. Mr Meles has been a staunch supporter of the TFG and has repeatedly urged the international community to reinforce it against the UIC to prevent the spread of fundamentalism and long-term political instability into the region as a whole. Mr Guelleh also won the support of the German minister of defence, Franz Josef Jung, who joined him in calling for dialogue between the UIC and the TFG during his visit to Djibouti on September 25th.

Mr Guelleh seeks rapprochement with Iran

Mr Guelleh made a four-day official visit to Iran on September 2nd and had discussions with the Iranian president, Mahmoud Ahmadinejad, and senior Iranian ministers, including the foreign and defence ministers. Djibouti has not previously had particularly close links with Iran, and Mr Guelleh used the visit both to develop friendly relations, despite his closeness with the US, and to seek Iranian support for his policy towards the conflict in Somalia. He urged Mr Ahmadinejad to give his support to the TFG and to persuade the UIC to play a constructive part in peace talks. Both leaders called on foreign powers not to interfere in the conflict. Mr Guelleh also discussed co-operation in military affairs and increased co-operation with Iran through the Organisation

of the Islamic Conference (OIC). As part of a joint statement after the visit, he gave his support to Iran's right to develop peaceful nuclear technology and joined the Iranian government in condemning recent Israeli action in Lebanon.

France issues arrest warrants against senior Djibouti officials

On October 2nd a French court in Versailles issued international arrest warrants against two senior Djibouti officials who are alleged to have been involved in covering up the murder of a French judge, Bernard Borrel, in 1995 (May and August 2005, Outlook for 2006-07: Political outlook). Djibouti's chief prosecutor, Djama Souleiman, and the government's security chief, Hassan Said, had previously refused to appear before the court voluntarily for questioning, claiming diplomatic immunity. They are accused of putting pressure on a key witness to withdraw his testimony and also of seeking to discredit the witness. The issuing of arrest warrants is a significant escalation in the long-running scandal that has clouded relations between France and its former colony for many years.

The French court carried out a lengthy investigation into the mysterious death of Mr Borrel in Djibouti in 1995, which was inconclusive. However, the Djibouti government declared that his death was suicide. There is speculation that Mr Borrel may have uncovered evidence of Mr Guelleh's personal involvement in arms smuggling and terrorism, and the investigation has increasingly implicated Mr Guelleh himself in the alleged murder. Last October Djibouti suspended its treaty of judicial co-operation with France as a precaution against the risk of international arrest warrants. In January Djibouti referred the case to the International Court of Justice (ICJ) in The Hague, accusing France of violating its international obligations by refusing to provide Djibouti with the case files on the public inquiry held in France. The French court is reluctant to do this because of Mr Guelleh's tight control over Djibouti's courts and his alleged involvement in the case. France has accepted the ICJ's competence to examine only the procedural issue of its refusal to hand over key evidence.

Djibouti government is angered by arrest warrants

The Djibouti government reacted angrily to the arrest warrants and accused France of intimidation. It claimed that the warrants were intended solely to prevent Mr Souleiman from going to The Hague to represent Djibouti at the ICJ. It accused the French government of a miscarriage of justice and claimed that this move was further evidence of the bias of the judges investigating the affair. This case continues to damage relations between the two formerly close allies, with vitriolic attacks on France appearing regularly in the Djibouti media. Djibouti is France's largest overseas military base and is an important staging post between France and its outposts in the Indian Ocean. It pays Djibouti US\$34m per year for this right. Both governments stand to lose out if this case continues to damage relations between them.

Economic policy

Food insecurity remains a problem despite rainfall

International bodies have warned that the level of rainfall over the summer months was insufficient to restore food security in the Horn of Africa and that emergency humanitarian support will continue to be necessary in some regions until the end of the year. Djibouti has been badly hit by the drought in

the region, which has been disastrous for nomadic pastoralists and has also affected the urban poor (May and August 2006, Economic policy). Up to 150,000 people have also been affected by food shortages and rising food prices in rural and coastal areas. The UN Office for the Co-ordination of Humanitarian Affairs (OCHA) has confirmed that the June-September rains were normal or above normal and that humanitarian assistance has improved the food security situation, but it warned that many households will continue to face problems.

High food prices and education costs hurt the poor

In its most recent report, on October 20th, the Famine Early Warning Systems Network (FEWS Net), funded by the US Agency for International Development (USAID), highlighted that the main problem for the urban poor was the continued rise in prices of essential food and non-food items, compounded by the resumption of education-related expenses following the reopening of schools. It said that the situation was most acute in the poor quarters of Djibouti city, such as Balbala and PK 12. The food security situation is improving in most pastoral areas, but FEWS Net reported that there are still problems in the north-west, because pastoralists there were forced to sell their livestock during the drought. Their situation is expected to remain precarious for at least six months.

The government starts the 2007 budget process

In early October the minister of the economy, Ali Farah Assoweh, presented the first outline of the 2007 budget to the Council of Ministers. No details of proposed budgetary measures have yet been published, but Mr Assoweh said that the government's priority areas would continue to be education and health, which he expected to account for 44% of government spending. The IMF has been concerned for some time that the government is not taking action to control the budget deficit and to tackle structural reforms, and has twice postponed a decision on Djibouti's application for a new poverty reduction and growth facility (PRGF), which was originally due to be settled in 2005 (February 2006, Economic policy).

Budget data show growing deficits

Recently released revised data for Djibouti's 2005 and 2006 budgets show that the basic budget deficit grew from Dfr6.3bn (US\$35m) in 2004 to Dfr7.3bn in 2005, but is expected to increase to Dfr9.3bn in 2006. Given the relatively constant level of grant aid available to Djibouti to finance this fiscal gap, the level of new borrowing is expected to increase by almost half, to Dfr5.5bn. Debt-servicing interest payments are expected to grow by 21.3% in 2006, and to account for 6.9% of government expenditure, compared with 6% in 2005. Although the IMF hinted earlier in the year that it might be prepared to take a less demanding approach to Djibouti's government finances in the light of the effects of the regional famine, it has so far given no indications that it is prepared to change its position on the PRGF. Details of the proposed 2007 budget are expected to emerge over the next few months, and the government will need to show that it is taking action on the deficit and on structural reforms if it is to win the support of the IMF.

Djibouti: government budget

(Dfr m unless otherwise indicated)

	2004	2005 ^a	2006 ^b	% change ^c
Receipts	37,032	39,048	39,220	0.4
Fiscal receipts	28,931	31,091	31,868	2.5
Non-fiscal receipts	4,368	4,931	5,426	10.0
Grants	3,733	3,026	1,926	-36.4
Expenditure	43,462	46,348	48,541	4.7
Interest	2,782	2,770	3,359	21.3
Wages & salaries	15,938	16,870	16,892	0.1
Goods & services	10,825	12,060	11,236	-6.8
Transfers	5,611	5,899	6,246	5.9
Capital expenditure	8,306	8,749	10,808	23.5
Balance	-6,340	-7,300	-9,321	27.7
Financing	6,340 ^d	7,300 ^d	9,321 ^d	27.7
Loans	2,334	3,671	5,461	48.8
Grants	4,026	3,630	3,859	6.3

^a Revised budget. ^b Initial budget. ^c Year on year. ^d Figures do not sum in source.

Source: Ministère de l'économie, des finances et de la planification, chargé de la privatisation.

The domestic economy

Strong GDP growth is expected in 2006

Revised estimates from the IMF suggest that GDP growth in Djibouti will increase significantly in 2006 as the effects of new investments in port infrastructure start to be felt. Real GDP growth has been relatively stable, at around 3%, over the past three years, up from about 2% at the start of the decade. The latest estimates suggest that growth in 2006 will exceed 4%. Growth has been supported by the Doraleh oil and petroleum terminal, which was opened in February 2006, while work on the adjacent new US\$300m container terminal is also now under way and is expected to be completed by 2008 (May 2006, The domestic economy: Infrastructure). The economy is still facing moderate inflationary pressures. Although there have been no official data since September 2005, pressure has been growing since the low point of 2002 when the annual rate of inflation stood at 0.6%. Higher food prices, rising world oil prices and the effects of strong economic growth pushed the rate to an estimated 3.5% in 2005, and increasing food prices have continued to be a problem in 2006 owing to the effects of drought in the region. However, the easing of the food security situation is likely to have helped to moderate these pressures in the second half of 2006.

Djibouti: real GDP growth and consumer price inflation^a

(% change year on year unless otherwise indicated)

	2003	2004	2005	2006
Nominal GDP (Dfr m)	111,530	118,400	125,976	135,205
Real GDP	3.2	3.0	3.2	4.2
Consumer prices	2.0	3.1	3.5 ^b	3.0

^a IMF estimates. ^b Economist Intelligence Unit estimate.Sources: IMF, *World Economic Outlook*, September 2006; Ministère de l'économie, des finances et de la planification, chargé de la privatisation, *Bulletin d'information économique du troisième trimestre 2005*.

Infrastructure

Engineers are appointed for Ethiopia power connection

Firm progress is now being made on the long-planned project to connect Djibouti's electricity grid to Ethiopia's and to make hydroelectric power available in Djibouti. The project is expected to reduce the cost of Djibouti's electricity from the current average diesel generator cost of 22 US cents per kwh to 6 US cents per kwh under the terms of the contract with Ethiopia. Following the final signing of a formal agreement between the two countries in April (August 2006, *The domestic economy: Infrastructure*), two international engineering companies have now been appointed by the Ethiopian Electric Power Corporation (EEPCo) to take forward different aspects of the project. A British company, PB Power, will be responsible for constructing distribution substations, transmission line interconnections and distribution work for border towns in both countries. A Canadian company, RSW International Inc, will work closely with Electricité de Djibouti (EDD) on tariffs, and will also train engineers from both countries. Further engineers are expected to be appointed soon. The two companies are expected to finish the project, involving the construction of a 283-km transmission line, by 2009.

Djibouti may join new eastern Africa broadband network

Djibouti is one of 23 countries expected to join the information and communications technology (ICT) broadband infrastructure project that is being facilitated by the New Partnership for Africa's Development (Nepad). This would involve the sinking of a 9,900-km submarine cable, the Eastern Africa Submarine System (EASSy) cable, along the African coast from South Africa to Sudan. The EASSy network will connect the countries of eastern Africa to the rest of the world via a high-bandwidth fibre-optic cable system. The countries involved hope that it will reduce their dependence on expensive satellite systems to carry voice and data services. The project is funded by the World Bank and the Development Bank of South Africa. The process of organising the signing of the detailed protocol started in South Africa on October 17th and will continue until the end of November, after which it is hoped that a project steering group will be established to fast-track the implementation of the project.

Mining

Djibouti's salt resources are to be developed

On September 14th the president, Ismaël Omar Guelleh, approved the granting of an exclusive 50-year concession, free of charge, to the locally owned Société d'exploitation du Lac Assal (Selac) to develop 100 sq km of salt flats on the banks of Lake Assal. Lake Assal is 100 km west of Djibouti city and is the lowest point in Africa, at 155 metres below sea level. It is the most saline body of water in the world and is ten times saltier than the ocean. Extreme summer heat is accompanied by strong drying winds and, as a result, water evaporation along the banks of the lake has left vast expanses of salt flats. It is estimated that 6m tonnes of salt are added each year as a result of evaporation. The Afar tribes in the region have traditionally made their living by mining the salt by hand, and the area is an internationally renowned beauty spot with significant tourist development potential (August 2005, *The domestic economy: Infrastructure and communications*).

In addition to its 50-year concession to industrialise salt extraction, the Selac operation has been given a number of special tax exemptions and will have the status of a free-trade zone when it develops the salt flats. In exchange, the company has said that it will undertake substantial investment in infrastructure, equipment and training in order to extract the salt in partnership with foreign companies. A number of companies from France, Spain and the US are believed to be interested in forming an international consortium to work the concession, with Selac remaining as the nominee. One French company is reported to have said that it is already prepared to invest US\$20m in the salt-extraction operation.

Foreign trade and payments

Comesa summit takes place in Djibouti

The heads of state of the Common Market for Eastern and Southern Africa (Comesa) will hold their annual summit in Djibouti on November 6th-16th. Comesa was established in 1994 and grew out of the Preferential Trade Area for Eastern and Southern Africa, which was set up in 1981. It aims to promote regional integration through trade development, and the government of Djibouti has seen the event as an opportunity to sell its strategic position to member states and to project itself as a gateway to the Horn of Africa. In particular, it has highlighted the opportunities presented to member states by the completion of the expansions at Doraleh and the establishment of what Djibouti hopes will be Africa's biggest free-trade zone when it opens in 2008. Construction of the five-star Djibouti Palace Kempinski hotel and conference centre, whose opening is timed to coincide with the summit, represents a major investment in promoting Djibouti.

Customs revenue shows strong growth

Djibouti's customs revenue grew by 31% between September 2005 and September 2006 under new management arrangements with Dubai Customs World (DCW), a subsidiary of Dubai World. Under the agreement, DCW supervises and develops all customs operations and customs-checking procedures at Djibouti's main entry points. The Djibouti Customs Strategic Development Project aims to modernise and simplify customs procedures, applying international inspection standards and monitoring movement of goods in order to increase customs revenue. DCW is installing state-of-the-art IT systems and conducting training programmes for all categories of employees of Djibouti customs. Djibouti has been under pressure from both the World Trade Organisation and the IMF to improve its customs procedures to make trade fairer and to increase its low rate of government revenue generation in order to tackle its fiscal deficit (May 2006, Foreign trade and payments; November 2005, Economic policy). Privatisation has resulted in a major reorganisation of customs operations, and the large increase in revenue in the first full year of the new arrangements is encouraging.