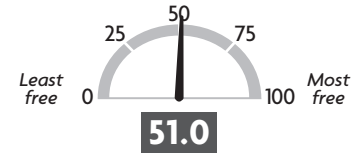


DJIBOUTI

Economic Freedom Score



World Rank: **139**

Regional Rank: **29**

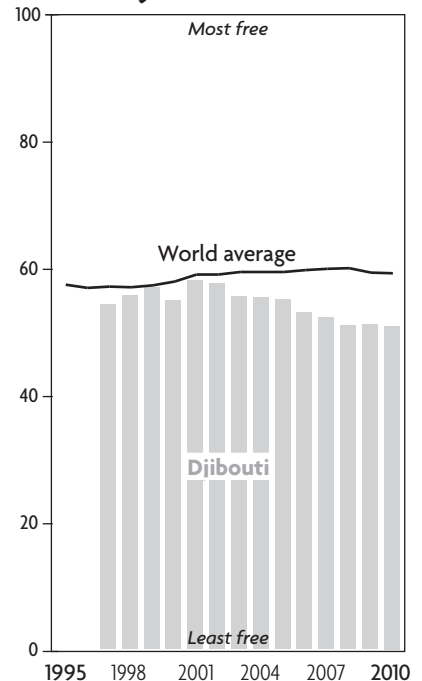
D jibouti's economic freedom score is 51.0, making its economy the 139th freest in the 2010 *Index*. Its overall score is almost the same as last year, with small declines in five economic freedoms offset by a gain in investment freedom. Djibouti is ranked 29th out of 46 countries in the Sub-Saharan Africa region, and its overall score is slightly lower than the regional average.

Djibouti's economy is driven mainly by services, with industry accounting for less than 20 percent of GDP. Increased investment, particularly in construction and port operations, has led to relatively high economic growth. The financial sector is growing and, with new banking laws, becoming more efficient. Capitalizing on its geographical advantage, Djibouti is trying to transform itself into a regional trade, finance, and telecommunications hub.

Overall economic development is undermined by very weak business freedom and trade freedom. Limited privatization and weak infrastructure result in persistently high unemployment. Tariff and non-tariff barriers are high, and bureaucratic inefficiency, burdensome regulations, widespread corruption, and weak rule of law hamper many areas of the economy.

BACKGROUND: Djibouti has struggled toward multi-party democracy since gaining its independence in 1977. President Ismael Omar Guelleh was elected in 1999 and re-elected in 2005, and his multi-party, multi-ethnic coalition controls all levels of government. Opposition groups boycotted the 2005 presidential election and the February 2008 legislative election. An effort is underway to amend the constitution to permit Guelleh to run for a third term in 2011. Djibouti is strategically located at the mouth of the Red Sea along the shipping route between the Mediterranean Sea and the Indian Ocean. Its economy is centered on port facilities, the railway, and foreign military bases, and services accounted for nearly 80 percent of GDP in 2007. The population is concentrated in the capital city, though a minority continues its nomadic desert existence.

Country's Score Over Time



Quick Facts

Population: 0.8 million

GDP (PPP): \$1.8 billion

3.9% growth in 2008

4.7% 5-year compound annual growth

\$2,140 per capita

Unemployment: estimated to be more than 30%

Inflation (CPI): 12.0%

FDI Inflow: \$234 million

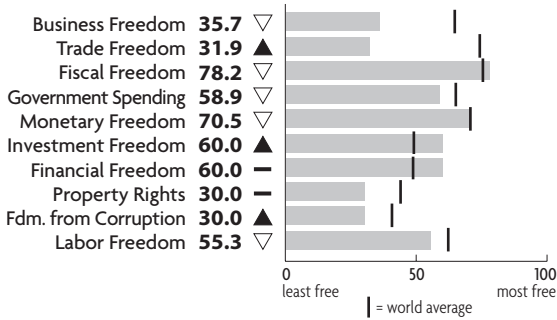
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

DJIBOUTI'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 35.7

Overall business freedom remains constrained by the burdensome regulatory environment. Obtaining a business license requires slightly less than the world average of 18 procedures and 218 days, but licensing costs and the entry cost of launching a business are high.

TRADE FREEDOM — 31.9

Djibouti's weighted average tariff rate was 29.1 percent in 2006. Despite some reforms, the prohibition of certain imports, variable and sometimes high import taxes and fees, import licensing requirements, market access restrictions in the services sector, weak enforcement of intellectual property rights, and insufficient capacity in older port facilities add to the cost of trade. Ten points were deducted from Djibouti's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 78.2

Djibouti has average tax rates. The top income tax rate is 32 percent, and the top corporate tax rate is 25 percent. Other taxes include a property tax, an excise tax, and a value-added tax (VAT). The sales tax and services tax are being replaced by the VAT and restructured tariffs. In the most recent year, overall tax revenue as a percentage of GDP was 23.1 percent.

GOVERNMENT SPENDING — 58.9

Total government expenditures, including consumption and transfer payments, are relatively high. In the most recent year, government spending equaled 37 percent of GDP. Privatization has been slow, and private enterprises are hampered by weak infrastructure and the high costs of labor, power, and telecommunications. Over the past year, authorities have exhibited spending restraint, resisting calls to expand the already large wage bill with salary increases.

MONETARY FREEDOM — 70.5

Inflation has been rising, averaging 9.5 percent between 2006 and 2008. Goods and services such as medicines, bread, water, electricity, telecommunications, postal services, and urban transport are subject to price controls. The government also influences prices through its regulation of state-owned enterprises. Ten points were deducted from Djibouti's monetary freedom score to account for measures that distort domestic prices.

INVESTMENT FREEDOM — 60

No major laws discriminate against foreign investment. Certain sectors, such as public utilities, are state-owned and not open. Privatization has progressed, but the private sector remains underdeveloped outside of Djibouti's free trade zone. Reforms are being introduced, but bureaucratic procedures are complicated, and the legal system, derived from French civil law, is complex, opaque, and slow. Corruption deters investment. Residents and non-residents may hold foreign exchange accounts, and there are no restrictions on payments or transfers.

FINANCIAL FREEDOM — 60

Djibouti's underdeveloped financial sector has been growing as more banks, particularly foreign banks, enter the market. One majority French-owned bank and one fully French-owned bank together still dominate banking. Since 2006, the central bank has permitted more foreign banks to operate. The government retains a minority stake in Banque pour le Commerce et l'Industrie-Mer Rouge, the largest commercial bank. The government has acted to promote the integrity and efficiency of the banking sector and has adopted new banking laws. Credit is allocated on market terms, but access to credit for entrepreneurial activity is still limited by high costs and the lack of other available financing instruments. Commercial banks generally provide only short-term financing and lending. The government imposes no limitations on international fund conversions or transfers, and there are no foreign exchange controls. Capital markets are undeveloped.

PROPERTY RIGHTS — 30

Protection of private property is weak. Courts are frequently overburdened, and enforcement of contracts can be time-consuming. Trials and judicial proceedings are subject to corruption. Political manipulation undermines the judicial system's credibility. Commercial and bankruptcy laws are not applied consistently. The government does not enforce laws protecting intellectual property rights. Pirated goods are sold openly in the informal markets.

FREEDOM FROM CORRUPTION — 30

Corruption is perceived as widespread. Djibouti ranks 102nd out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. It is estimated that more than 80 percent of enterprises are within the informal sector, including microenterprises that play a key role in the economy. Anti-corruption laws are rarely enforced. Administrative delays, demands for petty bribes, and a non-transparent judicial system are barriers to foreign direct investment.

LABOR FREEDOM — 55.3

Relatively inflexible labor regulations hinder employment and productivity growth. The non-salary cost of employing a worker is moderate, but dismissing an employee can be relatively difficult and costly. Work hours are not fully flexible.