



Djibouti

Djibouti: Current Path

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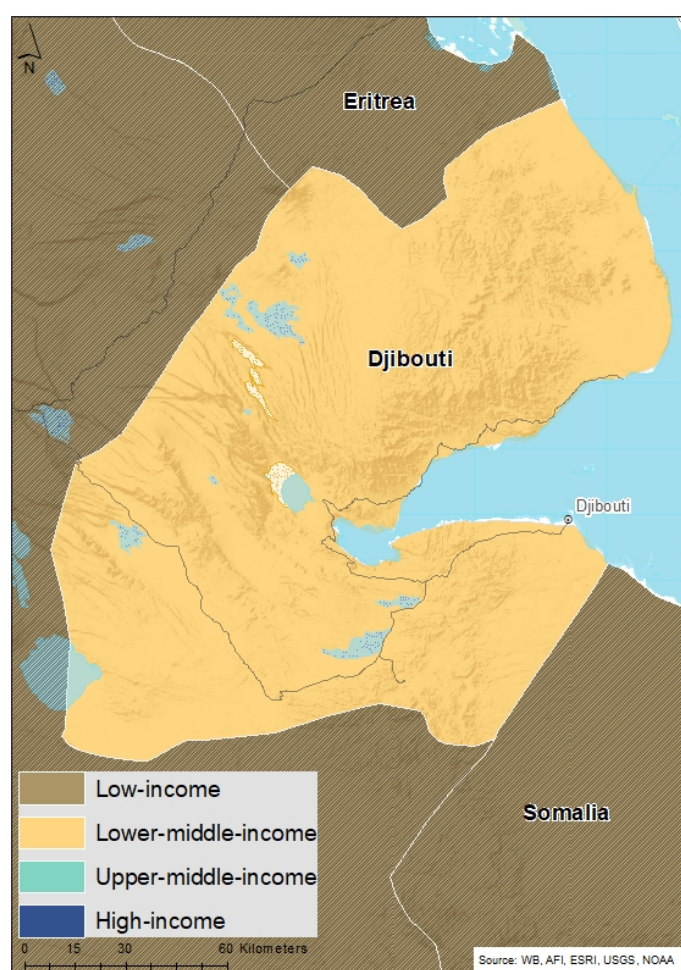
Djibouti: Current Path

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Djibouti: Current Path forecast

Chart 1: Political map of Djibouti



This page provides an overview of the key characteristics of Djibouti along its likely (or Current Path) development trajectory. The Current Path forecast from the International Futures forecasting (IFs) platform is a dynamic scenario that imitates the continuation of current policies and environmental conditions. The Current Path is therefore in congruence with historical patterns and produces a series of dynamic forecasts endogenised in relationships across crucial global systems. We use 2019 as a standard reference year. The forecasts generally extend to 2043 to coincide with the end of the third ten-year implementation plan of the African Union's Agenda 2063 long-term development vision.

Djibouti is a lower middle-income country located in the Horn of Africa and bounded by Eritrea to the north, Ethiopia to

the west and southwest, and Somalia to the south. Djibouti is one of the smallest countries in Africa, with an area of 23 200 km². It is also a member of the Intergovernmental Authority on Development (IGAD), an eight-country regional bloc in Africa with ambitions to embark on regional integration. Compared to its peers in the Horn of Africa, Djibouti enjoys relative peace and stability and regularly goes through the motions of elections.

Djibouti's natural resources are very limited. The country has no proven oil or natural gas reserves, and only 1% of the territory is forest. Djibouti's main natural asset is probably its strategic location, which is at the southern entrance to the Red Sea, marking a bridge between Africa and the Middle East, and adjacent to some of the World's busiest shipping lanes (between Asia and Europe). As a result, Djibouti hosts a multitude of foreign military bases. The United States (US) installed a military base in Djibouti after the 9/11 attacks to pursue its war against terrorism (al-Qaeda and al-Shabaab). China's first overseas military base since the Second World War is also in Djibouti. With a French military base (which includes troops from Germany), tiny Djibouti, with fewer than a million people, is also home to military bases from Italy, Japan and Spain. The country relies heavily on the associated rent.



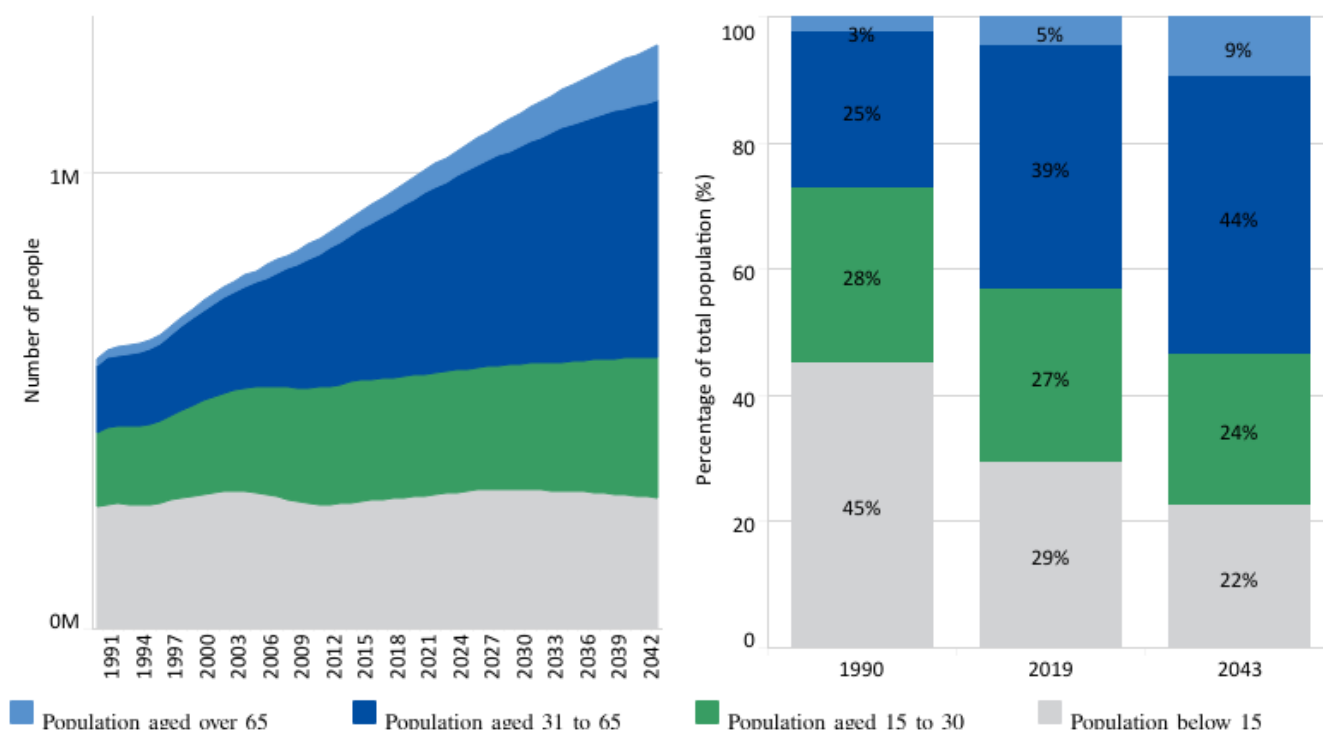
Demographics: Current Path

Chart 2: Population structure in CP, 1990–2043

By cohort and % of population



Djibouti



Source: IFs 7.63 initialising from UN Population Division Population Prospects estimate and World Development Indicators population data

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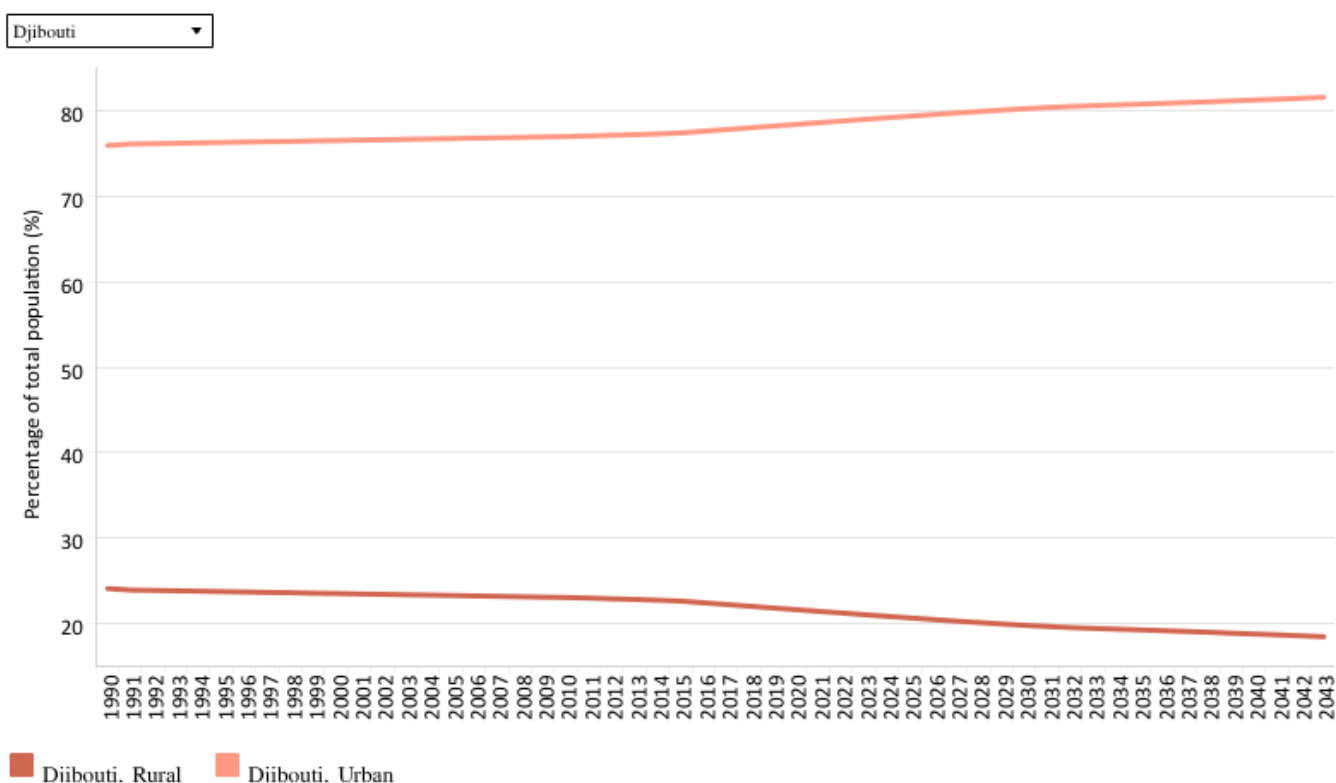
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Djibouti had a population of approximately one million (0.97 million) in 2019, and on the Current Path it is forecast to reach 1.27 million by 2043, an increase of about 31% over the next 24 years. Djibouti has the lowest fertility (TFR) rate among the Horn of Africa countries, estimated at 2.7 children per woman in 2020 – above the average for African lower middle-income countries, which is 4.3. On the Current Path, TFR will slowly decline to 2.1 births per woman by 2043.

Djibouti is host to a considerable number of refugees. In addition to thousands of economic migrants who, on an ongoing basis, clandestinely enter Djibouti and illegally assume a variety of jobs (usually in Djibouti city), the country has been inundated periodically with waves of refugees fleeing political persecution in neighbouring countries. With a median age of 25, Djibouti has a less youthful age structure than its peers in the Horn of Africa. As of 2019, 29.3% of the population was under the age of 15; 27.5% was under 30, while 4.6% was in the 65 and above dependency age group. On the Current Path, the shares of these age groups are projected to be, respectively, 22.5%, 23.9% and 9.5% by 2043.

The working-age group, 15 to 64 years of age, represents the largest share of the population (65.9% in 2019), and is forecast to increase to 68% by 2043. The large share of the working-age group in Djibouti's population could be a potential source of growth (reaping the demographic dividend), provided that the labour force is well trained and sufficient jobs are created.

Chart 3: Urban and rural population in CP, 1990–2043
% of population



Source: IFs 7.63 initialising from UN World Urbanization Prospects estimate

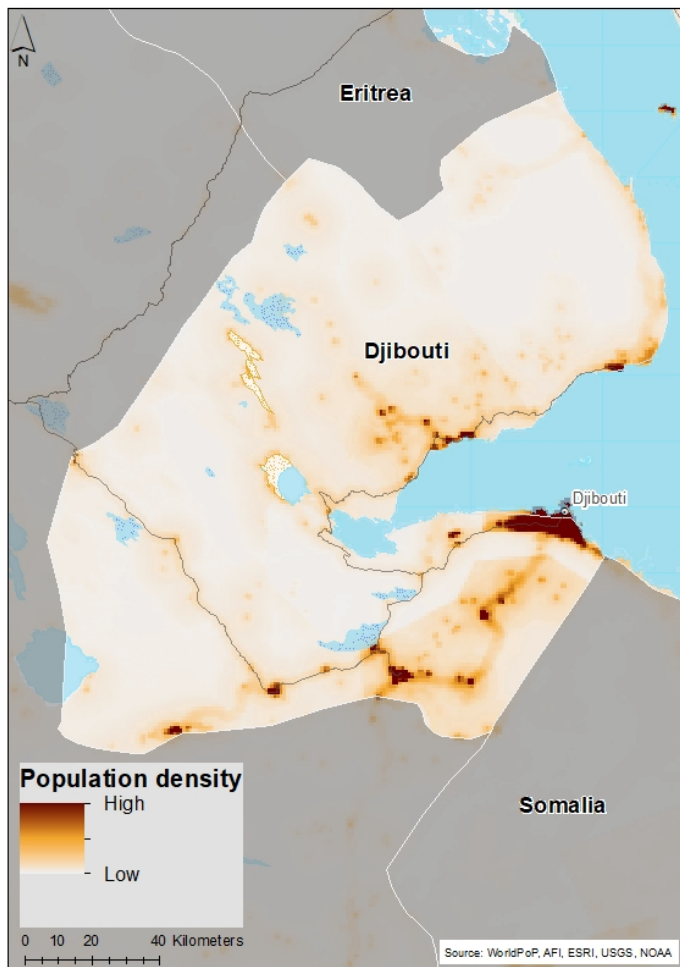
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Djibouti is the most urbanised country in sub-Saharan Africa, with 78.2% of the population classified as urban in 2019, up from 76% in 1990. This is roughly 29 percentage points below the average of 49.2% for lower middle-income countries in Africa. On the Current Path development trajectory, 81.6% of the population will be urban by 2043, while the rural population will have dropped to 18.4% from 24.1% in 1990 and 21.8% in 2019. If these projections materialise, more than four out of every five Djiboutians will live in a town or city by 2043. Urban growth has mainly been driven by urban centres, and mostly Djibouti city, the country's capital city, that has 58% of the urban population.

This rapid urbanisation, if not well managed, could lead to challenges such as unemployment, poverty, inadequate health, poor sanitation, urban slums and environmental degradation. Balbala, west of the city of Djibouti, is the country's biggest slum, and urban poverty has become a challenge for the Djiboutian authorities. However, since 2007 the government has undertaken a policy to reduce urban poverty via the [Program for Urban Poverty Reduction in Djibouti \(PREPUD\)](#). Good urban planning could foster an inclusive economy by improving service delivery and reducing urban poverty. In addition, adequate and appropriate urban planning is essential to mitigate the impacts of climate change, such as flooding.

Chart 4: Population density map for 2019



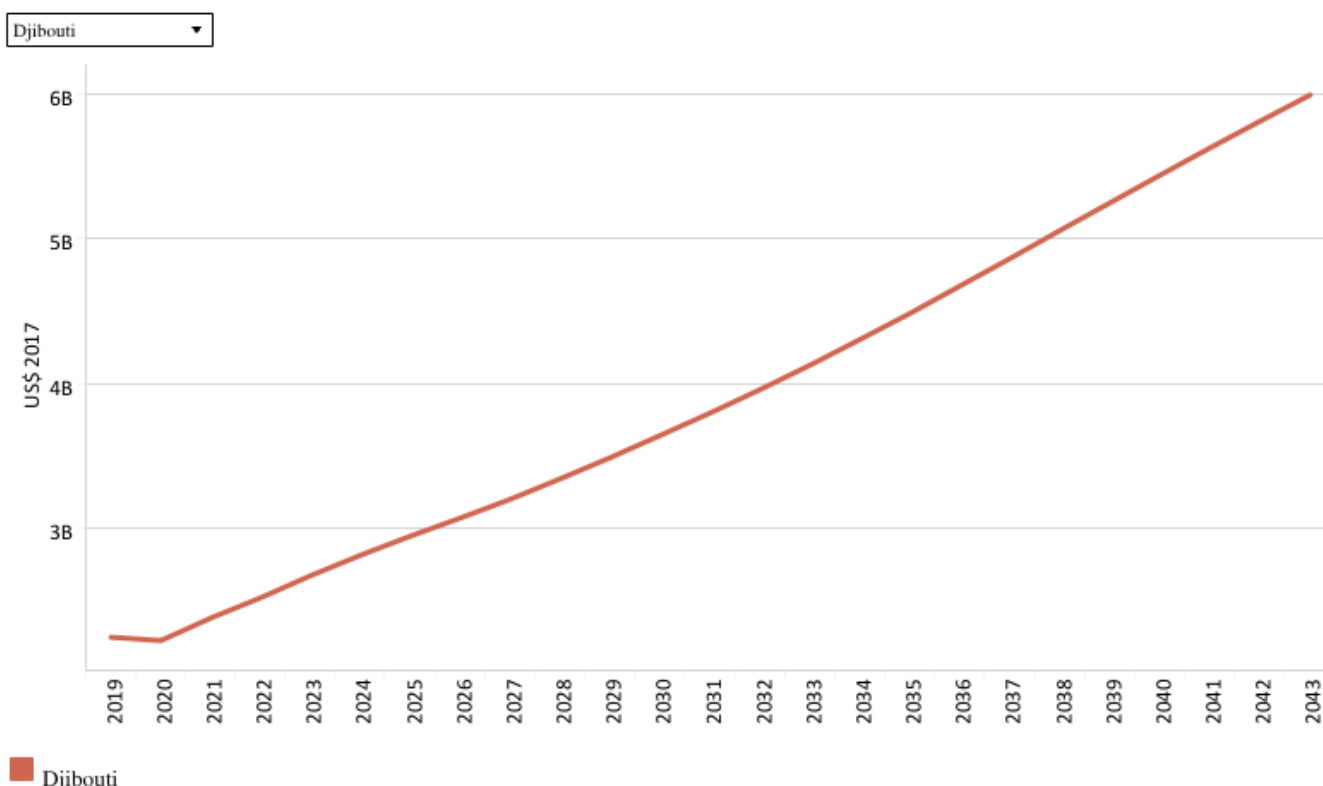
Djibouti is virtually a city-state, since about two-thirds of the population lives in or near the capital. Outlying towns are small trading centres that experience periodic population increases as camel caravans and sheep and goat herders encamp. The density of Djibouti's population amounted to less than one inhabitant per hectare in 2019, on par with the average for lower middle-income countries in Africa. The population density is forecast to increase, but will remain below one inhabitant per hectare in 2043.



Economics: Current Path

Chart 5: GDP in CP, 1990–2043

Market exchange rates



Source: IFs 7.63 initialising from International Monetary Fund World Economic Outlook database

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The small size of Djibouti's economy limits its ability to diversify production and increases its reliance on foreign markets, making it more vulnerable to market downturns and hampering its access to external capital. Therefore, the economy relies on financial, telecommunications and trade-related services, solidifying the country's position as an important regional business and trade hub in the Horn of Africa. Djibouti's economy is driven by a state-of-the-art port complex, among the most sophisticated in the world. Trade through the port is expected to grow rapidly in parallel with the expanding economy of the country's largest neighbour and main trading partner, Ethiopia. As a result, Djibouti's economy relies heavily on the service sector.

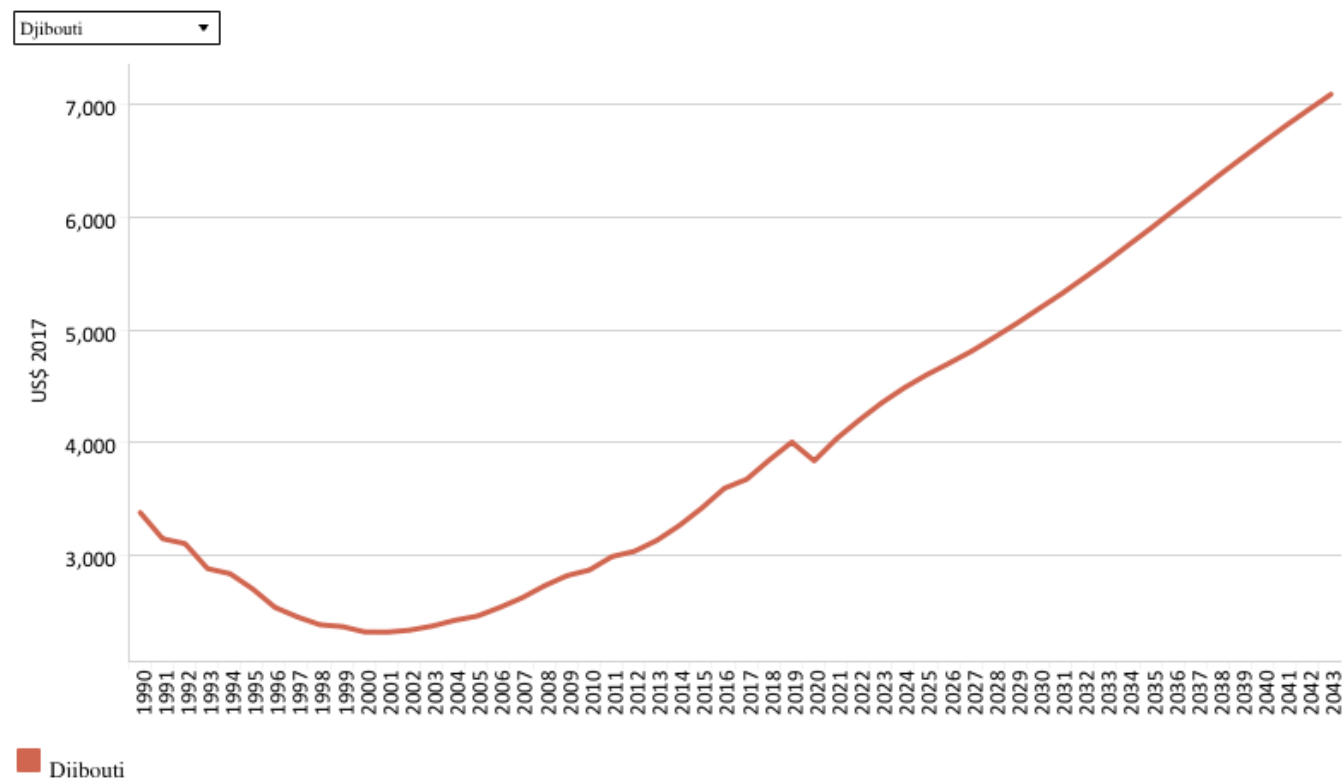
With sufficient tourism-related infrastructure, Djibouti could harness its enormous tourism potential, which remains untapped. Recognising the need for economic transformation, the government of Djibouti has initiated, through its Vision 2035, a programme to boost economic transformation and diversification. Through this [development plan](#), Djibouti aims to develop a digital technology hub, promote light manufacturing, create more than 200 000 jobs and triple its GDP per capita by 2035.

After Ethiopia, Djibouti is the fastest-growing economy in the Horn of Africa. [Djibouti's economy](#) has been less affected by the pandemic so far than expected. Output growth slowed down to 0.5% in 2020, rather than contracting further, thanks to buoyant free zone re-exports and exports of transportation, logistics and telecommunication services to and from Ethiopia. The country's medium-term economic outlook remains positive. In 2019, the size of Djibouti's economy was

US\$2.2 billion, up from US\$1.1 billion in 1990. By 2043, the economy is projected to grow to US\$6 billion. In terms of economic size, Djibouti ranked 48th out of 54 countries in Africa in 2019. In the Current Path forecast, it will have the 50th largest economy in Africa by 2043.

Chart 6: GDP per capita in CP, 1990–2043

Purchasing power parity



Source: IFs 7.63 initialising from UN Population Division World Population Prospects and World Development Indicators data

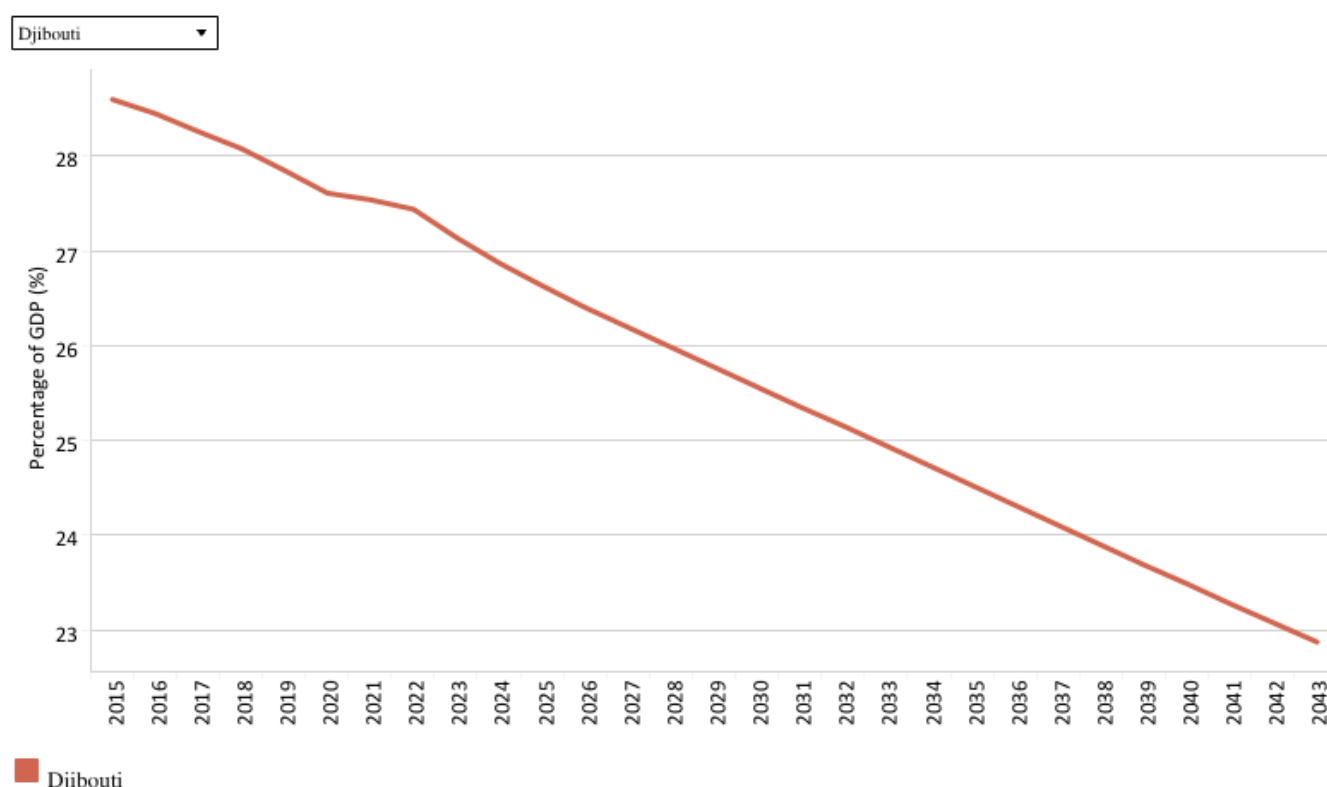
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Although many of the charts in the sectoral scenarios also include GDP per capita, this overview is an essential point of departure for interpreting the general economic outlook of Djibouti.

The GDP per capita (PPP) for Djibouti was US\$ 4 005 in 2019 and is forecast to increase to US\$ 7 085 in 2043, about 29% lower than the projected average for lower middle-income countries in Africa. In 2020, the GDP per capita of Djibouti shrank by 4.1% compared to its level in 2019 due to the COVID-19 pandemic and its associated economic crisis.

Chart 7: Informal sector value in CP, 2015–2043
% of GDP



Source: IFs 7.63 initialising from UN Economic Commission for Europe [2008]; Elgin and Oztunali [2012]; Schneider and Enste [2012]

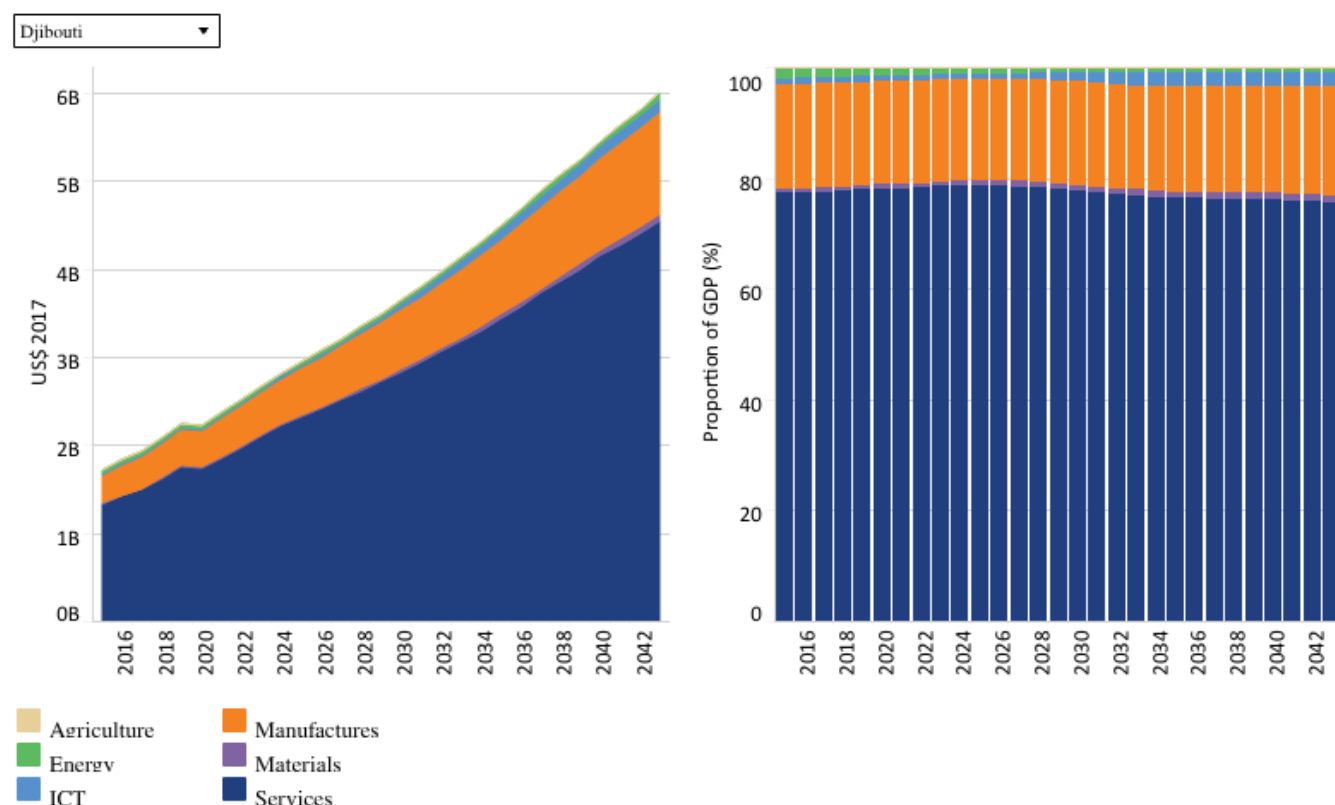
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The informal economy comprises activities that have market value and would add to tax revenue and GDP if they were recorded. Djibouti has a dual economy in which a modern sector, based on rent income from port activities and military bases, coexists with a large informal sector. The informal sector plays an important role in the economy, with informal enterprises comprising 60% of all business activity in the country, according to the African Development Bank (AfDB).

In 2019, the size of the informal economy represented about 27.8% of the country's GDP, and by 2043 it is projected to modestly decline to 22.8%, slightly below the projected average of 26.3% of GDP for lower middle-income countries in Africa. This projected improvement in the formalisation of the economy augurs well for government revenue. Reducing informality will allow more people to benefit from better wages and redistributive measures. Therefore, Djiboutian authorities need to take steps to reduce the size of the informal economy with the least friction possible by lowering the hurdles to registering a business, tackling corruption and improving access to finance.

Chart 8: Value added by sector in CP, 2015–2043
Billions US\$ 2017 and % of GDP



Source: IFs 7.63 initialising from International Monetary Fund World Economic Outlook database

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The IFs platform uses data from the Global Trade and Analysis Project (GTAP) to classify economic activity into six sectors: agriculture, energy, materials (including mining), manufacturing, services and information and communications technologies (ICT). Most other sources use a threefold distinction between only agriculture, industry and services, with the result that data may differ.

Djibouti's economy relies heavily on the service sector. The country's geographical location, its political and economic stability and dynamic port sector offer the opportunity to strengthen its position as a regional hub for various financial, information and communications technology (ICT), and logistics services. In 2019, the services sector accounted for 78% of GDP (US\$1.7 billion). On the Current Path, the share of the service sector in GDP will slightly decrease to 75.7% (US\$4.5 billion) by 2043.

The service sector is followed by the manufacturing sector at 18.6% of GDP (US\$0.42 billion) in 2019 and will slightly increase to 19.6% of GDP (US\$1.2 billion) by 2043. There are no significant manufacturing clusters in Djibouti and the government is prioritising sectors other than manufacturing for development. The rapid expansion of free trade zones in cooperation with Chinese firms will create a potential for investment in manufacturing capacity. However, the small size and low skill levels of the local labour force will limit the scope for manufacturing clusters.

The share of the agriculture sector in Djibouti's GDP is negligible (about 1.4% in 2019), and it is projected to remain stable at this level across the Current Path forecast. Most of the country is semi-arid to arid, and water resources are limited; the

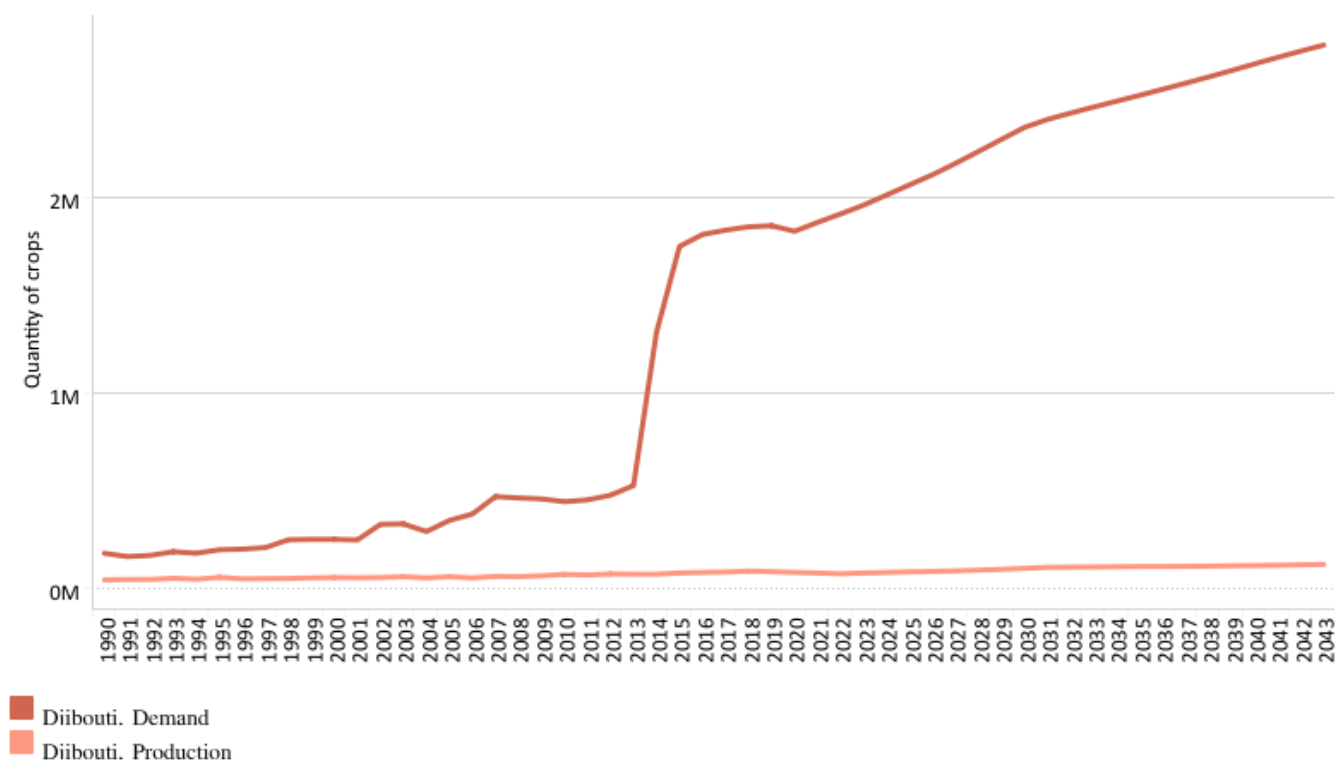
high cost of **irrigation** makes imported agricultural produce cheaper, hindering agriculture production. The share of ICT in GDP was 1% in 2019, and it is projected to rise to 2.4% by 2043. Energy contributed 1.6% (US\$0.04 billion) in 2019, and its contribution to GDP is forecast to be US\$0.06 billion in 2043.

Chart 9: Agriculture production/demand in CP, 1990–2043

Crops million tons



Djibouti



Source: IFs 7.63 initialising from Food and Agriculture Organization Food Balance Sheets

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The data on agricultural production and demand in the IFs forecasting platform initialises from data provided on food balances by the Food and Agriculture Organization (FAO). IFs contains data on numerous types of agriculture but aggregates its forecast into crops, meat and fish, presented in million metric tons. Chart 9 shows agricultural production and demand as a total of all three categories.

Approximately 30% of Djibouti's rural population depends on the agriculture sector. However, it is poorly developed and faces numerous challenges and climatic impediments. Djibouti is highly food insecure, owing to recurrent droughts, natural disasters and poor governance that hamper crop and livestock production. Of Djibouti's 23 200 km² of land, only 1 000 km² are arable, and the country receives an average annual rainfall of only 130 mm. As a result, Djibouti has the **biggest food deficit** in the Horn of Africa and imports up to 90% of foodstuffs. This situation makes the country highly dependent on international market prices. Any variation in global prices has a considerable impact on the poorest segment of the population, who spend 77% of their household budget on food.

Agricultural production in 2019 stood at 0.09 million metric tons, up from 0.05 million metric tons in 1990. This is significantly lower than the demand of 1.86 million metric tons in 2019. Across the forecast horizon, the excess demand will continue to increase. In 2043, agricultural production and demand are forecast to be 0.12 million metric tons and 2.78 million metric tons, respectively. This is equivalent to excess demand of 2.66 million metric tons. In other words, 95.6% of

total agricultural demand will likely be met through imports by 2043.

Given Djibouti's limited agricultural potential, the only way to increase agricultural production and reduce food insecurity is to improve productivity. Djibouti could follow the example of the Netherlands, which has become the second-largest agricultural exporter globally after the US despite its small land area. However, this will require significant investment in climate-smart technologies and productivity-enhancing farming methods.



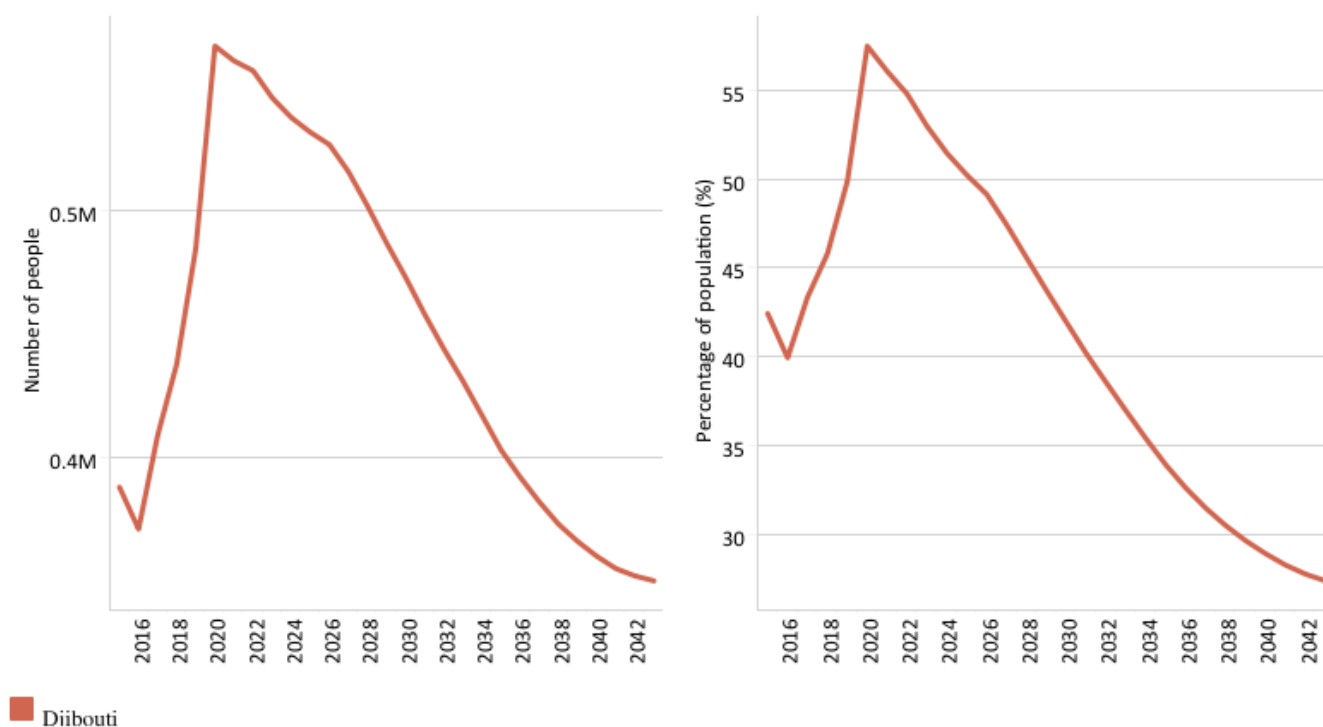
Poverty: Current Path

Chart 10: Poverty in CP, 2015–2043

Millions of people and % of total population



Djibouti \$3.20



Source: IFs 7.63 initialising from UN Population Division Population Prospects estimate, World Development Indicators population data and PovcalNet World Bank data

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There are numerous methodologies for and approaches to defining poverty. We measure income poverty and use GDP per capita as a proxy. In 2015, the World Bank adopted the measure of US\$1.90 per person a day (in 2011 international prices), also used to measure progress towards the achievement of Sustainable Development Goal 1 of eradicating extreme poverty. To account for extreme poverty in richer countries occurring at slightly higher levels of income than in poor countries, the World Bank introduced three additional poverty lines in 2017:

- US\$3.20 for lower middle-income countries
- US\$5.50 for upper middle-income countries
- US\$22.70 for high-income countries.

Despite Djibouti's small population, the nation has historically struggled with poverty – a similarity shared with other countries in the Horn of Africa. The harsh, dry climate has exacerbated poverty in Djibouti, especially in rural areas where most of the population practises nomadic farming. Prolonged droughts coupled with high unemployment rates keep many people in extreme poverty. Cognisant of this situation, the National Development Plan (Vision Djibouti 2035) adopted in 2014 intends to diversify the economy and speed up job creation to help Djiboutians find gainful employment and reduce extreme poverty.

In 2019, 49.8% of the population lived below the lower middle-income country poverty line (US\$3.20). This is equivalent to 0.5 million people. The poverty rate increased to 57.5% in 2020 due to the COVID-19 pandemic and associated economic slowdown. The extreme poverty level at US\$3.20 is forecast to decline to 27.4% (0.35 million people) by 2043, below the average for lower middle-income countries in Africa, which will then be at 38.3%.

To sustain economic growth over the long term, it must be inclusive. Policymakers in Djibouti should make growth more inclusive by integrating the most vulnerable segment of the population, including women, into the economy and enhancing human capital formation to meet the needs of the labour market and hence create more gainful jobs and accelerate poverty reduction.



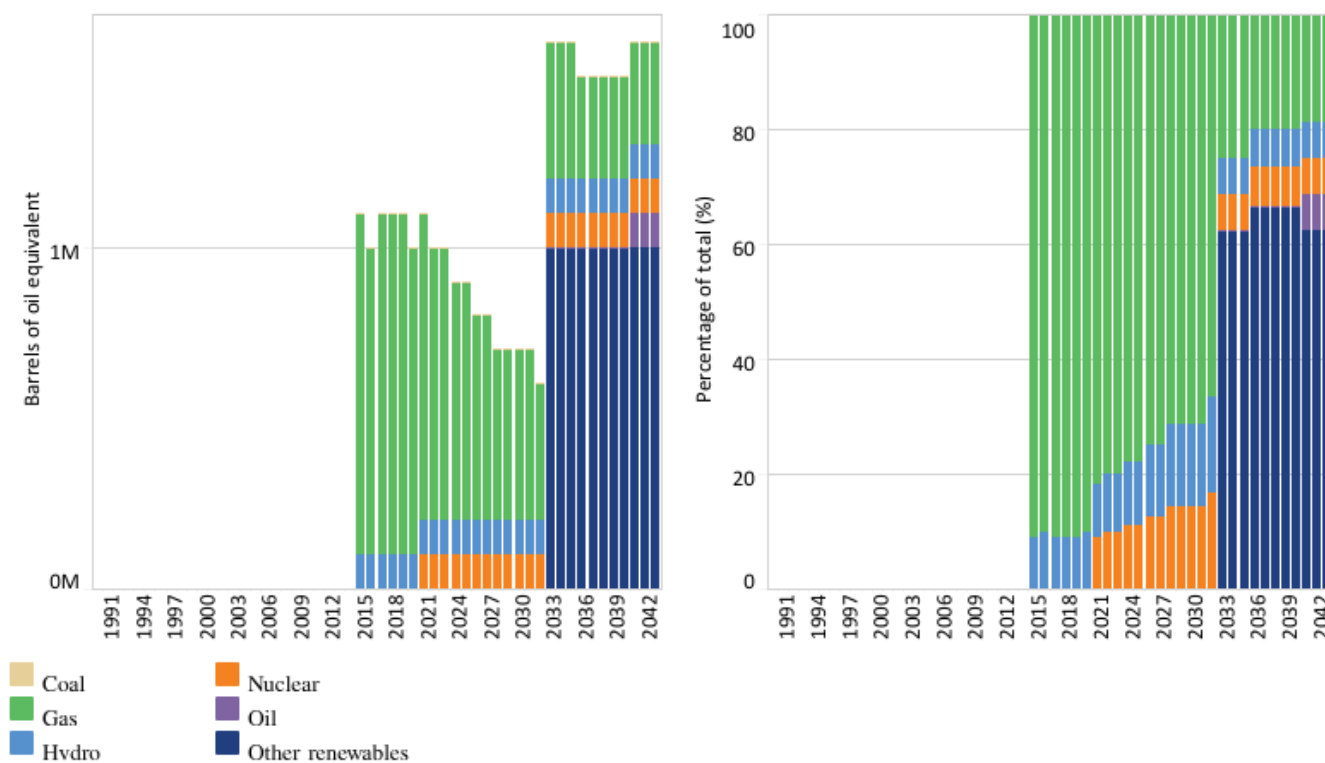
Carbon Emissions/Energy: Current Path

Chart 11: Energy production by type in CP, 1990–2043

Barrels of oil equivalent and % of energy production



Djibouti



Source: IFs 7.63 initialising from World Energy Outlook data

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The IFs platform forecasts six types of energy, namely oil, gas, coal, hydro, nuclear and other renewables. To allow comparisons between different types of energy, the data is converted into billion barrels of oil equivalent (BBOE). The energy contained in a barrel of oil is approximately 5.8 million British thermal units (MBTUs) or 1 700 kilowatt-hours (kWh) of energy.

The energy needs of Djibouti are met mainly through the import of fossil fuels. Before 2011, Djibouti was 100% dependent on heavy fuel oil and diesel thermal power plants for energy, which exposed the country to fluctuating oil prices. Now, 65% of the country's electricity needs are met through an interconnection with the Ethiopian grid. Local power production, now accounting for about 35% of the energy supply, continues to be generated through local heavy fuel oil or diesel thermal.

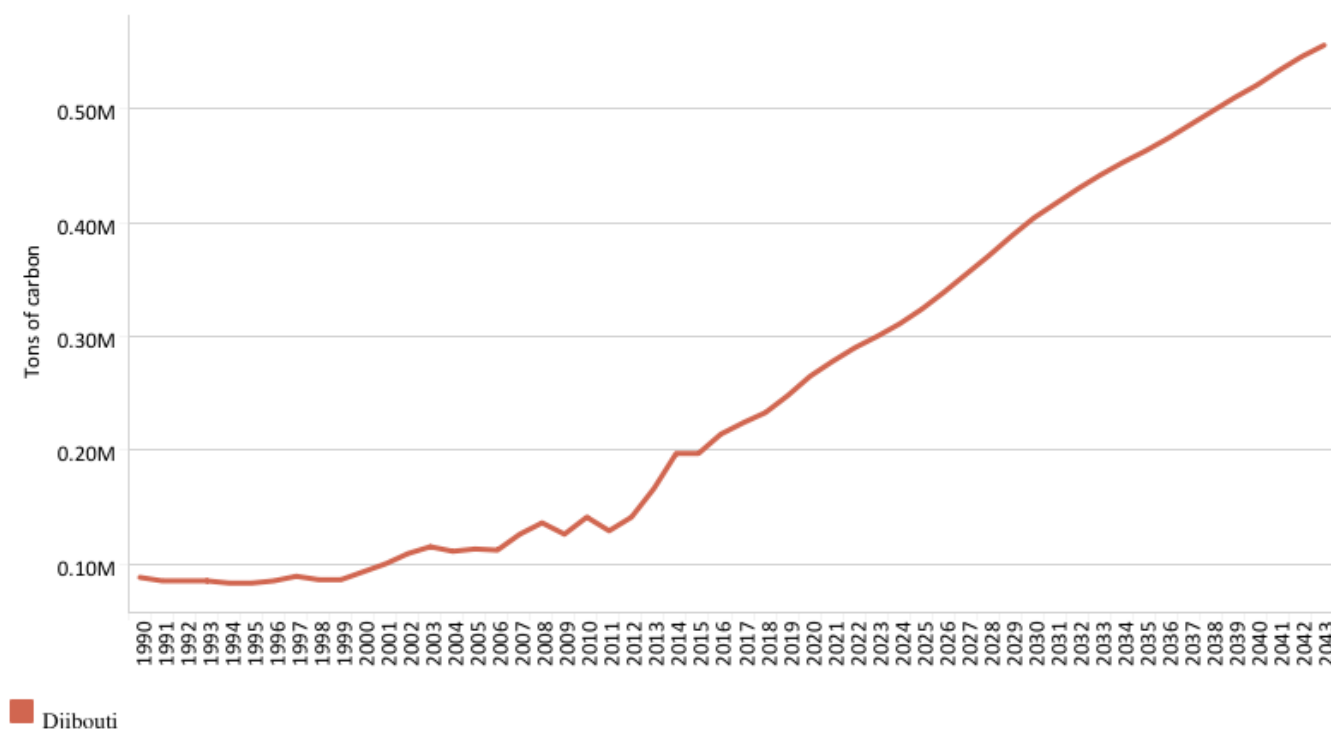
In 2019, hydro accounted for 9% of the energy produced in the country, while gas accounted for 91%. Gas will continue to be the dominant energy produced in Djibouti until 2032. By 2033, other renewable energies will take over and account for 62.5% of the energy produced. This is not surprising as the government of Djibouti has taken steps to increase energy security by emphasising renewable energies. The country's National Development Plan, Vision 2035, plans a transition from fossil thermal to 100% renewable energy. The law provides a tax exemption for all renewable energy equipment. By 2043, renewable energies will represent 62.5% of the total energy produced while gas will account for 18.7%. Hydro, nuclear and oil will account for 6.2% each.

Chart 12: Carbon emissions in CP, 1990–2043

Million tons of carbon (note, not CO₂ equivalent)



Djibouti



Source: IFs 7.63 initialising from Carbon Dioxide Information Analysis Center data

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Carbon is released in many ways, but the three most important contributors to greenhouse gases are carbon dioxide (CO₂), carbon monoxide (CO) and methane (CH₄). Since each has a different molecular weight, IFs uses carbon. Many other sites and calculations use CO₂ equivalent.

Carbon emission is very low in Djibouti. It increased from 0.1 million tons in 1990 to 0.2 million tons in 2019. On the Current Path, it is forecast to reach 0.6 million tons by 2043, increasing 200% from a very low base between 2019 and 2043. Developed economies must help the country and many other African countries to deal with the impact of climate change, which will affect them disproportionately.

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Dr Kouassi Yeboua previously worked as a Senior Researcher at AFI, where he led significant ISS studies on the long-term development prospects of the Democratic Republic of Congo, the Horn of Africa, Nigeria, Malawi, and Mozambique. His research focuses on development economics, macroeconomics, gender, and economic modeling. He holds a PhD in Economics.

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