Djibouti’s economic freedom score is 47.1, making its economy the 169th freest in the 2019 Index. Its overall score has increased by 2.0 points, with significant spikes in scores for property rights and the tax burden far outpacing a decline in trade freedom. Djibouti is ranked 43rd among 47 countries in the Sub-Saharan Africa region, and its overall score remains well below the regional and world averages.

Djibouti’s economy depends heavily on port services, and the government’s 2018 cancellation of a long-term contract with DP World in favor of a China-backed free-trade zone threatens to undermine the country’s overall investment climate. The government’s contempt for court rulings in DP World’s favor will erode confidence in the already weak legal system. Institutional weaknesses such as poor governance and lack of a sound judicial framework severely undercut economic expansion and constrain long-term economic development. Corruption continues to increase the cost of doing business.

**BACKGROUND:** The French Territory of the Afars and the Issas became Djibouti in 1977. President Ismael Omar Guelleh won a fourth five-year term in 2016 after parliament eliminated a constitutional two-term limit. Djibouti is home to the only permanent U.S. base in Africa, along with bases maintained by China, France, Italy, Germany, and Japan, and is seeking U.N. mediation of a festering border dispute with Eritrea. Djibouti has few natural resources and imports most of its food. Its service-based economy depends on commerce related to Djibouti’s strategic location at the mouth of the Red Sea, which makes its deep-water port facilities and railway key assets. In 2018, Djibouti launched Africa’s biggest free-trade zone, which will be managed by Chinese companies.
Accountability and property rights remain well below global standards. Judicial proceedings and trials are time-consuming, prone to corruption, and politically manipulated. Sharia law prevails in family matters. Power remains heavily concentrated in the hands of the president, and repression of the political opposition is common. Corruption is a serious problem, and institutions lack authority to implement meaningful reforms.

The top personal income tax rate is 30 percent, and the top corporate tax rate is 25 percent. Other taxes include property and excise taxes. The overall tax burden equals 29.2 percent of total domestic income. Over the past three years, government spending has amounted to 49.2 percent of the country’s output (GDP), and budget deficits have averaged 14.4 percent of GDP. Public debt is equivalent to 30.6 percent of GDP.

Djibouti passed several positive business reforms in 2017. Starting a business was made more affordable, and obtaining construction permits was made easier. However, the overall regulatory framework’s lack of transparency and clarity injects considerable uncertainty into entrepreneurial decision-making. A modern labor market has not been fully developed. The government increased subsidies ahead of the 2018 elections.

The combined value of exports and imports is equal to 108.5 percent of GDP. The average applied tariff rate is 17.3 percent. State-owned enterprises distort the economy, preventing much-needed dynamic private investment from taking place. Credit is generally allocated on market terms, but credit for entrepreneurial activity is still limited by high costs and lack of access to the full range of financing instruments.