INTERNATIONAL MONETARY FUND

IMF Country Report No. 23/438

SOMALIA

December 2023

STAFF REPORT FOR THE SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the Staff Report for the Sixth Review Under the Extended Credit Facility (ECF) Arrangement and Request for a Three-Year Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** on the IMF Executive Board's conclusion of the 6th review of the ECF arrangement, and a **Press Release** on the IMF Executive Board's approval of a new ECF arrangement for Somalia.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 13, 2023 and approval on a lapse of time basis on December 19, 2023, following discussions that ended on October 25, 2023, with the officials of Somalia on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on November 27, 2023.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Statement by the Executive Director** for Somalia.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Somalia*
Memorandum of Economic and Financial Policies by the authorities of Somalia*
Technical Memorandum of Understanding*
*Also included in Staff Report

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
PO Box 92780 • Washington, D.C. 20090
Telephone: (202) 623-7430 • Fax: (202) 623-7201
E-mail: publications@imf.org Web: http://www.imf.org

International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes the Sixth Review of the Extended Credit Facility for Somalia

FOR IMMEDIATE RELEASE

- Somalia has maintained strong reform momentum and program performance has been satisfactory. The IMF Executive Board completed the sixth and final review under Somalia's Extended Credit Facility (ECF) arrangement,
- The successful completion of the ECF program facilitated reaching the Heavily Indebted Poor Countries (HIPC) Completion Point, which provided total debt service savings for the country of US$4.5 billion.
- The IMF Board also considered a new 36-month Extended Credit Facility arrangement of SDR 75 million (about US$100 million). The new program aims to further advance reforms that strengthen vital economic institutions and foster inclusive and sustainable growth.

Washington, DC – December 13, 2023. The Executive Board of the International Monetary Fund (IMF) today completed the sixth and final review of the Extended Credit Facility (ECF) arrangement for Somalia. The Board's decision enables the immediate disbursement of SDR 7 million (about US$ 9.2 million), bringing Somalia's total disbursement under the ECF and the Extended Fund Facility (EFF) approved in 2020 to SDR 292.43 million (about US$ 384.3 million). The Executive Board of the IMF, as well as the Executive Board of the World Bank's International Development Association (IDA), also approved the Heavily Indebted Poor Countries (HIPC) Initiative Completion Point for Somalia, which provides total debt service savings for the country of US$4.5 billion (see Press Release No. 23/438). The IMF Executive Board also considered a new 3-year arrangement under the ECF for Somalia in an amount of SDR 75 million (about 45.9 percent of quota, about US$100 million). Because a member cannot have two ECF arrangements effective at the same time under the PRGT instrument, the new ECF would only come into effect once the current ECF expires.

Somalia's ECF arrangement was originally approved by the Executive Board on March 25, 2020 (see Press Release No. 20/105) as part of a three-year blended arrangement under the ECF and the EFF, which involved access of SDR 252.86 million (155 percent of quota) under the ECF and SDR 39.57 million (24 percent of quota) under the EFF. As the full amount of the EFF arrangement was made available on approval and drawn at the first purchase, the EFF arrangement lapsed immediately. Once the 6th review related disbursement is completed, the ECF arrangement will expire.

Following the Executive Board discussion, Ms. Antoinette Sayeh, Deputy Managing Director, and Acting Chair, made the following statement:

“The authorities’ strong commitment and successful implementation of reforms to rebuild Somalia’s economy and institutions, including the completion of the program supported by the Extended Credit Facility (ECF), have led to Somalia reaching the completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The sizeable debt relief provided to Somalia will reduce the country’s external debt repayments to sustainable levels and open the way for access to new external financing to support inclusive growth and poverty reduction.

"The authorities remain firmly committed to continuing their efforts to address the challenges that Somalia still faces, including those stemming from economic, social, security, and climate risks. To this end, a new ECF arrangement will support the authorities’ economic policy efforts post-HIPC to build resilience, promote inclusive growth, and reduce poverty.

"Fiscal policy will be guided by a prudent framework that balances the need for higher development expenditure with protecting fiscal sustainability, and taking into account capacity constraints. The authorities’ ongoing efforts to strengthen domestic revenue mobilization, public financial management, and debt management are commendable. Continued improvements in the institutional capacity of the Central Bank of Somalia are welcome, including in the context of the currency reform. It will also be important to continue to advance reforms to improve AML/CFT and governance.

"Maintaining the authorities’ strong ownership of the reform agenda will be important for its successful implementation. Continued support from development partners, including from partners for the Somalia Country Fund, and sustained IMF CD assistance are also essential."

IMF Executive Board Approves US$100 Million Under a New Extended Credit Facility (ECF) Arrangement for Somalia

FOR IMMEDIATE RELEASE

- The IMF Board approved a new 36-month Extended Credit Facility arrangement of SDR 75 million (about US$100 million). Approval of the ECF arrangement enables the immediate disbursement of SDR 30 million (about US$40 million) for budget support.

- Somalia's new ECF-supported program builds on progress so far, including the HIPC Completion Point, and seeks to advance reforms to strengthen key economic institutions and promote inclusive growth.

- Continued financial and capacity development support from international partners is imperative to support the authorities' reform efforts.

Washington, DC – December 19, 2023. On December 19, 2023, the Executive Board of the International Monetary Fund (IMF) approved a new 3-year arrangement under the Extended Credit Facility (ECF) for Somalia in an amount of SDR 75 million (about 45.9 percent of quota, about US$100 million). Approval of the ECF arrangement enables immediate disbursement of SDR 30 million for budget support (about US$40 million). This follows the successful completion of a previous ECF arrangement approved in 2020 and that expired on December 15, 2023 (see Press Release No. 23/437) and reaching the Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative on December 13, 2023 (see Press Release No. 23/438). The Executive Board's decision to approve the new program was taken on a lapse of time basis, following Board discussion of the authorities' program request on December 13, 2023.[1]

Achievement of the HIPC Completion Point and completion of the 2020 ECF is a testament to the Somali authorities' sustained track record of reform implementation over the past years, despite numerous challenges. Though these efforts, Somalia has made considerable progress in strengthening key economic and financial institutions, as well as improving governance.

However, despite the progress achieved, Somalia faces significant challenges, including those stemming from economic, social, security, and climate risks. In 2022, an estimated 54 percent of the population was living on less than US$ 2 per day. Growth is currently insufficient to reduce widespread poverty, address large social needs, and create sufficient jobs for the youth. Somalia is highly vulnerable to climate shocks that hurt growth and hinder poverty reduction efforts.

[1] The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Faced with these challenges, the authorities are embarking on a new 3-year IMF-supported program. The program will support the authorities' post-HIPC reform strategy to further strengthen key economic institutions and promote macroeconomic stability and growth, in line with Somalia's national development plan and the government's long-term vision. Reform implementation will be accompanied by extensive IMF capacity development assistance, supported by the Somalia Country Fund.

Fiscal policy will be guided by a prudent framework that balances the need for higher development expenditure with protecting fiscal sustainability and taking into account capacity constraints. External financing is expected to be based solely on grants and concessional loans to preserve debt sustainability. Increasing domestic revenues is a key pillar of the reform strategy, including implementation of a new income tax law. Efforts to improve public financial management include further progress on payroll integration, expenditure controls, and fiscal transparency, as well as strengthening debt management capacity and public investment management capacity. Continued improvements in the institutional capacity of the Central Bank of Somalia, including in the context of the currency reform, will foster financial deepening and financial inclusion. It will also be important to continue to advance reforms to improve AML/CFT and governance to promote private investment.

INTERNATIONAL MONETARY FUND

SOMALIA

November 27, 2023

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Economic activity is recovering as rains resumed in 2023, and the authorities continue to advance their efforts to rebuild the economy and institutions. However, despite significant progress achieved, Somalia remains fragile, facing challenges from climate shocks, an unsettled security situation as the government advances against Al-Shabab amid the withdrawal of the African Union Transition Mission, and lack of political consensus among all Federal Member States that affects advancement of the federalism agenda.

Performance under the Extended Credit Facility (ECF) arrangement. Program performance has been satisfactory. All performance criteria for June and September 2023 were met. Of ten structural benchmarks due five were met, three were implemented with delay, and two were not met due to institutional, social, and political constraints. Reforms included the 2023 Supplementary Budget, revenue and public financial management measures, new risk-based prudential regulations, and the Targeted Financial Sanctions Law.

HIPC Completion Point. As presented in the accompanying document "Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Completion Point Document", Somalia has made satisfactory progress in meeting the requirements for reaching the HIPC Completion Point (CP), which the IMF Board is scheduled to discuss on December 13, 2023.

Request for a new ECF arrangement. The authorities are requesting a 3-year financing arrangement under the ECF for SDR 75 million (approximately 45.9 percent of quota) to help Somalia further strengthen key economic institutions and promote macroeconomic stability and growth. Key priorities will be to maintain fiscal sustainability, increase domestic revenues and strengthen public financial management, promote financial deepening and financial inclusion, improve the business environment and governance, and enhance statistics.

Risks. Key risks include climate shocks that could aggravate food insecurity, a deterioration of the security situation, political risks linked to federalism, and lower global growth. Risks to the program are mitigated by continued strong program ownership, capacity development, and support from development partners. Extensive IMF technical assistance, and bilateral financing support for the Somalia Country Fund remain essential.

Approved By
Thanos Arvanitis (MCD) Allison Holland (SPR)

Discussions were held in Nairobi, Kenya during September 11–22, 2023 and October 22–25, 2023. The staff team consisted of Ms. Jaramillo (Head), Mr. Baltabaev, Ms. Bendjellal, Mr. Kularatne, and Ms. Yang (all MCD), Mr. Nguyen (FAD), Mr. Abbas (SPR), Mr. Le Hen (Resident Representative), Mr. Irungu and Mr. Osman (Resident Representative Office). Mr. Abdullahi, (OED) participated in key policy meetings. Ms. Gupta and Mr. de Asis supported the preparation of this report. The mission met with Finance Minister Egeh, Central Bank Governor Abdullahi, and other senior officials. The mission also met with development partners and private sector representatives.

CONTENTS

TABLES

ANNEXES

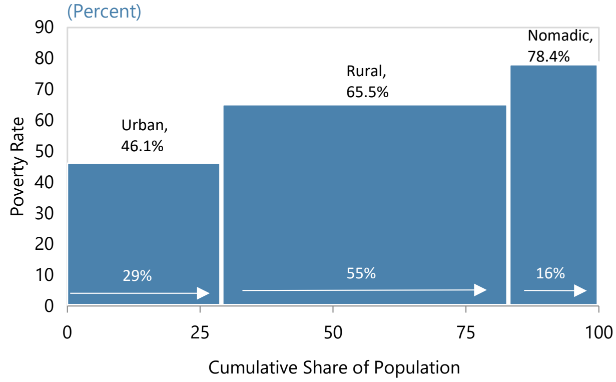
APPENDICES

CONTEXT

1. **Somalia has been rebuilding state institutions and the economy since the end of the devastating civil war, with strong support from the international community.** The civil war led to complete state collapse, with tremendous loss of human and physical capital. Since the 2012 Provisional Constitution that created the Federal Government of Somalia (FGS) and the Federal Member States (FMS), Somalia has successfully undertaken three national elections, and Parliamentary and Presidential elections were completed in May 2022. With financial and capacity development support from international partners, including support under four consecutive SMPs and the current ECF arrangement, Somalia has pursued wide-ranging reforms to help strengthen key economic and financial policy institutions as well as improve governance. Somalia reached the HIPC Decision Point in March 2020, and the authorities have been making significant progress toward achieving debt relief at the HIPC Completion Point in December 2023.

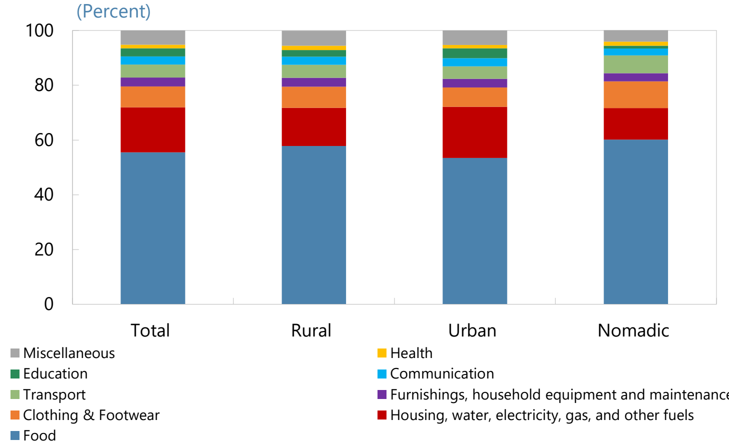
2. **Despite the progress achieved, Somalia faces significant challenges, including those stemming from economic, social, security, and climate risks.** According to the 2023 Somalia Poverty Report by the National Bureau of Statistics, in 2022 more than 54 percent of the population lived below the national poverty line of US$2.06 per day (Annex I). Household expenditures are predominantly allocated to food, accounting for an average of 56 percent of total consumption, leaving little room for other expenditure that supports human development, including health and education. Growth is currently insufficient to reduce widespread poverty, address large social needs, and create sufficient jobs for the youth. In addition, Somalia is highly vulnerable to climate shocks that aggravate food insecurity, hurt growth, and hinder poverty reduction efforts.

Poverty Rate by Place of Residence
(Percent)



Source: Somalia Poverty Report 2023 and IMF staff estimates
Note: The national poverty rate of Somalia is USD 2.06 per day.

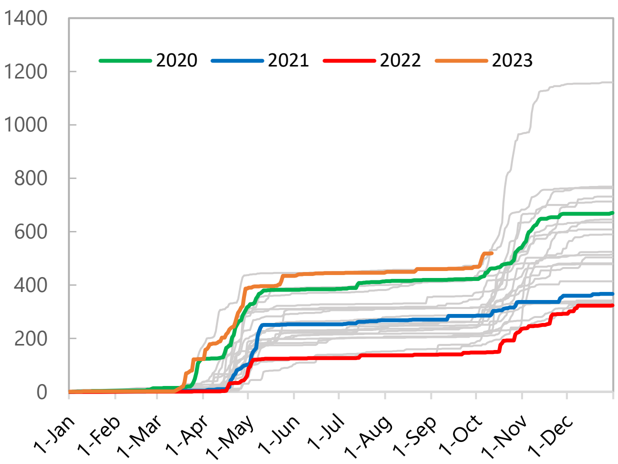
Consumption Shares
(Percent)



Source: Somalia Poverty Report 2023 and IMF staff estimates

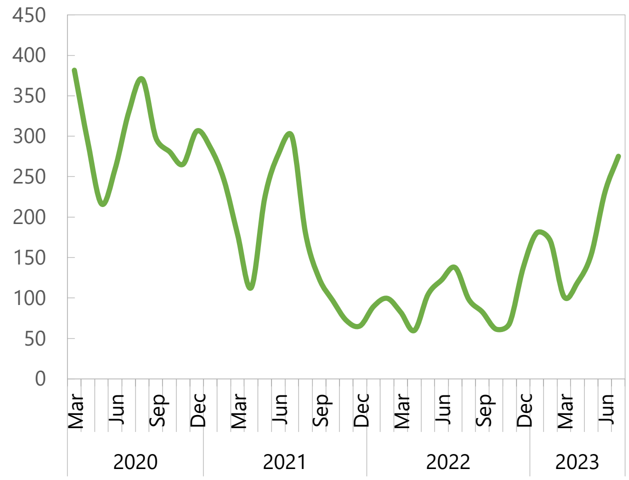
3. Food insecurity remains a concern, notwithstanding recent rains. Livestock and crops are expected to recover only gradually from the earlier prolonged drought, and food insecurity remains severe in some areas. The government has been coordinating with the UN system on delivery of humanitarian assistance. Nonetheless, according to the Integrated Food Security Phase Classification September 2023 report, 25 percent of the population would face acute food insecurity in 2023.

Cumulative Precipitation
(mm, area along Webi Shabele River)



Source: NASA and IMF Staff calculations

Area of Farms with Vegetation
(sq. km, Beledweyne- 3 month moving average)



Source: Landsat Imageries and IMF Staff estimates
Note: Methodology based on Koshima (2023)

4. Security challenges are elevated, amid the gradual withdrawal of the African Union Transition Mission in Somalia (ATMIS). The government has gained some ground against the Al- Shabab terrorist group—with support from the general population and international partners. However, significant challenges remain in terms of establishing durable local security arrangements and providing targeted social assistance to the liberated areas. In addition, terrorist attacks continue, underscoring the fragile security situation. Meanwhile, ATMIS has started withdrawing its forces as its mandate ends in December 2024, when Somali National Armed Forces are expected to fully take over the country's security responsibilities. The FGS is developing a National Security Plan and discussions are ongoing with key partners on security financing.

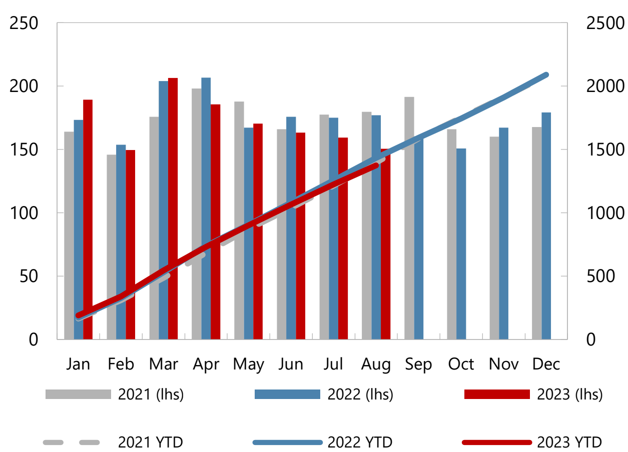
5. The FGS and FMS continue to advance the federalism agenda, though challenges remain. In March 2023, the National Consultative Council brought together leaders of the FGS, four out of five FMS, and the Mayor of Mogadishu. High-level agreements were reached on creating a National Revenue Authority, the assignment of revenue responsibilities across levels of government, and the pool of revenues that are to be shared between FGS and FMS. In July 2023, the same group agreed on the distribution of external budget support. However, as described in Somalia's Country Engagement Strategy, lack of political consensus among the FGS and all FMS impacts implementation of federal fiscal reforms.

6. Despite these challenges, the authorities have continued to make progress in implementing the ECF-supported program, fulfilling the requirements of the HIPC Completion Point (CP), and remain committed to the reform effort post-HIPC CP. The ECF program performance, approved in March 2020, has been satisfactory. The authorities implemented thirteen of fourteen triggers needed for the HIPC CP and have obtained the necessary financing assurances from external creditors. To guide policies and maintain the reform momentum post HIPC CP, the authorities are requesting a new ECF arrangement.

RECENT ECONOMIC DEVELOPMENTS

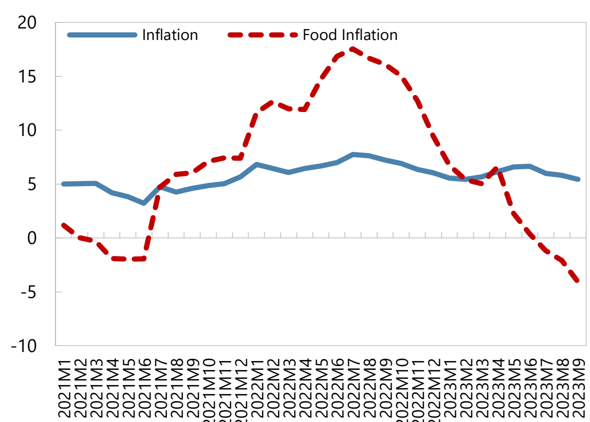
7. Growth in 2022 was 2.4 percent, weighed down by drought and weak remittances that continued to subdue economic activity in 2023H1. Notwithstanding the resumption of rainfall in 2023Q1, the earlier prolonged drought has tempered the recovery of agriculture. Following a contraction in 2022, exports of goods have started to rebound in 2023H1. Remittances growth remained largely flat in 2022 and 2023H1—compared to a 29 percent increase in 2021—partly attributed to the impact of global inflation on the purchasing power of the diaspora community. Inflation moderated to 5.4 percent in September 2023, as food and fuel prices have been easing.

Remittance Inflows (Individuals)
(Millions of US$)



Source: Authorities' data and IMF Staff estimates

Food and Headline Inflation
(Percent change)



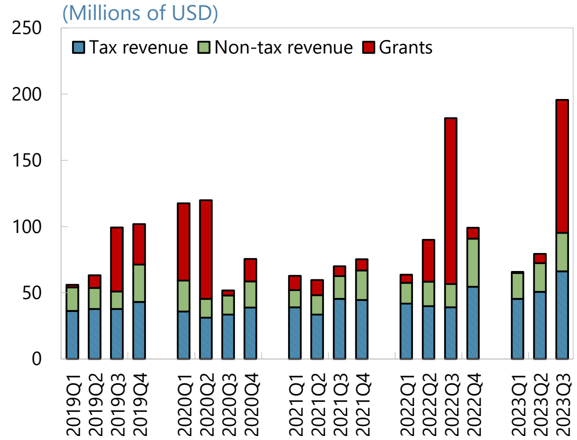
Source: Authorities' data and IMF Staff estimates

8. Through September 2023, domestic revenues were stronger than expected and expenditure has been within the 2023 Supplementary Budget. Domestic revenues reached US$232 million in the year to September, compared to US$170 million projected in the 5th review. The overperformance was driven mainly by a 50 percent increase in customs duties for luxury goods implemented in mid-May (estimated to bring in an additional US$1–2 million of customs duties per month) and some tax administrative improvements.[1] Total expenditure has followed the 2023

[1] Currently, the authorities charge duties depending on the size of packages, regardless of their content. The increase in customs duties for luxury goods depending on the package size was from a very low base. Reforms are ongoing to implement ad-valorem customs duties.

Supplementary Budget and a small overall deficit is expected for the year. Revenue overperformance and budget support grants (including disbursements from the World Bank and EU) will facilitate a small cash balance to partially address liquidity needs in early 2024.

Total Revenue, Excluding Project Grants
(Millions of USD)



Source: Authorities' data and IMF staff estimates

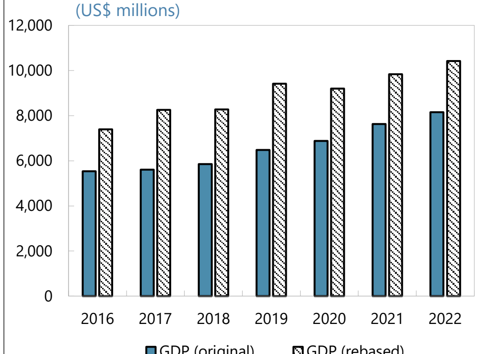
9. The financial sector continues to develop, though challenges remain. Deposits and credit to the private sector continued to grow at around 9.2 and 14.6 percent (y-o-y), respectively, in 2023Q2, although from a low base. Financial soundness indicators reported by the CBS show bank capital and liquidity at comfortable levels, while the NPLs stood at around 4 percent in 2023Q2. In July 2023, the CBS issued new banking regulations on capital and liquidity requirements and is engaging with the banks to ensure smooth transitioning to compliance before the expected effective date of 2024Q1.

Box 1. New Rebased GDP Series[1]

The Somalia National Bureau of Statistics (SNBS) published rebased GDP estimates in June 2023. In 2022, with World Bank support, the SNBS undertook an Integrated Household Budget Survey (SIHBS), the first since 1985. With IMF technical assistance, data collected through the SIHBS were used to improve GDP estimates by revising household consumption estimates.[1] GDP was rebased to 2022 prices and the series were backdated to 2016. A comparison of the new GDP series (2022 base year) and the previous series (2017 base year) indicates the following:

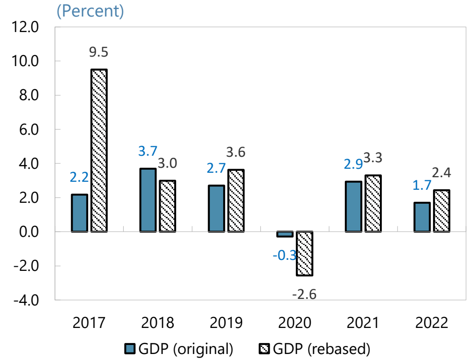
- The new nominal GDP level is 37 percent higher on average from 2016–2022;
- The new real GDP level is 66 percent higher on average from 2016–2022; and
- Annual real growth for the new GDP averaged 3.2 percent compared to 2.1 percent in the previous series.

Nominal GDP
(US$ millions)



Source: Authorities' data and IMF Staff estimates

Real GDP growth
(Percent)



Source: Authorities' data and IMF Staff estimates

1/ SNBS will also use the SIHBS data for the compilation of the commodity basket and weight to update the Consumer Price Index.

PROGRAM PERFORMANCE

10. Program performance has been satisfactory, particularly in view of Somalia's fragile context. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-June 2023 and end-September 2023 were met (Table 10). Ten structural benchmarks were due for the 6th review, of which five were met on time, three have been implemented with delay, and two have not been met due to institutional, social, and political constraints (Table 11). In particular:

- The Supplementary Budget for 2023 was submitted to Parliament on June 8, 2023 (SB#1, met, was due end-June 2023), and approved by Parliament on July 31, 2023.

- The SFMIS has been reconfigured to enable MoF's approval of changes in payroll entries with financial implications. The authorities have included in the 2024 Appropriations Bill sent to Parliament on October 28, 2023 a provision specifying the MoF's authority over the financial clearance of compensation of all FGS employees, as was already done in the 2023 Appropriations Law (SB#6, met, due end-October 2023).

- The regulations to implement the PFM Act's provisions on public property were approved on August 17, 2023. The Asset Management Guideline was approved by the Cabinet on September 11, 2023 (SB#7, met, due end-September 2023).

- The CBS issued the banking regulations on capital and liquidity requirements on July 4, 2023, also covering risk management aspects (SB#8, met, due end-September 2023). The capital adequacy regulation incorporates risk weighting of exposures to credit and operational risks according to the Basel III framework, in a proportionate manner and considering Islamic financing. The liquidity regulation clarifies and simplifies the liquidity coverage ratio (LCR) requirement in addition to qualitative requirements on risk management, in line with Basel III.

- The Targeted Financial Sanctions Law (TFSL) was enacted on March 8, 2023, and the related regulations were approved on July 27, 2023 (SB#9, met, was due end-July 2023).

- Coverage of the payroll has been extended to more than 50 percent of non-payroll compensation of FGS employees as of June 2023 (SB#5, implemented with delay, was due end-May 2023). The ratio of non-payroll payments to total compensation averaged 14.5 percent in April-June 2023, relative to 32 percent in 2021.

- The authorities registered 2,597 taxpayers for the turnover tax by end July 2023. A collection of US$166,650 from 420 small and 327 micro enterprises was received in July (SB#3, implemented with delay, was due end-May 2023).

- The authorities approved the standard operating procedures for the Inter-Ministerial Concessions Committee on September 11, 2023. (SB#10, implemented with delay, was due end-June 2023).

- There was progress in rolling out the POS machines to the tourism sector (50 machines were operationalized in the largest hotels and restaurants around the airport and safer districts). However, there is little benefit to push POS machines further since the next segment would be smaller/informal businesses yielding little revenue. Implementation of POS machines in the telecom sector did not move forward because of the industry's serious concerns regarding security, confidentiality, and data management (SB#2, not met, was due end-June 2023). Recognizing Somalia's fragile environment, the authorities will develop a more comprehensive and gradual reform to increase revenues from the telecom sector, with capacity development support from FAD, to be part of the proposed new ECF arrangement.

- The Somalia Customs Automated System (SOMCAS) being rolled out to the different ports and airports has incorporated harmonized tariffs, Harmonized System (HS) codes, and harmonized item descriptions. SOMCAS has been fully operationalized in Mogadishu seaport and airport as of early October 2023. In Kismayo seaport and airport in Jubaland State, SOMCAS has been partially implemented, as shipping lines and airlines are entering manifests into the system and declarations are being made for khat imports. Discussions are ongoing in Jubaland on how to implement the common valuation table with Mogadishu.[2] Once this is resolved, Kismayo will be able to move forward to carry out all the customs processing through SOMCAS. Meanwhile, SOMCAS implementation has been paused in the ports of Bosaso and Garowe in Puntland State, due to political conditions (SB#4, not met, was due end-July 2023). While still supporting state-building in Somalia, the Puntland government has announced that it will continue acting independently until the Constitution is completed and adopted across all FMS. The authorities aim to rollout the SOMCAS in the remaining ports once conditions allow.

11. Based on this performance, staff support the completion of the 6th review under the ECF arrangement.

HIPC COMPLETION POINT

12. In the view of the staffs of IDA and the IMF, Somalia has made satisfactory progress in meeting the requirements for reaching the floating Completion Point (see "Enhanced Heavily Indebted Poor Countries (HIPC) Initiative—Completion Point Document.")

- **HIPC CP triggers** (Annex IV). Somalia has satisfactorily implemented for at least one year a poverty reduction strategy and maintained a track record of sound macroeconomic management. Somalia has achieved thirteen of fourteen floating Completion Point triggers, including on public financial and expenditure management, domestic revenue mobilization, governance, social sectors, and statistics. The adoption and implementation of a single import duty tariff schedule at all ports was not met. The reform was completed in Mogadishu seaport and airport and there has been important progress in Kismayo seaport and airport, while the reform is paused in Garowe and Bosaso due to political conditions. The authorities will be

[2] As customs duties are typically higher in Mogadishu than Kismayo, one of the main concerns is how a common valuation table will impact trade and prices of goods in Jubaland.

requesting a waiver for this reform.

- **HIPC financing assurances**. Financing assurances from creditors representing at least 80 percent of the PV of HIPC debt relief is required for the HIPC CP. As of end-September 2023, financial assurances from Somalia's external creditors represented 89.5 percent of the PV of HIPC debt relief. The financial assurances were received in the form of either signed agreements or the agreements in principle from all multilateral creditors except for the OPEC Fund, all Paris Club creditors, and two non-Paris Club bilateral creditors. The Somali authorities continue good faith negotiations with their creditors to finalize debt relief agreements.

13. The IMF has received contributions to cover the estimated cost of the IMF's share in HIPC and beyond-HIPC debt relief to Somalia. As of June 2023, SDR 261.1 million have been received compared to the preliminary total cost of SDR 252.9 million estimated at the HIPC Decision Point. Total commitments by 123 members and the European Union amount to about SDR 288.1 million. In May 2023, the Board approved the fourth tranche of interim assistance of SDR 2.211 million to cover 100 percent of eligible debt service obligations due to the Fund between June 17, 2023 and June 16, 2024 or the HIPC CP, whichever is earlier. Overall, the IMF has provided four tranches of HIPC interim assistance in the total amount of SDR 4.8 million. At Completion Point, the IMF will provide the remaining HIPC and beyond-HIPC assistance to fully cancel eligible outstanding debt under the pre-Decision Point financing.

OUTLOOK AND RISKS

14. In the near term, growth is expected to pick up, supported by a gradual recovery in agriculture, remittances, and investment. Growth in 2023 is forecast at 2.8 percent, as agriculture production and exports are expected to rebound gradually, though affected by the lingering impact of previous drought and recent floods. Growth in 2024 is expected to rise to 3.7 percent as crops and livestock recover more fully. Foreign direct investment is expected to trend upwards in 2024 post-HIPC CP. Remittances are projected to increase slightly, as moderating global inflation eases the pressure on the disposable income of the diaspora community. Average inflation in 2023 is anticipated at 5.7 percent and would continue the downward trend in 2024 to 4.1 percent, thanks to lower fuel and food prices.

15. Medium-term growth is projected to accelerate as structural reforms pay-off and access to financing improves after HIPC CP. Growth is projected to gradually increase to 4 ¼ percent by 2028, as public and private investment scale up, supported by structural reforms and greater access to financing. The current account deficit will widen gradually as Somalia loses access to grant financing (see below), financed by foreign direct investment and a modest increase in concessional borrowing.

16. Near-term risks are tilted to the downside (Annex II). Food insecurity will aggravate if healthy rainy seasons are not sustained or if there is a global food shock. Additional risks include climate shocks, a deterioration of the security situation (including risks related to the ATMIS transition or spillovers from geopolitical developments), political risks linked to federalism, and lower global growth. If any of these adverse risks materialize, economic growth and domestic revenue would be lower, increasing financing needs. While expenditure rationalization and current financing commitments help mitigate some risks, the authorities would need additional support from the international community to address a significant adverse scenario.

NEW ECF ARRANGEMENT

A. Program Objectives

17. To anchor their macroeconomic policies post-HIPC, and to fill the balance of payments and fiscal financing gaps, the authorities are requesting a new three-year ECF-supported program. The new program will seek to build resilience, promote inclusive growth, and reduce poverty. The program will build on previous achievements under the current ECF arrangement and HIPC process, and related CD support (Annex III). The program will be anchored in Somalia's Ninth National Development Plan (NDP9) prepared in January 2020, which also served as the poverty reduction strategy for the HIPC process.[3] Key pillars of the program are to (1) maintain fiscal sustainability to ensure Somalia's continued access to external financing; (2) increase domestic revenues and strengthen public financial management to over time expand the government's capacity to finance and implement high quality development projects, (3) promote financial deepening that supports financial inclusion, (4) improve the business environment and governance to promote private investment, and (5) enhance statistics to better inform economic policies.

18. Strong ownership, sustained development partner support, and appropriate prioritization of reforms is critical. Informed by Somalia's Country Engagement Strategy, proposed SBs under the new program are tailored to country circumstances, taking into account Somalia's fragility and weak institutional capacity. The proposed SBs are parsimonious to avoid overstretching the authorities, carefully prioritized and sequenced, and anchored in capacity development support. The design of SBs complements other development partner programs and capacity development where possible.

B. Fiscal Policy

19. A new fiscal framework will anchor fiscal policy and ensure debt sustainability. Somalia's fiscal anchor has thus far been a balanced budget. Post HIPC CP, Somalia will have potential access to new external financing to support growth and poverty reduction. At the same time, thanks to debt relief at HIPC CP, Somalia will be assessed as having a moderate risk of debt distress (see Debt Sustainability Analysis) and therefore, based on World Bank IDA20 financing terms, will no longer have access to new grant commitments but only to new concessional loans

[3] The IMF and World Bank staffs prepared a Joint Advisory Note (JSAN) for the NDP9 in March 2020, for the 2020 Annual Progress Report of the NDP9 in July 2023, and another JSAN was prepared in November 2023 for the mid-term review (2020-2022) of the NDP9.

(similarly for the African Development Bank). Somalia would continue to receive grant disbursements for project commitments approved before HIPC CP, but these amounts are projected to decline considerably over time.

20. Somalia's post-HIPC fiscal framework will balance the need for higher development expenditure with protecting fiscal sustainability, while taking into account capacity constraints.

Text Table 1. Somalia: Simulation Based on Possible Portfolio of Financing for Somalia

Deficit (percent of GDP)	Estimated grant element of the portfolio	Probability of breaching the threshold by 2030	
		Debt to GDP (Threshold of 30 percent)	Debt Service to Revenue (Threshold of 14 percent)
2.5%	55.1	-	-
3.0%	52.3	-	-
3.5%	49.1	-	10.0
4.0%	46.5	-	25.0
4.5%	44.5	5.0	35.0
5.0%	42.9	10.0	45.0

Source: Staff estimates

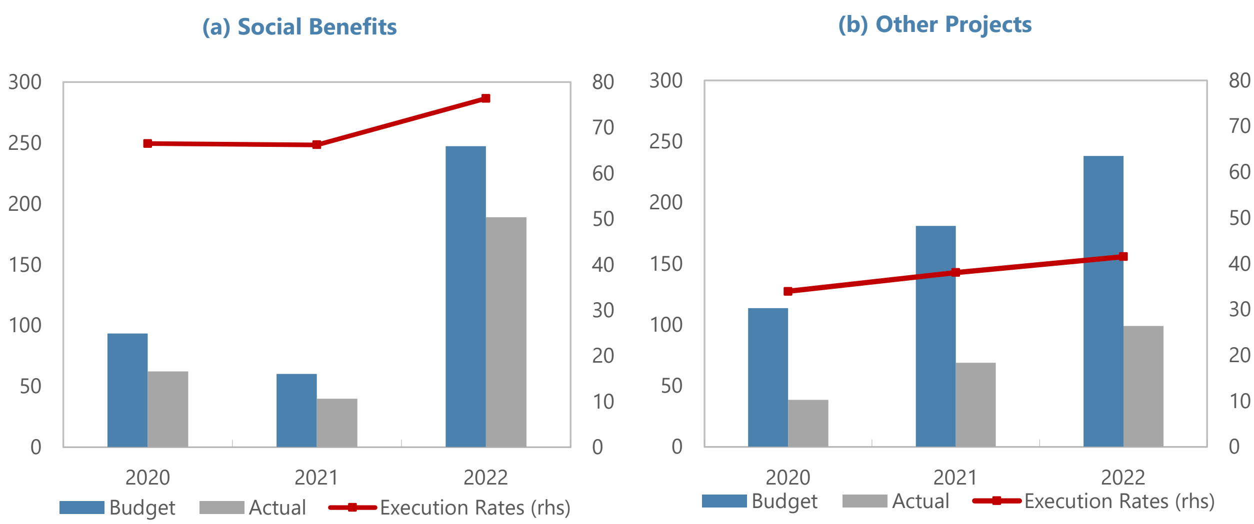
Note: Concessionality depends on available funding sources. Simulations using the LIC-DSA template are based on simplified assumptions for a *possible* portfolio of financing for Somalia: (1) IDA financing with 50 year loans and short maturity loans until 2027, up to US$400 million (weighted grant element of 69 percent); (2) IDA financing with regular term credit from 2028 onwards, up to US$400 million (grant element of 44.2 percent); and (3) Amounts in excess of US$400 million, other creditors with estimated grant element of 27.9 percent. For the simulations, a distribution of macroeconomic and fiscal shocks is estimated and used to simulate potential debt and debt service trajectories over a medium-term projection horizon. The results of these simulations are summarized in fan charts, which are then used to determine the probability of breaching the corresponding DSA thresholds.

- **Overall deficits.** The authorities commit to keeping deficits below 3.5 percent of GDP financed with concessional loans, of which at a minimum 1.5 percent of GDP will come from multilateral creditors that provide highly concessional financing terms (at least 50 percent grant element). As illustrated by the simulation in Text Table 1, maintaining overall fiscal deficits below 3.5 percent of GDP financed at concessional terms would not raise debt sustainability concerns. Prioritizing such concessional financing will also bring the associated capacity development support and help promote transparency and accountability. The fiscal anchor would be reviewed periodically in line with Somalia's borrowing capacity, as well as its debt management and public investment management capacity. For 2024-28, the fiscal deficit forecasts in Tables 2a and 2b are below 3.5 percent of GDP and are based on the currently available information regarding possible financing from multilateral creditors. For 2024, the fiscal deficit is expected at 1.2 percent of GDP, based on the authorities' 2024 budget (see paragraph 21). Specific fiscal conditionality for 2025-27 will be set during program reviews, taking into account economic developments, the authorities' policy objectives, the project pipeline and available financing from multilateral creditors, and other information, and in consultation with IMF staff.

- **Domestic revenues.** Despite efforts under the expiring program, revenue intake remains very low (2.7 percent of GDP by end December 2023) and inadequate to cover essential spending needs. In 2023, the gap between domestic revenue and operational expenditure (non-project compensation of employees, non-project goods and services, and interest payments) is estimated at 0.7 percent of GDP. Under the new program, the authorities seek to strengthen domestic revenue mobilization and restrain operational expenditure, aiming to cover operational costs with domestic revenue by 2027 (Text Table 2). To meet this objective, the authorities plan to implement several measures to raise revenues by about 0.9 percent of GDP between 2023 and 2027 (see paragraph 25).[4]

- **Prioritization of project spending.** While the execution rate of social benefit projects is close to 80 percent, for other projects it is only about 40 percent, reflecting weak implementation capacity. Prioritization of project spending will be critical, based on clear cost-benefit analyses and considering implementation capacity.

Project Expenditure (USD million, percent of budget estimate (rhs))



Source: Authorities' data and IMF staff estimates

- **Fiscal buffer.** The fiscal buffer and cash balances have served the authorities well in recent years amid volatility in revenues and delays in donor disbursements. When possible, the authorities will attempt to maintain a fiscal buffer to withstand unanticipated shocks.

- **Debt management.** The authorities will continue to develop debt management capacity and enhance debt risk assessments. By June 2024, the authorities will (1) Issue a Prime Ministerial Decree that articulates the key parameters for debt policy and establishes the procedures to be followed for entering into new borrowing and issuing sovereign guarantees, in line with IMF staff recommendations; (2) amend the PFM regulations to include a clear definition of "other financial liabilities" that are considered guarantees as per Article 37 (6) of the PFM Act, in line with IMF staff recommendations (proposed structural benchmark SB#5).They are committed to

[4] The expected increase in domestic revenues is a conservative estimate, comparable to the experience of other HIPC fragile countries.

transparency regarding all the terms and conditions of different borrowings to allow a full view of costs and risks. They will also seek to prevent the creation of contingent liabilities, including external and domestic borrowing by member states, implicit and explicit debt guarantees for public entities, and poorly designed PPPs.

Text Table 2. Somalia: Fiscal Accounts Under the New ECF-Supported Program
(Percent of GDP)

	2019	2020	2021	2022	2023	Authorities' Draft 2024 Budget 1/	2024 IMF projection 1/	2025	2026	2027
Revenue excluding projects	**3.2**	**4.0**	**2.7**	**4.2**	**3.8**	**4.0**	**3.1**	**3.1**	**3.3**	**3.6**
Domestic revenues	2.4	2.3	2.3	2.5	2.7	**2.8**	**2.8**	3.0	3.3	**3.6**
Tax	1.6	1.5	1.7	1.7	1.9	1.9	1.9	2.1	2.4	2.7
Non-tax	0.8	0.8	0.7	0.8	0.8	0.8	0.8	0.9	0.9	0.9
Budget support grants	0.7	1.7	0.4	1.6	1.1	1.2	0.4	0.1	0.0	0.0
Expenditure excluding projects	**2.9**	**3.7**	**3.6**	**4.1**	**4.0**	**4.3**	**4.3**	**4.1**	**4.1**	**4.1**
Operational expenditure	2.3	3.0	3.2	3.3	3.4	3.6	3.6	3.5	3.5	**3.5**
Compensation of employees	1.7	2.4	2.5	2.4	2.5	**2.6**	**2.6**	2.6	2.6	2.6
Good and services	0.7	0.6	0.7	0.9	0.8	0.9	0.9	0.8	0.8	0.8
Interest	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Other expediture	0.6	0.7	0.4	0.8	0.6	0.7	0.7	0.6	0.6	0.6
Transfers to FMS	0.4	0.7	0.4	0.7	0.5	0.6	0.5	0.5	0.5	0.5
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1
Capital expenditure	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Overall balance excluding projects	**0.3**	**0.3**	**-0.9**	**0.0**	**-0.1**	**-0.3**	**-1.2**	**-0.9**	**-0.8**	**-0.5**
Projects										
Project grants	0.2	1.4	1.1	2.8	2.5	4.4	3.8	2.0	1.4	0.6
Project expenditure	0.2	1.4	1.1	2.8	2.5	4.4	3.8	2.4	2.3	2.2
Total revenues including projects	**3.3**	**5.4**	**3.8**	**6.9**	**6.4**	**8.4**	**6.9**	**5.2**	**4.7**	**4.2**
Total expenditure including projects	**3.1**	**5.1**	**4.7**	**6.9**	**6.5**	**8.7**	**8.1**	**6.5**	**6.3**	**6.3**
Overall balance including projects	**0.3**	**0.3**	**-0.9**	**0.0**	**-0.1**	**-0.3**	**-1.2**	**-1.3**	**-1.7**	**-2.1**

Source: IMF Staff Estimates
1/ The overall fiscal deficit for 2024 projected by the authorities (US$38 million) is consistent with the IMF staff forecast (US$146 million) in terms of domestic revenue and non-project expenditure. The authorities' budget assumes that budget support financing from IDA (US$75 million) could be on grant terms and approved before June 30, 2024. A decision by the IDA deputies on the latter is still pending, therefore in the IMF forecast budget support financing from IDA is included as borrowing and not as a grant. The authorities' 2024 budget also includes budget grants from Türkiye (US$30 million), which are not incorporated in the IMF baseline. In addition, in the authorities' 2024 budget, interest payments are estimated based on signed agreements with creditors (US$10 million), while the IMF forecast shows interest payments assuming agreements are reached with all creditors (US$15 million). There are differences between the authorities and IMF staff on project grant disbursements, but these would be mirrored by project expenditure, and therefore have no impact on the overall deficit.

21. **Within this fiscal framework, the 2024 overall deficit is expected at 1.2 percent of GDP.** The authorities will be undertaking measures to increase domestic revenues in 2024 to 2.8 percent of GDP (see Text table 3, and measures discussed in paragraph 25). For the first time since 2020, these efforts would lead to domestic revenues surpassing the cost of compensation of employees (2.6 percent of GDP). Considering resource constraints, operational expenditure is expected to increase only modestly by 0.1 percent of GDP reflecting additional security spending (new recruits

and food rations), allowances for teachers, and higher interest payments.[5] Project grant disbursements, including those linked to already approved World Bank programs, are estimated to increase to 3.8 percent of GDP in 2024, and no borrowing for projects is envisaged at this time. Gross financing needs—including the overall fiscal deficit of US$145.5 million (1.2 percent of GDP) and amortizations of US$9 million—are expected to be financed by cash balances from 2023, World Bank budget support loans (US$75 million), and disbursements from the proposed ECF arrangement in 2023 and 2024 (US$60.3 million).

Text Table 3. Somalia: Estimated Increase in Domestic Revenue
(Percent of GDP)

	2023 Proj.	2024 Proj.
Increase in domestic revenue	**0.4**	**0.3**
New measures/better enforcement	**0.2**	**0.2**
Tax on international trade (including customs duty increase in May 2023, SOMCAS implementation, Khat import tax)	0.2	0.1
Other tax revenue (including turnover tax, POS machines)	0.0	
Nontax revenue (including spectrum fees, fishing license, automation of road tax and rental income)	0.0	0.1
Ongoing policies	**0.3**	**0.1**

Source: Somali authorities and IMF staff calculations.

22. **Timely implementation of revenue reforms is crucial.** The authorities are to lay out their proposed revenue strategy for the next three years in a new Tax Policy and Revenue Administration Roadmap, building on progress so far and with IMF capacity development support (proposed SB#1, due end-June 2024). Some of the reforms will take time to implement, and the revenue yields would materialize gradually over time. The Roadmap will include the following key revenue reforms, among others:[6]

- **Completion of the ad valorem customs reform.** After gaining sufficient experience with implementation of the SOMCAS system, the authorities will begin application of ad valorem tariffs that rely on invoice values, initially keeping the common valuation table to provide

[5] Affordability is a key concern for the authorities as they develop their National Security Plan. The authorities are therefore discussing with partners to secure continued support during and after the ATMIS transition.

[6] A revenue administration action plan was last prepared in 2016.

minimum values for duty calculation. The authorities will advance the customs reforms in the remaining ports once conditions allow.[7]

- **Submission of the Income Tax Bill** to Parliament by end-June 2024 (proposed SB#2) and its implementation. The existing Income Tax Law (ITL) dates from 1966 and does not adequately address the needs of Somalia's current economic reality. Once enacted, the new ITL will streamline definitions of taxable income and deductions and is expected to increase income tax collection over the medium-term.

- **Revenue mobilization from large businesses, in particular the telecom sector.** Bringing effective tax rates on the telecom sector up to a level comparable to that of peers and other countries in the region is essential to achieve Somalia's domestic revenue targets. With IMF capacity development support, the authorities will develop a comprehensive reform strategy to increase revenues from the telecom sector.

- **Other revenue administration measures,** including finalizing the Revenue Administration Law regulations. The authorities will also leverage information and communication technologies for revenue administration, including by developing the Integrated Tax Administration System and establishing a gateway for tax payments through private banks.

23. Public financial management improvement should aim at strengthening expenditure controls and fiscal transparency.

- **Payroll integration.** The Somali authorities plan to integrate remaining non-payroll compensation of FGS employees into a single payroll, by reducing the ratio of non-payroll payments to total compensation of employees to less than 1 percent by end-June 2024 (proposed SB#3). In addition, the authorities will develop a strategy to align salaries of temporary workers with the existing pay scale of permanent workers and to implement the Pay and Grade Policy.

- **Invoice tracking.** Building on the experience of invoice tracking for electricity and internet, a roadmap to expand the coverage of invoice tracking to all goods and services will be developed by end-February 2024 (proposed SB#4).

- **Public investment management.** The authorities will seek CD support on implementation of public investment projects. The initial focus would be on building the capacity of the MoF in project appraisal and selection to ensure the implementation of quality and affordable projects, ensuring fiscal sustainability.

[7] The macroeconomic framework is based on FGS revenues and expenditures. FGS and FMS have the agreement that, outside of Mogadishu, FMS keep any customs revenues collected in their ports. Therefore, delayed implementation of customs reform in Puntland does not impact the macroeconomic framework nor the revenue targets in the program.

- **Reforms to improve the accounting system, business processes, and digitalization**. This includes updating accounting and financial reporting to comply with cash-basis IPSAS. The PFM regulations may need to be amended, including to support GovTech.

24. Development of the fiscal federalism framework hinges on a broad-based political consensus. Once such political agreements are achieved, the IMF will support the authorities develop and implement revenue sharing and expenditure frameworks.

C. Monetary and Financial Policy

25. The CBS has continued to enhance its institutional framework. In line with IMF safeguards recommendations, the CBS is preparing amendments to the CBS Law to enhance central bank autonomy and work is ongoing to strengthen capacity of the Finance Department. The authorities are also updating the CBS Strategic Plan. A new IMF safeguards assessment has been initiated and a mission is expected in early December 2023, which will guide additional priority reforms that can be supported by IMF technical assistance.

26. Sustained efforts are needed to improve financial regulation and supervision. To strengthen financial sector supervision, by end-July 2024, the CBS will develop an action plan to improve the quality of data submitted by commercial banks, in line with IMF staff recommendations, and will communicate the action plan to commercial banks (proposed SB#7). The plan would incorporate, as needed, improvements to infrastructure, the regulatory framework, and capacity development. Over the medium-term, improvements in data quality will allow Somalia to submit financial stability indicators to the IMF. The CBS will engage with mobile money operators (MMOs) on relicensing, at which point MMOs are expected to fully comply with regulations. The CBS will also need to strengthen its enforcement capacity of financial sector regulations, including by empowering supervisors to take appropriate actions and further capacity development efforts. The authorities have also advanced with payment system reforms, including a national QR code and national SWITCH.

27. Improvements to the AML/CFT framework continue. The authorities continue preparations for the upcoming 2024 MENA-FATF Mutual Evaluation Assessment. By end- March 2024, they will submit amendments of the AML/CFT Law to Parliament, in line with IMF staff recommendations (proposed SB#8), with a view to achieving enactment of the amendments before the Mutual Evaluation. The authorities have also progressed with the implementation of Targeted Financial Sanctions law, including by conducting training for law enforcement staff.

28. The authorities consider the currency reform as a national development priority. The currency exchange project—which could be carried out in the next two years—will reintroduce the Somali shilling (SOS) as legal tender by replacing old and counterfeit notes in circulation.[8] However, even after new SOS banknotes are introduced, the Somali economy is expected to remain highly

[8] The CBS has not issued currency since 1991. SOS notes currently in circulation are old and mostly counterfeit (80 percent) and are not backed by the CBS.

dollarized for some time. The precise timing for the implementation of the currency exchange project will depend on addressing the funding gap and securing a firm agreement between the FGS and all FMS.[9] The authorities will work on formulating the monetary and exchange rate policy frameworks for the currency reform and developing capacity of the CBS and financial institutions—in consultation with the IMF and including further IMF technical assistance (see Annex V).

D. Governance, Inclusive Growth, and Resilience

29. The authorities continue building capacity on petroleum sector issues. The authorities are developing the regulations for the Extractive Industries Income Tax Law and the Petroleum Act. The authorities may launch the licensing round in 2023Q4. Staff reiterated that the licensing round and any new negotiated production sharing agreements should be in line with the established legal framework.

30. Additional reforms are needed to strengthen the framework for procurement and concessions and bolster the management of public assets. The authorities issued new emergency procurement procedures in September 2023. By June 2024, they will submit the PPP Bill to Parliament with a framework that adequately manages fiscal risks and establishes a gateway process managed by the Ministry of Finance (proposed SB#6). The authorities are also moving forward with implementing the new policy on the management of public assets.

31. Continued efforts are needed to bolster the anti-corruption framework. The Audit Bill, which was enacted in September 2023, lays the legal groundwork for a robust federal audit system. Staff underscored the importance of building capacity of the Auditor General's Office to support transparency and accountability. The authorities are to advance implementation of UNCAC, including review of the current legal framework to identify gaps, but there has been limited progress due to resource constraints.

32. Based on NDP9, the authorities remain committed to bolstering inclusive growth and improving the resilience to climate shocks. The newly established national unified social registry as a functional platform will facilitate implementation of social protection programs. The authorities also started rolling out the new Somalia National Digital ID in September 2023, which will support the implementation of targeted social protection programs and improve know-your-customer requirements to enhance the AML/CFT efforts. The authorities are preparing the Food Security Crisis Plan to strengthen the resilience of food systems to climate change. The authorities are also working towards ensuring Somalia's accession to the East African Community.

33. Statistics can be enhanced further. A new census is expected in 2024, the first after 40 years. A new Business Survey is to be launched, which will be used to develop production-based national accounts. There is also scope to strengthen the compilation and dissemination of

[9] The World Bank project is expected to provide US$40 million in grant financing, against a total estimated cost of US$72 million for the currency exchange. Once approved by the World Bank Board, implementation of the currency exchange is expected to take 18-24 months.

macroeconomic and financial statistics, and advance within the e-GDDS framework, with IMF CD support.

FINANCING AND PROGRAM MODALITIES

34. The new ECF arrangement provides a framework that will help the authorities meet Somalia's balance of payments (BOP) and fiscal financing needs and support their reform program. Staff proposes access of SDR 75 million (approximately 45.9 percent of quota, US$100 million) for budget support under a 36-month ECF. Somalia suffers from a protracted BOP need due to structural issues, including high import-dependency, a narrow export base, and a heavy reliance on remittances. In addition, immediate BOP needs arise as Somalia starts to service its external debt post HIPC CP, as the country no longer benefits from the debt service moratorium obtained during the HIPC interim period. The ECF arrangement enables Somalia to address BOP and fiscal financing needs (Text table 4) to make significant progress toward stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth. Once the currency exchange reform takes place and Somalia adopts a new monetary and exchange rate regime, there may be a need for additional reserves to back the new currency and enhance credibility.[10] An augmentation of the ECF arrangement could be considered in a subsequent program review, once there is greater certainty about the timing of this reform.

35. The proposed phasing is somewhat frontloaded to match the timing of fiscal financing needs. The fiscal financing gap is large in the first year of the program, mainly due to the loss of new grants and higher debt service costs. While development partners are stepping in to provide sufficient financing for the program, their internal processes require time and disbursements will likely take place only in 2024H2, creating liquidity pressures for 2024H1. Frontloading of the IMF disbursements will help the authorities manage these liquidity pressures until other disbursements are released. Fiscal and external financing needs are expected to decline over the medium term supported by implementation of structural reforms and the new ECF arrangement will help catalyze financing from partners. Frontloaded access is supported by a strong set of structural reforms during the first year of the program (Table 13). In this context, staff proposes disbursement of SDR 30 million at Board approval, with remaining access equally distributed across 6 biannual reviews (SDR 7.5 million each) (Table 14). Disbursements will be made for direct budget support, justified by the immediacy of fiscal financing needs, legal limits on direct central bank lending to the government, as well as the de-facto dollarized economy.[11]

---

[10] The World Bank estimates that old shillings in circulation to be exchanged range between SOS 1.022-1.546 trillion (USD 40.9- 61.8 million). There are currently no deposits in shillings. This contrasts with about USD 1.2 billion in bank deposits and a similar amount in mobile money wallets.

[11] The total amount outstanding at any time of CBS advances cannot exceed 15 percent of the most recent audited FGS domestic revenue (CBS Law), all liquidity advances should be repaid by end-December of the fiscal year (Appropriation Law), and the maturity of temporary advances should not exceed 90 days (2021 Short-Term Government Financing Agreement).

Text Table 4. Somalia: Projected Financing Gap in 2023 and 2024
(percent of GDP)

External financing need	2023	2024
External financing requirement	**89.6**	**61.0**
of which:		
Trade balance	61.0	60.8
Official arrears/repayments	28.2	0.0
Available financing	**88.0**	**59.8**
of which:		
Current transfers (net)	50.7	51.7
HIPC debt relief	28.2	0.0
External financing gap	**1.6**	**1.1**
Financing commitments so far	**1.6**	**1.1**
IMF: prospective arrangement	0.3	0.2
IMF ECF	0.2	0.0
World Bank	0.9	0.9
Other	0.2	0.1

Fiscal financing need	2023	2024
Fiscal deficit, excl. budget support grants	**1.2**	**1.5**
Revenue and grants, excl. budget support grants	5.2	6.6
Expenditure	6.5	8.1
Total financing, excl. projects	**-0.2**	**0.4**
Net acquisition of financial assets	-0.1	0.5
Net incurrence of liabilities	-0.1	-0.1
Fiscal financing gap	**1.5**	**1.1**
Financing commitments so far	**1.5**	**1.1**
IMF: prospective arrangement	0.3	0.2
IMF ECF	0.0	0.0
World Bank	0.9	0.9
Other	0.2	0.1

36. Program performance will be monitored by semi-annual reviews.

- **Performance criteria** (Table 12). The program will include QPCs for: (1) floor on FGS domestic revenue; (2) ceiling on spending on FGS compensation of employees, goods and services, and contingency; (3) floor on CBS net international reserves[12]; (4) ceiling on contracting or guaranteeing any new external, non-concessional debt[13]; and (5) ceiling on accumulation of new external arrears by the FGS. ITs will be included for: (6) floor on the FGS fiscal balance (on a cash basis)[14]; (7) ceiling on new domestic debt contracted by the FGS; and (8) ceiling on accumulation of new domestic arrears by the FGS.[15] New concessional borrowing will be monitored as a memorandum item.

[12] The NIR floor will be adjusted downward: (1) if the CBS transfers distributable earnings to the government; (2) if the CBS provides the MoF with temporary liquidity advances; and (3) if the CBS transfers to the MoF part or all of the SDR 7 million windfall from the HIPC debt relief. See TMU.

[13] In line with the IMF Debt Limits Policy for countries at moderate risk of external debt distress and with limited access to international financial markets, the QPC on non-concessional borrowing has been set at zero. This is also consistent with the World Bank's Sustainable Development Finance Policy. Experience under the ECF reveals the authorities' weak technical capacity to monitor a PV limit—including because of limited staffing at the Debt Management Unit, lack of experience with contracting of new debt, and information lags—, therefore new concessional borrowing is monitored as a memorandum item. See the borrowing plan in Table 15.

[14] The fiscal balance floor will be adjusted down by any delays or shortfalls in budget support grants and also by any higher amounts of interest payments compared to the budget estimate.

[15] The IT on new domestic borrowing will facilitate monitoring of domestic debt while taking into account uncertainty around the need for short-term liquidity as invoice tracking is implemented. Invoice tracking for all goods and services is a key reform under the program that would establish clear deadlines for the payment of invoices—in contrast to the current practice of postponing some payments to the end of the year. As this reform is progressively implemented, some short-term financing may be needed to smoothen cash needs. The availability of external financing and the shallow nature of the domestic market are expected to constrain the size of any domestic borrowing.

- **SBs** for the first year of the program are parsimonious, carefully prioritized and sequenced, and anchored in capacity development support (Table 13).

- **Safeguards.** A new safeguards assessment of the CBS will be carried out before the first review. An agreement detailing a clear framework on the modalities for repayment of Fund financing has been put in place between the CBS and the MoF.

37. The program is fully financed, with firm commitments through December 2024 and good prospects for the remainder of the program. Financing needs for the first 12 months of the program would be met with disbursements from the World Bank (US$109.8 million) and the EU (EUR10 million). The continued strong engagement of international donors indicates good prospects for full financing thereafter. Staff stressed the importance of development partners disbursing budget support as early as possible.

38. Somalia's external and public debt are assessed at moderate risk of debt distress following HIPC CP. Delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative, and beyond-HIPC assistance at the HIPC CP reduce all debt burden indicators significantly below their respective thresholds in the baseline. However, some indicators will breach the indicative thresholds under the shock scenarios, consistent with a moderate risk rating (see Debt Sustainability Analysis). After HIPC CP, the authorities will continue good faith negotiations to finalize debt relief agreements with creditors that have any remaining HIPC eligible debt. As the Paris Club agreement with Somalia is representative, based on the Paris Club's comparability of treatment, principal arrears to non-Paris Club creditors can be deemed away under the Fund's Lending into Arrears to Official Bilateral Creditors (LIOA) policy.

39. Somalia's capacity to repay the Fund remains adequate, albeit subject to risks. With debt relief at HIPC CP and under the proposed access, IMF credit outstanding is projected to peak at 70.7 percent of quota in 2026 (SDR 115.6 million), below the normal access limits. Since the HIPC Decision Point, the authorities' track record of servicing IMF debt and SDR charges has been strong, which staff expects to continue post HIPC CP. Nevertheless, the capacity to repay (CtR) the Fund credit is subject to high uncertainty, as several CtR indicators exceed the 75th percentile of past PRGT arrangements (Figure 4). To mitigate debt servicing risks, the program sets ceilings on overall deficits and non-concessional borrowing, in addition to supporting fiscal and governance reforms.

40. Capacity development in all areas is crucial for the program success, financed by the Somalia Country Fund (SCF). Despite proactive efforts, fundraising for SCF Phase II that supports CD delivery through FY2025 has been insufficient, representing a risk to reform implementation.

STAFF APPRAISAL

41. The authorities have made commendable efforts to implement the ECF-supported program and advance reforms in a challenging political, security and climate environment. Program performance under the 2020 ECF arrangement has been satisfactory, notwithstanding

Somalia's fragile situation. This achievement was by no means assured when the program was approved in March 2020, and considering the extraordinary events that have impacted Somalia in recent years, including the Covid-19 pandemic, unprecedented droughts, and tense security situation. Backed by the authorities' steadfast efforts, Somalia is now ready to complete the last review of the 2020 ECF arrangement and be considered for reaching the HIPC Completion Point.

42. Despite this progress, Somalia continues to face significant challenges, including from economic, social, security, and climate risks. Growth is currently insufficient to reduce widespread poverty, address large social needs, and create sufficient jobs for the youth. Somalia is highly vulnerable to climate shocks that hurt growth and hinder poverty reduction efforts.

43. The Somali authorities have articulated an ambitious, yet realistic structural reform agenda to promote macroeconomic stability, inclusive growth, and poverty reduction. Building on progress so far, post-HIPC policy priorities will be to maintain fiscal sustainability, increase domestic revenues and strengthen public financial management, promote financial deepening and financial inclusion, improve the business environment and governance, and enhance statistics. The authorities will also work, with support from the IMF, on formulating and implementing new monetary and exchange rate policy frameworks in the context of the currency reform to reintroduce the Somali shilling as legal tender.

44. The authorities are committed to a prudent fiscal framework that balances the need for higher development expenditure with protecting fiscal sustainability, while taking into account capacity constraints. External financing will be based solely on grants and concessional loans to preserve debt sustainability. The 2024 budget strengthens domestic revenue collection, which is expected to surpass the cost of compensation of employees for the first time in years. External budget support remains crucial.

45. Decisive revenue mobilization efforts should be continued in the coming years to fully cover operational expenditure and make room for development spending over time. Somalia has been actively building its tax capacity, but domestic resources remain insufficient to cover recurrent expenditure. In addition, budget support grants are expected to decline after the HIPC CP. The authorities aim to increase domestic revenues by 0.9 percent of GDP between 2023-2027, which would allow the authorities to cover operational costs with domestic revenue by 2027. Revenue reforms will include customs modernization, implementation of a new income tax law, higher revenues from large businesses including the telecom sector, and enhancement of revenue administration.

46. The authorities should continue to strengthen public financial management and debt management capacity. Key expenditure management reforms include fully integrating all compensation of FGS employees into the payroll and implementation of the invoice tracking. Somalia also needs to build public investment management capacity to ensure the implementation of high quality and affordable projects. The authorities need to strengthen the public debt management framework, including by fully articulating and disseminating the procedures for initiating loan negotiations and entering into loan agreements.

47. The program will help improve CBS capacity and AML/CFT efforts. Continued efforts are needed to bolster CBS financial regulation and supervision capacity and it is important to take steps to improve the quality of data submitted by commercial banks. A new IMF safeguards assessment will also help guide additional priority reforms. Continued efforts are needed to address ML/FT risks ahead of the MENA-FATF Mutual Evaluation Assessment in 2024, including amendments to the AML/CFT Law.

48. In the context of the proposed currency reform, the monetary and exchange rate policy frameworks need to be formulated and the capacity of the CBS and financial sector enhanced, with IMF CD support. The choice of the new framework should (1) provide an efficient nominal anchor; (2) be simple, transparent, and easily understandable by businesses and households; and (3) be operationalized even with limited central bank resources and operational capacity. Under any monetary and exchange rate regime, it will be essential that Somalia maintain CBS' operational independence and technical capacity, ensure fiscal discipline, further develop financial markets, and improve the quality and timeliness of macroeconomic and financial data.

49. Sustained efforts are needed to improve governance and fight corruption. For the petroleum sector, the authorities should continue building capacity and ensure implementation of the established legal framework. Additional reforms are needed to strengthen the framework for procurement and concessions, including a new PPP law that adequately manages fiscal risks. Additional measures to improve governance include strengthening the capacity of the Auditor General's Office and further progress on implementation of the UNCAC.

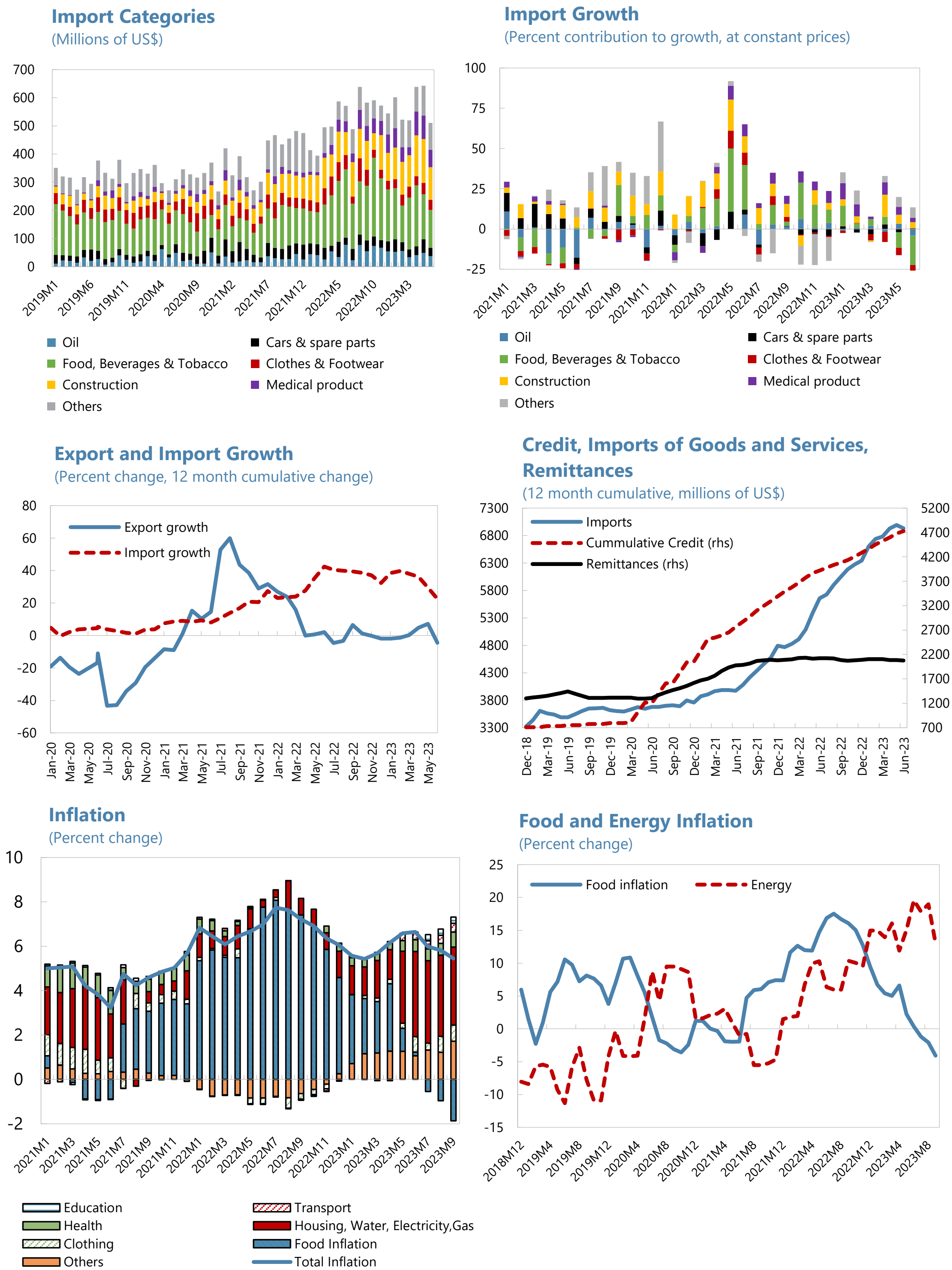
50. Despite the progress, risks are still significant and reflect Somalia's drivers of fragility. Risks include climate shocks, a deterioration of the security situation, political risks linked to federalism, and lower global growth. These risks are mitigated by continued program ownership, capacity development, and sustained support from development partners.

51. Somalia continues to need extensive IMF CD support and financing for Somalia Country Fund is critical. Staff encourages Somalia's partners to accelerate their pledges to the SCF to ensure a continued smooth delivery of IMF TA to support the authorities' reform agenda.

52. Given the strong implementation of reforms, staff supports the completion of the sixth review of the current ECF with a corresponding SDR 7 million disbursement. The authorities plan to use the disbursement to help strengthen gross external reserves.

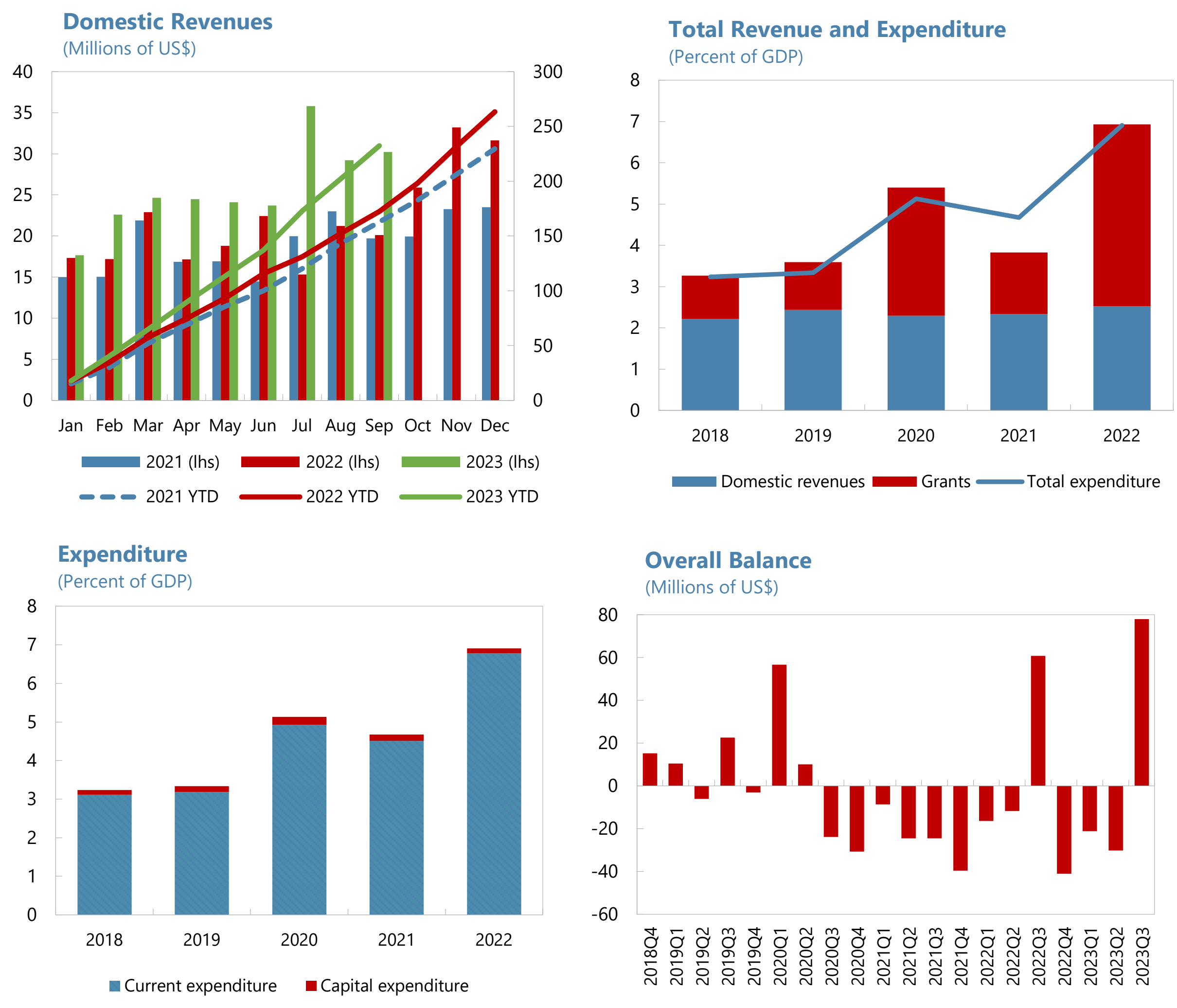
53. Based on the balance of payments need and policy commitments, staff supports the authorities' request for a new three-year arrangement under the ECF. Staff proposes program access of SDR 75 million (approximately 46 percent of quota) for direct budget support, frontloaded to match the timing of fiscal financing needs. The current ECF arrangement will expire at the time that the last disbursement is made. Because a member cannot have two ECF arrangements effective at the same time under the PRGT Instrument, the new ECF arrangement would only come into effect once the current ECF arrangement expires.

Figure 1. Somalia: High Frequency Indicators, 2019–2023



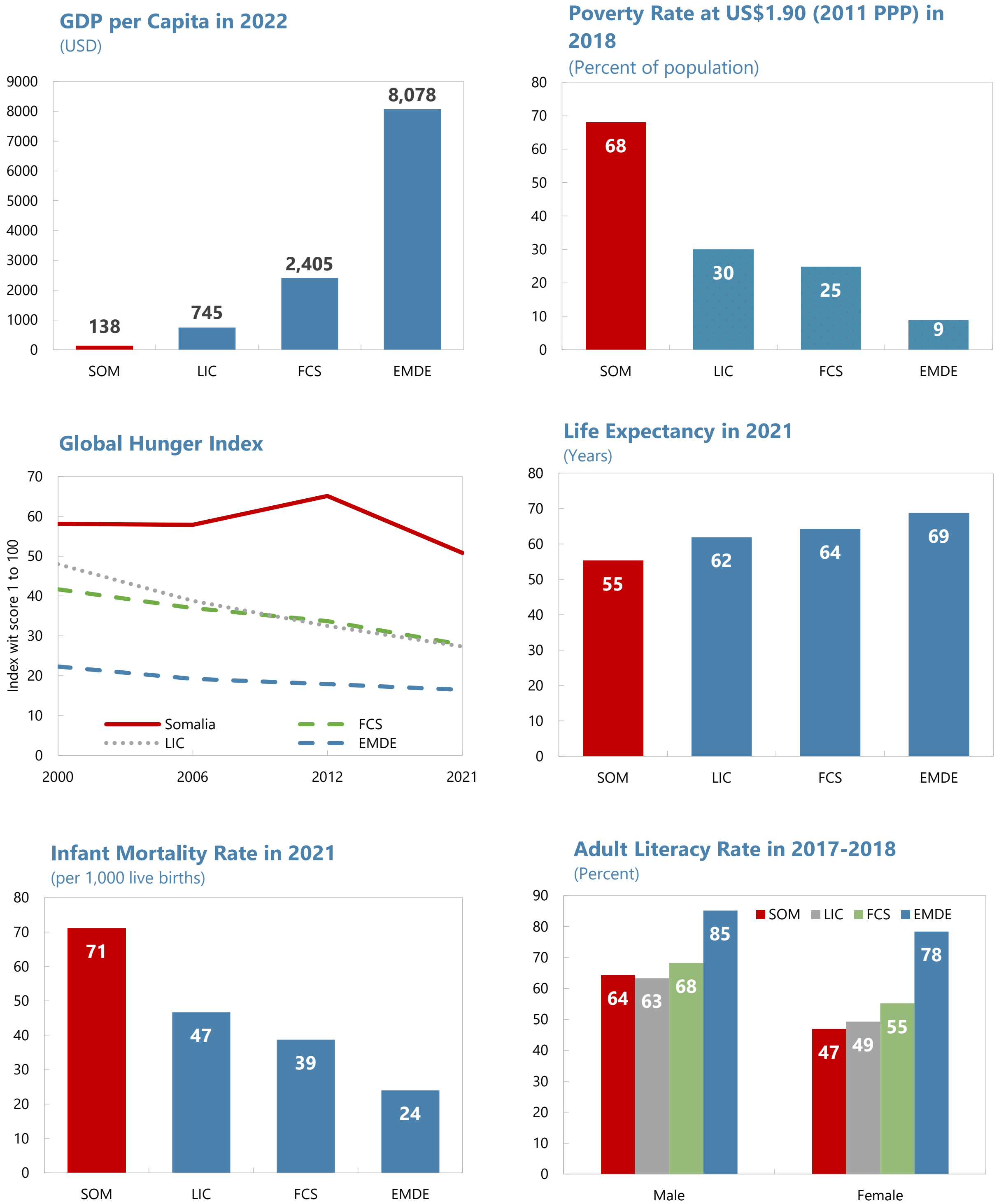
Source: Authorities' data and IMF Staff estimates

Figure 2. Somalia: Fiscal Indicators, 2018–2023



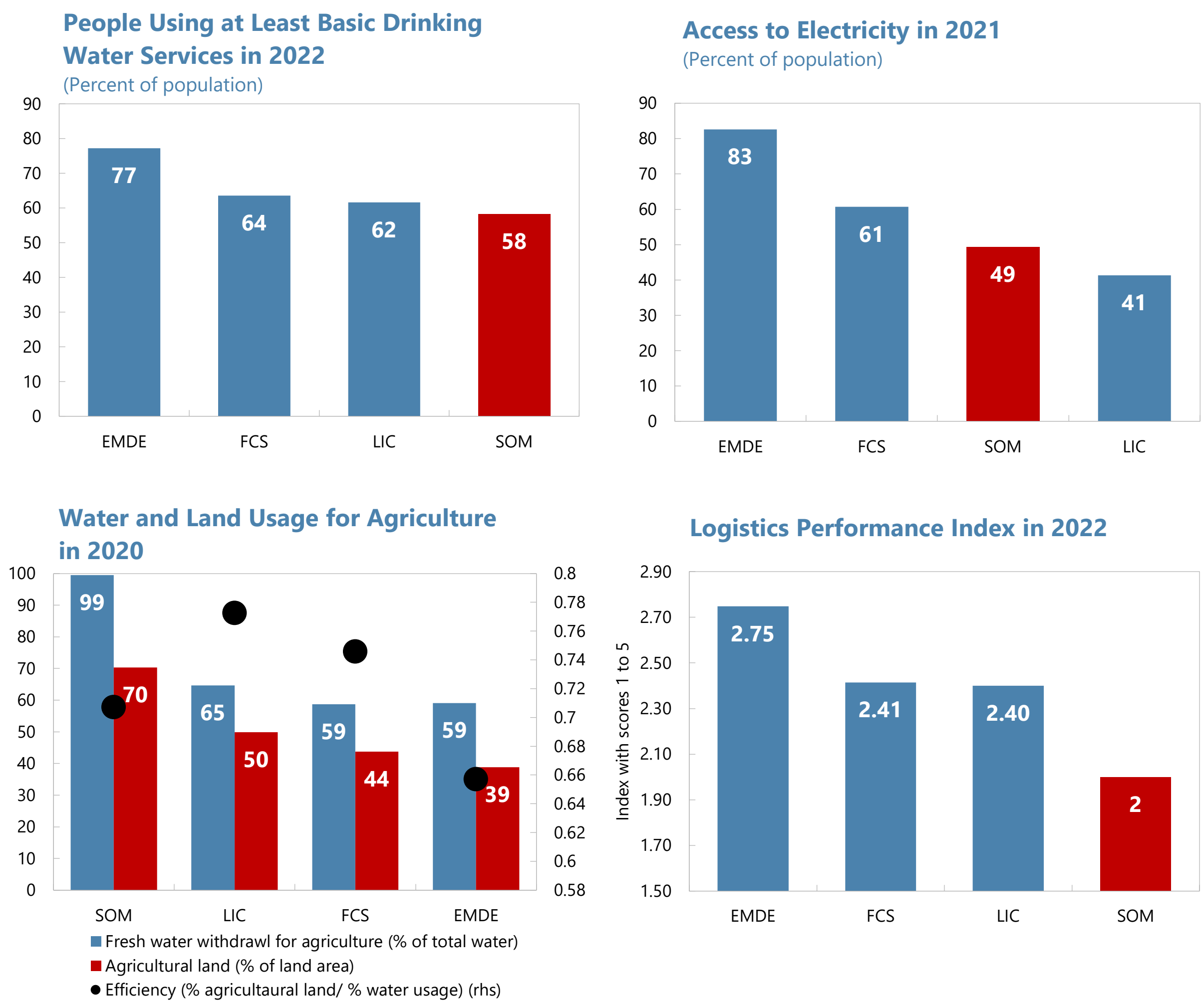
Source: Authorities' data and IMF Staff estimates

Figure 3a. Somalia: Social Indicators



Sources: WEO, IMF Staff estimates, World Bank Development Indicators, Global Hunger Index, UNFPA (2016), Educational Characteristics of the Somali People
Note: SOM Somalia; LIC Low Income Countries; FCS Fragile and conflict-affected states; EMDE Emerging markets and developing economies

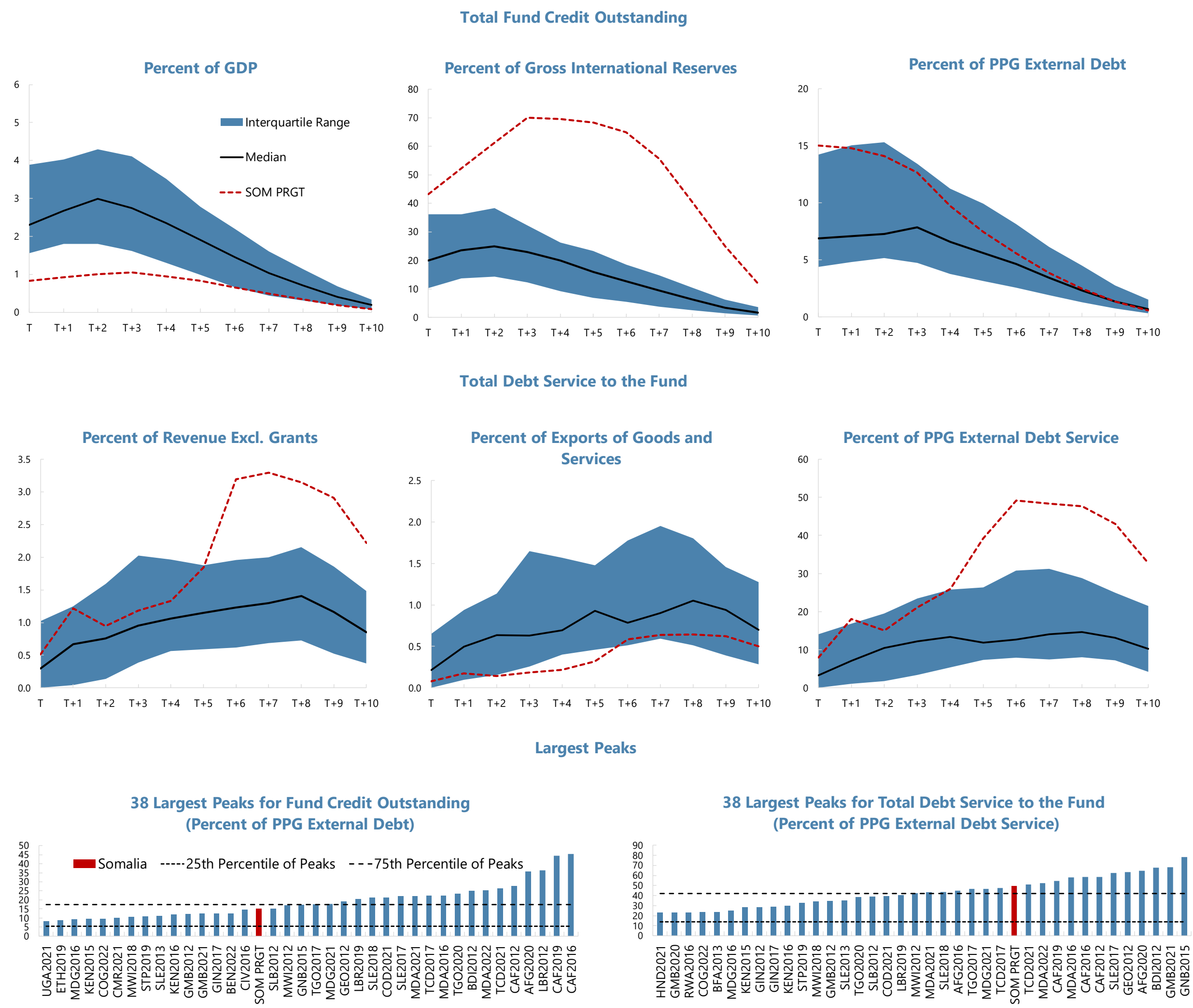
Figure 3b. Somalia: Infrastructure and Vulnerability to Climate Shocks



Source: World Bank Development Indicators and IMF Staff estimates
Note: SOM Somalia; LIC Low Income Countries; FCS Fragile and conflict-affected states; EMDE Emerging markets and developing economies

Figure 4. Somalia: Capacity to Repay Indicators Compared to UCT Arrangements for PRGT Countries

(In percent of the indicated variable)



Notes:
1) T = date of arrangement approval. PPG = public and publicly guaranteed.
2) Red lines/bars indicate the CtR indicator for the arrangement of interest.
3) The median, interquartile range, and comparator bars reflect all UCT arrangements (including blends) approved for PRGT countries between 2012 and 2022.
4) PRGT countries in the control group with multiple arrangements are entered as separate events in the database.
5) Comparator series is for PRGT arrangements only and runs up to T+10.
6) Debt service obligations to the Fund reflect prospective payments, including for the current year.
7) In the case of blenders, the red lines/ bars refer to PRGT+GRA. In the case of RST, the red lines/ bars refer to PRGT+GRA+RST.

Table 1. Somalia: Selected Economic and Financial Indicators, 2021–2028 1/

Population: 15.6 million, 2022 estimate

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	5th ECF Review	Est.	5th ECF Review	Proj.	Proj.				
National income and prices 2/										
Nominal GDP in millions of U.S. dollars	9,839	8,158	10,420	8,738	11,515	12,489	13,541	14,686	15,913	17,192
Real GDP in millions of U.S. dollars	10,172	6,235	10,420	6,410	10,711	11,108	11,541	12,002	12,495	13,032
Real GDP, annual percentage change	3.3	1.7	2.4	2.8	2.8	3.7	3.9	4.0	4.1	4.3
Real GDP per capita in U.S. dollars	670	399	667	399	667	673	680	688	699	711
CPI (period average, percent change)	4.6	6.8	6.8	4.2	5.7	4.1	3.8	3.6	3.4	3.2
CPI (e.o.p., percent change)	5.7	6.1	6.1	3.7	4.6	3.9	3.7	3.5	3.3	3.1
				(Percent of GDP)						
Central government finances 3/										
Revenue and grants	3.8	8.8	6.9	7.8	6.4	6.9	5.2	4.7	4.2	4.1
of which:										
Tax	1.7	2.2	1.7	2.2	1.9	1.9	2.1	2.4	2.7	2.9
Grants 4/	1.5	5.6	4.4	4.6	3.7	4.1	2.1	1.4	0.6	0.3
Expenditure (FGS)	4.7	8.8	6.9	8.3	6.5	8.1	6.5	6.3	6.3	6.2
Compensation of employees	2.5	3.2	2.5	3.4	2.5	2.6	2.6	2.6	2.6	2.6
Purchase of non-financial assets	0.2	0.2	0.1	0.2	0.3	0.3	0.2	0.2	0.2	0.2
Overall balance	-0.9	0.0	0.0	-0.5	-0.1	-1.2	-1.3	-1.7	-2.1	-2.0
Net change in the stock of cash	-0.2	0.5	0.4	-0.7	0.1	-0.5	0.0	0.0	0.0	0.0
Stock of domestic arrears	0.7	0.8	0.7	0.8	0.6	0.5	0.5	0.4	0.4	0.3
Public debt 5/, 6/	40.6	40.8	37.4	7.0	6.1	6.8	7.6	8.7	10.1	11.3
				(Percent of GDP)						
Monetary Sector										
Net Foreign Assets	-3.5	-3.2	-1.5	1.1	2.0	2.0	2.0	2.0	1.8	1.7
Central Bank claims on non-residents 7/	2.9	4.4	2.9	3.6	2.9	2.7	2.5	2.3	2.1	1.9
Net Dometic Assets	14.9	17.8	14.3	13.3	10.9	11.2	11.7	12.5	12.6	13.1
Credit to the private sector	3.2	4.9	3.8	5.5	4.3	4.9	5.7	6.8	7.6	8.7
Broad Money 8/	11.4	14.6	12.7	14.4	12.9	13.2	13.7	14.5	14.4	14.8
				(Percent of GDP)						
Balance of payments										
Current account balance	-6.8	-16.8	-8.0	-16.4	-9.5	-9.0	-10.2	-10.7	-10.9	-11.0
Trade balance	-50.9	-79.1	-61.2	-75.0	-61.0	-60.8	-60.0	-59.3	-59.2	-59.0
Exports of goods and services	15.6	17.0	17.3	18.2	18.1	19.2	20.3	21.1	21.8	22.2
Imports of goods and services	66.5	96.2	78.5	93.2	79.0	79.9	80.3	80.4	81.0	81.2
Remittances	21.5	26.3	20.6	27.6	20.6	20.9	21.2	21.5	22.0	22.0
Grants	23.0	36.6	33.0	31.5	31.3	31.2	28.9	27.4	26.6	26.3
Foreign Direct Investment	5.2	7.8	5.2	7.8	5.2	5.4	5.4	5.4	5.4	5.4
External debt 5/, 9/	39.9	40.0	36.7	6.3	5.5	6.3	7.1	8.3	9.7	11.0

Sources: Somali authorities; and IMF Staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ In June 2023, the Somalia National Bureau of Statistics rebased GDP to 2022.

3/ Budget data for the Federal Government of Somalia. Fiscal operations are recorded on a cash basis. GDP data cover the entire territory of Somalia.

4/ A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress. Lower grants would result in deficits of 1.5 to 2.0 percent of GDP, higher than the ones projected under the alternative before this policy change. The difference with previous deficit projections would dissipate over time as the previous deficit projections already incorporated a gradual shift away from grants to loans.

5/ Assumes application of HIPC debt relief, including HIPC interim assistance received between the Decision and Completion Points, and MDRI and beyond-HIPC debt relief at Completion Point in 2023.

6/ Public debt includes arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt. Consistent with the public debt definition in the DSA. It includes net SDR position of the FGS.

7/ Includes FGS grants held abroad.

8/ Primarily desposits at commercial banks.

9/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.

Table 2a. Somalia: Federal Government Operations, 2021–2028 1/
(Millions of U.S. Dollars) 2/

	2021	2022		2023			2024		2025	2026	2027	2028
	Est.	5th ECF Review	Est.	Supplementary Budget	5th ECF Review	Proj.	Budget 10/	Proj.		Proj.		
Revenue and grants	376.5	721.9	721.9	909.0	681.7	732.4	307.0	863.0	700.5	684.6	669.0	712.8
Revenue	229.6	262.7	262.7	283.3	283.3	312.2	0.0	345.1	409.5	484.6	569.0	662.8
Tax revenue	162.8	181.7	181.7	189.9	189.9	219.3	0.0	241.4	284.2	348.7	421.8	503.8
Tax on income, profit, and capital gains	15.8	18.7	18.7	18.6	18.6	20.8	0.0	23.2	33.1	44.9	55.9	67.8
Taxes on goods and services	23.4	25.8	25.8	33.1	33.1	39.7	0.0	46.6	53.3	76.2	96.5	123.4
Taxes on international trade and transactions	109.0	116.2	116.2	123.2	123.2	152.6	0.0	164.5	189.7	218.2	258.3	299.7
Other taxes	14.6	21.1	21.1	14.9	14.9	6.3	0.0	7.0	8.1	9.3	11.1	12.8
Non-tax revenue	66.8	81.0	81.0	93.4	93.4	92.8	0.0	103.7	125.2	135.9	147.2	159.1
Grants 3/	147.0	459.2	459.2	625.7	398.3	420.3	307.0	517.8	291.0	200.0	100.0	50.0
Bilateral	2.5	37.1	37.1	170.6	0.0	0.8	30.0	0.0	0.0	0.0	0.0	0.0
Multilateral	144.5	422.1	422.1	595.7	398.3	419.5	277.0	517.8	291.0	200.0	100.0	50.0
of which projects	*108.6*	*287.8*	*287.8*	*455.1*	*269.5*	*291.0*	201.2	473.0	276.0	200.0	100.0	50.0
Total expenditure 4/	460.2	719.5	719.5	909.0	725.5	746.4	192.8	1008.5	877.5	932.2	998.3	1059.0
Current	444.1	706.3	706.3	859.0	708.2	716.2	171.4	966.6	853.5	907.5	972.4	1032.4
Compensation of employees	250.1	259.6	259.6	293.8	295.6	291.7	2.7	327.1	352.1	384.0	417.9	453.7
Use of goods and services	106.1	140.7	140.7	199.5	149.1	173.4	109.0	285.5	201.5	213.5	228.4	241.3
Interest and other charges	0.9	0.8	0.8	5.8	6.0	5.6	4.5	14.5	14.0	13.5	13.6	15.1
Subsidies	1.3	5.1	5.1	9.0	3.7	4.8	7.3	11.4	5.4	5.5	5.7	5.8
Transfers to sub-national governments & Banadir Region	43.6	111.2	111.2	157.1	87.6	92.2	123.6	222.1	110.1	116.6	124.5	131.3
Social benefits	39.9	188.9	188.9	190.0	162.1	144.8	-71.9	90.8	163.2	166.7	174.1	176.6
Other expenses	2.3	0.0	0.0	1.8	1.6	1.8	-3.3	0.9	4.4	4.7	5.1	5.5
Contingency	0.0	0.0	0.0	2.0	2.5	2.0	-0.5	14.4	3.0	3.0	3.0	3.0
Purchase of non-financial assets	16.1	13.2	13.2	51.7	17.2	30.2	21.4	41.9	24.0	24.7	25.9	26.6
Overall fiscal balance	-83.7	2.4	2.4	0.0	-43.8	-14.0	114.3	-145.5	-177.1	-247.6	-329.3	-346.2
Net cash inflow from financing activities	60.7	35.9	35.9	0.0	-14.2	25.7	0.0	86.4	177.1	247.6	329.3	346.2
Net accumulation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.0	-3.0	-3.0	-3.0
New domestic debt (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-3.0	-3.0	-3.0	-3.0
Net accumulation of external debt	60.7	32.7	32.7	0.0	-14.2	25.7	0.0	86.4	180.1	250.6	332.3	349.2
New external borrowing (+)	74.4	44.6	44.6	0.0	0.0	40.1	0.0	95.2	191.9	264.3	347.9	365.3
of which												
Multilateral, external								75.0	171.6	244.0		
IMF: ECF prospective arrangement						40.1		20.2	20.3	20.3		
Official bilateral, external												
Amortization of external debt (-)	-13.7	-11.9	-11.9	0.0	-14.2	-14.4	0.0	-8.7	-11.8	-13.7	-15.6	-16.1
Disposal of assets	0.0	3.3	3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in the stock of cash	-22.9	38.4	38.3	0.0	-58.0	11.8	114.3	-59.1	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 5/	3,990	3,332	3,895	…	615	706	…	851	1,028	1,276	1,605	1,951
of which external public debt 6/	3,922	3,264	3,827	…	547	638	…	783	963	1,214	1,546	1,895
Accumulation of domestic arrears 7/	0.0	0.0	0.0	…	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 7/	67.8	67.8	67.8	…	67.8	67.8	…	67.8	64.8	61.8	58.8	55.8
Stock of SDR allocations 8/	130.0	130.0	130.0	…	130.0	130.0	…	130.0	130.0	130.0	130.0	130.0
Stock of SDR holdings 8/	55.6	9.0	9.0	…	9.0	9.0	…	9.0	9.0	9.0	9.0	9.0
Stock of cash and other balances 9/	43.2	81.6	56.1	…	23.5	67.8	…	8.7	8.7	8.7	8.7	8.7
Budget grants	38.4	171.4	171.4	170.6	128.8	129.3	105.8	44.8	15.0	0.0	0.0	0.0
Project grants	108.6	287.8	287.8	455.1	269.5	291.0	201.2	473.0	276.0	200.0	100.0	50.0

Sources: Somali authorities; and IMF Staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ Fiscal operations are recorded on a cash basis. Positions shown are cumulative year to date.

3/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

4/ Advances and transfers to Ministries, Departments and Agencies (MDAs), and grants to other organizations not expensed are not included.

5/ Public debt stock reported herein assumes debt relief under the Enhanced HIPC Initiative, and MDRI, and beyond-HIPC debt relief at Completion Point, which is assumed for December 2023 (consistent with the DSA).

6/ Consistent with the public debt definition in the DSA. It includes net SDR position of the FGS.

7/ The figure includes only wages, salaries, and allowances.

8/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for SDR156.6 million (about US$ 222.13 million) between the CBS (about US$ 90 million) and the FGS (about US$132 million).

9/ The figure includes all cash balances, including fiscal buffer and projects.

10/ In the 2024 budget, the authorities are assuming that budget support financing from IDA could be on grant terms and approved before June 30, 2024. It is also assumed that a portion of the budget support is shared with FMS. In the IMF forecast, budget support from IDA is included as a loan, without sharing with FMS.

Table 2b. Somalia: Federal Government Operations, 2021–2028 1/

(Percent of GDP) 2/ 3/

	2021	2022		2023			2024		2025	2026	2027	2028
	Est.	5th ECF Review	Est.	Supplementary Budget	5th ECF Review	Proj.	Budget 11/	Proj.	Proj.			
Revenue and grants	3.8	8.8	6.9	7.9	7.8	6.4	2.5	6.9	5.2	4.7	4.2	4.1
Revenue	2.3	3.2	2.5	2.5	3.2	2.7	0.0	2.8	3.0	3.3	3.6	3.9
Tax revenue	1.7	2.2	1.7	1.6	2.2	1.9	0.0	1.9	2.1	2.4	2.7	2.9
Tax on income, profit, and capital gains	0.2	0.2	0.2	0.2	0.2	0.2	0.0	0.2	0.2	0.3	0.4	0.4
Taxes on goods and services	0.2	0.3	0.2	0.3	0.4	0.3	0.0	0.4	0.4	0.5	0.6	0.7
Taxes on international trade and transactions	1.1	1.4	1.1	1.1	1.4	1.3	0.0	1.3	1.4	1.5	1.6	1.7
Other taxes	0.1	0.3	0.2	0.1	0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	0.7	1.0	0.8	0.8	1.1	0.8	0.0	0.8	0.9	0.9	0.9	0.9
Grants 4/	1.5	5.6	4.4	5.4	4.6	3.7	2.5	4.1	2.1	1.4	0.6	0.3
Bilateral	0.0	0.5	0.4	1.5	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Multilateral	1.5	5.2	4.1	5.2	4.6	3.6	2.2	4.1	2.1	1.4	0.6	0.3
Total expenditure	4.7	8.8	6.9	7.9	8.3	6.5	1.5	8.1	6.5	6.3	6.3	6.2
Current	4.5	8.7	6.8	7.5	8.1	6.2	1.4	7.7	6.3	6.2	6.1	6.0
Compensation of employees 5/	2.5	3.2	2.5	2.6	3.4	2.5	0.0	2.6	2.6	2.6	2.6	2.6
Use of goods and services	1.1	1.7	1.4	1.7	1.7	1.5	0.9	2.3	1.5	1.5	1.4	1.4
Interest and other charges	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.1	0.1	0.1	0.1	0.1
Subsidies	0.0	0.1	0.0	0.1	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.4	1.4	1.1	1.4	1.0	0.8	1.0	1.8	0.8	0.8	0.8	0.8
Social benefits	0.4	2.3	1.8	1.6	1.9	1.3	-0.6	0.7	1.2	1.1	1.1	1.0
Other expenses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Purchase of non-financial assets	0.2	0.2	0.1	0.4	0.2	0.3	0.2	0.3	0.2	0.2	0.2	0.2
Overall fiscal balance	-0.9	0.0	0.0	0.0	-0.5	-0.1	0.9	-1.2	-1.3	-1.7	-2.1	-2.0
Net cash inflow from financing activities	0.6	0.4	0.3	0.0	-0.2	0.2	0.0	0.7	1.3	1.7	2.1	2.0
Net accumulation of domestic debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New domestic debt (+)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances (-)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net accumulation of external debt	0.6	0.4	0.3	0.0	-0.2	0.2	0.0	0.7	1.3	1.7	2.1	2.0
New external borrowing (+)	0.8	0.5	0.4	0.0	0.0	0.3	0.0	0.8	1.4	1.8	2.2	2.1
of which,												
Multilateral, external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.6	1.3	1.7	0.0	0.0
IMF	0.0	0.0	0.0	0.0	0.0	0.3	0.0	0.2	0.1	0.1	0.0	0.0
Official bilateral, external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Amortization of external debt (-)	-0.1	-0.1	-0.1	0.0	-0.2	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1
Disposal of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in the stock of cash	-0.2	0.5	0.4	0.0	-0.7	0.1	0.9	-0.5	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 6/	40.6	40.8	37.4	…	7.0	6.1	…	6.8	7.6	8.7	10.1	11.3
of which external public debt 7 /	39.9	40.0	36.7	…	6.3	5.5	…	6.3	7.1	8.3	9.7	11.0
Accumulation of domestic arrears 8/	0.0	0.0	0.0	…	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 8/	0.7	0.8	0.7	…	0.8	0.6	…	0.5	0.5	0.4	0.4	0.3
Stock of SDR allocations 9/	1.3	1.6	1.2	…	1.5	1.1	…	1.0	1.0	0.9	0.8	0.8
Stock of SDR holdings 9/	0.6	0.1	0.1	…	0.1	0.1	…	0.1	0.1	0.1	0.1	0.1
Stock of cash and other balances 10/	0.4	1.0	0.5	…	0.3	0.6	…	0.1	0.1	0.1	0.1	0.1
Budget grants	0.4	2.1	1.6	1.5	1.5	1.1	0.8	0.4	0.1	0.0	0.0	0.0
Project grants	1.1	3.5	2.8	4.0	3.1	2.5	1.6	3.8	2.0	1.4	0.6	0.3

Sources: Somali authorities; and IMF Staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ Fiscal operations are recorded on a cash basis. Positions shown are cumulative year to date.

3/ In June 2023, the Somalia National Bureau of Statistics rebased GDP to 2022.

4/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

5/ Advances and transfers to Ministries, Departments and Agencies (MDAs), and grants to other organizations not expensed are not included.

6/ Public debt stock reported herein assumes debt relief under the Enhanced HIPC Initiative, and MDRI, and beyond-HIPC debt relief at Completion Point, which is assumed for December 2023 (consistent with the DSA).

7/ Consistent with the public debt definition in the DSA. It includes net SDR position of the FGS.

8/ The figure includes only wages, salaries, and allowances.

9/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for SDR156.6 million (about US$ 222.13 million) between the CBS (about US$ 90 million) and the FGS (about US$ 132 million).

10/ The figure includes all cash balances, including fiscal buffer and projects.

11/ In the 2024 budget, the authorities are assuming that budget support financing from IDA could be on grant terms and approved before June 30, 2024. It is also assumed that a portion of the budget support is shared with FMS. In the IMF forecast, budget support from IDA is included as a loan, without sharing with FMS.

Table 2c. Somalia: General Government Operations, 2019–2023 1/
(Millions of U.S. Dollars)

	2019	2020	2021					2022					2023		
	Total		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Revenue and grants	508.2	645.0	108.3	138.3	124.0	146.5	517.1	118.3	202.8	284.9	324.4	930.4	121.4	126.2	304.0
Revenue	323.7	301.9	77.6	75.3	89.2	96.3	338.4	87.8	87.8	82.5	122.8	380.9	96.0	98.9	108.9
Tax revenue	250.9	216.8	59.0	54.0	66.7	68.1	247.8	65.5	63.7	59.8	87.7	276.6	70.7	65.9	77.8
Tax on income, profit, and capital gains	12.3	12.7	2.9	3.4	3.8	4.8	14.9	4.2	4.3	4.2	6.5	19.3	4.3	6.2	7.7
Taxes on payroll and workforce 2/	0.0	9.7	1.7	2.1	2.5	2.3	8.7	2.2	2.3	2.3	3.2	10.0	2.6	1.8	1.2
Taxes on property 2/	0.0	0.7	0.2	0.1	0.1	0.2	0.6	0.2	0.1	0.2	0.2	0.7	0.0	0.0	0.0
Taxes on goods and services	69.1	53.7	13.7	12.9	17.1	17.1	60.8	13.6	12.6	12.4	21.4	60.1	13.7	15.1	18.2
Taxes on international trade and transactions	156.4	139.9	39.8	34.7	42.6	42.9	160.1	41.8	39.8	36.9	51.4	169.8	48.0	40.4	48.2
Other taxes	6.1	0.0	0.7	0.7	0.4	0.7	2.6	3.5	4.5	3.8	5.0	16.8	2.2	2.5	2.3
Non-tax revenue	128.9	85.1	18.6	21.3	22.5	28.2	90.6	22.3	24.1	22.7	35.1	104.2	25.2	33.0	31.2
Grants	184.5	343.1	30.7	63.0	34.8	50.2	178.7	30.5	115.0	202.4	201.5	549.5	25.4	27.4	195.1
Transfer from FGS 3/	11.8	48.9	4.6	3.3	6.7	10.9	25.6	7.2	10.9	38.2	17.2	73.6	6.0	7.1	23.7
Bilateral	37.4	15.3	0.0	0.0	0.0	2.7	2.7	0.0	29.6	7.5	0.3	37.4	0.5	1.4	0.5
Multilateral	135.3	278.9	26.2	59.6	28.1	36.6	150.5	23.4	74.5	156.7	184.0	438.5	19.0	18.9	170.9
Total expenditure 4/	458.1	618.7	120.2	164.9	149.7	189.4	624.3	133.7	215.6	205.5	384.5	939.4	144.0	147.8	214.4
Current	434.4	597.0	115.9	157.6	142.2	179.5	595.1	128.1	205.9	194.5	367.6	896.1	138.2	144.0	205.1
Compensation of employees	251.1	303.0	74.9	80.3	87.6	90.5	333.3	83.7	87.2	86.4	109.3	366.6	84.4	84.4	87.9
Use of goods and services	125.8	118.5	25.2	33.3	33.6	61.2	153.2	28.7	39.5	47.9	83.6	199.8	33.6	39.3	47.7
Interest and other charges	0.0	14.4	4.2	2.7	2.3	5.4	14.6	1.6	4.8	1.8	4.5	12.7	1.8	4.5	3.4
Subsidies	0.0	2.2	0.1	0.9	0.2	0.0	1.3	0.1	1.0	0.7	3.3	5.1	0.3	0.5	4.0
Transfers to sub-national governments & Banadir Region	55.5	84.5	9.4	7.4	14.0	13.3	44.1	12.1	27.3	42.3	29.3	111.1	12.3	14.3	42.7
Social benefits	1.0	63.7	0.4	31.7	2.8	6.6	41.5	0.4	45.3	10.9	135.2	191.8	3.5	0.1	17.4
Other expenses	0.0	10.7	1.6	1.3	1.7	2.4	7.0	1.3	0.8	4.6	2.3	9.0	2.3	0.9	2.0
Contingency	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of non-financial assets	23.6	21.7	4.4	7.3	7.5	9.9	29.2	5.6	9.7	10.9	17.0	43.3	5.8	3.8	9.2
Overall fiscal balance	50.1	26.2	-11.9	-26.7	-25.7	-42.8	-107.2	-15.4	-12.8	79.4	-60.2	-9.0	0.0	0.0	89.6

Sources: Somali authorities; and IMF Staff estimates.

1/ Unconsolidated basis. Aggregates the fiscal accounts of the Federal Government of Somalia, Puntland, Galmudug, Hirshabelle, South West, and Jubaland. The numbers are based on preliminary reports from FMS and are subject to revision. The fiscal operations are recorded on a cash basis.

2/ Reporting on these categories commenced in 2020 reporting.

3/ Transfer from FGS to Banadir region is not included.

4/ Advances and transfers to MDAs are not included.

Table 2d. Somalia: General Government Operations, 2019–2023 1/
(Percent of GDP) 2/

	2019	2020	2021					2022					2023		
	Total		Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3
Revenue and grants	5.4	7.0	1.1	1.4	1.3	1.5	5.3	1.1	1.9	2.7	3.1	8.9	1.1	1.1	2.6
Revenue	3.4	3.3	0.8	0.8	0.9	1.0	3.4	0.8	0.8	0.8	1.2	3.7	0.8	0.9	0.9
Tax revenue	2.7	2.4	0.6	0.5	0.7	0.7	2.5	0.6	0.6	0.6	0.8	2.7	0.6	0.6	0.7
Tax on income, profit, and capital gains	0.1	0.1	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.1	0.2	0.0	0.1	0.1
Taxes on payroll and workforce 3/	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Taxes on property 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	0.7	0.6	0.1	0.1	0.2	0.2	0.6	0.1	0.1	0.1	0.2	0.6	0.1	0.1	0.2
Taxes on international trade and transactions	1.7	1.5	0.4	0.4	0.4	0.4	1.6	0.4	0.4	0.4	0.5	1.6	0.4	0.4	0.4
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0
Non-tax revenue	1.4	0.9	0.2	0.2	0.2	0.3	0.9	0.2	0.2	0.2	0.3	1.0	0.2	0.3	0.3
Grants 4/	2.0	3.7	0.3	0.6	0.4	0.5	1.8	0.3	1.1	1.9	1.9	5.3	0.2	0.2	1.7
Transfer from FGS	0.1	0.5	0.0	0.0	0.1	0.1	0.3	0.1	0.1	0.4	0.2	0.7	0.1	0.1	0.2
Bilateral	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.1	0.0	0.4	0.0	0.0	0.0
Multilateral	1.4	3.0	0.3	0.6	0.3	0.4	1.5	0.2	0.7	1.5	1.8	4.2	0.2	0.2	1.5
Total expenditure 5/	4.9	6.7	1.2	1.7	1.5	1.9	6.3	1.3	2.1	2.0	3.7	9.0	1.3	1.3	1.9
Current	4.6	6.5	1.2	1.6	1.4	1.8	6.0	1.2	2.0	1.9	3.5	8.6	1.2	1.3	1.8
Compensation of employees	2.7	3.3	0.8	0.8	0.9	0.9	3.4	0.8	0.8	0.8	1.0	3.5	0.7	0.7	0.8
Use of goods and services	1.3	1.3	0.3	0.3	0.3	0.6	1.6	0.3	0.4	0.5	0.8	1.9	0.3	0.3	0.4
Interest and other charges	0.0	0.2	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.6	0.9	0.1	0.1	0.1	0.1	0.4	0.1	0.3	0.4	0.3	1.1	0.1	0.1	0.4
Social benefits	0.0	0.7	0.0	0.3	0.0	0.1	0.4	0.0	0.4	0.1	1.3	1.8	0.0	0.0	0.2
Other expenses	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Contingency	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of non-financial assets	0.3	0.2	0.0	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.2	0.4	0.1	0.0	0.1
Overall fiscal balance	0.5	0.3	-0.1	-0.3	-0.3	-0.4	-1.1	-0.1	-0.1	0.8	-0.6	-0.1	0.0	0.0	0.8

Sources: Somali authorities; and IMF Staff estimates.

1/ Unconsolidated basis. Aggregates the fiscal accounts of the Federal Government of Somalia, Puntland, Galmudug, Hirshabelle, South West, and Jubaland. The numbers are based on preliminary reports from FMS and are subject to revision. The fiscal operations are recorded on a cash basis.

2/ In June 2023, the Somalia National Bureau of Statistics rebased GDP to 2022.

3/ Reporting on these categories commenced in 2020 reporting.

4/ Transfer from FGS to Banadir region is not included.

5/ Advances and transfers to MDAs are not included.

Table 3. Somalia: Summary Accounts of the Central Bank, 2019–2023
(Millions of U.S. Dollars)

	2019	2020	2021	2022	2023	
					Mar	June
Net Foreign Assets	82	(250)	(183)	(301)	(356)	(327)
Foreign assets	146	193	322	346	297	328
SDR holdings 1/	24	51	200	174	176	184
Gold 2/	21	25	31	30	-	-
Foreign exchange	69	77	51	74	41	65
of which:					41	65
Grants	64	52	32	57	39	55
Foreign Corresp. Banks	56	43	33	56	39	65
Other foreign assets	2	-	8	-		
Cash (US$) held locally	32	40	40	68	80	79
Foreign liabilities	64	444	650	646	653	655
IMF obligations	-	371	360	371	375	380
SDR allocations	64	73	290	276	279	276
Net Domestic Assets	(10)	409	409	378	401	377
Domestic assets	85	525	498	519	525	519
of which:						
Claims on government 3/	40	392	451	472	478	472
Domestic liabilities	95	116	89	141	123	141
Government	68	73	54	94	73	76
of which:						
Grants	64	52	103	103	103	103
Other domestic liabilities	26	42	34	43	45	59
Commercial bank reserves 4/	14	20	20	20	20	20
Other commercal bank deposits	11	18	12	22	23	38
Other demand deposits at the CBS	0	1	0	0	0	0
Microfinance grant	-	3	1	1	1	0
MTB deposits	1	1	1	1	1	1
Other demand deposits						
Equity and reserves	72	159	226	77	45	50
of which:						
Property and equipment 5/	45	129	45	45	45	45

Sources: Central Bank of Somalia (CBS); and IMF Staff estimates and projections.

1/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for the SDR 156.6 million (about US$ 222.13 million) between the CBS (about US$ 90 million) and the FGS (about US$ 133 million).

2/ Gold price as defined in the Technical Memorandum of Understanding (TMU).

3/ Corresponds to a claim on the FGS Ministry of Finance composed of (1) the IMF obligations prior to 2020, and (2) the net negative SDR position prior to 2020.

4/ Prudential regulations require that commercial banks hold $1.5 million of the minimum $7 million capital requirement at the CBS; MTBs must hold $60,000 each at the CBS.

5/ Including revaluation reserves.

Table 4. Somalia: Consolidated Commercial Banks Balance Sheet, 2019–2023
(Millions of U.S. Dollars)

	2019	2020	2021	2022	2023	
					Mar.	June
			Est.			
Total assets	556	821	1,262	1,279	1,331	1,384
Cash on Hand	117	285	553	476	467	459
Balances with Central Bank	18	29	28	41	49	43
Deposits with other banks 1/	79	104	122	79	89	81
Credit to private sector	206	219	319	400	401	409
Investment 2/	60	61	86	138	138	138
Other Assets 3/	77	123	155	145	187	254
Total liabilities	459	704	975	1,247	1,232	1,245
Customer Deposits 4/	430	659	900	1,164	1,134	1,143
Financing Liabilities	2	3	3	3	7	3
Other Liabilities	27	32	57	57	69	67
Equity	97	117	288	32	99	138
Memorandum items:						
Credit to private sector						
share of total assets (percent)	37	27	25	31	30	30
share of GDP (percent)	2	3	4	5	5	5
y-o-y changes (percent)	12	7	46	18	12	10
Total capital to assets (percent)	16	12	14	13	14	14
Loan to deposits (percent)	48	33	35	34	35	36
Liquid assets to total assets (percent)	32	45	54	49	49	44

Sources: Central Bank of Somalia; and IMF Staff estimates and projections.
1/ Primarily deposits and placements with non-resident banks and other financial institutions.
2/ Primarilly investment in real estate.
3/ Fixed, intangible and other assets.
4/ Starting from December 2020, include deposits of mobile money operators.

Table 5. Somalia: Monetary Survey, 2021–2028 1/
(Millions of U.S. Dollars)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	5th ECF Review	Est.	5th ECF Review	Proj.			Proj.		
Net foreign assets 2/	-343	-260	-159	93	227	246	266	290	291	291
Claims on nonresidents	321	423	509	383	559	578	598	619	615	606
Central Bank 3/	281	355	306	311	334	334	334	332	328	320
of which gross reserves of the CBS	172	246	197	193	221	221	221	220	216	207
Other Depository Corporations	39	68	203	73	225	244	264	287	287	287
Liabilities to Nonresidents 4/	663	683	669	290	332	332	332	329	324	316
Net Domestic Claims	1462	1450	1485	1162	1256	1402	1591	1839	2008	2250
Net Claims on Central Government	419	366	401	-21	36	36	36	35	34	34
of which CBS claim on government 2/	703	723	708	330	372	372	372	369	364	356
Claims on private sector	319	400	400	480	496	615	777	1002	1212	1493
Other net claims not included in broad money	724	684	684	702	725	751	777	802	762	723
Capital and Reserves	203	146	228	157	252	274	297	322	322	322
Other items, net	9	9	9	10	10	11	12	14	15	16
Broad Money 5/	1119	1190	1326	1255	1483	1648	1857	2129	2299	2541
Memorandum items										
Credit to the private sector (percent of GDP)	3.2	4.0	3.8	4.6	4.3	4.9	5.7	6.8	7.6	8.7

Sources: Somali authorities, IMF staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ The authorities decided to distribute the 2021 SDR Allocation by the IMF on August 23, 2021 for the SDR 156.6 million (about US$ 222.13 million) between the CBS (about US$ 90 million) and the FGS (about US$ 132 million).

3/ Includes Federal Governmnet of Somalia (FGS) grants held abroad.

4/ Assuming reaching HIPC Completion Point in 2023.

5/ Primarilly desposits at commercial banks. Data does not yet include balances held with Mobile Network Operators.

Table 6a. Somalia: Balance of Payments, 2021–2028 1/

(Millions of U.S. Dollars)

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	5th ECF Review	Est.	5th ECF Review	Proj.			Proj.		
Current account balance	-671	-1,373	-838	-1,432	-1,092	-1,127	-1,386	-1,574	-1,738	-1,894
Overall trade balance	-5,012	-6,454	-6,378	-6,555	-7,020	-7,589	-8,128	-8,710	-9,423	-10,143
Goods balance	-4,073	-5,013	-5,636	-5,058	-6,155	-6,658	-7,134	-7,634	-8,249	-8,843
Exports of goods, f.o.b.	717	687	704	818	859	1,020	1,205	1,392	1,590	1,796
Imports of goods, f.o.b.	-4,790	-5,700	-6,340	-5,876	-7,014	-7,678	-8,339	-9,027	-9,839	-10,639
Services, net	-939	-1,441	-742	-1,497	-865	-931	-994	-1,076	-1,174	-1,300
Service credits	815	703	1,100	773	1,221	1,374	1,544	1,704	1,878	2,029
Service debit	-1,754	-2,145	-1,842	-2,270	-2,085	-2,305	-2,538	-2,779	-3,052	-3,329
Income (net)	-42	-45	-45	-43	-44	-39	-43	-46	-50	-54
Receipts	54	58	58	62	64	69	75	81	88	95
Payments	-96	-102	-102	-104	-108	-108	-117	-127	-138	-149
of which:										
Interest payments, public debt	-1	-1	-1	-6	-6	-14	-14	-14	-14	-15
Multilateral, official	-1	-1	-1	-5	-6	-7	-6	-6	-6	-8
Bilateral, official	0	0	0	-1	0	-8	-8	-8	-8	-7
Current transfers (net)	4,384	5,125	5,584	5,166	5,972	6,501	6,784	7,182	7,735	8,303
Private (net), including remittances	2,118	2,142	2,142	2,414	2,367	2,607	2,867	3,157	3,501	3,782
Official	2,265	2,983	3,443	2,751	3,606	3,894	3,917	4,025	4,235	4,521
On budget aid 2/	147	367	459	319	420	518	291	200	100	50
Off-budget aid	2,118	2,616	2,983	2,433	3,185	3,376	3,626	3,825	4,135	4,471
Capital account and financial account	698	1,372	790	1,432	1,061	1,107	1,366	1,552	1,734	1,886
of which:	2,265	2,983	3,443	2,751	3,606	3,894	3,917	4,025	4,235	4,521
Foreign direct investment	512	636	542	677	599	674	731	793	859	928
Other Investment	222	0	0	0	0	75	172	244	348	365
of which:										
Long-term debt liabilities 3/	222	0	0	0	0	0	0	0	0	0
Official concessional borrowing	0	0	0	0	0	75	172	244	348	365
Amortization, public debt 4/	-13.7	-12	-11.9	-14	-14.4	-8.7	-11.8	-13.7	-15.6	-16.1
Multilateral, official	-13.7	-12	-11.9	-14	-14	-5	-6	-7	-9	-13
Bilateral, official	0	0	0	0	0	-4	-6	-6	-6	-3
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance and error and omissions	27	-1	-48	0	-31	-20	-20	-22	-4	-9
Financing	-27	1	48	0	31	20	20	22	4	9
Change in central bank reserves (- = increase)	-102	1	-25	0	-28	0	0	2	4	9
Use of Fund resources (net)	74	70	72	-315	-276	20	20	20	0	0
Purchases and loans	74	70	72	19	59	20	20	20	0	0
of which: ECF Prospective arrangement					40.1	20	20	20	0	0
Repayments	0	0	0	-334	-335	0	0	0	0	0
Arrears, net change (+ = accumulation)	-16	0	0	-1,236	-2,913	0	0	0	0	0
Prospective debt relief and rescheduling 5/	16	0	0	1,236	3,248	0	0	0	0	0
Memorandum items:										
Nominal GDP	9,839	8,158	10,420	8,738	11,515	12,489	13,541	14,686	15,913	17,192
Exports of goods and services	1,532	1,390	1,804	1,591	2,079	2,394	2,749	3,096	3,467	3,825
Exports of goods and services (percent change)	30	6	18	14	15	15	15	13	12	10
Exports of goods (percent change)	31	-4	-2	19	22	19	18	16	14	13
Imports of goods and services	-6,544	-7,844	-8,182	-8,147	-9,100	-9,983	-10,877	-11,806	-12,890	-13,968
Imports of goods and services (percent change)	12	16	25	4	11	10	9	9	9	8
Imports of goods (percent change)	24	18	32	3	11	9	9	8	9	8
Remittances (percent change)	29	1	1	13	11	10	10	10	11	8
Current transfers, official (percent change)	-14	41	52	-8	5	8	1	3	5	7
External debt 5/, 6/	3,922	3,264	3,827	547	638	783	963	1,214	1,546	1,895
Net Foreign Assets (Program Definition)	175	…	…	…	…	…	…	…	…	…

Sources: Somali Authorities, Direction of Trade Statistics, UN Comtrade, and IMF staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

3/ Includes allocations of SDRs in August 2021, for SDR 156.6 million or US$ 222.13 million.

4/ From 2023, reflects payments on restructured debt, including IDA, assuming full delivery of HIPC, MDRI, and beyond-HIPC debt relief. Excludes payments to the IMF.

5/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and beyond-HIPC debt relief at Completion Point in 2023.

6/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.

Table 6b. Somalia: Balance of Payments, 2021–2028 1/

(Percent of GDP, unless otherwise indicated) 2/

	2021	2022		2023		2024	2025	2026	2027	2028
	Est.	5th ECF Review	Est.	5th ECF Review	Proj.	Proj.				
Current account balance	-6.8	-16.8	-8.0	-16.4	-9.5	-9.0	-10.2	-10.7	-10.9	-11.0
Overall trade balance	-50.9	-79.1	-61.2	-75.0	-61.0	-60.8	-60.0	-59.3	-59.2	-59.0
Goods balance	-41.4	-61.4	-54.1	-57.9	-53.5	-53.3	-52.7	-52.0	-51.8	-51.4
Exports of goods, f.o.b.	7.3	8.4	6.8	9.4	7.5	8.2	8.9	9.5	10.0	10.4
Imports of goods, f.o.b.	-48.7	-69.9	-60.8	-67.2	-60.9	-61.5	-61.6	-61.5	-61.8	-61.9
Services, net	-9.5	-17.7	-7.1	-17.1	-7.5	-7.5	-7.3	-7.3	-7.4	-7.6
Service credits	8.3	8.6	10.6	8.9	10.6	11.0	11.4	11.6	11.8	11.8
Service debit	-17.8	-26.3	-17.7	-26.0	-18.1	-18.5	-18.7	-18.9	-19.2	-19.4
Income (net)	-0.4	-0.5	-0.4	-0.5	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3
Receipts	0.6	0.7	0.6	0.7	0.6	0.6	0.6	0.6	0.6	0.6
Payments	-1.0	-1.3	-1.0	-1.2	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Current transfers (net)	44.6	62.8	53.6	59.1	51.9	52.1	50.1	48.9	48.6	48.3
Private (net), including remittances	21.5	26.3	20.6	27.6	20.6	20.9	21.2	21.5	22.0	22.0
Official	23.0	36.6	33.0	31.5	31.3	31.2	28.9	27.4	26.6	26.3
On budget aid 3/	1.5	4.5	4.4	3.6	3.7	4.1	2.1	1.4	0.6	0.3
Off-budget aid	21.5	32.1	28.6	27.8	27.7	27.0	26.8	26.0	26.0	26.0
Capital account and financial account	6.8	16.8	8.0	16.4	9.5	9.0	10.2	10.7	10.9	11.0
of which:										
Foreign direct investment	5.2	7.8	5.2	7.7	5.2	5.4	5.4	5.4	5.4	5.4
Other Investment	2.3	0.0	0.0	0.0	0.0	0.6	1.3	1.7	2.2	2.1
of which:										
Long-term debt liabilities 4/	2.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New concessional borrowing	0.0	0.0	0.0	0.0	0.0	0.6	1.3	1.7	2.2	2.1
Amortization 5/	-0.1	-0.1	-0.1	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance and error and omissions	0.3	0.0	-0.5	0.0	-0.3	-0.2	-0.1	-0.2	0.0	0.0
Change in central bank reserves (- = increase)	-1.0	0.0	-0.2	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (Million of U.S. dollars)	9,839	8,158	10,420	8,738	11,515	12,489	13,541	14,686	15,913	17,192
External debt 6/, 7/	39.9	40.0	36.7	6.3	5.5	6.3	7.1	8.3	9.7	11.0
Exports of goods and services	15.6	17.0	17.3	18.2	18.1	19.2	20.3	21.1	21.8	22.2
Imports of goods and services	66.5	96.2	78.5	93.2	79.0	79.9	80.3	80.4	81.0	81.2

Sources: Somali Authorities, Direction of Trade Statistics, UN Comtrade, and IMF staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ In June 2023, the Somalia National Bureau of Statistics rebased GDP to 2022.

3/ Includes only donor support provided to the federal government through treasury accounts at the Central Bank of Somalia. A change in World Bank policy for countries with moderate risk of debt distress that replaces the previous 50:50 mix of grants and loans with 100 percent loans (with 50-year maturity), will impact Somalia starting in 2024 because after reaching HIPC Completion Point in 2023, Somalia would be assessed as having a moderate risk of debt distress.

4/ Includes allocations of SDRs in August 2021, for SDR 156.6 million or US$ 222.13 million.

5/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and beyond-HIPC debt relief at Completion Point in 2023.

6/ From 2023, reflects payments on restructured debt, including IDA, assuming full delivery of HIPC, MDRI, and beyond-HIPC debt relief. Excludes payments to the IMF.

7/ Consistent with the DSA external debt definition, which reflects the external debt of the country as a whole. Includes the total net SDR position of the central bank. This differs from public external debt reported in Tables 2A, 2B, and 10.

Table 7. Somalia: Schedule of Reviews and Disbursements for the Current ECF Arrangement

Availability date	Amount of Disbursements				Conditions
	Millions of SDRs			Percent of quota 1/	
	PRGT (ECF)	GRA (EFF)	Total		
March 25, 2020	210.86200	39.56778	250.42978	153.26200	Approval of arrangement
November 18, 2020	7.00000	0.00000	7.00000	4.28400	First review and end-June 2020 performance criteria
April 15, 2021 and October 15, 2021, respectively	14.00000	0.00000	14.00000	8.56800	Second and Third Review, and end-Dec 2020 and end-June 2021 performance criteria
October 15, 2022	7.00000	0.00000	7.00000	4.28400	Fourth review and end-June 2022 performance criteria
April 15, 2023	7.00000	0.00000	7.00000	4.28400	Fifth review and end-December 2022 performance criteria
October 15, 2023	7.00000	0.00000	7.00000	4.28400	Sixth review and end-June 2023 performance criteria
Total	252.86200	39.56778	292.42978	178.96600	

Source: IMF

1/ Somalia's quota is SDR 163.4 million.

Table 8. Somalia: External Financing Needs and Sources, 2020–2028 1/

(Millions of U.S. Dollars)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
Gross financing requirement	*8,939.0*	*5,128.7*	*6,415.3*	*10,316.2*	*7,612.3*	*8,153.4*	*8,735.3*	*9,448.3*	*10,166.0*
Trade deficit	4,639.4	5,012.3	6,378.0	7,020.2	7,589.1	8,127.7	8,710.0	9,422.9	10,143.3
Amortization	12.7	13.7	11.9	14.4	8.7	11.8	13.7	15.6	16.1
Interest on external obligations	2.5	0.9	0.8	5.6	14.5	14.0	13.5	13.6	15.1
Official arrears/repayments	4,265.2	0.0	0.0	3,248.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	360.0	0.0	0.0	335.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (increase = +)	19.2	101.8	24.6	28.0	0.0	0.0	-1.9	-3.8	-8.5
Available financing	*4,111.5*	*4,778.1*	*6,171.4*	*6,880.0*	*7,472.4*	*7,946.6*	*8,471.0*	*9,100.4*	*9,800.7*
Current transfers (net) 2/	4,119.3	4,345.4	5,413.0	5,843.2	6,456.2	6,769.0	7,182.4	7,735.4	8,303.3
Of Which: Remittances	1,642.0	2,118.4	2,141.7	2,366.8	2,607.2	2,866.7	3,157.4	3,500.8	3,782.3
Foreign Direct Investment	463.9	511.6	541.8	598.8	674.4	731.2	793.0	859.3	928.4
Other flows 3/	-471.7	-78.9	216.6	438.1	341.7	446.4	495.6	505.8	569.0
Financing gap	*4,827.5*	*350.7*	*243.9*	*3,436.2*	*140.0*	*206.9*	*264.3*	*347.9*	*365.3*
Exceptional Financing	4,265.2	15.8	0.0	3,248.0	0.0	0.0	0.0	0.0	0.0
HIPC interim assistance (Excl. IMF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief	4,265.2	15.8	0.0	3,248.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF 4/	0.8	0.5	0.6	335.1	0.0	0.0	0.0	0.0	0.0
Remaining gap	*562.3*	*334.8*	*243.9*	*188.2*	*140.0*	*206.9*	*264.3*	*347.9*	*365.3*
Identified financing	562.3	334.8	243.9	188.2	140.0	206.9	264.3	347.9	365.3
Official budget grants	153.4	38.4	171.4	129.3	44.8	15.0	0.0	0.0	0.0
IMF 5/	408.8	222.1	27.9	58.9	20.2	20.3	20.3	0.0	0.0
ECF	313.3	0.0	27.9	18.7	0.0	0.0	0.0	0.0	0.0
ECF: Prospective arrangement	…	…	…	40.1	20.2	20.3	20.3	…	…
EFF	56.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR	0.0	222.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official loans (net) 6/	0.0	74.4	44.6	0.0	75.0	171.6	244.0	347.9	365.3

Sources: Somali authorities; and IMF staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ On-budget project grants, off-budget grants, and private remittances.

3/ Includes other financial account flows.

4/ Includes HIPC interim assistance received between the Decision and Completion Points, and HIPC and beyond-HIPC debt relief at Completion Point in 2023.

5/ Disbursements in 2020-23 are conditional on Board approval of ECF reviews.

6/ Includes WB loan financing only from 2024 onwards.

Table 9. Somalia: Indicators of Fund Credit and Capacity to Repay, 2023–2038 1/

(In millions of SDR, unless otherwise noted)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Obligations from existing and prospective drawings 2/																
1. Principal																
Repurchases and Repayments 3/	250.4	0.0	0.0	1.4	2.8	6.3	15.2	18.2	19.8	20.6	17.1	8.3	5.3	2.3	0.0	0.0
2. Charges and interest 4/																
Charges	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR related charges	0.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Total obligations	250.4	3.2	3.0	4.4	5.8	9.3	18.1	21.1	22.7	23.6	20.1	11.2	8.2	5.2	3.0	3.0
Outstanding Fund credit, end of period	72.0	87.0	102.0	115.6	112.8	106.5	91.4	73.2	53.5	32.9	15.8	7.5	2.3	0.0	0.0	0.0
Net Use of Fund Credit	-206.4	15.0	15.0	13.6	-2.8	-6.3	-15.2	-18.2	-19.8	-20.6	-17.1	-8.3	-5.3	-2.3	0.0	0.0
Disbursements and Purchases	44.0	15.0	15.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases 3/	250.4	0.0	0.0	1.4	2.8	6.3	15.2	18.2	19.8	20.6	17.1	8.3	5.3	2.3	0.0	0.0
Memorandum items:																
Outstanding Fund credit, in percent of																
Exports of goods and services	4.6	4.8	4.9	5.0	4.3	3.7	3.0	2.2	1.5	0.9	0.4	0.2	0.0	0.0	0.0	0.0
External public debt	15.0	14.8	14.1	12.7	9.7	7.5	5.5	3.9	2.5	1.3	0.6	0.2	0.1	0.0	0.0	0.0
Gross official reserves	43.2	52.3	61.3	70.0	69.5	68.3	64.9	55.6	40.6	24.9	12.0	5.7	1.7	0.0	0.0	0.0
GDP	0.8	0.9	1.0	1.0	0.9	0.8	0.7	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Quota	44.1	53.2	62.4	70.7	69.0	65.2	55.9	44.8	32.7	20.1	9.6	4.6	1.4	0.0	0.0	0.0
Total Obligations, in percent of																
Exports of goods and services	16.0	0.2	0.1	0.2	0.2	0.3	0.6	0.6	0.6	0.6	0.5	0.3	0.2	0.1	0.1	0.1
External public debt	52.2	0.5	0.4	0.5	0.5	0.6	1.1	1.1	1.0	0.9	0.7	0.3	0.2	0.1	0.1	0.1
Gross official reserves	150.4	1.9	1.8	2.6	3.5	5.9	12.9	16.0	17.2	17.9	15.2	8.5	6.2	3.9	2.2	2.2
GDP	2.9	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Quota	153.3	2.0	1.8	2.7	3.5	5.7	11.1	12.9	13.9	14.4	12.3	6.9	5.0	3.2	1.8	1.8
Quota	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4

Source: IMF staff estimates and projections.

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ Projections incorporate debt relief expected at the HIPC Completion Point.

3/ 2023 projections incorporate IMF portion of the HIPC debt relief in the amount of SDR 250.4 millions.

4/ Projections are based on current IMF charges.

Table 10. Somalia: Quantitative Performance Indicators and Indicative Targets Under the Current ECF Arrangement (June 2023– September 2023) 1/
(Millions of U.S. Dollars)

		Jun. 2023 4/			Sept. 2023		
		Prog.	Prel.	Status	Prog.	Prel.	Status
Quantitative Performance Criteria							
1	FGS domestic revenue, floor 2/	115.0	137.2	Met			
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	240.0	172.7	Met			
3	Net international reserves, floor	-346.0	-340.1	Met			
4	Contracting of new domestic debt, ceiling 3/	0.0	0.0	Met			
5	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0.0	0.0	Met			
6	Accumulation of new external arrears, ceiling 3/	0.0	0.0	Met			
Indicative Targets							
1	FGS domestic revenue, floor 2/				170.0	232.4	Met
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				340.0	266.9	Met
3	Net international reserves, floor				-346.0	-341.1	Met
4	Contracting of new domestic debt, ceiling 3/				0.0	0.0	Met
5	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0.0	0.0	Met
6	Accumulation of new external arrears, ceiling 3/				0.0	0.0	Met
7	Fiscal balance, floor (cash basis) 2/ 5/	-62.1 adjusted	-51.3	Met	-42.1 adjusted	26.6	Met
8	Accumulation of new domestic expenditure arrears, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met
9	Contracting or guaranteeing any new external, concessional debt, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met

Sources: Somali authorities; and IMF staff estimates and projections.

1/ The quantitative targets, indicative targets, and program exchange rates are defined in the Technical Memorandum of Understanding (TMU). No conditionality can be set for after the current ECF-supported program expires either (i) on the date of the last disbursement or (ii) on December 24th, 2023 whichever date is earlier.

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

4/ Test date for the sixth review.

5/ The program floor on the fiscal balance is adjusted down by the amount of shortfalls in budget support grants as compared to the budget estimate, up to the maximum amounts stipulated in Table 1 of TMU.

Table 11. Somalia: Structural Benchmarks Under the Current ECF-Arrangement, June 2023–December 2023

Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1 Submit to Parliament a Supplementary Budget for 2023 that presents a balanced fiscal position based on realistic domestic revenues and budget support grants, and that is consistent with the performance criteria in the ECF-supported program.	End-June 2023	Fiscal policy / MOF	To accommodate higher spending that supports growth, security, and development while scaling back discretionary spending to keep within the available resource envelope.	Submit to IMF the Supplementary Budget for 2023 approved by the Cabinet	Met
2 Operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors	End-June 2023	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Confirm installment of POS machines at taxpayers with large market share in telecom and tourism sectors in Mogadishu. Provide IMF staff with summary of data transmitted from POS machines to tax offices.	Not met
3 Introduce turnover taxes with at least 2000 newly registered taxpayers who commence paying taxes	End-May 2023	Domestic revenue/ MOF	Support domestic revenue generation	Confirm collection of at least amount due for the first month after the introduction. Provide IMF staff with a list of taxpayers registered for turnover taxes.	Implemented with delay
4 Operationalize the Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo	End-July 2023	Domestic revenue/ MOF	Support domestic revenue generation and custom modernization	Confirm use of the Custom Automated System for processing of declarations and calculation of duties at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo. Provide IMF staff with reports on declarations and respective duty amounts generated from the Custom Automated System for the three ports and four airports.	Not met
5 Extend coverage of payroll to 50 percent of non-payroll compensation of FGS employees	End-May 2023	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF staff monthly SFMIS reports detailing amount of payroll and non-payroll payments for compensation of employees. A ratio of non-payroll payments to total compensation of employees to be decreased to 16 percent or less on average between March and May 2023 (relative to 32 percent in 2021).	Implemented with delay
6 (i) Configure the SFMIS to allow only the MoF to change the payroll entries; (ii) Cabinet approval of the 2024 Appropriation Bill including a provision specifying the MoF's authority over the financial clearance of compensation of all FGS employees.	End-October 2023	PFM / MOF	Strengthen wage bill controls and payroll integrity and governance	Confirm with IMF staff the re-configuring the SFMIS payroll module. Update payroll business processes and training of users to support the new policy. Submit to IMF staff the Cabinet-approved draft Appropriation Bill with the required authority clause.	Met
7 (i) Amend PFM Regulations to implement the PFM Act's provisions on public property and (ii) issue the asset management policy, in line with IMF recommendations, to provide a standard approach in government assets management, enhance transparency and accountability, and promote a prudent use of public lands and real estate.	End-September 2023	Governance / MOF	Strengthen governance and prevent misuse of government lands and nonfinancial assets	Publish the amended regulations and issued policy on the MoF website.	Met
8 Issue the Banking Regulations on Capital Adequacy and Liquidity Coverage Ratio	End-September 2023	Financial Supervision / CBS	Improving risk-based financial supervision	Publish the issued regulations on the website of the CBS	Met
9 Enact the Targeted Financial Sanctions Law and issue related regulations	End-July 2023	AML-CFT Governance / MOF CBS	Support normalization of correspondent banking relationships by bringing Somalia AML-CFT framework into compliance with international standards.	Submit issued regulations (by the Ministry of Finance) to IMF staff	Met
10 Cabinet approval of standard operating procedures for the Inter-Ministerial Concessions Committee (IMCC), in line with the requirements of the Procurement Act and IMF recommendations.	End-June 2023	Governance / MOF	To strengthen the strategic and oversight role of the IMCC over government contracts and concessions, as outlined in the Procurement Act.	Publish the Cabinet-approved standard operating procedures on the website of the MOF	Implemented with delay

Source: IMF

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Ministry of Petroleum and Mineral Resources (MPMR), Ministry of Communications and Technology (MOCT), Ministry of Labor and Social Affairs (MOLSA), Somalia Petroleum Authority (SPA), Inter-Ministerial Concessions Committee (IMCC), Federal Member States (FMS), National Civil Service Commission (NCSC), public financial management (PFM), Somalia Financial Management Information System (SFMIS), International Public Sector Accounting Standards (IPSAS), Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT).

Table 12. Somalia: Proposed Quantitative Performance Indicators and Indicative Targets Under the New ECF Arrangement (December 2023 – December 24) 1/

(Millions of U.S Dollars)

		Dec. 2023 4/	Mar. 2024	June. 2024 4/	Sept. 2024	Dec. 2024 4/
		Prog.	Prog.	Prog.	Prog.	Prog.
	Quantitative Performance Criteria					
1	FGS domestic revenue, floor 2/	312		145		345
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	384		236		437
3	Net international reserves, floor 7/	10		10		10
4	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0		0		0
5	Accumulation of new external arrears, ceiling 3/	0		0		0
	Indicative Targets					
1	FGS domestic revenue, floor 2/		69		231	
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/		118		349	
3	Net international reserves, floor 7/		10		10	
4	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/		0		0	
5	Accumulation of new external arrears, ceiling 3/		0		0	
6	Fiscal balance, floor (cash basis) 2/ 5/	-15	-48	-21	6	-38
7	Contracting of new domestic debt, ceiling 3/	0	0	0	0	0
8	Accumulation of new domestic expenditure arrears, ceiling 3/	0	0	0	0	0
	Memorandum item					
	Contracting or guaranteeing of new external concessional debt 5/ 6/		0	0	75	75

Sources: Somali authorities; and IMF staff estimates and projections.

1/ The quantitative targets, indicative targets, and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

4/ Test date for the first, second and third reviews, respectively.

5/ The fiscal balance floor is in line with the authorities' 2024 budget (US$38 million), which is consistent with the IMF staff forecast (US$146 million). The authorities' budget assumes that budget support financing from IDA (US$75 million) could be on grant terms and approved before June 30, 2024. A decision by the IDA deputies on the latter is still pending, therefore in the IMF forecast budget support financing from IDA is included as borrowing and not as a grant. The authorities' 2024 budget also includes budget grants from Turkiye (US$30 million), which are not incorporated in the IMF baseline. In addition, in the authorities' 2024 budget, interest payments are estimated based on signed agreements with creditors (US$10 million), while the IMF forecast shows interest payments assuming agreements are reached with all creditors (US$15 million). For 2024, the fiscal balance floor would be adjusted downward by any delays or shortfalls in budget support grants as compared to the 2024 budget estimate, or if interest payments are higher than the budget estimate, as per the TMU.

6/ Excludes IMF disbursements.

7/ The floor on NIR would be adjusted downward if the CBS transfers distributable earnings to the government, if the CBS provides temporary liquidity advances to the government, and if the IMF HIPC debt relief of SDR 7 million remains with the MoF and not the CBS, as per the TMU.

Table 13. Somalia: Proposed Structural Benchmarks Under the New ECF-Arrangement, December 2023–December 2024

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring
1	Publish a Tax Policy and Revenue Administration Roadmap approved by the Minister of Finance, in line with IMF staff recommendations	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Publish roadmap approved by the Minister of Finance on the MOF website.
2	Submit the Income Tax Bill to Parliament	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Send to the IMF staff the version of the Bill submitted to Parliament
3	Ensure full payroll integration of FGS employees by reducing the ratio of non-payroll payments to total compensation of employees to less than 1 percent	End-June 2024	PFM / MOF NCSC MOLSA	Strengthen payroll integrity, expenditure controls, and governance	Submit to IMF staff monthly SFMIS reports detailing amount of payroll and non-payroll payments for FGS compensation of employees. A ratio of non-payroll payments to total compensation of employees to be decreased to less than 1 percent on average between April and June 2024 (relative to 10.9 percent in May-July 2023)
4	Publish a plan approved by the Minister of Finance to expand invoice tracking functionality to all goods and services	End-February 2024	PFM / MOF	Strengthen PFM, expenditure controls, transparency, and accountability	Publish the plan approved by the Minister of Finance on the MOF website.
5	(1) Issue a Prime Ministerial Decree that articulates the key parameters for debt policy and establishes the procedures to be followed for entering into new borrowing and issuing sovereign guarantees, in line with IMF staff recommendations; (2) amend the PFM regulations to include a clear definition of "other financial liabilities" that are considered guarantees as per Article 37 (6) of the PFM Act, in line with IMF staff recommendations.	End-June 2024	Public debt/ MOF	Define debt policy and strengthen debt management framework and capacity, in order to preserve fiscal sustainability.	Publish the approved Prime Ministerial Decree on the MoF website. Publish the amended PFM regulations on the MoF website.
6	Submit the PPP Bill to Parliament with a framework that adequately manages fiscal risks and establishes a gateway process managed by the Ministry of Finance	End-June 2024	Governance / MOF	Reduce fiscal risks and contingent liabilities/ Strengthen governance and reduce corruption risks	Send to the IMF staff the version of the Bill submitted to Parliament
7	Develop an action plan to improve the quality of data submitted by commercial banks, in line with IMF recommendations, and communicate the action plan to commercial banks.	End-July 2024	Financial Supervision / CBS	Improve risk-based financial supervision	Provide IMF staff with the action plan approved by the CBS Board and copies of the letters from the CBS Governor to commercial banks with the details of the action plan approved by the CBS Board.
8	Submit to Parliament amendments to the AML/CFT Law, in line with IMF staff recommendations	End-March 2024	AML-CFT Governance / FRC MOF CBS	Improve the legal framework for AML/CFT	Send to the IMF staff the version of the AML/CFT Act amendments submitted to Parliament

Source: IMF

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Federal Member States (FMS), Financial Reporting Center (FRC), Ministry of Justice (MOJ) public financial management (PFM), Somalia Financial Management Information System (SFMIS), Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT).

Table 14. Somalia: Proposed Schedule of Reviews and Disbursements for the New ECF Arrangement

Availability date	Amount of Disbursements		Conditions
	Millions of SDRs	Percent of quota 1/	
December 19, 2023	30.000000	18.359853	Approval of arrangement
April 15, 2024	7.500000	4.589963	First review and end-December 2023 performance criteria
October 15, 2024	7.500000	4.589963	Second review and end-June 2024 performance criteria
April 15, 2025	7.500000	4.589963	Third review and end-December 2024 performance criteria
October 15, 2025	7.500000	4.589963	Fourth review and end-June 2025 performance criteria
April 15, 2026	7.500000	4.589963	Fifth review and end-December 2025 performance criteria
October 15, 2026	7.500000	4.589963	Sixth review and end-June 2026 performance criteria
Total	75.000000	45.899633	

Source: IMF
1/ Somalia's quota is SDR163.4 million.

Table 15. Somalia: Summary Table on Projected External Borrowing Program 1/
(January 1, 2024 – December 31, 2024)

PPG external debt contracted or guaranteed	Volume of new debt, USD million	Percent
Sources of debt financing	**95.2**	**100**
Concessional debt, 2 /	**95.2**	**100**
o/w IMF prospective	20.2	
o/w Other	75.0	79
Non-concessional debt	**0.0**	**0**
o/w Semi-concessional 3/	0.0	0
o/w Commercial terms 4/	0.0	0
Uses of debt financing	**95.2**	**100**
Project Financing	0.0	0
Budget Financing	95.2	100
Type of interest rate	**95.2**	**100**
Fixed Interest Rate	95.2	100
Variable Interest Rate	0.0	0
Currency denomination	**95.2**	**100**
USD denominated loans	95.2	100
Loans denominated in other currency	0.0	0
Memorandum items		
Indicative projection FY2025	**191.9**	
Indicative projection FY2026	**264.3**	

1/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

2/ Debt with a grant element of at least 35 percent.

3/ Debt with a positive grant element that is lower than the minimum grant element of 35 percent.

4/ Debt without a positive grant element.

Annex I. Poverty and Child Multidimensional Deprivation

1. Widespread poverty persists throughout Somalia, marked by a significant prevalence of food-related expenditures within households' budgets. According to the [2023 Somalia Poverty Report][1] by the National Bureau of Statistics, in 2022 more than 54 percent of the population lived below the national poverty line as they consumed less than US$2.06 per day.[2] The nomadic population records the highest poverty rate of 78.4 percent, followed by rural and urban populations, with 65.5 percent and 46.1 percent, respectively (Figure 1). Household expenditures are predominantly allocated to food, accounting for an average of 55.5 percent of total consumption. Housing costs are the second largest item (16.5 percent of household expenditure), followed by clothing and footwear (7.6 percent). This leaves little room in household budgets for other expenditure that supports human development, including health and education.

2. Groups suffering highest poverty conditions are children, large families, and those with no formal education. The most pronounced poverty incidence among demographic groups is observed in children aged 0–17 years. Notably, children living in nomadic areas record an alarming poverty headcount of 80.7 percent. Extended households also manifest increased poverty, with rates at 63 percent for families with ten or more members. Households headed by individuals without formal education face a strikingly high poverty incidence of approximately 56 percent. This is particularly alarming considering that nearly two-thirds (65.5 percent) of the Somali population have no formal education. In contrast, only 10 percent of households headed by individuals with tertiary education experience poverty.

3. Children represent over 60 percent of the population in Somalia, and they face significant deprivations in sanitation and housing due to infrastructure deficiencies. The 2023 Multi-Dimensional Child Poverty (MDCP) analysis reveals that a staggering 85 percent of children between the ages of 0–4 years, and 64 percent of those aged 5–17 years are individually affected by sanitation issues (limited access to an improved sanitation source or handwashing facility). Notably, nearly all children in nomadic settings are deprived of sanitation, mainly due to widespread open defecation. Water scarcity is also a significant challenge, with 44 percent of children lacking access to improved water sources. Housing ranks second in terms of deprivation, primarily because of limited access to electricity. There is a severe lack of access to health facilities as 67 percent of children aged 0–4 years and 59 percent of children aged 5–17 years experience nutritional and health deprivations, respectively.

[1] The report is based on the results of the 2022 Somalia Integrated Household Budget Survey (SIHBS). The household survey collects information on household expenditures and consumption incurred on goods and services to measure poverty levels within Somalia. A total of 7212 households were surveyed from 601 Enumeration Areas (EAs), distributed across 17 regions.

[2] The national poverty line is calculated from the 2022 SIHBS data using the cost-of-basic needs (CBN) method that defines a consumption bundle considered to be adequate for basic consumption needs, and then estimates the cost of this bundle in reference prices.

4. At least 8 out of 10 children in Somalia are deprived in two or more poverty dimensions. Alarmingly, only 2 percent of children under 5 years are free from deprivation across the six evaluated dimensions (nutrition, health, water, sanitation, housing, and violence). The largest proportion of infants (at least 25 percent) faces deprivation across 4–5 different dimensions. Particularly in sanitation, more than 56 percent of children who are deprived also experience deprivations in three additional dimensions. For children aged 5–17 years, at least 13 percent are deprived in 4–5 dimensions, with housing and sanitation the primary overlapping deprivations.

Figure 1. Somalia: Poverty Indicators

Source: Somalia Poverty Report 2023, and Analysis of Multi-Dimensional Child Poverty in Somalia

Annex II. Risk Assessment Matrix[1]

Nature/Source of Main Risks	Overall Level of Concern	
	Relative Likelihood	**Expected Impact if Threat Materializes**
CONJUNCTURAL RISKS		
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	**High**	**High** Intensifying spillovers from Russia's war in Ukraine and commodity price shocks would exacerbate inflation in Somalia. Humanitarian support to Somalia may also be affected by the supply shock (of food). Lower economic growth could reduce remittances, affecting local consumption and investment. Escalation of conflicts in the region can have negative repercussions on security in Somalia.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	
Social discontent. High inflation, real income loss, and spillovers from crises in other countries (including migration) worsen inequality, trigger social unrest, and give rise to financing pressures and detrimental populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	**Medium**	**High** Social discontent shock may intensify the already precarious security situation in Somalia.
Monetary policy miscalibration. Amid high economic uncertainty and financial sector fragility, major central banks pause monetary policy tightening or pivot to loosen policy stance prematurely, de-anchoring inflation expectations, triggering a wage-price spiral and spillovers to financial markets.	**Medium**	**High** As a dollarized economy, Somalia does not conduct active monetary policy but imports monetary policy from advanced economies. High global commodity price inflation will significantly impact the poor households which account for 70 percent of the population.

[1] The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. The conjunctural shocks and scenarios highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Nature/Source of Main Risks	Overall Level of Concern	
	Relative Likelihood	Expected Impact if Threat Materializes
CONJUNCTURAL RISKS		
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth downturn, with recessions in some countries, adverse spillovers through trade and financial channels, and market fragmentation causing sudden stops in EMDEs.	**Medium**	**High** A global recession would significantly affect Somalia's state- building, development and poverty reduction efforts through trade and financing, including remittance and international aid inflows. Lower demand for exports will reduce economic growth and tax revenues.
Systemic financial instability. Sharp swings in real interest rates and risk premia, and asset repricing amid economic slowdowns and policy shifts trigger insolvencies in countries with weak banks or non-bank financial institutions, causing market dislocations and adverse cross-border spillovers.	**Medium**	**Low** Financial instability will negatively affect the incipient financial system and reduce the availability of credit.
STRUCTURAL RISKS		
Extreme climate events. Extreme climate events cause loss of human lives, severe damage to infrastructure, supply disruptions, lower growth, and financial instability.	**Medium**	**High** Pastoral agriculture plays a key role in the economy and livestock is the most important export for Somalia. Recurring droughts can be macro-critical and cause widespread suffering for the population.

Annex III. Key Achievements Under the ECF Arrangement and HIPC Process

1. **Somalia has been rebuilding its economy and institutions since the end of the devastating civil war, with strong support from the international community.** The civil war led to complete state collapse, with tremendous loss of human and physical capital. Since the 2012 Provisional Constitution that created the Federal Government of Somalia (FGS) and the Federal Member States (FMS), Somalia has successfully undertaken three national elections, most recently in May 2022. Somalia's efforts in rebuilding state capacity have been supported by international partners, including financing and extensive capacity development support.

2. **Following a strong track-record of reform implementation since 2016, Somalia reached the HIPC Decision Point (DP) and embarked on a new IMF-supported program in March 2020.** Between 2016–2020, Somalia successfully implemented four consecutive staff monitored programs. This satisfactory track record and clearance of long-standing arrears to international financial institutions facilitated approval by the IMF and World Bank of the HIPC Decision Point. Achievement of the HIPC DP gave Somalia access to interim debt relief and new flows of development finance to support the country's medium-term objectives. Unconditional debt relief at the HIPC Completion Point is expected in December 2023, if all requirements are met. To support progress toward the HIPC Completion Point, in March 2020 the IMF approved a combined Extended Credit Facility (ECF) and Extended Fund Facility (EFF) arrangement.[1] The HIPC process and IMF-supported program—and the related capacity development support—promoted reforms to rebuild key economic institutions and lay the foundations for macroeconomic stability and growth, in line with Somalia's national development plan.

3. **Somalia faced multiple severe shocks over the course of the HIPC process.** In 2020—the year Somalia reached HIPC Decision Point—, flooding, desert locust infestation, and the global Covid- 19 pandemic severely reduced growth prospects. Growth contracted by-2.6 percent in 2020. While economic activity started to recover in 2021, growth was weighed down by severe and prolonged drought during 2021–2023 that resulted in large losses in agriculture production and exports and severe food insecurity in some areas. Russia's war in Ukraine in early 2022 led to inflationary pressures and affected access to food imports, aggravating the food crisis. Due to these events, between 2020–2023 growth averaged 1.5 percent compared to 3.6 percent forecast at HIPC DP, while inflation averaged 5.4 percent compared to compared to 2.5 percent forecast at HIPC DP.

4. **Under the ECF arrangement and the HIPC process, the authorities have achieved significant progress in key reform areas, with support from the international community.** Progress on selected economic reforms is outlined in Figure 2.1. Highlights include:

[1] See Somalia: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative-Decision Point Document and Somalia: Second Review Under the Staff-Monitored Program and Request for Three-Year Arrangements Under the Extended Credit and The Extended Fund Facility.

- **Tax policy and revenue administration.** Somalia's tax system collapsed during the civil war and started to be rebuilt in 2013. Domestic revenues increased from about 1 percent in 2013 to 2.7 percent of GDP in 2023, thanks to implementation of several reforms, including the reinstatement of income and sales taxes, development of the Revenue Law, and the establishment of a large- and medium-taxpayers' office. Since 2020, key reforms have included (1) the implementation of the Somalia Customs Automated System (SOMCAS) in Mogadishu and significant progress in Kismayo; (2) rollout of Point of Sales (POS) machines in the tourism sector in Mogadishu; (3) issuance of a spectrum fee schedule for telecom operators; (4) regular publication of the report on tax exemptions; and (5) annual rounds of tax audits. During the program period of 2020-2023, domestic revenues increased only by 0.4 percent of GDP, compared to 0.6 percent of GDP (using the new GDP series) forecasted at the time of the 2020 ECF program request as Somalia dealt with multiple shocks, including the Covid-19 pandemic, natural disasters, protracted elections, and Russia's war in Ukraine. Tax revenue to GDP in Somalia is still the lowest among Sub-Saharan Africa, reflecting a large informal economy, much of it currently outside the reach of the tax authorities, and sustained efforts are needed to increase domestic revenues.

- **Public financial management (PFM).** The budget process ceased to exist during the civil war. The FGS approved its first budget in 2013 and has since been enhancing its ability to implement a meaningful budget. The Somalia Financial Management Information System (SFMIS), in place since 2014, has supported expenditure controls and regular and reliable reporting. No new domestic arrears have been accumulated since 2017, thanks to improvements to budget preparation, cash management, and the legislated sequestration rules. Since 2020, key reforms have included: (1) publication of the annual audited FGS financial statements; (2) issuance of the PFM Act regulations; (3) full operationalization of SFMIS functionality to control commitments within allocations and warrants; and (4) significant progress on integrating all compensation of employees into the single payroll. Still, there is much room to strengthen accountability and efficiency of spending.

- **Debt management.** The Debt Management Unit (DMU) has successfully upgraded its debt recording management system with the Commonwealth Meridian System. The DMU has been publishing consecutive quarterly public debt reports since 2020Q4.

- **CBS institutional framework and capacity.** Somalia is a de-facto dollarized economy.[2] The CBS was reestablished in 2009 and has been enhancing its governance and decision-making arrangements. Since 2020, a function-based organizational structure and a performance management system were established. Audited financial statements of the CBS are being published on a regular basis. Continued reforms are needed to transform the CBS from being primarily a fiscal agent for the government into a modern and policy-oriented central bank.

---

[2] The CBS has not issued currency since 1991, and it does not conduct monetary or exchange rate policy.

- **Financial stability and financial deepening.** Financial intermediation remains limited, with credit representing only 4.3 percent of GDP in 2023, well below peer countries. Constraints include the limited formal sector and lack of financial infrastructures. The launch of the National Payment System (NPS) in 2021 was a major milestone, enabling a safer and more efficient payment infrastructure. The Gargaara program, with World Bank support, continues to support access to financing for micro, small, and medium-sized enterprises. On financial sector supervision, banks and money transfer businesses are subject to regular on- and off-site inspections and annual relicensing. In 2021 the CBS launched the licensing and regulation of mobile money operators. As of February 2023, four mobile money operators have been granted licenses. The guidance for Islamic bank financial reporting and the guidance for the Shariah bank governance framework were issued in 2020. New banking regulations on capital and liquidity requirements were issued in 2023. Capacity in financial supervision has been improving through increased resources and moving towards risk-based prudential supervision. However, data quality is a serious concern, and the capacity of supervisors needs to be strengthened.

- **AML/CFT.** The fragile nature of the existing correspondent banking relations because of ML/FT concerns constrains banks' ability to provide financial services. Since 2020, key reforms have included: (1) the National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee; (2) the National ML/FT Risk Assessment (NRA) was published in 2022, followed by publication of the NRA Action Plan in 2023; (3) the Targeted Financial Sanctions Law was enacted and regulations were issued in 2023; and (4) key infrastructure and IT systems were acquired to support the Financial Reporting Center's capacity to review and assess suspicious transactions. Continued efforts are needed to address AML/CFT deficiencies.

- **Governance and anti-corruption.** Somalia is a fragile state with significant capacity constraints that contribute to weak governance and corruption risks. Since 2020, key reforms have included: (1) accession to the UN Convention Against Corruption (UNCAC) in 2021 and ratification of the African Union and Arab anti-corruption conventions; (2) publication of the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators; (3) publication of the National Anti-Corruption Strategy (NACS); and (4) development of the legal framework for the extractive industries. Sustained efforts are needed to promote good governance and reduce vulnerabilities to corruption.

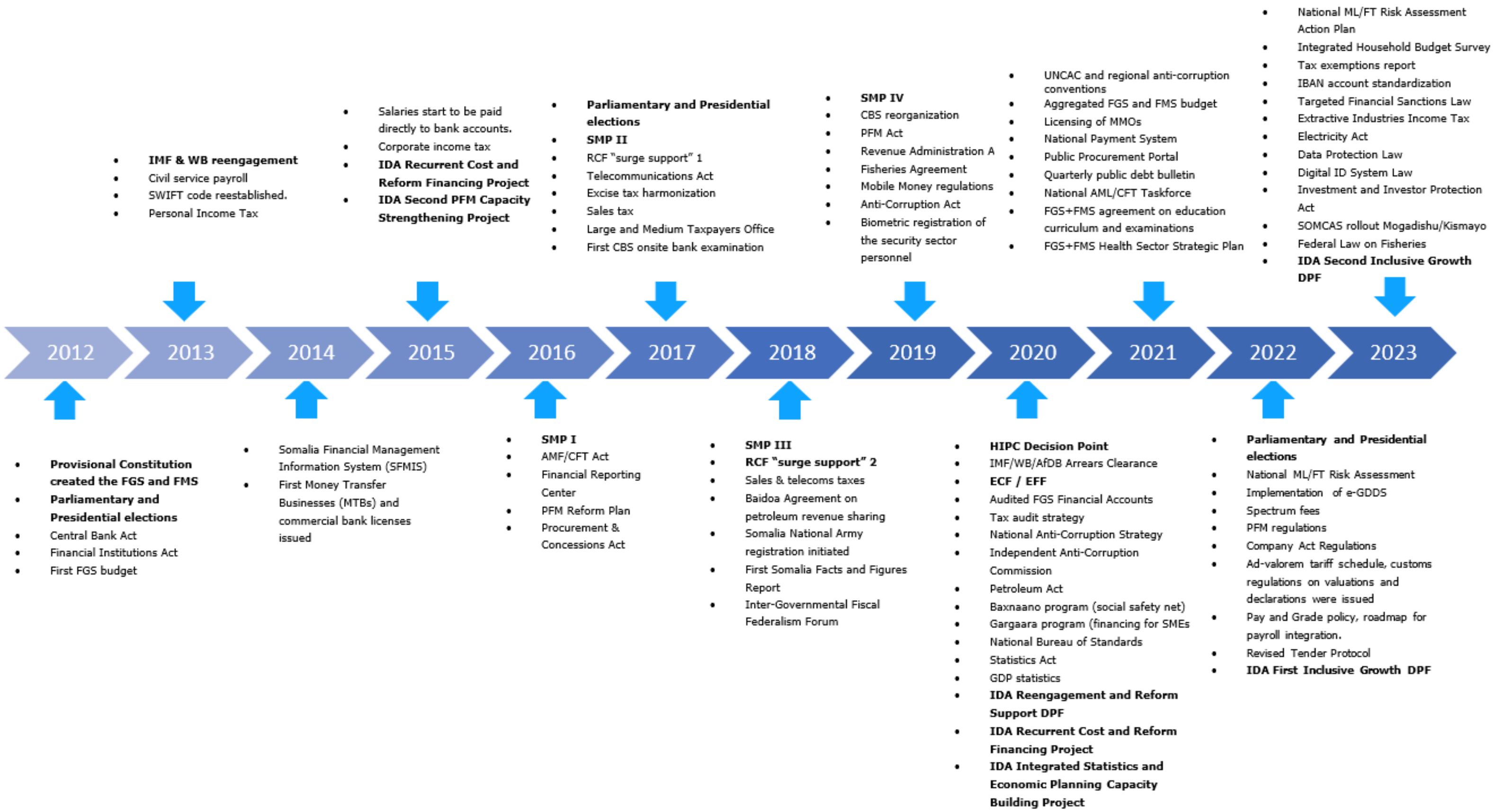
- **Reforms to support inclusive growth and resilience to climate shocks.** Key pieces of legislation that support development efforts were enacted in 2023, in particular the Electricity Act, the Extractive Industries Income Tax Law, the Data Protection Law, the Digital ID System Law, the Investment and Investor Protection Act, and the Federal Law on Fisheries. In May 2022, regulations to the Company Act specifically covering the issue of minority shareholder protection to encourage private sector investment were issued.

- **Macroeconomic and financial statistics.** The Somalia National Bureau of Statistics has published the Somalia Facts and Figures annually since 2018. National accounts and consumer price index are published annually and monthly, respectively. The 2022 Somalia Integrated

Household Budget Survey (SIHBS), the first since 1985, was published in February 2023 and used to revise GDP estimates. To promote data transparency, Somalia continues to implement the enhanced General Data Dissemination System (e-GDDS) framework. Nonetheless, many gaps remain—including the limited availability of monetary, financial and external sector statistics—and continued CD support is needed.

5. **Several elements contributed to Somalia's successful implementation of the IMF-supported program and HIPC process.** The IMF's engagement with Somalia has been characterized by: (1) strong ownership of the reform agenda by the authorities; (2) careful prioritization and sequencing of reforms that take into account institutional and capacity constraints; (3) close integration between program design and capacity development support; and (4) close coordination with development partners and other CD providers to ensure complementarities.

Figure 1. Somalia: Selected Economic Reforms



Annex IV. Progress on the HIPC Completion Point Triggers[1]

HIPC Completion Point Triggers	Assessment
Poverty reduction strategy implementation	
1. Satisfactory implementation for at least one year of Somalia's full poverty reduction strategy, as evidenced by an Annual Progress Report on the implementation of the poverty reduction strategy submitted by the government to IDA and the IMF.	**Met.** The Annual Progress Report evaluating the implementation of the Ninth National Development Plan (NDP9) covering 2020-24 in 2020 was completed in June 2022. Staffs of the World Bank and IMF issued a Joint Staff Assessment Note (JSAN) confirming satisfactory implementation of the NDP9 during 2020, which was transmitted to the IDA and IMF Executive Boards in July 2023.
Macroeconomic stability	
2. Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	**Met.** The fifth review of the ECF-supported program was completed on May 17, 2023. The sixth review and final review will be considered for approval by the IMF Executive Board in December 2023.
Public financial and expenditure management	
3. Publish at least two years of the audited financial accounts of the Federal Government of Somalia (FGS).	**Met.** The Office of the Auditor General published the 2019, 2020, 2021, and 2022 FGS financial accounts.
4. Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	**Met.** The PFM regulations—including chapters on debt, public investments, and natural resource revenue management—were approved by the Cabinet in May 2022.
Domestic revenue mobilization	
5. Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).	**Not completed but satisfactory progress has been made.** The customs regulations on valuation and declarations were issued in September 2022 and the ad valorem tariff schedule was enacted in June 2022. The Somalia Customs Automated System (SOMCAS) system has incorporated harmonized tariffs, Harmonized System (HS) codes, and harmonized item descriptions. The SOMCAS system is now fully operational in Mogadishu seaport and airport as of October 2023. In Kismayo seaport and airport, SOMCAS has been partially implemented, as shipping lines and airlines are entering manifests into the system and declarations are being made for khat imports. However, efforts are still ongoing to implement a common valuation table across Mogadishu and Kismayo. Once this is resolved, Kismayo will be able to carry out all the customs processing through SOMCAS. The reform has been paused in the ports of Bosaso and Garowe in the Federal Member State of Puntland due to political conditions.

[1] Progress as of end-July 2023.

HIPC Completion Point Triggers	Assessment
Governance, anticorruption, and natural resource management	
6. Enact the Extractive Industry Income Tax Law.	**Met.** The Extractive Industries Fiscal Regime Law was enacted in June 2023.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC).	**Met.** Somalia acceded to the UNCAC in August 2021.
Debt management	
8. Publish at least four consecutive quarterly reports.	**Met.** Regular quarterly debt bulletins have been published since 2020Q4 with information on the outstanding stock and composition of debt liabilities, including their currency denomination, maturity, interest rate structure and projected debt service and key risk indicators.
Social sectors	
9. Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs.	**Met.** In July 2023, the functionality status of the USR was achieved with the successful completion of all governance, technical and operational requirements that enables MoLSA to operate the USR for the intended objective.
10. FGS and Federal Member States (FMS) Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.	**Met.** On July 14, 2021, the FGS and FMS MoEs finalized and officially signed the revised education cooperation Memorandum of Understanding (MoU) at the intergovernmental meeting held in Garowe. A permanent intergovernmental forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the criteria for selection of the board members was also established.
Social sectors	
11. FGS and FMS Ministers of Health adopt a joint national health sector strategy.	**Met.** The Somalia Health Sector Strategic Plan for 2022-2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.
Growth/Structural	
12. Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	**Met.** The Somalia Electricity Act was enacted on March 8, 2023. Two regulations - the ESP Licensing Regulations and the ESP Tariff Regulations - have also been approved.
13. Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	**Met.** The regulations to the Companies Act were issued in January 2021. A second set of Regulations to the Company Act were issued in May 2022 specifically covering the issue of minority shareholder protection.
Statistical capacity	
14. Publish at least two editions of the Somalia Annual Fact Book.	**Met.** The Facts and Figures of Somalia has been published for 2018, 2019, 2020, and 2021.

Annex V. Monetary and Exchange Rate Policy Framework in the Context of the Currency Reform

1. **Somalia is a de facto dollarized economy.** The CBS has not issued currency since 1991, and it does not conduct monetary or exchange rate policy. As a result, Somali Shillings (SOS) notes currently in circulation are old and mostly counterfeit (80 percent) and are not backed by the CBS. The SOS is generally used for small-value transactions, and is the main medium of exchange for those earning in Somali shillings such as the rural and urban poor (including internally displaced people), nomad/pastoralist communities, and small informal businesses.[1]

2. **The currency reform is considered a national priority**.[23] The currency exchange project will reintroduce the SOS as a legal tender by replacing old and counterfeit notes in circulation. The currency reform aims to: (1) restore credibility in the national currency; (2) support financial inclusion of the most vulnerable populations that have limited access to formal financial services; (3) fulfill an important liquidity function by facilitating payments for small value transactions; and (4) over the medium-term, allow the central bank to develop monetary policy as a tool to help address aggregate demand shocks. Furthermore, the FGS views the currency reform as an opportunity to contribute to peacebuilding as the national currency will be a symbol of national sovereignty and unity.

3. **Several challenges affect the design of the monetary and exchange rate policy frameworks associated with the currency reform.** De facto dollarization (for currency, and financial assets and liabilities) has been providing Somalia with a nominal anchor that has kept inflation low. Mobile money in US dollars is also used extensively. This implies that, even after new SOS banknotes are introduced, the Somali economy is expected to remain highly dollarized for some time. The CBS has low net international reserves, its capacity is weak, and there is no recent experience with monetary policy. Capacity of the financial system is also weak, and money and foreign exchange markets are undeveloped. There is limited availability of macroeconomic and market data that is timely and accurate.

4. **An assessment of Somalia's macroeconomic initial conditions, characteristics of the economy, and the types of shocks to the economy suggests that the country would be best served by a fixed exchange rate regime.**[24] Given Somalia's near-term capacity constraints and weak policy buffers, the choice of the exchange and monetary policy frameworks should

[1] The World Bank estimates that old shillings in circulation range between SOS 1.022-1.546 trillion (USD 40.9 - 61.8 million). There are currently no deposits in SOS. This contrasts with about USD 1.2 billion in bank deposits and a similar amount in mobile money wallets.

[23] The currency reform is as an important financial sector reform in the national development plan (NDP9) under Pillar 3, the CBS Strategic Plan 2020–2024, and the 2020–2024 Financial Sector Road Map developed by the CBS.

[24] The MCM Technical Assistance Handbook on "Monetary Policy Frameworks: Choice of Exchange Rate Arrangement" outlines the key criteria for choosing an exchange rate arrangement.

(1) provide a stable and predictable policy environment to establish confidence in the national currency across Somalia; (2) build credibility of the CBS in managing the new currency; and (3) facilitate development of the domestic financial market. Under a fixed exchange rate regime, different options can be considered, including a currency board, a hard peg, or adopting US dollar as official legal tender, while issuing coins for small transactions. Overall, Somalia should pursue a framework that (1) provides an efficient nominal anchor; (2) is simple, transparent, and easily understandable by businesses and households; and (3) can be operationalized even with limited central bank resources and operational capacity.

5. Complementary policies and reforms will need to be put in place, regardless of the decision on the policy frameworks. Under any regime, the authorities will need to maintain fiscal discipline and ensure fiscal sustainability. It will be important to ensure CBS operational independence and prevent fiscal dominance. The CBS will need considerable capacity building and policies to promote transparency. Efforts will also be needed to develop financial markets and support capacity building of financial institutions. In addition, the quality, frequency, and timeliness of macroeconomic and financial data will need to be improved.

Appendix I. Letter of Intent

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street, N.W.,
Washington, D.C. 20431, U.S.A.

Mogadishu, Somali
November 19, 2023

Dear Ms. Georgieva:

Somalia has made great progress in rebuilding the economy since the end of the devastating civil war and the subsequent international recognition of the Federal Government of Somalia (FGS) in 2012. The FGS, with the support of its development partners, has maintained strong implementation of wide-ranging reforms to help strengthen our key economic and financial policy institutions. Thanks to these steadfast efforts, and sustained support from the IMF, World Bank, and other international partners, full debt relief at the HIPC Completion Point is within reach in December 2023.

Since 2020, we have made significant progress on economic and governance reforms under the ECF-supported program. To strengthen domestic revenues, we advanced on customs modernization, introduced new turnover taxes and telecom spectrum fees, operationalized point-of-sale machines in the tourism sector, and strengthened revenue administration. On public financial management, we have enhanced the budget process, strengthened expenditure controls, advanced on payroll integration, and improved reporting. On governance, Somalia acceded to the UN Convention Against Corruption and we are implementing the National Anti-Corruption Strategy. We have developed the petroleum sector legal framework, established the policy for management of non-financial assets, and strengthened due process on contracts and concessions. The CBS has been enhancing its institutional framework and capacity, including the regular publication of audited financial statements. New financial sector regulations and guidance were issued to promote financial stability. Important steps on AML/CFT include the ongoing implementation of the National ML/FT Risk Assessment action plan and adoption of a Targeted Financial Sanctions legal framework.

Despite the progress achieved, Somalia faces significant challenges ahead, including those stemming from economic, social, security, and climate risks. Growth is currently insufficient to reduce widespread poverty, address large social needs, and create sufficient jobs for the youth. Somalia is highly vulnerable to climate shocks that hurt growth and hinder poverty reduction efforts. Notwithstanding the resumption of rainfall in 2023Q1, economic activity has been weighed down by the lingering effects of drought, flooding, and subdued remittances. The security situation remains challenging, as the government has scaled up its military, financial, and ideological campaign against Al-Shabab amid the gradual withdrawal of the African Union Transition Mission in Somalia.

Sustained efforts are needed to promote economic and social development, protect macroeconomic stability, and build resilience to climate and other shocks. Our government remains strongly commitment to the economic and political reform process, which will benefit current and future generations of Somalis.

In view of the implementation of macroeconomic policies and structural reforms to achieve the objectives under the 2020 Extended Credit Facility (ECF) arrangement, we request IMF Executive Board approval of the completion of the 6th review of the program and disbursement of SDR 7 million (about 4.28 percent of quota). We met all the quantitative performance criteria (QPCs) for June 2023 and all the indicative targets (ITs) for end-June and end-September 2023. We also advanced our ambitious structural reform agenda. Eight of ten structural benchmarks due for the 6th review have been implemented—including the 2023 Supplementary Budget, implementation of revenue and public financial management measures, implementation of risk-based prudential regulations, and enactment of the Targeted Financial Sanctions Law. The Somalia Customs Automated System was operationalized in Mogadishu and partially in Kismayo, and point of sale machines were rolled out in the tourism sector. However, the structural benchmarks related to these later two reforms were not met due to institutional, social, and political constraints, and we will strive to move these reforms forward once conditions allow. As previously committed, we plan to use the disbursement under this 6th review of the 2020 ECF arrangement to help strengthen our gross external reserves as Somalia seeks to increase its integration in the global trade and financial system.

We are resolved to maintain the strong reform momentum and we are requesting a new 3-year IMF-supported program under the ECF with access of SDR 75 million (approximately 45.9 percent of quota) to be provided for direct budget support. The program and the related capacity development support will help Somalia further strengthen key economic institutions and promote macroeconomic stability and growth, in line with Somalia's Ninth National Development Plan and the government's long-term vision. Building on progress so far, policy priorities will be to maintain macroeconomic stability, increase domestic revenues, strengthen public financial management, promote financial deepening and financial inclusion, improve the business environment and governance, and enhance statistics. We will also take steps to strengthen our capacity for public debt management and debt risk assessments—as Somalia is expected to face a structural shift in the size and composition of the FGS external financing following the HIPC Completion Point—and also for public investment management as the FGS is expected to gradually scale up quality investment projects. We will also work, with support from the IMF, on formulating and implementing new monetary and exchange rate policy frameworks in the context of the currency reform to reintroduce the Somali shilling as legal tender.

The attached Memorandum of Economic and Financial Policies (MEFP, Attachment I) sets out the economic policies and reform measures that we intend to implement to achieve the objectives of the requested new EFC arrangement. It identifies specific reforms and conditionality between December 2023 and December 2024. Additional reforms will be detailed on a 12-month rolling basis during reviews as information on needs and priorities continue to emerge. We will continue to seek technical assistance support from our partners where necessary to implement the agreed reforms. To facilitate the monitoring of performance under the program, the FGS will continue to regularly provide

IMF staff with all necessary information within the deadlines specified in the attached Technical Memorandum of Understanding (TMU, Attachment II). We have also finalized a Memorandum of Understanding (MoU) between the Ministry of Finance and the Central Bank of Somalia that clarifies the responsibilities for timely servicing of the financial obligations to the IMF under the new ECF arrangement.

We stand ready to take additional measures should they be needed to meet the objectives of the economic program and will consult with the IMF in advance of any necessary revisions to the policies contained in this letter and attached memorandum, in accordance with the Fund policy on such consultations.

In line with our commitment to transparency, the FGS authorizes the IMF to publish this letter, the attached MEFP, TMU, and the related staff report, including the placement of these documents on the IMF website, in accordance with the IMF's transparency policy.

We are grateful to the IMF for the ongoing support to Somalia and we look forward to continuing our close engagement under the new ECF arrangement.

Sincerely yours,

/s/	/s/
Bihi Iman Egeh	Abdirahman M. Abdullahi
Minister of Finance of Somalia	Governor of the Central Bank of Somalia

Attachments (2)

Attachment I. Memorandum of Economic and Financial Policies for 2024–2026

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and reforms, and describes the policies that the Federal Government of Somalia (FGS) plans to implement in 2024-2026 under the new Extended Credit Facility (ECF) arrangement.

Background and Program Performance

1. *We have made great strides in rebuilding institutions and policy-making capacity with the support of development partners, including the IMF, since 2013.* *Within the context of* our previous and current National Development Plans (NDP8 and NDP9), we have implemented wide-ranging reforms that *have helped rebuild key institutions, including economic institutions, and laid the foundations for macroeconomic stability and growth.*

2. Somalia's strong reform commitment and international support create a unique window of opportunity to address low growth and poverty in Somalia. In 2022, an estimated 54 percent of the population was living below the poverty line of US$ 2.06 per day based on the 2022 Somalia Integrated Household Budget Survey. Growth is currently insufficient to reduce poverty and address large social needs, including in health, education, and job creation. Somalia is also highly vulnerable to climate shocks that aggravate food insecurity, hurt growth, and hinder poverty reduction efforts. Large, multi-year investments in human and physical capital are needed to improve resilience and lead to higher and more inclusive growth. We remain committed to macroeconomic stability and staying the course of reform and continuing to deepen political cooperation at the federal and regional levels. Timely financing and capacity development support from development partners is essential for the successful implementation of our reform strategy.

3. We are taking action to address food insecurity in several districts that remain affected by the lingering impact of prolonged drought, compounded by severe security risks and global food supply and price pressures. Following consecutive failed rainy seasons in 2021-2022, livestock and crops are expected to recover only gradually, and food insecurity remains severe. The government has been coordinating with the UN system on delivery of humanitarian assistance. The Baxnaano cash transfer program has been expanded and provides a safety net for more than 200,000 households.

4. The government has stepped up its fight against terrorism to improve security across the country. Since mid-2022, the government has scaled up the military, ideological, and financial campaign against Al-Shabab. The Somali military—with support of the community defense, the general population, and international partners —has gained ground against Al- Shabab in the central Somali regions, which has facilitated the delivery of humanitarian assistance, with the Somalia Disaster Management Agency (SODMA) providing the emergency response. Stabilization efforts in these regions include delivery of health and education services and the beginnings of the establishment of local governance. At the same time, the Somali National Armed Forces are gradually taking over security responsibilities from the African Union Transition Mission in Somalia (ATMIS), which is expected to gradually withdraw its forces by December 2024. The ATMIS transition, the scale-up of the military campaign, as well as the stabilization policies for the liberated areas are generating pressures on government finances. The FGS is developing a National Security Plan and discussions are ongoing with development partners on security financing.

5. **Economic activity has been weighed down by drought and weak remittances, and spillovers from slower global growth.** In 2022, real GDP growth was 2.4 percent, compared to 2.9 percent in 2021. The prolonged drought in 2021-2022 hurt agriculture production and exports. Although rainfall resumed in 2023Q1, crops and livestock are still affected by the lingering effects of the drought, as well as by flooding in some areas. Remittances growth was subdued in 2022 and in the first half of 2023—attributed in part to the impact of elevated prices on the purchasing power of the diaspora community—negatively affecting economic activity. Average inflation has moderated somewhat in line with lower food and fuel inflation and was at 5.4 percent in September 2023.

6. **The 2023 Supplementary Budget was approved by Parliament in July 2023, and all performance criteria for June 2023 and indicative targets for September 2023 have been met.** The 2023 Supplementary Budget presents a balanced fiscal position based on realistic revenues and grants, and that is consistent with the performance criteria in the ongoing ECF-supported program. Domestic revenue performance has been strong through September 2023 thanks to the implementation of higher customs duties and tax administration improvements. Total expenditure has followed the 2023 Supplementary Budget and a small overall deficit is expected for the year. Revenue overperformance and budget support grants will allow us to maintain a small cash balance to partially address liquidity needs in early 2024.

7. **We continued to make progress in revenue administration reforms.**

- **Customs modernization.** The implementation of ad valorem tariffs is key to improving the efficiency of customs administration and increasing revenue over time. Before this reform was implemented, the authorities charged customs duties depending on the size of bundles and cartons, regardless of their content. Key elements of the customs modernization have included: (1) enactment of the ad valorem tariff schedule in June 2022; (2) issuance of customs regulations on valuation and declarations in September 2022; and (3) the Somalia Customs Automated System (SOMCAS) being rolled out to the different ports and airports has incorporated harmonized tariffs, Harmonized System (HS) codes, and harmonized item descriptions. SOMCAS has been fully operationalized in Mogadishu port and airport as of early October 2023. In Kismayo port and airport in Jubaland State, SOMCAS has been partially implemented, as shipping lines and airlines are entering manifests into the system and declarations are being made for khat imports. Discussions are ongoing in Jubaland on how to implement the common valuation table. Once this is resolved, Kismayo will be able to move forward to carry out all the customs processing through SOMCAS. Training and additional IT equipment have been provided to support smooth implementation of the customs reform.

- **New spectrum fees.** In September 2022, we issued a spectrum fee schedule for telecom operators approved by the National Communications Authority (NCA) in agreement with the Ministry of Finance (MoF). Revenue collection from the spectrum fee schedule is expected to be US$ 6 million per year for the next 10 years.

- **New turnover tax.** We introduced turnover taxes with 2,597 newly registered taxpayers who commenced paying taxes in July 2023. Introducing a turnover tax expands the tax net to a large number of small retailers and businesses in Mogadishu, helping to promote formalization, promoting a culture of tax compliance, and signaling that everybody is required to pay their fair share of tax.

- **Reporting on tax exemptions.** We published the annual report on tax exemptions as part of the 2023 budget package, the first quarterly report for 2022Q4 was published in January 2023, and regular quarterly reports have followed (the 2023Q2 report was published on July 30, 2023).

- **Revenue administration measures.** In 2021, we piloted Point of Sales (POS) machines at hotels in Mogadishu that transmit sales data to tax offices on a real-time basis, which has had positive effects on data integrity and revenue collection. Additional POS machines were rolled out in the tourism sector in 2023. Following a first round of tax audits in 2020, we have since undertaken new rounds of tax audits every year, which has helped improve the quality of tax returns, particularly those submitted by small and medium-sized enterprises. As part of our efforts to implement the 2019 Revenue Administration Law, we held public awareness events to improve taxpayer's understanding of the new legal requirements.

8. Public financial management (PFM) was strengthened.

- **Reporting.** To strengthen transparency, we published the annual financial statements of the Federal Government of Somalia (FGS) for 2019, 2020, 2021, and 2022 which were audited by the Auditor-General (HIPC Completion Point Trigger (CPT)). The aggregated budget—which combines budgets of the FGS, five Federal Member States (FMS) and Banaadir Regional Administration (BRA)—was published for the first time, as part of the 2021 Budget Policy Framework and has been published on an annual basis since. We have been publishing the monthly consolidation reports of fiscal outturns of the FGS and five FMS on the MoF website since January 2021. At the FGS level, we have continued expanding the additional disclosures in the monthly and annual financial statements, including a memorandum annex on SDR balances of the MoF.

- **PFM Act regulations.** The PFM Act regulations on debt, public investment, and natural resource revenue management were issued in May 2022 (CPT).

- **Expenditure controls.** To strengthen expenditure controls, we have fully operationalized the functionality of the Somalia Financial Management Information System (SFMIS) to control commitments within allocations and warrants, which are guided by monthly cash forecasts.

Since May 2023, we launched the invoice tracking functionality of SFMIS for electricity and internet service.

- **Payroll integration.** The Pay and Grade policy and roadmap for payroll integration was approved by the Cabinet on December 1, 2022. The policy sets out salary scales for temporary workers and other employees, eligibilities for allowances included in non-payroll payments, and clarifies the roles and responsibilities of the MoF and National Civil Service Commission in their controls and financial clearance. We are advancing on integrating all compensation of employees into the single payroll included in SFMIS, and the share of non-payroll payments to total compensation has been reduced to 10.9 percent on average in May-July 2023, from 32 percent in 2021. To support implementation of the approved Pay and Grade policy, in October 2023, we configured the SFMIS to allow only the MoF to change the payroll entries with financial implications. A provision specifying the MoF's authority over the financial clearance of compensation of all FGS employees was included in the 2023 Appropriations Law and in the 2024 Appropriations Bill approved by Cabinet in October 2023.

- **Public procurement.** We continue to develop an open and transparent process for public procurement through implementation of the Public Procurement Law and regulations. In July 2023, the Prime Minister issued the guidelines on emergency procurement, which define emergency situations, set out permissible procurement methods for a given situation, and require use of standardized specifications and framework contracts that would facilitate the procurement process while creating safeguards against wastage. We are also reinforcing the strategic and oversight role of the Inter-Ministerial Concessions Committee (IMCC) with Cabinet approval of standard operating procedures for the IMCC, in line with the requirements of the Procurement Act. The standard operating procedures specify, among others: (i) the administrative procedures for presenting projects to be discussed by the IMCC, including sufficient lead time to prepare the necessary technical assessments for projects to be reviewed by the IMCC; and (ii) the interim role of the MoF Procurement Department in providing technical support to the IMCC and preparing technical assessments of projects to be considered until the Concessions Technical Unit is established and has built adequate capacity. A Prime Ministerial decree was issued in October 2023 to reinforce to the public institutions and the general public the due process to be followed for procurement and concessions, without which any agreement will be void and criminal procedures followed.

- **Public lands and real estate.** To strengthen governance and prevent misuse of government lands and nonfinancial assets, in September 2023 we amended the PFM Regulations to implement the PFM Act's provisions on public property and issued the Asset Management Guidelines that provide a standard approach for government assets management, enhance transparency and accountability, and promote a prudent use of public lands and real estate.

9. Debt management has continued to improve. The Debt Management Unit (DMU) has successfully upgraded its debt recording management system with the Commonwealth Meridian System. The DMU has been publishing consecutive quarterly public debt reports, so far from 2020Q4 to 2023Q2 (CPT). A debt reconciliation exercise was carried out in 2023 in preparation for the HIPC

Completion Point.

10. The FGS and Federal Member States (FMS) continue to advance the federalism agenda. In March 2023, the National Consultative Council brought together leaders of the FGS, four out of five FMS, and the Mayor of Mogadishu. High-level agreements were reached on creating a National Revenue Authority, the assignment of revenue responsibilities across levels of government, and the pool of revenues that are to be shared between the FGS and FMS. In July 2023, the same group agreed on the distribution of external budget support.

11. The CBS is making significant progress on promoting financial stability and financial deepening. The launch of the National Payment System (NPS) in 2021 was a major milestone, enabling a safer and more efficient payment infrastructure. Transactions through the NPS have been increasing. IBAN account standardization was launched March 27, 2023 to improve cross-border payments and reduce operational processes within the NPS. The Gargaara program, with World Bank support, continues to support access to financing for micro, small, and medium-sized enterprises. The guidance for Islamic bank financial reporting and the guidance for the Shariah bank governance framework were issued in 2020. The CBS issued the banking regulations on capital and liquidity requirements in July 2023, also covering risk management aspects. The capital adequacy regulation incorporates risk weighting of exposures to credit and operational risks according to the Basel III framework, in a proportionate manner and considering Islamic financing. The liquidity regulation clarifies and simplifies the liquidity coverage ratio (LCR) requirement in addition to qualitative requirements on risk management, in line with Basel III. We have been engaging with banks to ensure they meet the new requirements. As of September 2023, four mobile money operators have been granted licenses. Mobile money regulations were issued, the payment system and mobile money oversight division was established, and a regulation manual drafted. Capacity in financial supervision has been improving through increased resources and we are moving towards risk-based prudential supervision.

12. The CBS is strengthening its institutional framework and capacity, including through implementation of safeguards assessment recommendations. The performance criteria on net international reserves (NIR) has been consistently met. The CBS is enhancing its governance and decision-making arrangements. A function-based organizational structure was adopted, and a performance management system was established. Most recommendations from the March 2020 safeguards assessment have been implemented. The 2022 audited financial statements were published in July 2023 with a clean auditor opinion, and the period-end closing procedures were completed in January 2023.

13. Some important steps have been taken on AML/CFT. The National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee (NAMLC). The National Risk Assessment (NRA) on ML/FT was finalized and published in 2022. The NRA Action Plan was published in February 2023. The Targeted Financial Sanctions Law (TFSL) was enacted in March 2023 and the related regulations were approved in July 2023. Key infrastructure and IT systems were acquired to support the Financial Reporting Center's capacity to review and assess suspicious transactions. Efforts have been made to improve the integrity of the financial sector through outreach and training. The CBS issued a guidance on Know-Your-Customer and customer due diligence risk-based approach and large cash transactions and suspicious transactions reporting for commercial banks in July 2023. NAMLC issued a guideline on mobile money transaction limits in July 2023.

14. We continue our governance and anti-corruption efforts. To enhance the transparency in the regulatory process for key industries, the CBS and National Communication Authority (NCA), respectively, have published on their websites the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators. We acceded to the UN Convention Against Corruption (UNCAC) in August 2021 (CPT) and Parliament ratified the African Union Convention on Preventing and Combating Corruption and Arab Anti Corruption Convention. We published the National Anti-Corruption Strategy (NACS) and outreach is ongoing to public sector employees for ethics training and to increase awareness of the NACS.

15. The Audit Law, which was enacted in September 2023, lays the legal groundwork necessary for a robust federal audit system. The Bill strengthens the independent oversight of the use of public resources at the federal and state level, including for intergovernmental transfers; outlines the checks and balances for appointing and dismissing the Auditor General; and clearly separates the responsibilities of federal and state Auditors General related to special audits of grant transfers.

16. We continue to make progress on the petroleum sector legal framework. The Model Oil and Gas Production Sharing Agreement (PSA) was approved by the IMCC in November 2021. The PFM regulations on natural resource revenue management were issued in May 2022. The revised tender protocol was approved by the IMCC in November 2022. The Extractive Industries Fiscal Regime Law was enacted in June 2023 (CPT).

17. We have also enacted several new key pieces of legislation and implemented reforms to support inclusive growth and resilience to climate shocks. We passed the Somali Standards and Quality Control Bill and established the Somali Bureau of Standards in 2020. These provide a framework for agricultural standards and certification to support activity and employment in the largest sector of our economy. Additionally, we established a "one-stop-shop" to e-register business for integrated tax and business licensing services. In May 2022, we issued a second set of regulations to the Company Act specifically covering the issue of minority shareholder protection to encourage private sector investment (CPT). The Electricity Act was enacted in March 2023 and the Electricity Service Provider (ESP) Licensing Regulations and the ESP Tariff Regulations were approved (CPT). Additional key pieces of legislation that support development efforts were passed by Parliament in March 2023, in particular the Data Protection Law, the Digital ID System Law, the Investment and Investor Protection Act, and the Federal Law on Fisheries.

18. The FGS and FMS are working jointly to enhance human capital development. The FGS and FMS Ministers of Education adopted an agreement defining their respective roles and responsibilities on curriculum and examinations (CPT). The FGS and FMS Ministers of Health also adopted a joint national health sector strategy (CPT), which will support effective functions and accountability across different levels of governments.

19. We have established a national unified social registry (USR) (CPT), a necessary building block for a comprehensive shock response safety net system. The USR is a functional platform that supports the registration and determination of potential eligibility for social programs. We are implementing a social safety net scheme—Baxnaano—with the support of the World Bank and using the systems of the World Food Program.

20. We continue to enhance our capacity to produce macroeconomic and financial statistics. The Somalia National Bureau of Statistics (SNBS) has published the Somalia Facts and Figures annually since 2018 (CPT). National accounts and consumer price index are published annually and monthly, respectively. The 2022 Somalia Integrated Household Budget Survey (SIHBS), the first since 1985, was published in February 2023 and has been used to rebase GDP. To promote data transparency, Somalia continues to implement the enhanced General Data Dissemination System (e-GDDS) framework.

Outlook and Risks

21. Growth is expected to strengthen in the near term, supported by improvements in agriculture, remittances, and investment. The resumption of rain since 2023Q1 will facilitate a recovery of livestock and crop exports in 2023, and more fully in 2024. Remittance inflows are expected to improve modestly as global inflation eases. Inflation is expected to decline to 4.6 percent (eop) in 2023 reflecting lower commodity prices. Growth is expected to increase to 4.3 percent by 2028, as financial and structural reforms facilitate a gradual scaling up of public spending and foster greater private investment.

22. We have considered how best to safeguard our objectives under the ECF-supported program in case downside risks materialize. Significant near-term risks include climate shocks (drought, floods, and related impact on food insecurity), security risks, lower than anticipated global growth, and additional pressures on international food and energy prices. Shortfalls or delays in disbursement of budget support financing also create risks for the budget. Our policy efforts aim to improve our ability to deal with these risks. If any of these risks materialize, revenue shortfalls could be partly absorbed by our continued fiscal discipline and our sequestration rule that prioritizes critical expenditure. Importantly, we would seek additional financing from development partners.

Economic and Financial Policies

23. Somalia's new ECF arrangement supports continued efforts to further strengthen key economic institutions and promote macroeconomic stability and growth, in line with Somalia's Ninth National Development Plan and the government's long-term vision. Reform priorities in the new ECF-supported program include: (i) increasing domestic revenues; (ii) strengthening PFM (including the legal and regulatory framework, internal and external audit, expenditure controls, cash management, accounting and reporting, debt management, and public investment management); (iii) promoting financial deepening and financial inclusion, including the currency reform; (iv) improving the business environment and governance (including AML/CFT); and (v) enhancing statistics. Quantitative performance criteria and indicative targets consist of a floor for domestic revenue, a ceiling on recurrent operating expenditures, a floor on the cash-based fiscal balance, no new external arrears, no new accumulation of domestic arrears, no new accumulation of non-concessional external debt, a ceiling on new domestic debt, and a floor on the net international reserves of the CBS (see MEFP Table 1 and TMU). We do not intend to impose new, or intensify existing restrictions on the making of payments and transfers for current international transactions, introduce new, or intensify existing trade restrictions for balance of payments purposes, or enter into bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement. Structural benchmarks (MEFP Table 2) involve key reform objectives in the areas of revenue administration, public financial management, financial stability, and governance and AML/CFT. Additional reforms to meet program objectives, beyond those discussed below, will continue to be introduced on a 12-month rolling basis as information on needs and priorities emerges. By the conclusion of the arrangement, we expect to have improved the efficiency and transparency of fiscal processes, as domestic revenues and expenditures increase; strengthened debt management and public investment management capacity; established some limited capacity for monetary and exchange rate policy as part of the currency reform; and enhanced statistics and governance across all macro-critical sectors.

Fiscal Policy and Reforms

24. The FGS will continue to improve the fiscal framework and fiscal sustainability over the medium term. While providing space for higher expenditure to address the country's still significant development needs, we will follow a prudent fiscal policy that preserves fiscal sustainability while taking into account Somalia's need to build debt management capacity and public investment capacity over time. We will anchor policy in a medium-term fiscal framework (MTFF) and for external financing we will rely solely on grants and concessional loans to preserve debt sustainability. We will seek to maintain overall fiscal deficits of up to 3.5 percent of GDP financed with concessional loans, of which at a minimum 1.5 percent of GDP will come from multilateral creditors that provide highly concessional financing terms as well as capacity development support.[1] This will be reviewed periodically in line with our borrowing capacity. Borrowing capacity will increase over time as Somalia strengthens its revenue capacity, debt management capacity, and public investment management capacity. Specific fiscal conditionality for the program will be set on a 12-month rolling basis during program reviews, taking into account the authorities' policy objectives, project pipeline, economic developments, and other information, and in consultation with IMF staff. We will also implement measures to accelerate the mobilization of domestic revenues; improve budget execution; improve public financial management to safeguard fiscal resources and strengthen governance; integrate the costs of national development plan priorities into our budgets going forward; and strengthen inter-governmental fiscal relations.

25. For 2024, we will continue to improve revenue collection and make room for priority spending, while containing discretionary expenditure pressures. We will submit to Parliament a

[1] For the purposes of the program, highly concessional financing is defined as borrowing with at least 50 percent grant element.

Budget for 2024 that presents an overall fiscal deficit of US$ 38 million (0.3 percent of GDP), assuming that budget support financing from IDA could be on grant terms and approved before June 30, 2024. Domestic revenues in 2024 are expected to rise to a level that at least matches the cost of compensation of employees. The Budget will accommodate expenditure that is supportive of growth, security, and development while other discretionary spending will be contained. Any new hires will be incorporated in the payroll system, with wages in line with existing pay scales. To increase revenues, we are committed to implementing a series of measures as delineated below. The budget will also include a costing of NDP9 for 2024.

26. Domestic revenue mobilization is a cornerstone of our fiscal program, and we aim to raise domestic revenue to fully cover operational expenditure by 2027. We see the importance of raising domestic revenues and restraining operational expenditure to reduce the need for borrowing to cover operational costs, and to facilitate an expansion in public services and investment over time. We will intensify efforts to increase domestic revenues to at least match compensation of employees in 2024, and for domestic revenues to fully cover operational expenditure (including non-project compensation of employees, goods and services, and interest payments) by 2027. We will lay out our proposed revenue strategy for the next three years in a new Tax Policy and Revenue Administration Roadmap, building on progress so far and with IMF capacity development support. We will finalize the Tax Policy and Revenue Administration Roadmap by June 2024 (SB#1). The Roadmap will include the following key revenue reforms, among others:

- **Customs modernization**. We will complete the ad valorem customs reform. Once we have gained sufficient experience with the full operationalization of the SOMCAS system at ports and airports of Mogadishu and Kismayo, we will begin application of ad valorem tariffs that rely on invoice values, initially keeping the common valuation table to provide minimum values for duty calculation. We will advance with the customs reform in the remaining ports of Somalia once political conditions allow.

- **Modern income tax law.** We will finalize the draft Income Tax bill and will submit to Parliament by end-June 2024 (SB#2). Once enacted, the new law will streamline definitions of taxable income and deductions and is expected to increase income tax collection over the medium-term.

- **Revenue mobilization from large businesses, in particular the telecom sector.** We will speed up the pace of revenue mobilization from the telecom sector, which offers significant revenue potential for the government. Bringing effective tax rates on the telecom sector up to a level comparable to that of peers and other countries in the region is essential to achieve the domestic revenue targets. We will seek IMF capacity development support to develop a comprehensive reform strategy to increase revenues from the telecom sector.

- **Other revenue administration measures.** We will issue the implementing regulations of the Revenue Management Law, which will cover a range of enforcement issues (including the Taxpayer Identification Number, Large and Medium Taxpayers Offices, and tax audits), and facilitate harmonization of revenue administration functions across the FGS and FMS. To leverage information and communication technologies for revenue administration, we will develop the Integrated Tax Administration System (ITAS). Once operationalized, the ITAS will enable the collection and use of third-party data and enhance tax audits, automate collection processes, and improve inland tax administration effectiveness. We will also establish a gateway for tax payments through private banks. We will continue strengthening tax audits by implementing the new audit manual, which draws lessons from rounds of audits since 2020.

27. We will bolster efforts to improve PFM, which is important to strengthen expenditure controls and fiscal transparency:

- **Payroll integration.** To strengthen controls on compensation and ensure payroll integrity, we will integrate all compensation of employees into the single payroll included in the SFMIS, following a sequenced approach as set out in the approved roadmap. Building on progress so far, we will reduce the ratio of non-payroll payments to total compensation of employees to less than 1 percent by end-June 2024 (SB#3). In addition, we will develop a strategy to align salaries of temporary workers with the existing pay scale of permanent workers and to implement the Pay and Grade Policy.

- **Streamlining of business processes.** We will streamline the budget execution and Treasury management process in order to enhance financial controls and reporting. Building on the experience of invoice tracking for electricity and internet, a roadmap to expand the coverage of invoice tracking to all goods and services will be developed by end-February 2024 (SB#4). In order to monitor accumulation of unpaid invoices and arrears and enable their timely reporting, we will require Ministries, Departments and Agencies (MDAs) to register invoices in the SFMIS immediately after they are received. The SFMIS will enforce this requirement by rejecting a payment voucher for which an invoice has not been registered yet. To improve efficiencies, we plan to accelerate automation of cash planning and revenue management through the SFMIS by eliminating paper-based parallel processes and utilizing the interfaces with the CAS and ITAS. These reforms will be supported by implementation of recommendations provided by the recent SFMIS Quality Assurance exercise, which has identified room for strengthening Information and Communication Technology governance.

- **Debt management.** We will further strengthen the public debt management framework by more fully articulating and disseminating the procedures for initiating loan negotiations and entering into loan agreements. By June 2024, we will (1) Issue a Prime Ministerial Decree that articulates the key parameters for debt policy and establishes the procedures to be followed for entering into new borrowing and issuing sovereign guarantees, in line with IMF staff recommendations; (2) amend the PFM regulations to include a clear definition of "other financial liabilities" that are considered guarantees as per Article 37 (6) of the PFM Act, in line with IMF staff recommendations (SB#5).

- **Fiscal transparency and accountability.** We will amend the PFM Regulations to require costing of the NDP in the annual and supplementary budgets. To promote improvements of FMS financial statements, an intergovernmental technical working group will undertake a gap analysis of the FMS' latest financial statements and prepare a common template that complies with the Cash-Basis International Public Sector Accounting Standards (IPSAS). To expand the coverage of general government fiscal reports, we will coordinate with the Banaadir to develop their regular fiscal reporting process and ensure their participation in aggregated reporting.

- **Public-private partnerships (PPP) law and regulations.** We will develop a strong legal and fiscal institutional framework for PPPs to promote investment while adequately managing fiscal risks. Important elements to contain fiscal risks related to PPPs include (i) a sound PPP framework; (ii) controlling costs, including by establishing a gateway process managed by the MoF; and (iii) disclosure of costs and risks. With these elements in mind, by June 2024 we will submit the PPP Bill to Parliament with a framework that adequately manages fiscal risks and establishes a gateway process managed by the Ministry of Finance (SB#6).

- **Public procurement.** We will continue to develop an open and transparent process for public procurement through implementation of the Public Procurement Law and regulations. To foster more effective regulatory compliance, we will strengthen capacity of MDAs through the training in and sensitization to the procurement laws and guidelines.

- **Public lands and real estate.** We will proceed with implementation of the PFM Regulations on public property and the Asset Management Guidelines to promote a prudent use of public lands and real estate.

28. We continue to advance in negotiations with external creditors on restructuring Somalia's external public debt. We have reached debt relief agreements with all Paris Club creditors, the Kuwait Fund for Arab Economic Development, and the Saudi Fund for Development. We are continuing good faith negotiations with remaining creditors to finalize debt relief agreements.

29. We are working towards finalizing and implementing a harmonized legal framework for the extractive industries. Following the enactment of the Extractive Industries Fiscal Regime Law (EIFRL) (HIPC CPT), we will develop the related regulations. We will also finalize the regulations for the Petroleum Act. We commit to not issuing any new product sharing agreements until the legal framework is completed, including the EIFRL regulations and the Petroleum Act regulations. Any direct negotiations will be limited and informed by price discovery through previous licensing rounds.

Monetary and Financial Sector Reforms

30. We will continue implementing reforms to strengthen CBS institutional capacity and support financial deepening. Bills for the National Payment System and Islamic Insurance have been submitted to Parliament. The Revised Financial Institutions Bill is being finalized for submission to Cabinet. We are drafting amendments to the CBS Act to enhance the central bank's autonomy and enable CBS capitalization. We are developing a National QR code and National SWITCH to support the national payment system. Staffing and capacity of the CBS Licensing and

Supervision Department will continue to be strengthened to improve the quality of supervision. By end-July 2024, the CBS will develop an action plan to improve the quality of data submitted by commercial banks and communicate the action plan to commercial banks (SB#7). The upcoming IMF safeguards assessment will guide additional priority reforms that can be supported by IMF technical assistance.

31. With World Bank support, we plan to implement the currency exchange project once the preconditions and financing are in place. We are taking steps to address the operational and financial needs associated with the currency exchange project, including securing a firm agreement between the FGS and all FMS and addressing the funding gap. We will also work on formulating the monetary and exchange rate policy frameworks and developing capacity of the CBS and financial institutions—in consultation with IMF staff, including with the help of further IMF technical assistance. We will also need to secure gross international reserves required to backstop the new currency, including by catalyzing donor assistance.

32. We will continue advancing reforms of the AML/CFT operational and legal framework to comply with international standards and support the flow of remittances into Somalia. We will implement the recently approved NRA action plan and prepare for the MENA-FATF Mutual Evaluation Assessment in 2024. By end-March 2024, we will submit amendments to the 2016 AML/CFT Law to Parliament, in line with IMF staff recommendations (SB#8).

Policies for Improving Economic Growth, Governance, Social Inclusion, and Statistics

33. We continue our strong commitment to improve governance and fight corruption. We will take steps to review the existing laws to ensure compliance with the UNCAC. We will strengthen the resources of the Independent Anti-Corruption Commission and continue implementing the action plan of the National Anti-Corruption Strategy.

34. We remain committed to advancing a broad-based reform agenda to bolster inclusive growth and improve resilience to climate shocks. To help build resilience to climate change and strengthen food systems over time, the newly created Ministry of Environment and Climate Change is preparing a Food Security Crisis Plan. We will work with development partners to encourage greater channeling of aid flows through country systems to ensure their alignment with the priorities of the NDP9, enhance their visibility, and facilitate monitoring and evaluation. We will continue working towards accession to the East African Community and the World Trade Organization and on improving regional and bilateral trade ties.

35. We will continue rolling out the national digital ID to support enhanced Know-Your-Customer and financial intermediation and support targeted delivery of government services. We have completed the legal underpinnings for the digital ID, including by enacting the Digital ID and Data Protection Laws. We have also finalized the procurement processes for the necessary IT system and established the national ID agency. These efforts enabled us to start rolling out Somalia National ID in September 2023 and we plan to enroll 500 thousand individuals in the

National Identification and Registration Agency (NIRA) by the end of 2023. We plan to employ the digital ID to support the implementation of targeted social protection programs and improve know-your-customer requirements to enhance the AML/CFT efforts.

36. We are committed to improving key macroeconomic and financial data, acknowledging the critical role it plays in guiding economic policies. Availability of economic activity and social data will be broadened with the expected commencement of the Business Survey in the coming year. A new census is expected in 2024, the first after 40 years. Work is also ongoing to develop production-based national accounts data in 2023 by using data from the Business Survey.

Program Monitoring and Access

37. Program implementation will be monitored through quantitative performance criteria, continuous performance criteria (including a continuous performance criteria related to Article VIII commitments), indicative targets (MEFP Table 1) and structural benchmarks (MEFP Table 2). These will be assessed through semi-annual reviews. The first review of the new ECF arrangement will be based on the QPCs and ITs set for end-December 2023 (as described in MEFP Table 1 and the TMU), and the structural conditionality as described in MEFP Table 2. All reviews will be conditioned on quantitative performance criteria outlined in MEFP Table 1.

Table 1. Somalia: Quantitative Performance Criteria and Indicative Targets Under the ECF Arrangement (December 2023–December 2024) 1/

(Millions of U.S. dollars)

		Dec. 2023 4/	Mar. 2024	June. 2024 4/	Sept. 2024	Dec. 2024 4/
		Prog.	Prog.	Prog.	Prog.	Prog.
	Quantitative Performance Criteria					
1	FGS domestic revenue, floor 2/	312		145		345
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	384		236		437
3	Net international reserves, floor 7/	10		10		10
4	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0		0		0
5	Accumulation of new external arrears, ceiling 3/	0		0		0
	Indicative Targets					
1	FGS domestic revenue, floor 2/		69		231	
2	Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/		118		349	
3	Net international reserves, floor 7/		10		10	
4	Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/		0		0	
5	Accumulation of new external arrears, ceiling 3/		0		0	
6	Fiscal balance, floor (cash basis) 2/ 5/	-15	-48	-21	6	-38
7	Contracting of new domestic debt, ceiling 3/	0	0	0	0	0
8	Accumulation of new domestic expenditure arrears, ceiling 3/	0	0	0	0	0
	Memorandum item					
	Contracting or guaranteeing of new external concessional debt 5/ 6/		0	0	75	75

Sources: Somali authorities; and IMF staff estimates and projections.

1/ The quantitative targets, indicative targets, and program exchange rates are defined in the Technical Memorandum of Understanding (TMU).

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

4/ Test date for the first, second and third reviews, respectively.

5/ The fiscal balance floor is in line with the authorities' 2024 budget (US$38 million), which is consistent with the IMF staff forecast (US$146 million). The authorities' budget assumes that budget support financing from IDA (US$75 million) could be on grant terms and approved before June 30, 2024. A decision by the IDA deputies on the latter is still pending, therefore in the IMF forecast budget support financing from IDA is included as borrowing and not as a grant. The authorities' 2024 budget also includes budget grants from Turkiye (US$30 million), which are not incorporated in the IMF baseline. In addition, in the authorities' 2024 budget, interest payments are estimated based on signed agreements with creditors (US$10 million), while the IMF forecast shows interest payments assuming agreements are reached with all creditors (US$15 million). For 2024, the fiscal balance floor would be adjusted downward by any delays or shortfalls in budget support grants as compared to the 2024 budget estimate, or if interest payments are higher than the budget estimate, as per the TMU.

6/ Excludes IMF disbursements.

7/ The floor on NIR would be adjusted downward if the CBS transfers distributable earnings to the government, if the CBS provides temporary liquidity advances to the government, and if the IMF HIPC debt relief of SDR 7 million remains with the MoF and not the CBS, as per the TMU.

Table 2. Somalia: Structural Benchmarks Under the ECF Arrangement (December 2023–December 2024)

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring
1	Publish a Tax Policy and Revenue Administration Roadmap approved by the Minister of Finance, in line with IMF staff recommendations	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Publish roadmap approved by the Minister of Finance on the MOF website.
2	Submit the Income Tax Bill to Parliament	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Send to the IMF staff the version of the Bill submitted to Parliament
3	Ensure full payroll integration of FGS employees by reducing the ratio of non-payroll payments to total compensation of employees to less than 1 percent	End-June 2024	PFM / MOF NCSC MOLSA	Strengthen payroll integrity, expenditure controls, and governance	Submit to IMF staff monthly SFMIS reports detailing amount of payroll and non-payroll payments for FGS compensation of employees. A ratio of non-payroll payments to total compensation of employees to be decreased to less than 1 percent on average between April and June 2024 (relative to 10.9 percent in May-July 2023)
4	Publish a plan approved by the Minister of Finance to expand invoice tracking functionality to all goods and services	End-February 2024	PFM / MOF	Strengthen PFM, expenditure controls, transparency, and accountability	Publish the plan approved by the Minister of Finance on the MOF website.
5	(1) Issue a Prime Ministerial Decree that articulates the key parameters for debt policy and establishes the procedures to be followed for entering into new borrowing and issuing sovereign guarantees, in line with IMF staff recommendations; (2) amend the PFM regulations to include a clear definition of "other financial liabilities" that are considered guarantees as per Article 37 (6) of the PFM Act, in line with IMF staff recommendations.	End-June 2024	Public debt/ MOF	Define debt policy and strengthen debt management framework and capacity, in order to preserve fiscal sustainability.	Publish the approved Prime Ministerial Decree on the MoF website. Publish the amended PFM regulations on the MoF website.
6	Submit the PPP Bill to Parliament with a framework that adequately manages fiscal risks and establishes a gateway process managed by the Ministry of Finance	End-June 2024	Governance / MOF	Reduce fiscal risks and contingent liabilities/ Strengthen governance and reduce corruption risks	Send to the IMF staff the version of the Bill submitted to Parliament
7	Develop an action plan to improve the quality of data submitted by commercial banks, in line with IMF recommendations, and communicate the action plan to commercial banks.	End-July 2024	Financial Supervision / CBS	Improve risk-based financial supervision	Provide IMF staff with the action plan approved by the CBS Board and copies of the letters from the CBS Governor to commercial banks with the details of the action plan approved by the CBS Board.
8	Submit to Parliament amendments to the AML/CFT Law, in line with IMF staff recommendations	End-March 2024	AML-CFT Governance / FRC MOF CBS	Improve the legal framework for AML/CFT	Send to the IMF staff the version of the AML/CFT Act amendments submitted to Parliament

Source: IMF

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Federal Member States (FMS), Financial Reporting Center (FRC), Ministry of Justice (MOJ) public financial management (PFM), Somalia Financial Management Information System (SFMIS), Anti-Money Laundering/Combating the Financing of Terrorism (AML-CFT).

Attachment II. Technical Memorandum of Understanding

This technical memorandum of understanding (TMU) sets out the definitions of the quantitative performance criteria and indicative targets agreed to by the Somali authorities and the International Monetary Fund (IMF) in relation to the Extended Credit Facility spanning December 2023 to December 2026. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable IMF staff to assess program implementation and performance. The definitions could be revisited during the program reviews to ensure that the memorandum continues to reflect the best understanding of the Somali authorities and IMF staff in monitoring the program.

QUANTITATIVE TARGETS

1. **The quantitative performance criteria (QPC) and indicative targets (IT) are specified in Table 1 of the Memorandum of Economic and Financial Policies (MEFP).** Quantitative targets will be set on a 12-month rolling basis during program reviews, with test dates for QPCs usually set on a semiannual basis, and those for ITs set on a quarterly basis. Unless otherwise specified, all quantitative targets will be evaluated in terms of cumulative flows from the beginning of each calendar year.

QPCs for December 2023, June 2024, and December 2024, and related ITs for March 2024 and September 2024:

- Floor on Federal Government of Somalia (FGS) domestic revenue;
- Ceiling on spending on FGS compensation of employees, goods & services, & contingency;
- Floor on the Central Bank of Somalia's (CBS) net international reserves (NIR);
- Ceiling on accumulation of new external arrears by the FGS; and
- Ceiling on contracting or guaranteeing any new external, non-concessional debt.

ITs for December 2023, and March, June, September, and December 2024:

- Floor on the FGS fiscal balance (on a cash basis);
- Ceiling on new domestic debt contracted by the FGS;
- Ceiling on accumulation of new domestic arrears by the FGS; and

Memorandum item

- Contracting or guaranteeing of any new external, concessional debt, excluding disbursements under an IMF arrangement.

2. **In addition to the specific PCs listed in paragraph 1, as for any Fund arrangement, continuous PCs also include the non-introduction of exchange restrictions and multiple currency practices as per the Article VIII commitments.** Specifically, such continuous

performance criteria cover (i) the non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) the non-introduction or modification of multiple currency practices; (iii) the non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) the non-imposition or intensification of import restrictions for balance of payments reasons. These continuous PCs, given their non-quantitative nature, are not listed in the PC table (Table 1) annexed to the MEFP.

DEFINITIONS AND COMPUTATION

3. **The government is defined as the FGS.** This definition excludes public entities with autonomous legal personalities whose budgets are not included in the federal government budget and federal members states (FMS). For the purpose of monitoring external debt, the general government is defined as the FGS and FMS (Galmudug, Hirshabelle, Jubaland, Puntland, and South West State) and the Banaadir region.

4. **Government revenue and expenditure is defined in accordance with the Government Financial Statistics Manual (GFSM) 2014 on a cash basis of accounting.** Government revenues and expenditure are recognized when cash is received and paid and measured on a cumulative basis from the beginning of the current fiscal year (which coincides with the calendar year). Financing transactions—including amortization of World Bank and other debt, receipts and repayments of CBS advances, and withdrawal and reconstitution of Special Drawing Rights (SDR) distributed to the MoF—are excluded from revenue and expenditure. Interest payments are included in expenditure. Receipts from the disposal of nonfinancial assets are also excluded from the definition of revenue. The Somalia Financial Management Information System (SFMIS) reports will be used as the basis for program monitoring of revenues, expenditures, and financing transactions, supplemented by monthly financial reports published by the Ministry of Finance.

5. **Government domestic revenue includes all tax and nontax receipts received into the FGS general accounts and excludes grants.** Domestic revenues include taxes, nontax revenues, and other compulsory transfers imposed by the government, property income derived from the ownership of assets, sales of goods and services, penalties and forfeits, and voluntary transfers received from nongovernment other than grants. The definition for program monitoring excludes (i) grants and other noncompulsory contributions received from foreign governments or international organizations and (ii) transfers of CBS distributable earnings that are not included in the Appropriation Law.

6. **Spending on FGS compensation of employees, goods and services, and contingencies excludes expenditure made under project appropriations specified in the Appropriation Law.** Spending on compensation of employees and goods and services is determined in line with the GFSM 2014. The table on data reporting below requests expenditures by 4-digit level object code for each MDA with a breakdown for those financed by the general government fund, contingency funds, and project support grants specified in the Appropriation Law.

7. Tax exemptions refer to all revenue losses resulting from preferential tax policies. The detailed reporting requirements under the PFM Law are:

a. Article 5 (3): Within 7 days of granting an exemption the Minister shall notify the Council of Ministers and the Auditor General of the tax exemptions and the reasons for the exemptions.

b. Article 5 (4): The Minister shall submit the tax exemptions approved to both Houses of Parliament on or before March 31st, June 30th, September 30th, and December 31st of each financial year.

c. Article 5 (5): The content of the reports should show at the micro level the individual to whom the tax exemption was granted; the reasons for the exemptions; the total of taxes due to the Government but not paid; and the benefits to the Government arising from the tax exemption.

d. Article 18 (1)(f): The proposed Budget Appropriation Bill submitted by the Minister to both Houses of the Federal Parliament of Somalia should contain the annual tax exemption report.

8. Budget execution control points for Somalia are defined in accordance with accepted international practice:

a. **Allotment:** An allotment refers to a ceiling on the amount of warrants to be requested by MDAs during a specific time period. An allotment is issued by the MoF within available funds for the period covered. Also referred to in some texts as "apportionment" or "allocation".

b. **Warrant:** A warrant refers to a ceiling on the amount of commitments to be made by MDAs during a specific time period. A warrant is issued by the MoF on request from an MDA within the amount of available allotment. Once approved, the warrant reduces the available allotment.

c. **Commitment:** A commitment refers to a contract or other form of legally binding agreements to make payments. It includes agreements to make payments in exchange for future delivery of goods or services and agreements of a continuing nature, including those for compensation of employees. In case of the former, a liability will not be recognized until delivery of the item, but the government is contractually committed to meeting the obligation once delivery is made.

9. The fiscal balance, on a cash basis, is defined as the difference between (i) total government revenue (including domestic revenue, transfers of CBS distributable earnings that are not included in the Appropriation Law, and grants); and (ii) total government expenditures (excluding foreign-financed off-budget expenditure).

10. Adjustor to the fiscal balance floor. The floor on the fiscal balance will be adjusted down by any delays or shortfalls in budget support grants as compared to the budget estimate, up to the maximum amounts stipulated in TMU Table 1, to cover priority spending as specified in the sequestration rule under the Appropriation Law, and provided that there are no overruns in other, non-priority spending items. The floor on the fiscal balance will also be adjusted down by any higher amounts of interest payments compared to the budget estimate.

Table 1. Somalia: Adjustor to the Fiscal Balance Floor, Maximum Amount

(US$ million, cumulative flows from the beginning of each calendar year)

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Maximum amount of the fiscal balance adjustor related to delays or shortfalls in budget support grants	**56.1**	**0.0**	**75.0**	**150.0**	**150.0**
Memorandum items					
Budget support grants in the Budget estimate	170.6	0.0	75.0	150.0	150.0
Interest payments in the Budget estimate		9.8	9.8	9.8	9.8
Possible sources of financing for fiscal deficit	56.1	112.4	112.4	187.4	152.4
World Bank DPO as loan rather than grant	0.0	0.0	0.0	75.0	75.0
Withdrawal of cash buffers 1/	56.1	68.4	68.4	68.4	68.4
Proceeds from SDR holdings distributed to the MOF	0.0	9.0	9.0	9.0	9.0
Proceeds from CBS temporary advances 2/	0.0	35.0	35.0	35.0	0.0

1/ Includes the Fiscal Buffer (a dedicated account in the Treasury Single Account managed in accordance with the MoF guidelines of July 25, 2019), the SDR transit account (an account held with a correspondent bank in Turkey through which proceeds from SDR holdings distributed to the MOF are channeled), and other accounts with cash balances.

2/ In line with the CBS Law, the total amount outstanding at any time of CBS advances shall not exceed 15 percent of the most recent audited domestic revenue of FGS. For 2023, the most recent audited domestic revenue corresponds to 2022 and the maximum amount of liquidity advances from the CBS is USD39.4 million. For 2024, the most recent audited domestic revenue will correspond to 2023 and the maximum amount of liquidity advances from the CBS is currently estimated at USD42.45 million--this amount will need to be updated in forthcoming program reviews once the audited accounts for 2023 become available. In line with the Appropriation Law, all liquidity advances should be repaid by end-December of the fiscal year. In line with the Short-Term Government Financing Agreement between the CBS and MoF signed on June 21, 2021, the maturity of temporary advances should not exceed 90 days.

11. **New domestic arrears of the government are defined as FGS' obligations for payments to residents that remain unpaid 90 days after the due date.** Under this definition, the due date refers to the date on which payments are due according to the relevant contract or agreement, after any contractual grace periods lapse. Obligations for payments include CBS advances, borrowing from commercial banks, and accrued but unpaid expenditure commitments for compensation of employees, goods and services, interest payments, mandatory transfer to the Banaadir region, and acquisition of nonfinancial assets. New domestic arrears include those accumulated from the beginning of the fiscal year.

12. **External arrears of the government are defined as debt obligations to non-residents that are not paid on the contractual due date (plus any applicable grace period).** For program purposes, external arrears exclude arrears arising from debt that is being renegotiated with creditors in the context of the HIPC process, including Paris Club creditors; and more specifically, to external arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations.

13. **For program purposes, debt is defined in accordance with Executive Board Decision No. 15688 (14/107), Point 8(a) and 8(b), adopted on December 5,2014, as amended, and is**

defined on a residency basis.

- The term "debt" will be understood to mean a current (that is, not contingent) liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take several forms; the primary ones being as follows:

- Loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- Suppliers' credits, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- Leases, that is, arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property.

14. Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (for example, payment on delivery) will not give rise to debt.

15. Domestic debt is defined as debt for which the counterparty is resident of Somalia, including the CBS. The definition of domestic debt excludes temporary advances for liquidity management from the CBS. Temporary advances will be fully repaid within 90 days. QPCs and related ITs on domestic debt are cumulative ceilings on contracting new domestic debt from the beginning of the fiscal year.

16. QPCs (and related ITs) for external debt are cumulative ceilings on contracting or guaranteeing of new non-concessional borrowing by the general government from the beginning of the fiscal year. A memorandum item is included on the contracting of new concessional borrowing by the general government from the beginning of the fiscal year. For program purposes, external debt is defined by the residency of the creditor and is deemed to have been contracted when an underlying loan agreement is signed. Excluded from this performance criteria are disbursements from the IMF. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed. In addition, for program purposes, borrowing is concessional if it includes a grant element of at least

35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.[1] The NPV of debt at the time of its signing is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. External borrowing that does not have a grant element of at least 35 percent is deemed non-concessional borrowing. For the purposes of the program, highly concessional financing is defined as borrowing with at least 50 percent grant element.

17. The CBS's net international reserves are defined as the difference between gross foreign assets and gross foreign liabilities. All SDRs are valued over the calendar year at the August 31, 2023 exchange rate of US$1.329940 per SDR. IMF representative exchange rates against the U.S. dollar at August 31, 2023 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars.

a. Gross foreign assets are defined as

- the sum of (i) gold (valued over the calendar year at the market price of August 31, 2023 (US$ 1,942.9 per ounce)); (ii) total foreign exchange held abroad; and (iii) Somalia's SDR holdings in the IMF SDR Department;
- net of (iv) the unused portion of the MoF share of the 2021 IMF General SDR Allocation[2], and (v) the unused SDRs disbursed under the ECF arrangement for budget support;

b. Gross foreign liabilities are defined as

- the sum of (i) government deposits at the CBS in foreign currency held abroad; (ii) other earmarked foreign currency deposits at the CBS by residents of Somalia held abroad; (iii) outstanding IMF credits and loans; and (iv) total amount of SDR general allocation;
- net of (v) the MoF share of the 2021 General SDR Allocation as per the September 2021 Memorandum of Understanding between the MoF and the CBS; and (vi) SDRs disbursed under the ECF arrangement for budget support.

18. Adjustors to the NIR floor. In case any of the following events materialize, the NIR floor would be adjusted downward by the maximum amounts stipulated in TMU Table 2.

[1] The calculation of concessionality will take into account all aspects of the loan agreement, including maturity, grace period, payment schedule, upfront commissions, and management fees.

[2] As part of the 2021 IMF General SDR Allocation, Somalia received approximately SDR157 million. Of this, the authorities distributed about SDR93 million to the MoF and about SDR64 million to the CBS to strengthen reserves. The September 2021 Memorandum of Understanding between the CBS and MoF clarifies the responsibilities and procedures related to the distribution of the 2021 IMF General SDR Allocation, including that the MoF will be responsible for servicing the liability related to the use of the SDRs (including net charges).

a. If the CBS transfers distributable earnings to the government as per the Central Bank of Somalia Act.

b. If the CBS provides the MoF with temporary liquidity advances to finance delays or shortfalls in budget support grants relative to the budget estimate. In line with the CBS Law, the total amount outstanding at any time of CBS advances shall not exceed 15 percent of the most recent audited domestic revenue of FGS. In line with the Appropriation Law, all liquidity advances should be repaid by end-December of the fiscal year. In line with the Short-Term Government Financing Agreement between the CBS and MoF signed on June 21, 2021, the maturity of temporary advances should not exceed 90 days.

c. If the CBS transfers to the MoF part or all of the SDR 7 million windfall from the HIPC debt relief.[3]

Table 2. Somalia: Adjustors to the NIR Floor

(US$ million, cumulative flows from the beginning of each calendar year)

	Maximum adjustment amounts				
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Adjustor 1, if the CBS transfers distributable earnings to the government	-0.2	-0.2	-0.2	-0.2	-0.2
Adjustor 2: if the CBS provides temporary liquidity advances to the government 1/	0.0	-35.0	-35.0	-35.0	0.0
Adjustor 3: if IMF HIPC debt relief of SDR 7 million remains with the MoF	7.0	7.0	7.0	7.0	7.0

1/ In line with the CBS Law, the total amount outstanding at any time of CBS advances shall not exceed 15 percent of the most recent audited domestic revenue of FGS. For 2023, the most recent audited domestic revenue corresponds to 2022 and the maximum amount of liquidity advances from the CBS is USD39.4 million. For 2024, the most recent audited domestic revenue will correspond to 2023 and the maximum amount of liquidity advances from the CBS is currently estimated at USD42.45 million--this amount will need to be updated in forthcoming program reviews once the audited accounts for 2023 become available. In line with the Appropriation Law, all liquidity advances should be repaid by end-December of the fiscal year. In line with the Short-Term Government Financing Agreement between the CBS and MoF signed on June 21, 2021, the maturity of temporary advances should not exceed 90 days.

Program Monitoring

19. Program Monitoring Committee. The Somali authorities shall maintain a program-

[3] At HIPC Completion Point, the IMF will provide debt forgiveness in the amount of SDR 250.43 million (US$348.3 million in end-2018 PV terms), which corresponds to the ECF/EFF disbursement immediately prior to the HIPC Decision Point in March 2020. Part of the 2020 ECF/EFF disbursement had been used to repay a bridge loan used for arrears clearance to the IMF (SDR 243.4 million), and the remainder (SDR 7 million) was kept as higher gross reserves at the CBS. The authorities need to decide the distribution of the SDR 7 million that will no longer need to be repaid to the IMF.

monitoring Technical Working Group (TWG) composed of senior officials from the Ministry of Finance (MoF), the CBS, Financial Reporting Centre (FRC), Somalia National Bureau of Statistics (SNBS), and the Ministry of Planning, Investment and Economic Development (MoPIED). The IMF Resident Representative will have observer status on this working group. The TWG shall be responsible for monitoring the performance of the program, recommending policy responses, informing the Fund regularly on program performance, and transmitting the supporting materials necessary for the evaluation of benchmarks. The committee shall provide the Fund with quarterly progress reports on the program within four weeks of the end of each quarter, using the latest available data.

20. Data Reporting to the Fund. To allow monitoring of developments under the program, the MoF, CBS, MoPIED, SNBS, and FRC will provide to the Resident Representative's office of the IMF the following data on the schedule as specified in the table below.

Table 3. Somalia: Data Reporting, December 2023–December 2026

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
Central Bank of Somalia	Monetary Survey	Detailed balance sheet data of the CBS submitted in the reporting template.	Monthly	3 weeks after the end of each month.
		Consolidated commercial banks' balance sheetdata submitted in the reporting template, including deposits by mobile money operators (MMOs).	Quarterly	4 weeks after the end of each quarter.
	Financial data not included in broad money	Volume and value of mobile money transaction.	Quarterly	4 weeks after the end of each quarter.
	Other financial indicators	Prudential data as per associated CBS regulations (total capital, core capital, total netassets, high quality liquid assets, and 30-day funding requirement), and average profit ratesand tenor information for private sector financing assets from banks.	Quarterly	4 weeks after the end of each quarter.
	Balance of payments	Trade in goods data by HS code and value for the ports of Mogadishu, and Bossaso and Kismayo, starting end-September 2020; petroleum imports to Mogadishu; and travel data from the Immigration Department.	Quarterly	4 weeks after the end of each quarter.
		Cross-border current transfers (both inflows and outflows) by MTBs, and banks, and for MMOs starting from end-March 2021.	Quarterly	4 weeks after the end of each quarter.

Table 3. Somalia: Data Reporting, December 2023–December 2026 (continued)

ReportingAgency	Type of Data	Description of Data	Frequency	Timing (within period specified)
	FGS external accounts	Provide end-month balances included in the Treasury Single Account held abroad by the CBSon behalf of the FGS, including on-budget grants and the fiscal buffer.	Monthly	3 weeks after the end of each month.
Financial Reporting Center	AML/CFT compliance data	On a monthly basis, total number of each STR, LCTR, and Nil reports received from banks, MTBs, and MMOs. Total number of each banks, and MTBs that have submitted reports during the period. MMO reporting tobe added as oversight and supervision develops, but latest for end-December 2020 data point.	Quarterly	4 weeks after the end of each quarter.
Ministry of Finance	FGS budget operations	For annual and supplemental budgets: • Revenue by GFS 6-digit revenue classification; • Statement of tax exemption for the previous 12-month period (annual budget only); • Proposed Appropriation by MDA, program/project and 4-digit object code; • Proposed appropriation by MDA and 2-digit object code; • Staffing table by MDA; • Donor assistance tables by COFOG showing on and off-budget spending; Proposed spending by NDP sector; and spending by FGS, Banaadir, and FMS.	As required	Within a week of submission to Cabinet and to the Parliament; and when signedby the President.
		Current year SFMIS reports showing budget, virements, and monthly data for: • revenue at GFS 6-digit revenue classification code; • expenditure by budget line and GFS classification with MDA lines, disaggregated by program/project and showing data by GFS 6-digit object code; and • for applicable MDAs, details (i.e. sources of funding and purpose) of budget transfers to each FMS and other units. Reports 1A, 1B and special report for FMS transfers.	Monthly	4 weeks after the end of the month.
		A report that shows details of FGS financing transactions (Report 1C).	Monthly	4 weeks after the end of the month.

Table 3. Somalia: Data Reporting, December 2023–December 2026 (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
		Original budget, virement, allotment, warrant, commitment, and YTD expenditure by 4-digit level object codes for each MDA, with breakdown to those financed by general government fund, contingency fund, and project support grants (Report 2A).	Monthly	4 weeks after the end of the month.
		The monthly cash plan and at least one-month ahead forward projections supported by SFMIS reports on domestic revenue and donor budget support (report 3A) (excluding funding for donor projects); expenditures (excluding those financed by project support grants) by MDA and 4-digit level object code (report 3B); and expenditures (excluding those financed by project support grants) by object code at 4-digit level (report 3C).	Monthly	4 weeks after the end of each month.
Ministry of Finance	FGS budget operations	A comprehensive table summarizing Government operations including revenue, expenditure (by MDA and Object code), and TSA balances for the month and YTD. These should include the fiscal buffer balances. (Excel and PDF formats of the reports 5A, 5B, 5C and 5D).	Monthly	4 weeks after the end of the month.
		Payments report showing all payments in number and value made, disaggregated by those paid directly to vendor's bank accountsconsistent with commitment controls; cash advances; and other payments.	Monthly	4 weeks after the end of the month.
	Payroll	Payroll and non-payroll salary and allowance payments made by MDAs and individual embassies (in Excel).	Monthly	4 weeks after the end of the month.
	SDR balances	Table showing SDR balances of the MoF and changes therein from the beginning of a fiscal year, with breakdown of withdrawal and reconstitution of SDR holdings and their credits and deductions for interest.	Monthly	4 weeks after the end of the month.
	Customs modernization	Report showing number of declarations, manifests processed, and goods inspections report generated from both the Somalia Custom Automated System (SOMCAS) (after the operationalization) and the Somali Single Administrative Document (SOMSAD) system (until being replaced by the SOMCAS).	Quarterly	4 weeks after the end of the quarter (March, June, September, December).
	FMS and Banaadir budgets	For annual and supplemental budgets: Budget for each FMS, and aggregated budget (both revenue and expenditure). BRA budget to be provided in due course.	As required	Within a week of approval

Table 3. Somalia: Data Reporting, December 2023–December 2026 (concluded)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
	FMS and Banaadir final accounts	Final accounts of each FMS and BRA.	Annually	6 months after the end of the year.
	FMS fiscal operations	Reports of fiscal operations (expenditures and revenues) from all Federal Member States (FMS) (using the consolidation tool).	Monthly	6 weeks after the end of each month.
	BRA fiscal operations	Reports of revenue and expenditure of the Banaadir region.	Monthly	6 weeks after the end of each month (from September 2023).
	Domestic arrears	A letter confirming no accumulation of arrears or a table providing the end-of-period stock of domestic arrears accumulated during the year by MDA and 4-digit Object Code.	Quarterly	4 weeks after the end of the quarter.
Ministry of Finance	Outstanding Invoices	A report that shows amount of outstanding invoices, including those past due and not due yet.	Monthly	4 weeks after the end of the month (from May 2023).
	Domestic debt	The amount of new domestic debtcontracted by Government.	Monthly	4 weeks after the end of the month.
	External debt	End of year external debt in U.S. dollars, by creditor, and origination currency. The amount of new external debt contracted orguaranteed by Government.	Annually	6 weeks after the end of the year.
		Disbursements and repayments: (i) scheduled; and (ii) actual interest and principal on debt of the Government and the CBS, by creditor.	Annually	30 days after the end of each year
		Accumulation of any new arrears (principal or interest payments) on external debt.	Monthly	3 weeks after the end of the month.
	Structural benchmarks	A table with a description of the status of implementation of the structural benchmarks in MEFP Table 2 of the MEFP.	Quarterly	4 weeks after the end of each quarter.
Somalia National Bureau of Statistics	CPI and other economic indicators	Indicators to assess overall economic trends, such as the consumer price index.	Monthly	6 weeks after the end of each month; CPI every 15th of the month consistent with inflation report (or next available business day)
		GDP by expenditure data (from June 2020).	Annually	6 months after the end of each year.

SOMALIA

November 27, 2023

SIXTH REVIEW UNDER THE EXTENDED CREDIT FACILITY, ARRANGEMENT AND REQUEST FOR A THREE-YEAR ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—DEBT SUSTAINABILITY ANALYSIS

Approved By
Thanos Arvanitis and Allison Holland (IMF), Manuela Francisco and Hassan Zaman (IDA)

Prepared by the staff of the International Monetary Fund (IMF) and the International Development Association (IDA).

Risk of external debt distress:	*Moderate*
Overall risk of debt distress	*Moderate*
Granularity in the risk rating	*Substantial space to absorb shocks*
Application of judgment	*No*

This Low-Income Countries Debt Sustainability Analysis (LIC-DSA) provides an update of the May 2023 LIC-DSA. The updated LIC-DSA incorporates two new elements: (i) updated macroeconomic assumptions including a rebased GDP series, and (ii) the use of reconciled end-2018 and end-2022 debt databases for the HIPC Completion Point Debt Relief Analysis (DRA) and DSA. The baseline scenario for the LIC DSA also assumes full delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI), and beyond-HIPC assistance at the Completion Point reached in December 2023. Total public debt is projected to decline to US$706 million, or 6.1 percent of GDP at end-2023 from US$3.9 billion or 37.4 percent of GDP at end-2022. The majority of total public debt is external. Post-HIPC Completion Point, Somalia is assessed to be at moderate risk of debt distress, both for external and overall public debt. Including debt relief at HIPC Completion Point, the present value of external debt in 2022 is estimated to be 22.8 percent of GDP, decreasing to 5.1 percent of GDP in 2023 – below the 30 percent threshold for countries like Somalia with weak debt carrying capacity.[1] However, the forecast indicates sustained breaches of the external debt service to revenue indicative threshold under the stress scenario in the long term as grace periods on initial loans expire. Under the moderate rating for overall risk of debt distress, Somalia is mechanically assessed to have substantial space to absorb shocks post-HIPC Completion Point. However, the country is vulnerable to security, international commodity price, and climate shocks and remains highly dependent on external concessional financing, underscoring the importance of strengthening domestic revenue mobilization, debt management institutions, and institutional capacity.

[1] The DSA reflects weak debt carrying capacity considering Somalia's Composite Indicator of 1.57, based on the October 2023 World Economic Outlook and the 2022 CPIA vintage.

PUBLIC DEBT COVERAGE

1. **Public debt perimeter is the central government.** However, successive debt reconciliation missions in 2020 and 2023 under the HIPC process have ensured near complete coverage of public debt.[2] There is no government guaranteed debt, there are no known liabilities of state-owned enterprises or subnational governments, and no public-private partnerships (PPPs). Default settings are accordingly calibrated for the DSA contingent liability stress test (Text Table 1). Somalia's domestic financial institutions and local capital markets are not yet developed, and as such there is no domestic public debt aside from legacy government wage arrears. External debt for the DSA is defined on a residency basis. A reconciliation exercise of external obligations was finalized in conjunction with the December 2023 HIPC Completion Point document, and its findings are used to update this DSA.

2. **The Federal Government of Somalia (FGS) continues to strengthen its debt management capacity with the support of technical assistance from international partners.** The Ministry of Finance established a Debt Management Unit (DMU) in December 2015. The AfDB financed the installation of a debt recording system and provided training to staff in the unit, primarily to support the reconstruction of loan records. The debt recording system has been upgraded to the Commonwealth Meridien System, which is a cloud-based IT system that will allow for an in-depth review of the existing portfolio. The DMU has been issuing quarterly debt bulletins since the end of 2020 and the quality of these bulletins has been improving with technical assistance from the IMF.[3] Coordination between the DMU and other line departments is improving. The 2023 Budget Policy Framework Paper included a section on debt. The quarterly publication of the debt bulletin and improved treatment of debt issues in national budget documents were performance and policy actions (PPAs) under the IDA Sustainable Development Finance Policy.[4] A joint IMF-WB technical assistance mission took place in 2021 to establish a roadmap for strengthening debt management capacity, focusing on the legal and institutional frameworks, as well as debt recording, monitoring, and reporting.

[2] The World Bank and the IMF also provide support to the government in this area through technical assistance, development policy financing, and the Sustainable Development Finance Policy (SDFP).

[3] The publication of at least four consecutive quarterly debt reports is one of the triggers to reach HIPC Completion Point.

[4] The FY2022 Performance and Policy Action (PPA) is "PPA 2: The Recipient's Ministry of Finance (i) Publishes quarterly debt bulletins on the MOF's website; and (ii) submits information on debt statistics to parliament on the Draft Budget Act".

Text Table 1. Somalia: Public Debt Coverage

	Subsectors of the public sector	Sub-sectors covered
1	Central government	X
2	State and local government	
3	Other elements in the general government	
4	o/w: Social security fund	
5	o/w: Extra budgetary funds (EBFs)	
6	Guarantees (to other entities in the public and private sector, including to SOEs)	X
7	Central bank (borrowed on behalf of the government)	X
8	Non-guaranteed SOE debt	X

1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt			
		Default		Used for the analysis	Reasons for deviations from the default settings
2	Other elements of the general government not captured in 1.	0	percent of GDP	0.0	
3	SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	0.0	No government guaranteed or non-guaranteed SOE debt in Somalia
4	PPP	35	percent of PPP stock	0.0	No PPPs exist in Somalia
5	Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
	Total (2+3+4+5) (in percent of GDP)			5.0	

1/ The default shock of 2% of GDP will be triggered for countries whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

Sources: Somali Authorities and IMF staff estimates.

BACKGROUND ON DEBT

3. **The 2023 debt reconciliation exercise indicates that the nominal level of the total stock of debt outstanding at end-2018 was US$5.3 billion, of which US$5 billion was in arrears.** The bulk of this debt was held by official creditors.[5] Most was owed to Paris Club (PC) creditors (58 percent), followed by multilaterals (29 percent), and non-Paris Club bilateral creditors (13 percent). All domestic debt (0.8 percent of GDP) represented central government wage arrears.[6]

4. **Debt stock estimates for end-2022 reflect updates based on information provided by the Somali authorities.** The overall level of public debt stock was estimated at end-2022 at US$3.9 billion, or 37.4 percent of GDP (see Table 5). This estimate incorporates debt stock levels at end-2022 updated by the HIPC CP debt reconciliation exercise, as well as for all bilateral creditors that have already signed a debt relief agreement in 2020-2023. For this set of creditors, debt stocks for 2022 differ from the 2021 estimates in the June 2022 DSA because of updates to the interim relief assumptions to reflect the terms of the actual agreements signed, exchange rate fluctuations, and amortization made from 2021 through end-2022 (to IDA and AfDB). For bilateral creditors that have not yet signed an agreement, it continues to assume the application of Cologne terms.[7] At Completion Point, the Paris Club beyond-HIPC debt relief Initiative assumes 100 percent cancellation of all Paris Club debt, except Russia's post-

[5] Of the US$220 million not in arrears, US$5 million, US$31 million, and US$160 million were obligations to the International Fund for Agricultural Development, African Development Fund, and the International Development Association, respectively. The remaining US$25 million were obligations to bilateral creditors.

[6] Somalia's stock of domestic debt (estimated at US$68.8 million, end-2018) reflects the accumulation of government wage arrears to civil servants due to constrained resources and longstanding weaknesses in public financial management. No new arrears have been accumulated since end-2017, and the authorities are committed to gradually clearing these arrears in line with available resources.

[7] Paris Club granted Somalia Cologne Terms on March 31, 2020, in the context of Somalia reaching the HIPC Decision Point; and it is assumed that applying Cologne Terms to creditors that have not yet signed an agreement with Somalia is consistent with the comparability of treatment provision embedded in the Paris Club agreement. Under Cologne terms, most HIPC countries receive a reduction in eligible pre-cutoff date non-official development assistance (non-ODA) debt of 90 percent in present value (PV) terms on debt service falling due and 67 percent in present value (PV) terms on arrears. The remaining 10 percent of pre-cutoff date non-ODA debt and 33 percent of arrears is rescheduled over 23 years with 6 years of grace period with a market interest rate. Pre-cutoff date ODA credits are rescheduled on interest rates at least as concessional as the original interest rates over 40 years with 16 years grace period.

cutoff short-term debt. Following full delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI) and beyond-HIPC assistance, total public debt at end-2023 is projected to decline to US$706 million in nominal terms, or 6.1 percent of GDP, of which, US$638 million is projected to be external debt, or 5.5 percent of GDP.

Text Table 2. Somalia: Decomposition of External Debt over the HIPC Initiative

	Before HIPC, end-2018		After arrears clearance, end-2022		Expected at completion point, end-2023 1/	
	(in millions of US$)	(in percent of GDP)	(in millions of US$)	(in percent of GDP)	(in millions of US$)	(in percent of GDP)
Total	5,268.1	63.6%	3,827.0	36.7%	637.8	5.5%
Multilateral 2/	1,535.7	18.6%	1,074.9	10.3%	405.6	3.5%
Bilaterals	3,730.1	45.1%	2,749.5	26.4%	232.2	2.0%
Commercial	2.3	0.0%	2.5	0.0%	2.5	0.0%

Sources: Somali authorities and IMF staff calculations

1/ End-2023 estimates include full delivery of HIPC debt relief, MDRI, and beyond-HIPC assistance.

2/ Includes projected disbursement from successor IMF ECF arrangement in December 2023.

5. **For HIPC Completion Point, Somalia signed agreements with individual creditors to restructure its external public debt.** In 2023, the authorities advanced in negotiations around the modalities of a debt relief and restructuring with most multilateral creditors (Arab Monetary Fund, Islamic Development Bank, Arab Fund for Economic and Social Development). International partners supported International Fund for Agricultural Development (IFAD) arrears clearance and HIPC debt relief.[8] The authorities have signed agreements with all Paris Club creditors, the Kuwait Fund for Arab Economic Development and the Saudi Fund for Development. This followed the agreement signed on March 31, 2020, where countries of the Paris Club agreed to provide interim debt relief as part of the HIPC Initiative.[9] As of end-September 2023, creditors representing 89.5 percent of the PV of HIPC debt relief had either signed agreements with Somalia or, had agreed in principle allowing Somalia to obtain financing assurances for HIPC Completion Point. The Somali authorities continue good faith negotiations with their creditors on to finalize debt relief agreements.

[8] On February 3, 2023, IDA agreed to finance 85 percent of IFAD's share of HIPC debt relief to Somalia through the IDA-managed Debt Relief Trust Fund (DRTF), provided that DRTF donors support this arrangement. This financing includes compensation of up to one-third of the HIPC debt relief delivered by IFAD to Somalia in the interim period.

[9] For press release please refer to http://www.clubdeparis.org/en/communications/press-release/debt-relief-to-somalia-31-03-2020. It was also agreed, on an exceptional basis, that Somalia would not be required to make debt service payments until at least end March 2024, given Somalia's very limited payment capacity, and if it continued to implement satisfactorily an IMF-supported program.

BACKGROUND ON MACROECONOMIC FORECASTS

6. **The Somalia National Bureau of Statistics (SNBS) published rebased GDP estimates in June 2023, and estimates for exports of goods and services were revised to align them with national statistics.** In 2022, with World Bank support, the SNBS undertook the Somalia Integrated Household Budget Survey (SIHBS), the first since 1985. With IMF technical assistance, data collected through the SIHBS were used to improve GDP estimates by revising household consumption estimates.[10] The GDP was rebased to 2022 prices and the series were backdated to 2016. A comparison of the new GDP series (2022 base year) and the previous series (2017 base year) indicates the following: (1) new nominal GDP level is 37 percent higher on average between 2016-2022; (2) new real GDP level is 66 percent higher on average between 2016-2022; and (3) annual real growth for the new GDP averaged 3.2 percent compared to 2.1 percent in the previous series.[11] The rebased GDP series improves relevant debt indicators (Text Table 3), without a material impact on the risk rating or the overall debt profile. Simultaneously, the historical export series was revised in June 2023 to reflect updated official figures on services exports received from the authorities, and trade data used for BOP estimates was fully aligned with national accounts statistics. The resulting nominal series for exports of goods and services is substantively higher from 2021 onwards, with a 30 percent increase in estimates for 2023.[12]

Text Table 3. Somalia: Sensitivity of Debt Indicators to Changes in GDP and Export Projections

(Percent of GDP, unless otherwise indicated)

	Using previous projections 1/		Rebased/revised projections	
	2022	2023	2022	2023
PV of public debt-to-GDP ratio	30.0	7.5	23.5	5.7
PV of PPG external debt-to-GDP ratio	29.1	6.7	22.8	5.1
PV of PPG external debt-to-exports ratio	170.9	36.8	131.7	28.2
Total external debt service-to-exports ratio	1.2	1.0	0.9	0.8

Sources: Somali authorities and IMF staff calculations

1/ PV of PPG debt, PV of external debt, and external debt service (numerators) are the same as in the current DSA, with denominators (GDP and exports) from the May 2023 DSA.

7. **Drought and weak remittances affected growth in 2022.** Drought conditions adversely affected crops and livestock, contributing to a contraction in exports. Remittances growth in 2022 was only 1.1 percent – compared to 29 percent in 2021 – partly attributed to the impact of global inflation on the purchasing power of the Somali diaspora community. Higher food imports

[10] SNBS will use the SIHBS data for the compilation of the commodity basket and weight to update the Consumer Price Index.

[11] The new GDP series (base year 2022) was extrapolated for the period 2012-2015 by following the growth trend of the old GDP series (base year 2017).

[12] For years prior to 2021, the exports series is relatively similar to the one used in previous DSA vintages. However, it is lower in 2017 by 2.3 percent, reflecting actual outturns reported by the authorities.

contributed to a wider current account deficit of 8 percent. Inflation at end-December 2022 declined to 6.1 percent with moderating domestic fuel and food prices.

8. Growth in 2023 is expected pick up modestly to 2.8 percent, supported by the recovery in agriculture. Agriculture production and exports are expected to rebound gradually, though affected by the lingering impact of the previous drought and recent floods. Remittances growth is expected to improve somewhat, also supporting economic activity. Inflation in 2023 is forecasted at 5.7 percent, a slight downward revision on the back of lower fuel and food prices.

9. Domestic revenues have been stronger than expected in 2023. Domestic revenue overperformance has been driven mainly by a 50 percent increase in customs duties for luxury goods implemented in mid-May 2023 (estimated to bring in an additional US$1-2 million of customs duties per month) and some tax administrative improvements. Total expenditure has followed the 2023 Supplementary Budget and a small overall deficit is expected for the year. Revenue overperformance and budget support grants (including disbursements from the World Bank and EU) will facilitate a small cash balance to partially address liquidity needs in early 2024.

10. Over the medium-term, growth is expected to accelerate as reforms payoff – including reforms that were supported by the HIPC process, the ECF-supported program, and IDA development policy financing – though with some scarring from climate shocks. The average growth projection for 2024-28 is 4 percent. Growth over the medium- and long-term would be driven by: (i) confidence effects related to reaching the HIPC Completion Point and enhanced access to international finance; (ii) continued political stability and reduced security risks; (iii) a gradual scaling up of public spending (in sectors such as energy, transport, education, health) – financed with domestic revenues and concessional borrowing – to support implementation of the national development plan and progress toward the sustainable development goals; (iv) financial deepening and financial inclusion as financial sector reforms pay off; and (v) greater FDI and private investment supported by improvements in the business environment, including security and governance. COVID-19 and climate shocks are expected to have lasting impact – including because of the negative effects on schooling and delivery of health services – and growth is expected at 4.5 percent over the long term. Staff considers the medium-term growth forecast to be conservative, as it is below the median observed for HIPC fragile countries and similar to what was observed for Somalia during the period 2013 and 2019 (pre-HIPC).[13] While Somalia currently has limited monetary and fiscal policy response options to address multiple shocks,[14] policies and institutions are gradually being built, which can be further supported by access to new sources of financing upon reaching the HIPC CP. Inflation in the long term is expected to average 2.4 percent as Somalia remains a de facto

[13] The medium- to long-term growth forecast at HIPC Decision Point (DP) was informed by an analysis of the key macroeconomic outturns for 36 HIPC beneficiaries between 2000 and 2010. For the fragile countries in this sample, median real growth accelerated by 0.3 percentage points per year over the five years after DP. The current projection assumes growth to accelerate by around 0.2 ppts per year and then moderate to 0.1 ppts.

[14] Fiscal response options include introducing new revenue measures such as turnover taxes, modernization of customs duties, fishing licenses and automation of tax administration, among others. The monetary policy framework is non-existent, and the economy is de facto dollarized.

dollarized economy. However, inflation forecasts are vulnerable to climate change (Kotz et al. 2023, Faccia et al. 2021, IMF Staff Climate Note 2023/001).

11. It is expected that Somalia will continue running a structural trade deficit over the medium- and long-term. Somalia's exports are currently dominated by the export of livestock (representing about 80 percent of total exports of goods). Over time, the volume of exports is expected to improve because of an ongoing diversification of export markets beyond Saudi Arabia and outside of the Hajj period. New insurance products are being prepared to help mitigate risks to livestock. The authorities' commitment to the diversification of exports is also a response to the vulnerability of livestock to climate-related shocks. Expected pipeline investments in electricity and transport should support the emergence of new productive sectors such as fisheries. The current account deficit is projected to deteriorate slightly as grant support decays over the medium term, with part of the financing need expected to be filled by increased access to external creditors and higher FDI inflows. FDIs are projected to be sensitive to confidence effects that will be amplified by Somalia reaching HIPC Completion Point, coupled with a gradually improving business environment.

12. Over the medium and long term, higher domestic revenues would make room for greater public investment and social spending. Domestic revenue is projected to increase by around 0.3 percent of GDP per year over 2024-2028, on the back of broad-based revenue-enhancing reforms.[15] Over the medium-term, trade related revenues (customs duties, sales tax on imports, and port fees) are expected to increase due to efficiency gains from the introduction of ad-valorem tariffs, improved data, and enhanced customs processes supported by the IMF and World Bank technical assistance. The approval of the new Income Tax Law (which clarifies and streamlines deductions) and the introduction of excise taxes on money transfer business, airtime, and telecommunications are projected to lead to an increase in income and sales taxes.[16] The revenue administration is also expected to continue adding new taxpayers to the tax net (for instance large firms in banking and hospitality), expand its use of digital tools, and enhance its enforcement capacity. Over time, higher domestic revenues would make room for greater spending on investment and social services. Achieving HIPC Completion Point provides Somalia new access to concessional borrowing, and grants are expected to gradually decline and be replaced by concessional loans. An overall deficit of about 2 percent of GDP is expected by 2027. Sustained improvements over time in expenditure execution and public investment management will facilitate greater absorption of additional resources to expand public spending on human development and public infrastructure.

13. Notwithstanding recent challenges, the authorities continued to make sustained progress in their policy reform agenda. The authorities achieved 13 out of 14 triggers for reaching

[15] Compared to the long-term forecast in the May 2023 LIC-DSA, domestic revenues are expected to reach 6.6 percent of GDP instead of 8.4 percent by 2040, in part due to higher nominal GDP following rebasing. These forecasts are supported by the authorities' strong track record in building tax capacity, which has increased from about 1 percent of GDP in 2013, to 2.5 percent of GDP in 2022. The projected medium-term and long-term path for revenues is comparable to the experience of other HIPC fragile countries.

[16] Effective tax rates on telecom sector in Somalia are far less than those in other countries in the region. In introducing excise taxes on money transfer business, their design will need to mitigate risks of arbitrage and adverse impact on poor households.

HIPC Completion Point, including on public financial and expenditure management, domestic revenue mobilization, governance, social sectors, and statistics.[17] Furthermore, the authorities have made progress in implementing the performance and policy actions under the IDA Sustainable Development Finance Policy, including maintaining a commitment to not borrow on non-concessional terms and improving debt transparency and reporting. In addition, the authorities are implementing a complementary set of reforms supported by the World Bank's Development Policy Financing operation.

14. Near-term risks are tilted to the downside. If healthy rainy seasons are not sustained, food prices rise, or global supply shocks to staples emerge, the food crisis will worsen. Additional risks include a deterioration of the security situation, political risks linked to questions over federalism, climate-related shocks, lower global growth, and persistent global inflationary pressures. If any of these adverse risks materialize, economic growth and domestic revenue will face downward pressure, increasing financing needs. While the sequestration rule (that helps identify discretionary spending that can be rationalized) and current grant commitments help mitigate some risks, the authorities would need additional support from the international community to address a significant adverse scenario. Authorities' efforts at reaching HIPC CP, continued IMF support through the proposed new 3-year ECF arrangement, and highly concessional financing provided by the World Bank and other multilateral institutions and bilateral donors will unlock concessional external financing and help prevent the build-up of debt vulnerabilities.

Text Table 4. Somalia: Macroeconomic Projections 1/ 2/

(Percent of GDP, unless otherwise indicated)

	May 2023 DSA 3/						Current DSA 4/ 5/					
	2022	2023	2024	2025	2026	2027-43	2022	2023	2024	2025	2026	2027-43
Real GDP growth	1.7	2.8	3.7	3.9	4.0	4.5	2.4	2.8	3.7	3.9	4.0	4.5
GDP deflator	5.2	4.2	4.1	4.7	4.3	2.3	3.4	7.5	4.6	4.4	4.3	2.4
Non-interest current account deficit	16.8	16.3	14.2	14.4	14.3	14.3	8.0	9.4	8.9	10.1	10.6	11.2
Exports	17.0	18.2	18.9	19.5	19.8	20.2	17.3	18.1	19.2	20.3	21.1	22.2
Primary fiscal deficit	0.0	0.4	1.6	1.7	1.5	1.4	0.0	0.1	1.0	1.2	1.6	2.1
Revenues and grants	8.8	7.8	6.7	6.5	5.5	6.7	6.9	6.4	6.9	5.2	4.7	5.5
of which: domestic revenues	3.2	3.2	3.4	3.8	4.1	6.6	2.5	2.7	2.8	3.0	3.3	5.4
of which: grants	5.6	4.6	3.3	2.7	1.4	0.1	4.4	3.7	4.1	2.1	1.4	0.1

Sources: Somali authorities and IMF staff calculations

1/ Revisions to the GDP deflator reflect rebasing of GDP estimates in 2022 as reported by the authorities, and the high import component of GDP.

2/ Revisions compared to the previous DSA reflect: 1) revision of GDP data; 2) full alignment of trade data used for BOP and national accounts; and 3) revisions to services exports data.

3/ Somalia 5th Review

4/ Figures are not fully comparable because the current DSA uses the rebased GDP series and adjustments to the export series.

5/ The macroeconomic framework for the current DSA assumes HIPC Completion Point in December 2023

15. Data weaknesses constrain the scope of macroeconomic analysis, complicating the implementation of standardized stress tests in the LIC-DSF. Although data quality is gradually improving, there are limitations in national accounts data, substantial gaps in balance-of-payments

[17] The trigger on adoption and application of a single import duty tariff schedule at all ports is incomplete, given difficulties in implementing the schedule in Puntland and Jubaland. Authorities are seeking a waiver for this trigger.

data, and a heavy reliance on third-party data for trade estimates and secondary transfers. Direct investment data are currently estimated.

16. The available realism tools are oftentimes not applicable. Given that Somalia's debt stock has largely been determined by its progress under the HIPC Initiative, the forecast error realism tool comparing debt stocks and flows across DSA vintages is not yet applicable – this is also affected by the lack of data on debt stock in 2017. The tool will be able to run for future vintages once the prior 5-year history includes 2018 – the year from which debt data was captured under the HIPC Initiative. Even then, the tool will continue to show a significant decline in debt in the 5-year historical period versus the 5-year projection period due to debt restructuring under the HIPC Initiative. The tool assessing the realism of the public investment-growth nexus is inoperable due to gaps in Somalia's investment data. The fiscal adjustment realism tool suggests a fiscal expansion post-HIPC CP. However, this reflects a decline in above-the-line grants after reaching HIPC CP, even as expenditures gradually also decline as a percentage of GDP. The fiscal adjustment and growth realism tool shows that the projected growth path is in line with a range of possible fiscal multipliers (Figure 3).

17. The baseline scenario assumes full impact of multilateral arrears clearance, debt relief under the Enhanced HIPC Initiative, MDRI and beyond-HIPC assistance at the Completion Point reached in December 2023, consistent with the guidance under the LIC-DSA.[18] The baseline assumes that new financing in 2024-2027 would shift from grants to highly concessional loans, similar to those under IDA20.[19] The baseline also assumes that from 2028, new borrowing would be on concessional terms similar to IDA regular credits.[20] Somalia would continue to receive grant disbursements for project commitments approved before the Completion Point, but these would decline over time. The baseline also assumes that the authorities will work with multilateral and bilateral partners to secure additional grants. As grant disbursements decline, Somalia would have to resort to borrowing to sustain expenditures, resulting in overall deficits of 2 to 3.5 percent of GDP over the medium term to long term. Robust access to budget support financing from development partners will continue to be needed to support essential recurrent spending, especially in the near-term.

[18] See Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries, February 2018 (Appendix V. HIPC Initiative and MDRI).

[19] Assessed to be at moderate risk of debt distress, based on IDA financing terms, Somalia no longer has access to new grant commitments but only to highly concessional loans – in particular, to 50-year maturity loans and shorter maturity loans.

[20] The baseline includes revised financing assumptions as compared to the Decision Point LIC-DSA and the May 2023 LIC-DSA, which presented a pre-debt restructuring baseline, based on constrained financing and greater reliance on grants. The baseline in this LIC-DSA assumes reestablishment of relations with external creditors and the full resumption of development financing.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

18. **Somalia's debt-carrying capacity is classified as weak.** This classification is guided by the composite indicator score, as determined by the World Bank's CPIA, the country's real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy. This DSA uses the October 2023 vintage of the WEO and the 2022 CPIA. The latest available composite indicator score for Somalia is 1.57 (Text Table 5).[21]

Text Table 5. Somalia: Composite Indicator and Threshold Tables

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage	Classification based on the two previous vintage
Weak	Weak 1.57	Weak 1.57	Weak 1.57

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

Note: Calculated based on the October 2023 WEO vintage and the 2022 CPIA vintage.

EXTERNAL DEBT SUSTAINABILITY

19. **Somalia's external debt profile is projected to improve significantly post-HIPC Completion Point.** The baseline that assumes full delivery of debt relief also shows improvements over the comparable alternative scenario presented in the May 2023 LIC-DSA, due to revised DSA assumptions and the rebasing of GDP estimates. Revised DSA assumptions include a slight improvement in primary deficit-to-GDP in the near term as a result of GDP rebasing. However, the

[21] The composite index reflects an increase in the WB CPIA in 2022 to 2.1 from 2.0 in 2020.

path of primary deficits is projected to be steeper in the medium to long term.[22] This results in lower levels for the ratios of PV of external debt to GDP compared to the comparator alternative scenario presented in the May 2023 LIC-DSA. The PV of external debt to GDP is forecast to gradually rise from 5.1 percent of GDP to 6.3 percent of GDP in the medium-term baseline, and to 8.6 percent in the long term – well below the indicative threshold of 30 percent. The PV of external debt to exports, debt service to exports, and debt service to revenue all remain below the indicative thresholds over the projection horizon in the baseline. Debt service ratios are expected to increase towards the end of the projection period due to the resumption of payment on restructured debt after the provision of debt relief. From 2024 to 2028, the baseline assumes that external financing will be concessional with an estimated average grant element of 64 percent, which is projected decline to around 50 percent by 2033 (Table 1).

20. Standard stress tests to the baseline scenario confirm the external debt position's vulnerability to unexpected shocks. While the application of the standard DSA stress test to Somalia is complicated by structural breaks,[23] there is deterioration of some indicators under temporary shock scenarios.[24] Combined shocks to key macroeconomic variables produce the most extreme stress environment, resulting in external debt service to revenue breaching the indicative threshold when payments on new borrowing to meet higher financing needs under this more pessimistic scenario are expected to start. Uncertainty around real GDP growth, exports, and the non-debt flow shock is the largest contributor to the combined shock. This shock highlights the high vulnerability of Somalia to shocks and the risks that debt vulnerabilities could increase again despite the large debt relief received. A shock in current official transfers is a significant vulnerability, highlighting Somalia's high dependence on official development assistance. Breaches related to the external debt service to revenue ratio are sustained in the long term. This is related to rising amortization needs after 2030 when grace periods on new debt begin to expire, leading to breaches of the indicative threshold.

PUBLIC DEBT SUSTAINABILITY

21. Total public debt is contained in the baseline. PV of total public debt to GDP also remains contained in the stress scenarios. PV of total public debt to revenue rises through the medium-term, peaking in 2029. Like external debt, pressures are likely to be felt on public debt service to revenue with the ratio rising in the long-term. In general, the conclusions with regards to external debt sustainability are relevant also for public debt sustainability, given that there is no market for domestic debt and the existing stock of domestic debt is limited to a small stock of government

[22] From 2023 to 2024, the primary deficit increases from 0.1 to 1 percent of GDP, mainly due to expected decline in budget support grants.

[23] The DSA remains unadjusted, given severe persisting vulnerabilities that can materialize in the projection period, allowing past volatility to inform stress testing in the projection horizon.

[24] The DSA's sensitivity analysis is also affected by these constraints, leading to results for debt indicators in outer years that can be challenging to interpret.

arrears. The baseline assumes the nominal stock of domestic debt will significantly decline as a percentage of total debt over the medium-term.

RISK RATING AND VULNERABILITIES

22. Somalia is assessed to be at moderate risk of debt distress. While key indicators are contained in the baseline, the sustained breaches of the indicative threshold for the external debt service to revenue ratio under standardized stress tests suggest that Somalia is at moderate risk of external debt distress and at moderate overall risk of public debt distress. While the total public debt indicator remains under the benchmark across scenarios, the trajectory of public debt service to GDP under standardized stress tests highlights the need for vigilant debt management. The moderate risk rating tool mechanically indicates that Somalia has substantial space to absorb shocks. However, Somalia is vulnerable to significant shocks discussed below and remains highly dependent on external, concessional financing.

23. Revisions to the macroeconomic outlook and the PV of debt imply reduced debt vulnerabilities in the medium term that will keep the debt profile contained in the projection horizon, but downside risks remain. Debt relief under the HIPC Initiative, MDRI, and beyond-HIPC assistance has improved Somalia's external debt situation and brought debt to a manageable level such that it is judged to be sustainable in the medium-term, assuming continued highly concessional financing. The inclusion of domestic debt does not materially impact the analysis. The authorities' ongoing commitment to and strong track-record of reform implementation since 2016, and continued support from development partners will assist the entrenchment of the gains achieved through the structural reforms supported by the HIPC Initiative. However, Somalia is expected to remain vulnerable to security, international commodity price, and climate shocks that could negatively affect the revenue path, underscoring the importance of strengthening domestic revenue mobilization, debt management institutions, and institutional capacity. Expenditure pressures in education, health, and security will need to be financed on highly concessional terms to prevent a spike in debt service over the medium term.

AUTHORITIES' VIEWS

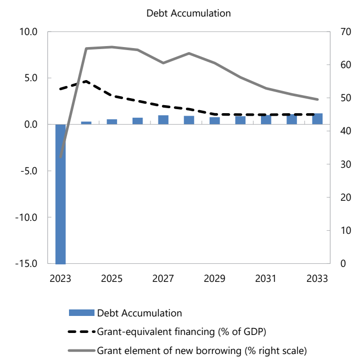
24. The assumptions and conclusions of the DSA were discussed with the authorities, who broadly concurred with staffs' assessment. The authorities recognize the importance of relying on concessional financing post-HIPC to contain debt sustainability risks and to monitor the external debt service-to-revenue indicator as an early warning sign for any debt related stress. They agree on the need to strengthen debt management capacity and to ensure transparency regarding all the terms and conditions of different borrowings to have a full view of costs and risks. They expect that ongoing reforms, in particular domestic revenue mobilization, will improve the country's debt servicing capacity.

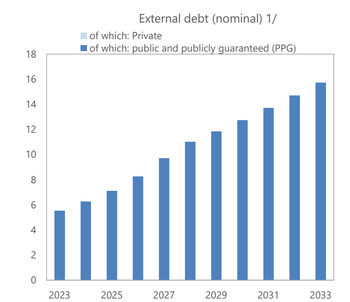
Table 1. Somalia: External Debt Sustainability Framework, Baseline Scenario, 2020–2043

(In percent of GDP, unless otherwise indicated)

	Actual			Projections 9/								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections
External debt (nominal) 1/	42.7	39.9	36.7	5.5	6.3	7.1	8.3	9.7	11.0	15.7	29.0	23.9	10.6
of which: public and publicly guaranteed (PPG)	42.7	39.9	36.7	5.5	6.3	7.1	8.3	9.7	11.0	15.7	29.0	23.9	10.6
Change in external debt	-13.6	-2.9	-3.1	-31.2	0.7	0.8	1.2	1.5	1.3	1.0	1.7		
Identified net debt-creating flows	0.7	-1.1	0.6	3.4	3.4	4.6	5.1	5.2	5.2	6.8	2.6	-0.8	5.5
Non-interest current account deficit	4.4	6.8	8.0	9.4	8.9	10.1	10.6	10.8	10.9	12.7	8.8	4.3	11.3
Deficit in balance of goods and services	50.4	50.9	61.2	61.0	60.8	60.0	59.3	59.2	59.0	58.6	55.2	48.3	59.3
Exports	12.8	15.6	17.3	18.1	19.2	20.3	21.1	21.8	22.2	22.2	22.2		
Imports	63.2	66.5	78.5	79.0	79.9	80.3	80.4	81.0	81.2	80.8	77.4		
Net current transfers (negative = inflow)	-46.4	-44.6	-53.6	-51.9	-52.1	-50.1	-48.9	-48.6	-48.3	-46.0	-45.4	-44.4	-48.3
of which: official	-28.6	-23.0	-33.0	-31.3	-31.2	-28.9	-27.4	-26.6	-26.3	-24.0	-23.4		
Other current account flows (negative = net inflow)	0.4	0.4	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	-0.9	0.4	0.2
Net FDI (negative = inflow)	-5.0	-5.2	-5.2	-5.2	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4	-4.6	-5.4
Endogenous debt dynamics 2/	1.3	-2.7	-2.2	-0.9	-0.1	-0.1	-0.2	-0.2	-0.3	-0.5	-0.8		
Contribution from nominal interest rate	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.3		
Contribution from real GDP growth	1.5	-1.3	-0.9	-0.9	-0.2	-0.2	-0.3	-0.3	-0.4	-0.6	-1.2		
Contribution from price and exchange rate changes	-0.2	-1.4	-1.3	...	...	...	...	...	...	...	...		
Residual 3/	-14.3	-1.7	-3.8	-34.5	-2.7	-3.8	-3.9	-3.8	-3.9	-5.8	-0.9	-5.9	-7.5
of which: exceptional financing	0.0	-0.2	0.0	-28.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	22.8	5.1	5.0	5.1	5.4	5.9	6.3	8.6	18.3		
PV of PPG external debt-to-exports ratio	...	...	131.7	28.1	25.9	25.1	25.4	26.8	28.1	38.7	82.1		
PPG debt service-to-exports ratio	1.2	1.1	0.9	0.9	1.0	0.9	0.9	0.8	0.8	1.5	3.4		
PPG debt service-to-revenue ratio	6.6	7.4	6.2	6.2	6.7	6.3	5.6	5.1	4.7	6.8	10.4		
Gross external financing need (Million of U.S. dollars)	-44.8	174.8	311.6	507.8	461.7	666.9	794.4	893.9	981.8	1844.8	1917.0		
Key macroeconomic assumptions													
Real GDP growth (in percent)	-2.6	3.3	2.4	2.8	3.7	3.9	4.0	4.1	4.3	4.5	4.5	3.1	4.1
GDP deflator in US dollar terms (change in percent)	0.3	3.5	3.4	7.5	4.6	4.4	4.3	4.1	3.6	2.1	2.1	4.1	3.7
Effective interest rate (percent) 4/	0.0	0.0	0.0	0.1	2.3	1.8	1.4	1.1	1.0	0.8	1.3	0.0	1.1
Growth of exports of G&S (US dollar terms, in percent)	4.2	30.0	17.7	15.3	15.1	14.8	12.6	12.0	10.3	6.7	6.7	8.0	10.4
Growth of imports of G&S (US dollar terms, in percent)	7.3	12.5	25.0	11.2	9.7	8.9	8.5	9.2	8.4	6.6	6.7	8.6	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	32.2	64.9	65.3	64.5	60.5	63.4	49.5	39.8	...	56.5
Government revenues (excluding grants, in percent of GDP)	2.3	2.3	2.5	2.7	2.8	3.0	3.3	3.6	3.9	5.0	7.3	1.9	3.8
Aid flows (in Million of US dollars) 5/	311.3	64.4	462.7	420.3	592.8	462.6	444.0	447.9	415.3	520.8	1765.1		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.8	4.6	3.1	2.5	2.0	1.6	1.1	1.5	...	2.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	91.7	94.5	86.2	79.8	69.3	67.8	49.5	39.8	...	69.1
Nominal GDP (Million of US dollars)	9,204	9,839	10,420	11,515	12,489	13,541	14,686	15,913	17,192	24,074	46,023		
Nominal dollar GDP growth	-2.3	6.9	5.9	10.5	8.5	8.4	8.5	8.4	8.0	6.7	6.7	7.4	7.9
Memorandum items:													
PV of external debt 7/	...	...	22.8	5.1	5.0	5.1	5.4	5.9	6.3	8.6	18.3		
In percent of exports	...	...	131.7	28.1	25.9	25.1	25.4	26.8	28.1	38.7	82.1		
Total external debt service-to-exports ratio	1.2	1.1	0.9	0.9	1.0	0.9	0.9	0.8	0.8	1.5	3.4		
PV of PPG external debt (in Million of US dollars)			2375.3	584.7	620.2	688.7	786.6	931.0	1076.6	2072.3	8402.0		
(PVt-PVt-1)/GDPt-1 (in percent)				-17.2	0.3	0.5	0.7	1.0	0.9	1.2	2.5		
Non-interest current account deficit that stabilizes debt ratio	18.0	9.7	11.2	40.6	8.2	9.3	9.5	9.4	9.6	11.7	7.1		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - \rho(1+g) + \varepsilon\alpha(1+r)]/(1+g+\rho+g\rho)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, ρ = growth rate of GDP deflator in U.S. dollar terms, Ɛ=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Current-year interest payments divided by previous period debt stock.

5/ Defined as grants, concessional loans, and debt relief.

6/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

7/ Assumes that PV of private sector debt is equivalent to its face value.

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

9/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

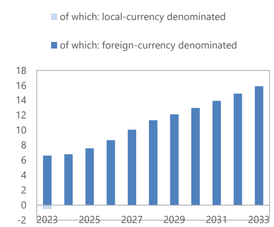
Table 2. Somalia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2020–2043

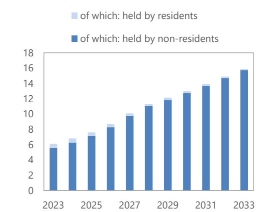
(In percent of GDP, unless otherwise indicated)

	Actual			Projections 7/								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2027	2028	2033	2043	Historical	Projections 7/
Public sector debt 1/	43.5	40.6	37.4	6.1	6.8	7.6	8.7	10.1	11.3	15.9	29.0	24.6	11.0
of which: external debt	42.7	39.9	36.7	5.5	6.3	7.1	8.3	9.7	11.0	15.7	29.0	23.9	10.6
Change in public sector debt	-13.6	-2.9	-3.2	-31.3	0.7	0.8	1.1	1.4	1.3	1.0	1.7		
Identified debt-creating flows	-45.3	-2.1	-2.3	-31.6	0.7	0.8	1.1	1.4	1.3	1.0	1.7	-14.4	-2.0
Primary deficit	-0.3	0.8	0.0	0.1	1.0	1.2	1.6	2.0	1.9	1.8	3.1	-0.1	1.5
Revenue and grants	5.4	3.8	6.9	6.4	6.9	5.2	4.7	4.2	4.1	5.0	7.3	3.5	4.9
of which: grants	3.1	1.5	4.4	3.7	4.1	2.1	1.4	0.6	0.3	0.0	0.0		
Primary (noninterest) expenditure	5.1	4.7	6.9	6.4	8.0	6.4	6.3	6.2	6.1	6.8	10.4	3.4	6.4
Automatic debt dynamics	1.4	-2.8	-2.3	-3.5	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-1.4		
Contribution from interest rate/growth differential	1.4	-2.8	-2.3	-3.5	-0.3	-0.4	-0.5	-0.6	-0.7	-0.8	-1.4		
of which: contribution from average real interest rate	-0.1	-1.4	-1.3	-2.5	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		
of which: contribution from real GDP growth	1.5	-1.4	-1.0	-1.0	-0.2	-0.3	-0.3	-0.3	-0.4	-0.6	-1.2		
Contribution from real exchange rate depreciation	0.0	0.0	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	-46.3	-0.2	0.0	-28.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.7	-2.6
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	-46.3	-0.2	0.0	-28.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	31.6	-0.8	-0.9	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	7.7	0.0
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	23.4	5.7	5.5	5.6	5.8	6.2	6.6	8.8	18.3		
PV of public debt-to-revenue and grants ratio	...	...	338.4	89.1	79.7	107.6	123.9	147.9	158.9	176.1	249.3		
Debt service-to-revenue and grants ratio 3/	2.8	4.5	2.3	2.7	2.7	4.1	4.4	4.8	4.8	7.0	10.5		
Gross financing need 4/	-46.5	0.9	0.1	0.0	0.8	1.4	1.8	2.2	2.1	2.2	3.8		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	-2.6	3.3	2.4	2.8	3.7	3.9	4.0	4.1	4.3	4.5	4.5	3.1	4.1
Average nominal interest rate on external debt (in percent)	0.0	0.0	0.0	0.1	2.3	1.8	1.4	1.1	1.0	0.8	1.3	0.0	1.1
Average real interest rate on domestic debt (in percent)	-0.3	-3.4	-3.3	-7.0	-4.4	-4.2	-4.1	-3.9	-3.5	-2.1	-2.1	-3.2	-3.5
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	...	...	...	...	...	...	...	...	0.0	...
Inflation rate (GDP deflator, in percent)	0.3	3.5	3.4	7.5	4.6	4.4	4.3	4.1	3.6	2.1	2.1	4.1	3.7
Growth of real primary spending (deflated by GDP deflator, in percent)	49.5	-5.8	51.4	-4.0	28.2	-16.7	2.0	3.0	2.3	9.2	8.7	21.0	4.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	13.4	3.8	3.1	31.3	0.4	0.4	0.5	0.6	0.7	0.8	1.4	6.8	3.4
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Residency-based**
Is there a material difference between the two criteria?	**No**

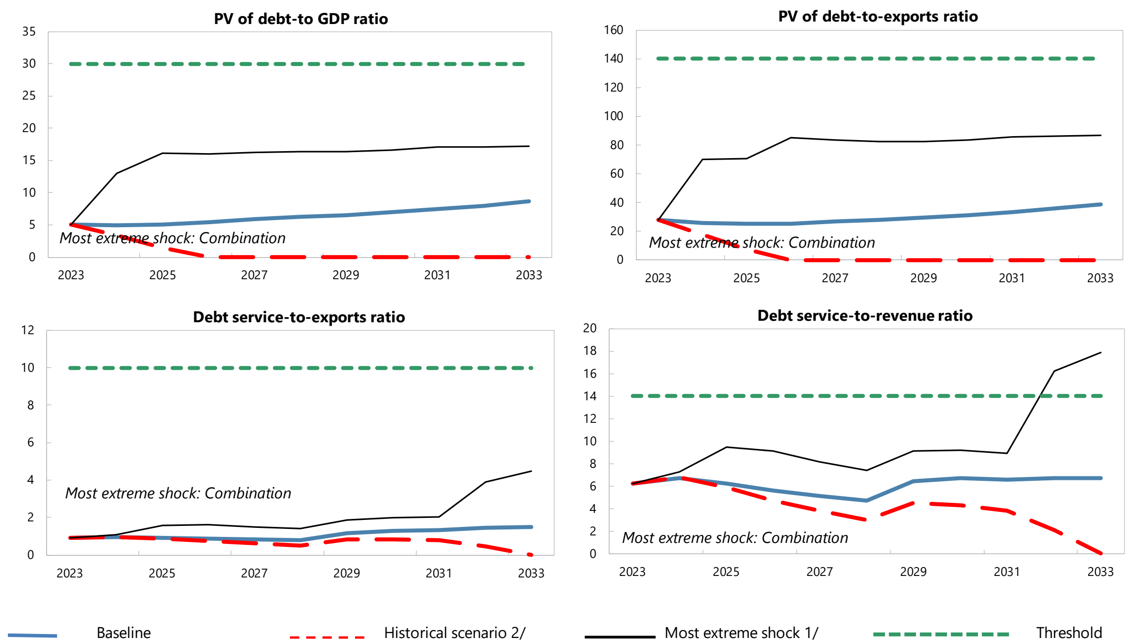
Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.
7/ The macroeconomic framework assumes HIPC Completion Point in December 2023.

Figure 1. Somalia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2023–2033



Customization of Default Settings 3/	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	Yes	No
Market financing	n.a.	n.a.

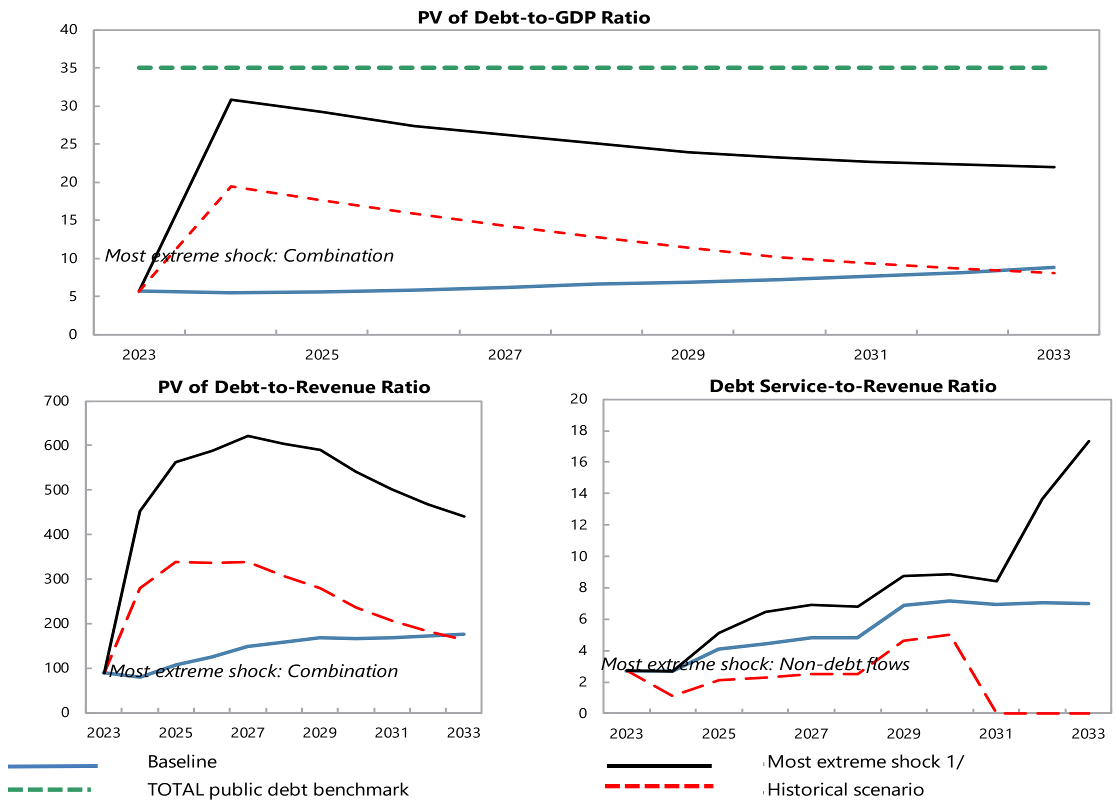
Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.4%	0.4%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	37	37
Avg. grace period	7	7

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ Historical series truncated at zero.
3/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Somalia: Indicators of Public Debt Under Alternative Scenarios, 2023–2033



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.4%	0.4%
Avg. maturity (incl. grace period)	37	37
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

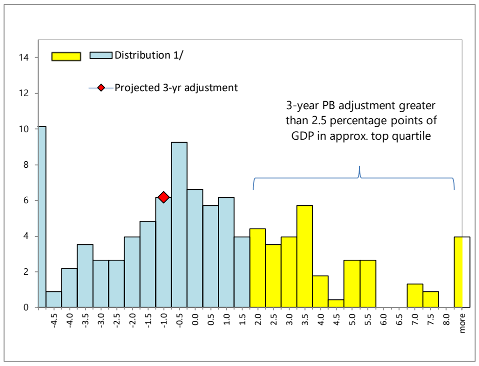
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2033. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

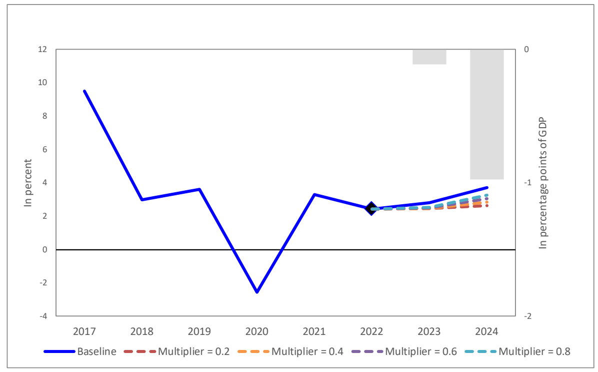
Figure 3. Somalia: Realism Tools

3-Year Adjustment in Primary Balance (Percentage points of GDP)



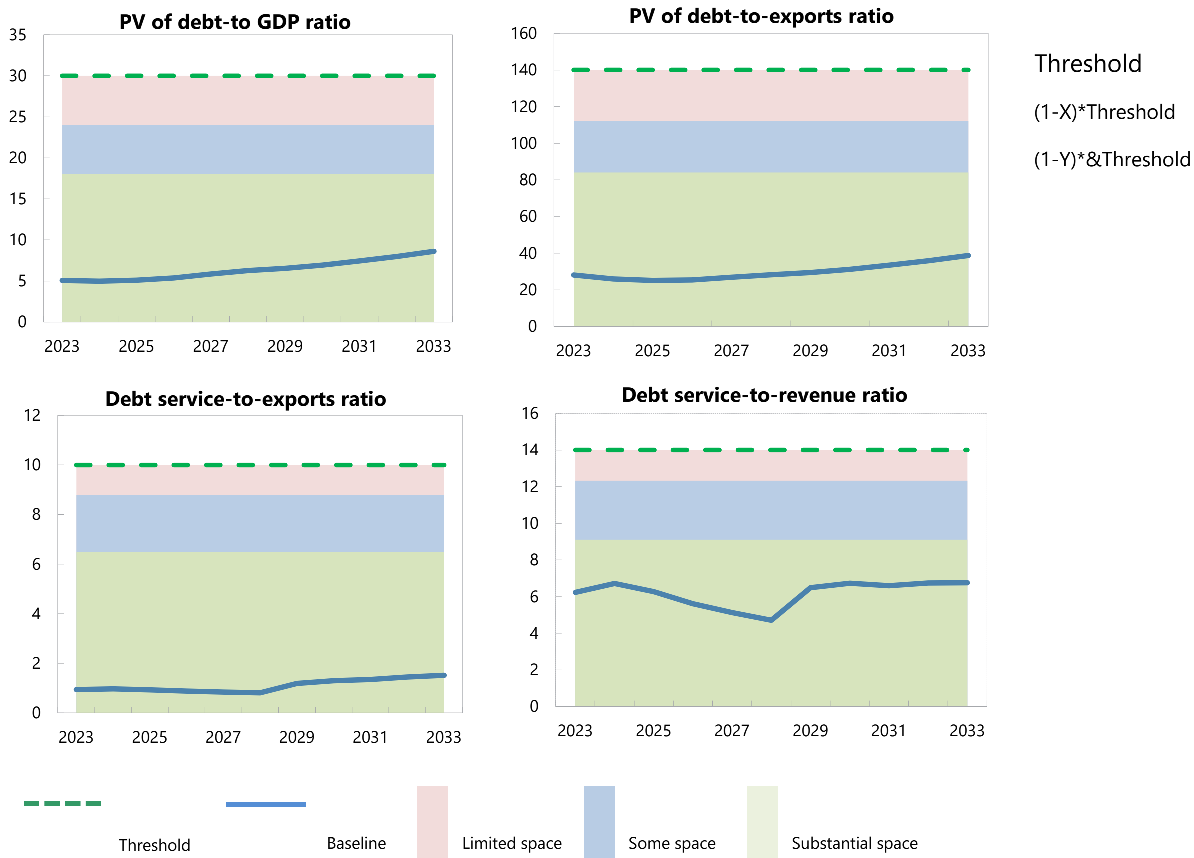
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Figure 4. Somalia: Qualification of the Moderate Category, 2023–2033 1/



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Table 3. Somalia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2023–2033

(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
PV of debt-to GDP ratio 4/											
Baseline	5	5	5	5	6	6	7	7	7	8	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	5	3	1	0	-2	-4	-6	-9	-11	-13	-15
B. Bound Tests											
B1. Real GDP growth	5	5	6	6	7	7	7	8	8	9	10
B2. Primary balance	5	-6	-5	-5	-4	-3	-2	-2	-1	0	1
B3. Exports	5	6	9	9	9	10	10	10	11	11	11
B4. Other flows 3/	5	11	15	15	15	16	16	16	16	16	16
B5. Depreciation	5	6	-1	-1	0	1	2	2	3	4	5
B6. Combination of B1-B5	5	13	16	16	16	16	16	17	17	17	17
C. Tailored Tests											
C1. Combined contingent liabilities	5	-4	-4	-3	-2	-1	-1	0	0	1	2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	5	5	5	6	6	7	7	7	8	9
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	30	30	30	30	30	30	30	30	30	30	30
PV of debt-to-exports ratio 4/											
Baseline	28	26	25	25	27	28	29	31	33	36	39
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	28	18	7	-2	-10	-18	-29	-40	-51	-60	-69
B. Bound Tests											
B1. Real GDP growth	28	26	25	25	27	28	29	31	33	36	39
B2. Primary balance	28	-31	-26	-22	-17	-14	-11	-8	-4	0	5
B3. Exports	28	39	61	59	60	60	62	64	66	69	72
B4. Other flows 3/	28	56	76	73	71	70	70	71	72	73	73
B5. Depreciation	28	26	-5	-2	1	4	6	8	11	14	18
B6. Combination of B1-B5	28	70	71	85	83	82	83	84	86	86	87
C. Tailored Tests											
C1. Combined contingent liabilities	28	-21	-17	-14	-10	-7	-4	-2	1	4	8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	28	26	25	25	27	28	29	31	33	36	39
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	140	140	140	140	140	140	140	140	140	140	140
Debt service-to-exports ratio 4/											
Baseline	0.9	1.0	0.9	0.9	0.8	0.8	1.2	1.3	1.3	1.4	1.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	0.9	1.0	0.9	0.7	0.6	0.5	0.8	0.8	0.8	0.4	0.0
B. Bound Tests											
B1. Real GDP growth	0.9	1.0	0.9	0.9	0.8	0.8	1.2	1.3	1.3	1.4	1.5
B2. Primary balance	0.9	0.4	0.5	0.5	0.5	0.5	0.9	1.0	-1.2	-0.9	-0.7
B3. Exports	0.9	1.1	1.4	1.5	1.4	1.3	1.8	2.0	2.0	2.5	3.3
B4. Other flows 3/	0.9	1.0	1.2	1.3	1.2	1.2	1.5	1.6	1.6	2.9	3.8
B5. Depreciation	0.9	1.0	0.9	0.6	0.6	0.6	1.0	1.1	1.2	1.3	0.1
B6. Combination of B1-B5	0.9	1.1	1.6	1.6	1.5	1.4	1.9	2.0	2.0	3.9	4.5
C. Tailored Tests											
C1. Combined contingent liabilities	1	0	1	1	1	1	1	1	1	1	1
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	1	1	1	1	1	1	1	1	1	1	2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio 4/											
Baseline	6	7	6	6	5	5	6	7	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	6	7	6	5	4	3	5	4	4	2	0
B. Bound Tests											
B1. Real GDP growth	6	7	7	6	6	5	7	8	7	8	8
B2. Primary balance	6	3	3	3	3	3	5	5	-6	-4	-3
B3. Exports	6	7	7	7	6	6	7	7	7	8	11
B4. Other flows 3/	6	7	8	8	8	7	8	8	8	13	**17**
B5. Depreciation	6	8	8	5	5	4	7	7	7	7	1
B6. Combination of B1-B5	6	7	9	9	8	7	9	9	9	**16**	**18**
C. Tailored Tests											
C1. Combined contingent liabilities	6	3	4	3	3	3	5	5	5	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	7	6	6	5	5	6	7	7	7	7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.
4/ Structural breaks in Somalia's historical series affect the DSA's sensitivity analysis. Negative values should be considered bounded at zero.

Table 4. Somalia: Sensitivity Analysis for Key Indicators of Public Debt, 2023–2033
(In percent)

	Projections 1/										
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
	PV of Debt-to-GDP Ratio 4/										
Baseline	6	6	6	6	6	7	7	7	8	8	9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	6	19	18	16	14	13	11	10	9	9	8
B. Bound Tests											
B1. Real GDP growth	6	21	21	20	19	18	18	17	17	18	18
B2. Primary balance	6	20	19	17	16	16	15	14	14	14	14
B3. Exports	6	7	9	9	10	10	10	10	11	11	11
B4. Other flows 3/	6	11	16	16	16	16	16	16	16	16	16
B5. Depreciation	6	25	23	21	19	17	15	14	14	13	13
B6. Combination of B1-B5	6	31	29	27	26	25	24	23	23	22	22
C. Tailored Tests											
C1. Combined contingent liabilities	6	22	20	19	18	17	16	16	15	15	15
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	20	19	18	17	17	16	16	16	17	17
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
TOTAL public debt benchmark	35	35	35	35	35	35	35	35	35	35	35
	PV of Debt-to-Revenue Ratio 4/										
Baseline	89	80	108	124	148	159	168	167	169	172	176
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	89	280	337	337	338	307	280	236	207	183	163
B. Bound Tests											
B1. Real GDP growth	89	294	383	407	442	436	432	400	383	370	361
B2. Primary balance	89	288	358	371	391	377	365	333	314	299	289
B3. Exports	89	98	179	200	229	238	246	240	236	234	231
B4. Other flows 3/	89	162	308	338	377	384	390	373	360	344	329
B5. Depreciation	89	384	456	452	451	413	381	331	304	281	263
B6. Combination of B1-B5	89	452	563	587	622	604	590	541	501	467	441
C. Tailored Tests											
C1. Combined contingent liabilities	89	316	391	407	429	414	402	367	339	317	300
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	89	289	363	383	412	406	400	373	360	349	343
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio 4/										
Baseline	3	3	4	4	5	5	7	7	7	7	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2023-2033 2/	3	1	2	2	3	2	5	5	-	-	-
B. Bound Tests											
B1. Real GDP growth	3	1	2	3	3	3	6	6	(6)	(4)	(3)
B2. Primary balance	3	1	2	3	3	3	5	6	(6)	(4)	(3)
B3. Exports	3	3	4	5	6	5	8	8	7	9	11
B4. Other flows 3/	3	3	5	6	7	7	9	9	8	14	17
B5. Depreciation	3	1	3	3	3	4	6	7	(8)	(6)	(5)
B6. Combination of B1-B5	3	3	4	4	5	5	7	7	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	3	1	3	3	3	3	5	6	6	6	6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	3	1	2	3	3	3	5	6	(5)	(3)	(2)
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the benchmark.
2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.
3/ Includes official and private transfers and FDI.
4/ Structural breaks in Somalia's historical series affect the DSA's sensitivity analysis. Negative values should be considered bounded at zero.

Table 5. Somalia: Public Debt Holder Profile, 2022–2024

(In millions of U.S. dollars, unless otherwise indicated)

	Debt Stock (end of period) 2022			Debt Service					
	(In millions of US$)	(Percent total debt)	(Percent GDP)	2022	2023	2024	2022	2023	2024
				(In millions of US$)			(Percent GDP)		
Total [1/]	3894.8	100.0	37.4	16.4	19.5	14.5	0.2	0.2	0.2
External	3827.0	98.3	36.7	16.4	19.5	14.5	0.2	0.2	0.2
Multilateral creditors	1074.9	27.6	10.3	16.4	19.5	11.6	0.2	0.2	0.1
IMF [2/]	370.5	9.5	3.6	0.0	4.1	4.0	0.0	0.1	0.0
World Bank [3/]	104.6	2.7	1.0	13.4	12.5	0.0	0.2	0.2	0.0
AfDB	20.1	0.5	0.2	2.5	2.3	0.0	0.0	0.0	0.0
Other Multilaterals	579.6	14.9	5.6	0.5	0.5	7.6	0.0	0.0	0.1
Arab Monetary Fund	298.6	7.7	2.9	0.0	0.0	1.8	0.0	0.0	0.0
Arab Fund for Economic and Social Development	191.5	4.9	1.8	0.0	0.0	4.3	0.0	0.0	0.1
International Fund for Agricultural Development	26.2	0.7	0.3	0.5	0.5	0.5	0.0	0.0	0.0
Islamic Development Bank	27.2	0.7	0.3	0.0	0.0	0.4	0.0	0.0	0.0
OPEC Fund for International Development	36.1	0.9	0.3	0.0	0.0	0.6	0.0	0.0	0.0
Bilateral Creditors	2752.1	70.7	26.4	0.0	0.0	2.9	0.0	0.0	0.0
Paris Club [4/]	2004.5	51.5	19.2	0.0	0.0	0.2	0.0	0.0	0.0
Denmark	2.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	109.7	2.8	1.1	0.0	0.0	0.0	0.0	0.0	0.0
Italy [5/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan [6/]	109.0	2.8	1.0	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	2.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia [7/]	711.1	18.3	6.8	0.0	0.0	0.2	0.0	0.0	0.0
Spain	40.9	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	28.6	0.7	0.3	0.0	0.0	0.0	0.0	0.0	0.0
United States	998.4	25.6	9.6	0.0	0.0	0.0	0.0	0.0	0.0
EEC IDA Administered Loans	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Serbia	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other international creditors [8/]	745.0	19.1	7.2	0.0	0.0	2.7	0.0	0.0	0.0
Algeria	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bulgaria	11.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Iraq	201.9	5.2	1.9	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait Fund and Central Bank	125.3	3.2	1.2	0.0	0.0	2.7	0.0	0.0	0.0
Libya	30.4	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Romania	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	118.9	3.1	1.1	0.0	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	253.5	6.5	2.4	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	67.8	1.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Of which: in arrears	67.8	1.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	10420								

Sources: Somalia Debt Management Unit; IMF; World Bank; and AfDB.

1/ Debt records provided by the authorities and reconciled with creditor statements include loans that were contracted from 1965 to 2002. These loans include loans that financed projects in pre-civil war subnational jurisdictions, including Somaliland. For all loans, the recognized debtor is the Ministry of Finance of the FGS or a line ministry of the FGS. Note that this excludes a Russian claim on the Central Bank of Somalia totaling about $7.5 million (or 0.1 percent of GDP), which has been deemed to be not eligible for HIPC debt relief.

2/ IMF debt stock reported in 2022 includes net SDR position of government (used for budget support).

3/ All obligations due the World Bank are to the International Development Association (IDA).

4/ Consistent with the HIPC Debt Reconciliation Exercise in 2023. Updated 2022 debt stock as reported by Somali Debt Management Unit (DMU) reflects interim debt relief under signed bilateral agreements with the PC creditors. The amount reported under debt service reflects estimates of interim debt relief under Cologne terms computed as part of the HIPC DRA.

5/ Debt cancellation of 100 percent of ODA debt became effective on March 2021.

6/ No debt reduction at the HIPC Decision Point, Japan will cancel 100% of their debt stock at the HIPC Completion Point.

7/ Debt stock as of end-2022, consistent with the HIPC Debt Reconciliation Exercise in 2023. The bilateral agreement between Russia and Somalia was signed in 2023.

8/ The amount reported for non-PC creditors assumes PC comparable treatment and reflects estimates of interim debt relief under Cologne Terms computed as part of the HIPC DRA exercise. This follows 2018 Guidance Note for Bank-Fund Debt Sustainablity Framework for Low-Income Countries. Total debt stock for non-PC reported herein is lower than reported by the DMU, which reflects contractual owed debt less any debt relief expected. Debt service reported reflects actual debt service expected.

Table 6. Summary Table on Projected External Borrowing Program, January 1, 2024 to December 31, 2024

(In millions of U.S. dollars, unless otherwise indicated)

PPG external debt contracted or guaranteed	Volume of new debt, USD million	Percent
Sources of debt financing	**95.2**	**100**
Concessional debt, 1/	**95.2**	**100**
o/w IMF prospective	20.2	
o/w Other	75.0	79
Non-concessional debt	**0.0**	**0**
o/w Semi-concessional 2/	0.0	0
o/w Commercial terms 3/	0.0	0
Uses of debt financing	**95.2**	**100**
Project Financing	0.0	0
Budget Financing	95.2	100
Type of interest rate	**95.2**	**100**
Fixed Interest Rate	95.2	100
Variable Interest Rate	0.0	0
Currency denomination	**95.2**	**100**
USD denominated loans	95.2	100
Loans denominated in other currency	0.0	0
Memorandum items 4/		
Indicative projection FY2025	**191.9**	
Indicative projection FY2026	**264.3**	

1/ Debt with a grant element of at least 35 percent.

2/ Debt with a positive grant element that is lower than the minimum grant element of 35 percent.

3/ Debt without a positive grant element.

4/ The macroeconomic framework assumes HIPC Completion Point in December 2023

Statement by Mr. Mohieldin, Mr. Alhosani, and Mr. Abdullahi on Somalia
Executive Board Meeting
December 13, 2023

1. On behalf of our Somalia authorities, we express gratitude to the IMF staff whose significant contributions have played a crucial role in Somalia's success over the past decade. Since 2013, when the Fund reengaged with Somalia, numerous staff members have consistently offered timely support, creative solutions, and valuable macroeconomic advice tailored to the unique challenges of the fragile country. These dedicated individuals have been instrumental in helping the authorities rebuild their economic and financial institutions from essentially non-existent to institutions capable of maintaining stable macroeconomic conditions through four Staff Monitored Programs and the current UCT quality arrangement. We extend our thanks, in particular, to the current Mission Chief, Ms. Laura Jaramillo, and her team, for engaging in candid policy discussions during program reviews, providing tailored solutions to address emerging and existing challenges, and designing incremental and mutually reinforcing reforms.

2. Despite substantial challenges including the prolonged drought and a resulting humanitarian crisis, COVID-19, insecurity caused by the terrorist group, Al-Shabaab, limited capacity and weak institutions, Somalia has diligently implemented far-reaching and difficult reforms. The authorities' commitment to reforms with the support of their development partners has been critical to the country's journey toward Highly Indebted Poor Countries (HIPC) Completion Point (CP), the successful completion of the current ECF program, and the recently concluded staff-level negotiations of the successor Extended Credit Facility (ECF) program.

I. Context

3. **Somalia continues to grapple with deteriorating humanitarian challenges amidst continued security concerns.** Following a prolonged drought resulting from five consecutive failed rainy seasons, which tragically claimed many human lives, devastated crop production and livestock, and exacerbated severe food insecurity, the recent heavy El- Niño rains in the past two months have further compounded the country's woes by triggering widespread flooding in number of regions. According to the November 2023 report from the United Nations Office for the Coordination of Humanitarian Affairs (OCHA), 33 districts in three out of the five federal member states are flooded. These floods have resulted in loss of human lives, destruction of properties, extensive damage to farmlands, and further strain on the already weak infrastructure. The floods have also increased risks of waterborne diseases including cholera in these regions. The authorities, with the help of international partners, are mounting support to affected regions.

4. **Despite tangible improvements, the security condition of the country remains a concern.** The authorities' recent efforts to combat Al-Shabaab terrorists on multiple fronts — militarily, ideologically, and financially — are bearing fruits. In addition to liberating regions that the terrorists have dominated for nearly two decades, the authorities have successfully cut off many of the terrorists' financing sources and turned the public against them through a campaign led by religious and community leaders. The authorities are gearing up to take full responsibility for the security of their citizens following the end of the mandate of the African Union Transition Mission in Somalia (ATMIS) in December 2024. They also developing a post ATMIS National Security Plan are in discussion with their development partners to secure financing for their plan. The December 2,

2023, decision of the UN Security Council to lift the 31 years old Arms Embargo on the country is expected to boost the capacity of the National Army to achieve their military objectives and take full control of the country's security.

II. Recent Economic Developments

5. **Somalia's economy continues to face multiple challenges which are preventing the country from reaching its potential.** Notwithstanding these challenges, the economy has been resilient, growing steadily over the years. However, since 2020, climate related shocks, political uncertainty, a global pandemic, and spillovers from the current global geopolitical tensions have taken a toll on the economy. In 2022, the economy grew at 2.4 percent down from 2.9 percent in 2021. Nevertheless, the current economic growth is lower than the rate required to reduce the widespread poverty. In 2023, the economy is expected to grow at 2.8 percent before picking up steam to grow at 3.7 percent in 2024 and 4.3 percent by 2028 supported by growth in foreign direct investment and remittances and a rebound in agriculture production. Inflation is expected to moderate to 4.6 percent (eop) in 2023 and 3.9 percent in 2024 down from 6.1 percent in 2022.

III. Performance under the current program, the sixth review, and request for a new program

6. **Somalia has undertaken challenging yet necessary economic and governance reforms under the ECF arrangement.** Since the inception of the program, the authorities have strengthened domestic revenues, and improved customs modernization, while enhancing the budget process, strengthening expenditure controls and reporting. On governance, Somalia acceded to the UN Convention Against Corruption and is implementing the National Anti-Corruption Strategy. The authorities have developed the petroleum sector legal framework, established the policy for management of non-financial assets, and strengthened due process on contracts and concessions. The Central Bank of Somalia (CBS) has been enhancing its institutional framework and capacity, including the regular publication of audited financial statements. New financial sector regulations and guidance were issued to promote financial stability. Moreover, important steps were taken on AML/CFT including the ongoing implementation of the National ML/FT Risk Assessment action plan and adoption of a Targeted Financial Sanctions legal framework.

7. **The performance of the sixth and last review under the current ECF was strong**. The Somali authorities successfully met all quantitative performance criteria for June 2023, along with all indicative targets for end-June and end-September 2023. Despite numerous challenges, eight out of the ten structural benchmarks due for the 6th revenue have been implemented, albeit with delays in three cases due to technical and capacity challenges. While POS machines have been installed by some in the tourist sector, the rollout to the telecom sector was not accomplished due to technical issues related to data security and confidentiality concerns. The other missed benchmark, which related to customs harmonization, faced challenges due to refusal by one of the regions to participate in the process for political reasons. Nevertheless, the authorities remain committed to implementing this reform benchmark as it is considered crucial to their revenue mobilization goals and the establishment of functional intergovernmental relations and ultimate adoption of an ad valorem tariff structure throughout the country. **Based on the robust program performance and commitment to reforms, the Somali authorities request the Executive Board's approval of the completion of the sixth and the final review of the 2020 Extended Credit Facility.**

8. **To build on the current reforms and momentum, the Somali authorities have requested a new 3-year successor ECF program, on which they would appreciate the Executive Board support.** The new program will guide the authorities in their post HIPC economic policies to promote inclusive economic growth and reduce poverty under Somalia's ninth National Development Plan (NDP9). Towards this end, the new program will aim to maintain fiscal sustainability by focusing on robust domestic revenue mobilization, expenditure restraint, and strengthened public finance management thereby creating the necessary fiscal space for investing in projects that support economic growth. Additionally, the new program will support the authorities in building a vibrant financial sector connected to the global financial system, promoting financial deepening and financial inclusion, addressing governance deficiencies, promoting private sector-led growth, and improving statistical data. The front-loaded disbursement of SDR 30 million under the program of will help the authorities address the fiscal gap and liquidity pressures during 2024H1 if some of the expected grants do not materialize. Future disbursements will be used to build reserves of the CBS. The Somali authorities will remain committed to this program, as they have been to the current ECF program and previous staff monitored programs.

IV. HIPC Completion Point

9. **Reaching the Highly Indebted Poor Countries (HIPC) Completion Points (CP) has been a paramount objective for successive Somali governments since 2013.** The Somali authorities galvanized the public, political leaders, federal member states, opinion-makers, and the business community to work collectively towards fulfilling all HIPC CP requirements. As a result, they met 13 out of the 14 required reforms, implemented their poverty reduction strategy for more than one year, and maintained a track record of sound macroeconomic management. The only unmet target, the adoption and implementation of a single import duty tariff structure at all ports, hinged on the cooperation of two Federal Member States, Jubaland and Puntland, with ports in addition to the Mogadishu ports which are controlled by the federal government. Despite all the technical requirements for this reform in Mogadishu seaport and airport being put in place and substantial progress in Jubaland, Puntland withdrew from the process earlier this year for political reasons. The authorities are unwavering in their commitment to meeting this trigger, deemed crucial to their objective of creating a workable fiscal federalism framework and vital to their revenue mobilization objective, considering the potential additional revenues from customs. The authorities are in discussions to resolve their political dispute with Puntland and anticipate a resolution by early 2024, following parliamentary and presidential elections in this region.

10. **The Somali authorities are grateful to all their creditors who have engaged with them in good-faith negotiations to reach debt relief agreements.** As result, Somalia has secured financing assurances from the majority of its bilateral and multilateral creditors, representing 89.5 percent of the present value of HIPC debt relief. This achievement would not have been possible without the goodwill of Somalia's creditors. The authorities expect to successfully conclude negotiations with the remaining creditors.

11. **Somali authorities request from the Executive Board a waiver of the unmet floating HIPC CP trigger and a favorable decision to allow Somalia to reach Completion Point under the enhanced HIPC initiative, a historic milestone.**

V. Policy Discussion:

Fiscal Policy:

12. **Somali authorities will continue to practice prudent fiscal policy, anchored by a new debt fiscal anchor to safeguard fiscal sustainability after enduring the burden of debt for many years.** Intent on avoiding a recurrence of debt challenges, they are determined not to take on any non-concessional loans and prioritize highly concessional loans from multilateral development banks (MDBs) particularity the World Bank and the African Development Bank. These institutions not only provide highly concessional loans but also technical and capacity development support. Further, they will limit their overall annual deficit to a maximum of 3.5 percent of GDP, with a minimum of 1.5 percent sourced from MDBs with due consideration to their borrowing capacity and repayment ability. Preference will be given to borrowing for investment in physical and social infrastructure aimed at promoting economic growth and achieving Sustainable Development Goals. To avoid utilizing borrowed funds for basic government operations, they are seeking bilateral grant budget support from friendly countries while also boosting their domestic revenue collection. In pursuit of this goal, they are dedicated to implementing measures that will boost domestic revenue, strengthen public finance management, improve debt management, and develop their capacity to better manage public investments.

13. **Despite recent success in domestic revenue mobilization, the Somali authorities are cognizant of their low revenue base, which is well below its potential.** Although Somalia's domestic revenue increased by more than 400 percent since the first 2013 budget, revenue still accounts for 2.7 percent of GDP. In the interim period, the authorities have made significant progress in building the capacity of their revenue administration from nonexistence and introduced numerous tax measures. They strengthened the single treasury account by closing multiple revenue collection accounts. However, they recognize there is room for improvement. To further boost domestic revenues in the near future they will build on recent successes by introducing new tax measures, tax laws and enhancing tax administration capacity with the aim to cover operational costs with domestic revenue by 2027.

14. **Somalia is set to formulate a new revenue mobilization strategy, with the support of the IMF, for the next three years.** This strategy, which will be elaborated in a new Tax Policy and Revenue Administration Roadmap, aims to build on the past achievements by providing a clear direction for robust revenue collection. Key measures to enhance domestic revenue collection include implementation of ad valorem tariff structure throughout the country, enacting and operationalizing of a new Income Tax Law to replace the current outdated 1966 income law. Every effort will made to increase revenue collection from the telecom sector, which offers significant revenue potential by bringing it fully under tax laws and developing new telecom specific tax measures. Automation of revenue administration activities is another high reform priority area. In this regard, development and operationalization of Integrated Tax Administration System and facilitating on-line tax payment for citizens will be prioritized.

15. **Fiscal federalism and consensus on the completion of the provisional constitution will support the development of a common economic space, enabling both the federal government and federal members states to collect more revenues.** The National Consultative Council, comprising leaders from the Federal Government, the federal member states and Banadir

region, has reached broad agreement on revenue assignment across different levels of governments, the establishment a National Revenue Authority, and limited expenditure assignments. The next step of the process involves building broad consensus among the political stakeholders including parliamentarian and the public at large. This has the potential to expand the federal government's reach in both service delivery and revenue collection, reducing duplicate taxation and addressing tax collection inefficiencies. While there are discrete revenue sharing agreements on specific revenue sources a comprehensive revenue sharing model and clearly defined expenditure assignments are yet to be developed and agreed to, and technical support from IMF staff would be beneficial in this regard.

16. **The authorities view robust debt management framework and capacity as essential for ensuring long-term debt sustainability.** Over the past several years, they have established modern debt management systems and enhanced the capability of the debt management unit with support from the Fund and other development partners. In the new program, they will implement reforms to further strengthen debt management. To achieve this, they will articulate key parameters for debt policy and establish procedures for entering new borrowing arrangement and issuing sovereign guarantees. The Prime Minister will issue a decree in this regard.

17. **Notwithstanding significant spending pressures to increase both the quality and quantity of service delivery to citizens, the authorities are unwavering in their commitment to spending restraint and robust public finance management**. As part of their strategy to maintain fiscal sustainability, the authorities will curtail expenditure, continue to strengthen public finance management, and strive for greater fiscal transparency. To this end, they will implement the recently approved pay and grade policy and integrate all non-payroll compensation of federal employees into a single payroll. Efforts are underway to further strengthen the transparency of the public procurement process, the protection against misuse of public lands and real estate, and to develop a new law on Public-Private Partnerships. Moreover, as the country gradually increases its own borrowing for development projects, enhancing capacity to manage public investments is critical. To achieve this objective, the authorities will diligently work to incrementally improve Public Investment Management (PIM) capacity, commencing with a request for an IMF PIM Assessment.

Financial Sector

18. **The transformation of the Central Bank of Somalia into a well-functioning and modern central bank continues.** The implementation of a function-based management structure and the hiring of three experienced executive directors to facilitate committee-based decision making have been instrumental in reform implementation and improving the capacity and functioning of the bank. The CBS has also steadily improved its systems including the operationalization of the national payment system in July 2021 and the adoption of the International Bank Account Numbers (IBAN) in March 2023, all of which have been adopted by all banks to facilitate domestic and international transactions and interoperability between local banks. Standard National QR Code was launched in June 2023. In recognition of this progress, the CBS has been awarded the 2023 Central Banking's Payments and Market Infrastructure Development Award. In addition, the CBS has also successfully implemented all of the 2020 IMF Safeguards Assessment recommendations, except those requiring amendment of the Central Bank Act. The revised CBS Act, which addresses all the remaining recommendations, will be submitted to Parliament for approval in 2024Q1. The authorities are looking forward to the new set of recommendation from the new on-going IMF

Safeguards Assessment. The CBS has also granted licenses to two foreign banks to operate in Somalia, and one of them, Ziraat Katilim Bank from Türkiye, has officially been inaugurated in October 2023 and the other, Banque Misr from Egypt, is expected to start operation in 2024Q2.

19. **Integrating Somalia's financial institutions into the global financial system remains a top priority for the authorities.** In this regard, they believe it is imperative to strengthen financial sector supervision and continue improvements to the Anti-Money Laundering and Combating the Financing Terrorism framework. In anticipation of the upcoming 2024 MENA-FATF Mutual Evaluation, the authorities have made efforts to address deficiencies identified in the National Risk Assessment report published in 2022. These include implementing the Targeted Financial Sanctions Law and its regulations, building the capacity of the Financial Reporting Center (FRC) and other law enforcement agencies involved in the implementation of this law. The authorities also intend to amend the AML/CFT Law early 2024 to address identified gaps. Relatedly, after having successfully addressed legal and technical issues, Somalia authorities have started issuing new unique biometric National Digital IDs. The new National ID, while supporting the development and implementation of targeted social protection programs, will also play a pivotal role in AML/CFT framework and financial institutions by resolving the long-standing challenges associated with building a robust "know your custom" requirements.

20. **Although the economy will remain de facto dollarized in the near future, a limited currency exchange remains a top priority for the authorities** However, the authorities recognize the importance of laying the necessary foundation of monetary policy and adopting an appropriate foreign exchange regime. In the meantime, with support from the World Bank under the currency exchange project, the authorities plan to replace the single denominated counterfeit Somali Shilling notes in circulation to facilitate financial inclusion for the poor, who are currently excluded from the formal banking system. Nevertheless, the introduction of a new currency will not take place until financing is secured. The authorities are also cognizant of the importance of securing the support of all regional governments for the success of the currency exchange project.

Structural reforms

21. **Improving governance and fighting corruption have assumed higher priority in recent years.** In addition to having acceded to the UN Convention Against Corruption, the Parliament ratified the African Union Convention of Preventing and Combating Corruption and the Arab Anti-Corruption Convention, the authorities have also stepped-up activities to discourage corruption among public officials including several speeches by both the President and the Prime Minister. Additionally, several high-ranking government officials have been subjected to public and televised persecutions with some convictions. In addition, after many years in limbo, a modern Supreme Audit Bill has been enacted in September 2023. This bill will lay the foundation for a robust and independent audit institution that can hold government institutions and public officials accountable. Further, the authorities continue to build regulatory framework for the petroleum sector and have committed not issue any new production sharing agreements until the legal formwork is completed.

22. **Somalia will continue to advance an inclusive growth and resilience to climate change agenda.** Given the frequency and severity of climate related shocks, addressing the challenges of climate change is imperative. Both the recently created Ministry of Environment and the Somali Disaster Management Agency have intensified their activities to address climate change mitigation

and adaptation as well as to enhance effectiveness in responding to disasters. In addition, the authorities are taking actions to boost private sector participation in the economy, including making it easier to start new businesses through a registration one-stop-shop, approving the Investment and Investor Protection, and Data Protection Acts as well as issuing a second set of Company Act regulations to cover minority shareholder protection.

VI. <u>Capacity development</u>

23. Our authorities recognize the importance of continued strong capacity development and technical support from the Fund, given the low capacity of their institutions. Continued delivery of intense support will be necessary to build on and sustain current reforms and implement deeper reforms. In this regard, we encourage contributions from friendly countries to the Somalia Trust Fund, which has been instrumental in providing to the country with timely and extensive capacity development.

VII. Conclusion

24. The Somali authorities have demonstrated their commitment to implementing challenging reforms in a difficult environment. They acknowledge that these reforms would not have been possible without the support of their development partners, including the Fund. Therefore, they place great importance on the continued robust engagement from the Fund and other partners, including the World Bank, in their post-HIPC phase development. Their involvement will be essential as Somalia seeks to permanently exit from fragility and embark on the next phase of its development.