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### **IMF Management Completes the Second and Final Review under the Staff-Monitored Program for Somalia and IMF Managing Director Approves a Third Staff-Monitored Program**

- IMF staff commends the Somali authorities for implementing important reforms in challenging conditions.
- IMF staff encourages the Somali authorities to stay the course of reform implementation under the SMP, particularly on public financial management, revenue administration and policy, and monetary and financial sector.
- The IMF supports the authorities' ongoing efforts to launch a new national currency.

On June 20, the management of the IMF completed the second and final review under the second 12-month Staff-Monitored Program (SMP II) with Somalia, and the Managing Director of the IMF approved a third 12-month SMP (SMP III) covering the period May 2018–April 2019. The SMPs for Somalia are designed to help maintain macroeconomic stability, rebuild key economic institutions, and build track record on policy and reform implementation.

Recent developments are broadly favorable despite difficult political and security environment. Economic activity is rebounding from the effects of the drought in 2017. Reflecting a strong rainy season, sustained remittances and grant inflows, growth in 2018 is projected to increase to 3.1 percent from an estimated 2.3 percent in 2017, and inflation is expected to ease to under 3 percent from about 5.1 in 2017.

Reflecting ongoing reforms, the fiscal position has improved since December 2017. The federal government of Somalia (FGS) recorded a small fiscal surplus in 2017 as a result of higher-than-programmed domestic revenue mobilization and budgetary grant disbursements. The strong fiscal performance continued through March 2018 due, in part, to lower-than-projected expenditure and slightly higher domestic revenue.

Program implementation under SMP II has been satisfactory. For December 2017, all indicative targets (ITs) and all but one structural benchmark (SB) were met. Also, the two SBs and all ITs

set for March 2018 were met. Considering the satisfactory performance under SMP II and the authorities' strong commitment to accelerate and broaden the reform agenda, staff supports the completion of the second and final review under SMP II and the authorities' request for SMP III.

Staff also supports the authorities' ongoing efforts to launch a new national currency. After nearly two years of the IMF's technical assistance support, the pre-conditions for the launch of the new Somali Shilling have been nearly completed. In March 2018, IMF staff prepared an assessment letter supporting the CBS's initiative to issue a new national currency. Staff encourages the authorities to continue to reach out to donors to raise the needed funds for this operation, finalize the establishment of the accountability framework, and to fully staff the team that will manage the process.

SMP III will build on achievements under the previous two SMPs and will continue to lay the foundation so that Somalia will eventually have a SMP that meets the IMF Upper Credit Tranche (UCT) conditionality which is one of the key requirements for Somalia to reach the Decision Point under the Heavily Indebted Poor Countries (HIPC) initiative. SMP III will focus on broadening and deepening reform implementation to maintain macroeconomic stability and to continue rebuilding institutions and capacity to improve macroeconomic management and governance.

Risks to the program are elevated. Nonetheless, continued commitment to the reform measures under the SMP; and with sustained donors support, particularly on technical assistance, peace and state building, resilience and humanitarian aid, will help mitigate these risks.

## Somalia: Selected Economic and Financial Indicators, 2015–20

(IMF Quota = SDR 44.20 million; Population: 13 million, 2015 estimate)

(Poverty Rate: n.a.; Main Export: Livestock)

	2015	Est. 2016	2017	2018	Proj. 2019	2020
<b>National income and prices</b>						
Nominal GDP in millions of U.S. dollars	6,659	6,767	7,052	7,405	7,822	8,256
Real GDP, annual percentage change	3.9	4.4	2.3	3.1	3.5	3.5
Per capita GDP in U.S. dollars	511	504	511	521	535	549
Consumer prices (e.o.p., percent change)	-1.2	0.0	5.3	2.8	2.5	2.5
	(Percent of GDP)					
<b>Central government finances 1/</b>						
Revenue and grants	2.1	2.5	3.5	3.5	3.7	3.8
<i>of which:</i>						
Grants	0.4	0.9	1.5	1.3	1.3	1.3
Expenditure, <i>of which:</i>	2.0	2.5	3.5	3.5	3.7	3.8
Compensation of employees	0.8	0.8	1.8	1.8	1.8	1.8
Purchase of non-financial assets	0.0	0.1	0.1	0.1	0.2	0.2
Overall balance	0.1	0.0	0.0	0.0	0.0	0.1
Stock of domestic arrears	1.0	1.1	1.0	0.9	0.7	0.5
	(Millions of U.S. Dollars)					
<b>Central bank summary balances</b>						
Foreign assets (gross)	68.6	60.9	89.2	...	...	...
Net foreign assets, excl. IMF 2/	21.6	21.6	24.0	...	...	...
FGS, total deposits 3/	19.1	12.1	33.6	...	...	...
	(Percent of GDP)					
<b>Balance of payments</b>						
Current account balance	-4.7	-6.3	-6.6	-6.3	-5.7	-5.6
Trade balance	-45.1	-46.8	-55.2	-48.3	-46.8	-46.4
Exports of goods and services	15.6	15.1	11.5	14.6	15.0	14.8
Imports of goods and services	60.6	61.8	66.7	62.9	61.8	61.2
Remittances	19.5	19.7	23.5	20.4	20.5	20.7
Grants	21.2	21.1	25.6	22.0	21.0	20.6
Foreign Direct Investment	4.5	4.9	5.2	5.5	5.7	5.6
External debt	66.3	64.7	65.0	...	...	...
<b>Market exchange rate</b> (SOS/USD, e.o.p.)	22,285	24,005	23,605	...	...	...

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

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

2/ Program definition. Excludes position in the SDR Department and obligations to the IMF.

3/ Includes Treasury deposits at the CBS and grants held in external accounts on behalf of the Ministry of Finance.