Somalia: Second and Third Reviews Under the Extended Credit Facility Arrangement and Request for Modification of Performance Criterion, Modification of Performance Criteria, Interim Assistance and Rephasing of Access and Extension of the Arrangement-Press Release; Staff Report; and Statement by the Executive Director for Somalia

INTERNATIONAL MONETARY FUND

INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/228

SOMALIA

July 2022

SECOND AND THIRD REVIEWS UNDER THE ECF ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, INTERIM ASSISTANCE, AND REPHASING OF ACCESS AND EXTENSION OF THE ARRANGEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the Second and Third Reviews Under the ECF, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 17, 2022, following discussions that ended on May 19, 2022, 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 June 3, 2022.
- 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.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR22/215

IMF Executive Board Completes the Second and Third Reviews of the Extended Credit Facility for Somalia

FOR IMMEDIATE RELEASE

- *Notwithstanding the challenges over the past 18 months, Somalia's IMF-supported program remains on track, with continued progress on key reforms, including on domestic revenue mobilization, strengthening public financial management, deepening of CBS capacity, and enhancing governance.*

- *Support from development partners, both on financing and capacity development, is essential for the successful implementation of the authorities' economic and structural reform strategy.*

Washington, DC – June 17, 2022: The Executive Board of the International Monetary Fund (IMF) today completed the second and third reviews of the Extended Credit Facility (ECF) arrangement for Somalia. The Board's decision enables the immediate disbursement of SDR 14 million (about US$ 18.8 million), bringing Somalia's total disbursement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF) to SDR 271.4 million (about US$ 384.3 million).

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. The ECF arrangement supports the implementation of the authorities' National Development Plan and anchors reforms between the HIPC Decision and Completion Points.

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

"The Somali authorities have preserved macroeconomic stability and maintained the reform momentum, notwithstanding multiple shocks. In addition to the challenges from Covid-19 and the protracted elections process, food security and economic activity are under strain because of severe drought conditions, compounded by rising global food and energy prices. The authorities' have made skillful efforts to navigate these challenges, supported by the international community, including the 2021 General SDR allocation.

"The authorities maintain a steadfast commitment to the reform agenda under the ECF-supported program and the HIPC process, which is critical to build resilience, promote inclusive growth, and reduce poverty. The authorities' ongoing efforts to strengthen

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domestic revenue mobilization and public financial management are commendable. Continued improvements in the institutional capacity of the Central Bank of Somalia are welcome. It will be important to continue to advance reforms to improve AML/CFT and governance. Sustained efforts are needed to finalize the HIPC completion point triggers and achieve debt relief agreements with all creditors.

"Support from development partners, both on financing and capacity development, is important for the successful implementation of the authorities' reform strategy. Contributions from Somalia's partners to the Somalia Country Fund are also needed to ensure smooth delivery of IMF technical assistance to support the goals of the ECF-supported program and the HIPC Initiative."

Table 1. Somalia: Selected Economic Indicators, 2019–2027

Population: 15.2 million, 2021 estimate	Est.			Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
National income and prices									
Nominal GDP in millions of U.S. dollars	6,477	6,965	7,373	8,202	8,839	9,621	10,498	11,461	12,485
Real GDP in millions of U.S. dollars	6,016	5,996	6,115	6,281	6,507	6,747	7,011	7,291	7,590
Real GDP, annual percentage change	3.3	-0.3	2.0	2.7	3.6	3.7	3.9	4.0	4.1
Real GDP per capita in U.S. dollars	419	406	403	402	405	409	413	418	425
CPI (period average, percent change)	4.5	4.3	4.6	8.5	3.6	3.8	3.7	3.5	3.3
CPI (e.o.p., percent change)	3.1	4.8	5.7	7.8	3.5	3.7	3.6	3.4	3.2
Central government finances 1/									
Revenue and grants	5.2	7.1	5.1	6.7	6.7	4.2	4.6	5.0	5.3
of which:									
Tax	2.4	2.0	2.2	2.1	2.4	2.7	3.1	3.4	3.7
Grants 2/	1.7	4.1	2.0	3.6	3.3	0.5	0.5	0.5	0.4
Expenditure (FGS)	4.9	6.8	6.2	7.0	6.8	6.1	6.4	6.7	6.8
Compensation of employees 3/	2.5	3.3	3.4	3.2	3.1	2.9	3.1	3.2	3.3
Purchase of non-financial assets	0.2	0.3	0.2	0.3	0.3	0.5	0.5	0.6	0.7
Overall balance	0.4	0.4	-1.1	-0.3	-0.1	-1.9	-1.8	-1.7	-1.5
Net change in the stock of cash	0.4	0.2	-0.3	0.1	-0.2	0.0	0.0	0.0	0.0
Stock of domestic arrears	1.0	1.0	0.9	0.8	0.8	0.7	0.6	0.5	0.4
Public debt 4/, 5/	83.0	57.1	47.5	43.8	7.3	9.7	10.6	11.3	11.8
Monetary Sector									
Net Foreign Assets	1.9	-2.7	-3.3	-4.3	-0.1	-0.3	-0.2	-0.1	-0.1
Central Bank claims on non-residents 6/	2.3	2.8	3.0	3.3	3.0	2.5	2.3	2.1	1.9
Net Dometic Assets	6.2	13.9	14.9	14.3	10.3	10.9	11.6	12.7	13.3
Credit to the private Sector	3.2	3.1	3.5	3.9	4.5	5.4	6.6	8.2	9.7
Broad Money 7/	8.1	11.1	11.6	10.0	10.2	10.6	11.4	12.6	13.3
Net Foreign Assets (Program Definition, in millions of U.S. dollars)	25	80	175	…	…	…	…	…	…
Balance of payments									
Current account balance	-10.4	-10.8	-15.0	-14.3	-12.4	-12.6	-13.6	-13.5	-13.5
Trade balance	-63.7	-63.4	-70.7	-71.0	-69.5	-68.0	-67.9	-67.8	-67.8
Exports of goods and services	17.3	13.9	17.4	16.9	16.9	17.2	17.2	17.2	17.2
Imports of goods and services	81.0	77.3	88.1	87.9	86.5	85.2	85.1	85.0	85.0
Remittances	24.4	23.2	28.2	29.1	28.9	28.9	28.4	28.4	28.4
Grants	29.4	29.9	28.0	28.2	28.7	26.9	26.3	26.3	26.3
Foreign Direct Investment	6.9	7.7	7.9	7.8	7.8	7.8	7.8	8.0	8.0
External debt 8/	82.0	56.5	46.8	42.3	6.5	9.1	10.1	10.8	11.4

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/ 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.

3/ The increase in compensation of employees in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.

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

5/ 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.

6/ Includes FGS grants held abroad.

7/ Primarily deposits at commercial banks. Data before 2020 does not yet include balances held with MMOs.

8/ 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.

INTERNATIONAL MONETARY FUND

SOMALIA

June 3, 2022

SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, INTERIM ASSISTANCE, AND A REPHASING OF ACCESS AND EXTENSION OF THE ARRANGEMENT

EXECUTIVE SUMMARY

Context. Notwithstanding multiple shocks—including COVID-19, drought, and surge in commodity prices—the Somali authorities have preserved macroeconomic stability and maintained the reform momentum, supported by use of the SDR allocation and cash balances. After some considerable delay, Parliamentary and Presidential elections were successfully completed, and President Mohamud was sworn in on May 15, 2022. The authorities have affirmed their commitment to the objectives and policies underpinning the program supported by the Extended Credit Facility and the HIPC process.

Reform priorities. The authorities will continue strengthening domestic revenue mobilization, including customs modernization and increasing revenue collection from the telecom sector. Key reforms on public financial management (PFM) include issuance of the PFM regulations and payroll integration. The authorities are also working towards harmonizing the legal framework for the extractive industries. The central bank will continue to enhance its capacity and monitor the financial system closely. Key actions on AML/CFT include enactment of the Targeted Financial Sanctions Law and development of the national action plan.

Program issues. Notwithstanding the multiple challenges, the authorities have met most of the conditionality established at the first review. Since then, they have also taken steps to preserve macroeconomic stability and continued to implement policies in line with the objectives of the program, in close collaboration with staff. All quantitative performance criteria (QPC) and all indicative targets (IT) from December 2020 to September 2021 were met except for the June and September 2021 targets on domestic revenue and the fiscal balance due to revenue underperformance linked to the impact of COVID-19 and pause in budget grants until elections were completed. The authorities are requesting a waiver for the missed June 2021 QPC

on domestic revenue based on corrective actions in the 2022 budget and new structural benchmarks that support a recovery in domestic revenues. All structural benchmarks were met with the exception of enacting the Targeted Financial Sanctions Law, for which the authorities are requesting a new target date of December 2022 to allow sufficient time for consideration by the new Parliament. Given the uncertainty around the timing of budget support disbursements, the authorities are requesting the introduction of an adjustor on the floor for the fiscal balance by any delays or shortfalls in budget support grants as compared to the budget estimate. They are also requesting that the definition of the domestic revenue floor exclude the CBS distributable earnings. In addition, the authorities are requesting to include a floor on net international reserves of the CBS, in place of the floor on net foreign assets. Due to the delays in the second and third reviews, the authorities are requesting the rephasing of access and the extension of the ECF arrangement to end-2023. The authorities are also requesting a disbursement of a third interim HIPC assistance in the amount of SDR 680,000 to cover all of Somalia's eligible debt service to the IMF that falls due between June 17, 2022 and June 16, 2023.

Program and other risks. Somalia's vulnerabilities remain elevated. Risks include prolonged drought and new climate shocks, additional pressures on international food and energy prices, a resurgence of desert locust infestation, security risks, and delays in grant disbursements. Continued program ownership, capacity development, and sustained support from development partners remain key for success.

Approved By	
Thanos Arvanitis (MCD) and Gavin Gray (SPR)	Discussions were held virtually from February 22 - March 7 and May 17–19, 2022. The staff team comprised of Ms. L. Jaramillo (Head), Ms. F. Yang, Mr. C. Kularatne (all MCD), Mr. Y. Koshima (FAD), Mr. J. Arze del Granado (SPR), Mr. J.B. Le Hen (Resident Representative), Mr. W. Irungu (Resident Representative Office), and Mr. P. Muir (FAD consultant). Ms. I. Mannathoko and Mr. A. Abdullahi (both OEDAE) participated in key policy meetings. Ms. L. Agoumi and Mr. M. De Asis (both MCD) supported the preparation of this report. The mission met with the President of the Federal Republic of Somalia Mr. Hassan Sheikh Mohamud, former President of the Federal Republic of Somalia Mr. Mohamed Abdullahi Mohamed, Finance Minister Beileh, Central Bank Governor Abdullahi, and other senior officials. The mission also met with development partners, and representatives from private sector and civil society.

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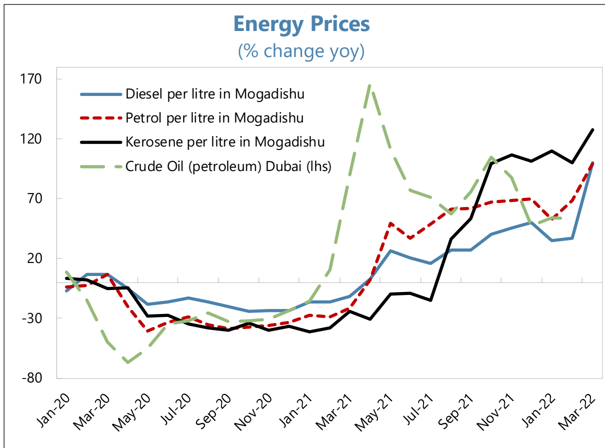
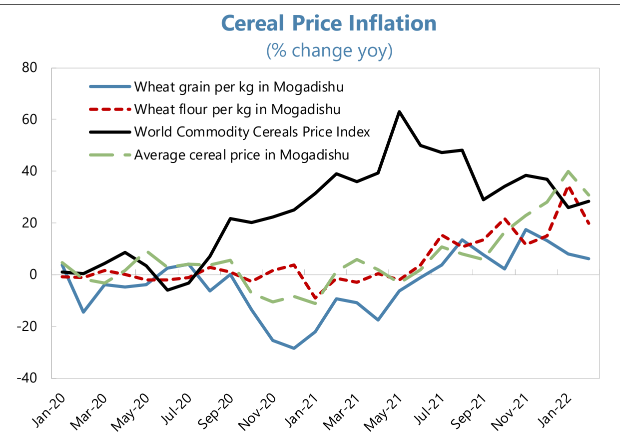
APPENDICES

BACKGROUND

1. Successful completion of elections paved the way for a smooth transition of power. Following election delays since early 2021, parliamentary elections were completed in May 2022. President Mohamud was elected and sworn in on May 15, 2022. The President is expected to appoint a new Prime Minister in June, who in turn will appoint a new Cabinet in July. Delays in the elections had caused a suspension of budget support by development partners, which also delayed the ECF-supported program review until political and financing assurances could be in place. Since taking office, President Mohamud has reaffirmed his administration's commitment to the objectives and key reforms under the ECF arrangement and the HIPC process, as expressed in his letter to the Managing Director.[1]

2. Notwithstanding important progress in rebuilding the economy since the devastating civil war, Somalia faces significant challenges. Close to 70 percent of the population lives on less than US$1.90 a day. Growth is currently insufficient to reduce poverty and address large social needs, and Somalia is highly vulnerable to climate shocks (Figure 3). Challenges have been recently exacerbated by a prolonged drought that intensified since 2021, affecting crops and livestock. Pressure on food prices has been compounded by the increase in global food and fuel prices due to the war in Ukraine. In March 2022, an estimated 4.8 million people (31 percent of the total population) were experiencing high levels of acute food insecurity (Box 1) The situation will worsen considerably if the April to June rains fail, food prices continue to rise, and humanitarian assistance is not scaled up. Somalia has suffered various COVID waves and only 8.9 percent of the population had been fully vaccinated as of May 27. In addition, the election delays affected the business climate and caused expenditure retrenchment given the suspension in budget support grants.





Source: IMF, Food Security and Nutrition Analysis Unit (FSNAU).

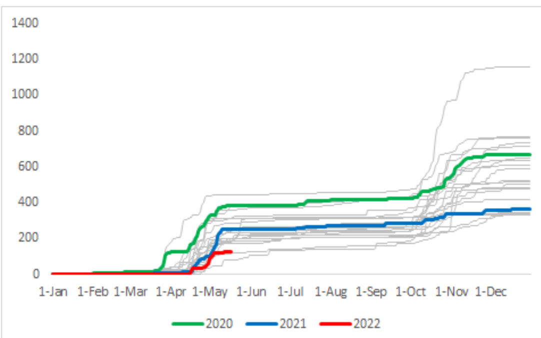
[1] During Mohamud's first presidential term (2012-2017), relations were restored with the IMF, initially with the provision of capacity development and in 2015 with the first Article IV in 25 years. In 2016, Somalia agreed to the first of four Staff Monitored Programs, which helped build the track record needed for the HIPC Decision Point.

Box 1. Somalia: Acute Food Insecurity

Somalia is in the throes of a severe food crisis stemming from a severe drought, compounded by global food supply disruptions. Drought conditions have intensified since late 2021 (Figure 1.1), with a sharp decline in farms with vegetation compared to 2020 (Figure 1.2). The pressures on food access have been compounded by the impact of the war in Ukraine on global food supply. As of March 2022, the IPC estimates that 4.8 million people (31 percent of the population) were experiencing high levels of acute food insecurity, which will climb to 6 million between April and June 2022 if the Gu season rains fail, food prices continue to rise sharply, and humanitarian assistance is not scaled up.

Figure 1.1 Cumulative Precipitation

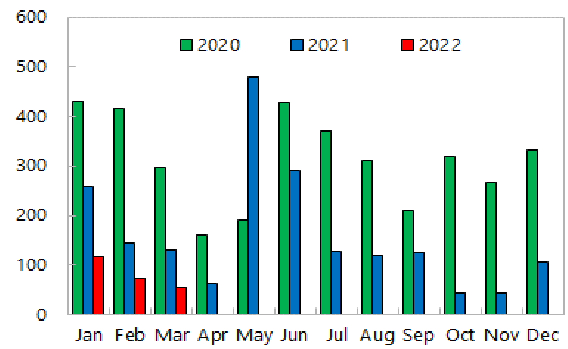
(mm, area average along Webi Shabele River)



Source: NASA, and IMF staff calculations

Figure 1.2 Area of Farms with Vegetation

(km^2, Beledweyne Region)



Source: Landsat imageries and IMF staff estimates.

The global and climatic shocks, coupled with security threats, are affecting lives and livelihoods. Urban households in Somalia already spend more than 75 percent of their budget on food and have few coping mechanisms, making them vulnerable to high food prices. Additionally, drought conditions have eroded livelihoods for pastoralists and farmers. Since October 2021, the drought has uprooted close to 650,000 people from rural areas to settlements for internally displaced people (IDP) and urban centers. There is a rising incidence of child morbidity from both dysentery infections (due to the declining water availability in rural areas and overcrowded IDP settlements) and measles, which has led to an uptick in the number of acutely malnourished children.

The impact of climate and food price shocks is being partly mitigated through the expansion of cash transfers and in-kind support, backed by the World Food Program (WFP), World Bank, and other partners. The WFP provides humanitarian relief using a combination of cash transfers and food rations, reaching about 2 million people. The Baxnaano social safety net program—a government program financed by the World Bank and implemented by the WFP—provides unconditional cash transfers to 200,000 poor and vulnerable households with children, reaching about 1.2 million people. The program primarily aims to support longer-term human capital accumulation but is also used to channel emergency cash transfers in response to various shocks.

Further humanitarian assistance and grant financing from international partners is urgent. On April 26, 2022, donors pledged close to US$1.4 billion for Horn of Africa drought response. However, timely delivery of pledges is critical. The WFP is working to scale up its emergency food and nutrition response to reach a total of 3.1 million people – but it faces a relief funding gap of US$192 million until September 2022, which leaves it with less than a third of what is needed.

3. Large, multi-year investments in human and physical capital are needed to improve resilience and lead to higher and more inclusive growth. Somalia's ECF-arrangement and HIPC process—and the related capacity development efforts—support reforms to rebuild key economic institutions and lay the foundations for macroeconomic stability and growth, in line with the national development plan. Reform priorities include strengthening domestic revenue mobilization, public financial management, central bank capacity, governance, business climate, and statistics.

RECENT ECONOMIC DEVELOPMENTS

4. Growth rebounded in 2021 despite multiple shocks.[2] Real GDP growth was estimated at 2 percent in 2021, after contracting by 0.3 percent in 2020, thanks to a recovery in household consumption and exports. Strong household consumption was supported by sustained remittances and higher credit growth. Livestock exports (about 80 percent of Somalia's exports), grew at 25 percent (y/y) in 2021, reflecting recovery from the pandemic contraction and expansion to non-traditional export markets. Nonetheless, COVID-19, drought, and government spending retrenchment tempered the rebound. Inflation remained at 4.6 percent, but food inflation accelerated in the latter half 2021 due to drought conditions and global food inflation.

5. A significant fall in revenue created intense fiscal pressure in 2021. Domestic revenue underperformed in 2021 because: (1) revenue from khat fell short by US$25 million due to lower imports (including because of the impact of COVID-19 social distancing measures on consumption and a large shift of sales to the informal market following the interruption of imports from Kenya), and a lower rate hike than planned at the first review (to US$3 per bundle instead of US$4 to prevent a further shift to informality); (2) introduction of turnover taxes was postponed because the in-person taxpayer registration efforts were interrupted by COVID-19 (budget estimate of US$2 million); and (3) spectrum fees were not implemented due to delays in the spectrum pricing process (budget estimate of US$10 million). Importantly, budget support grants in 2021 fell short by US$134 million because development partners put budget grants on hold from early 2021 until elections were finalized. Project grant disbursements also fell short due to slower implementation in the context of COVID-19.

6. Notwithstanding multiple shocks, the authorities took steps to preserve macroeconomic stability. In the face of significant revenue shortfalls—including from the drying up of budgetary grants—, the authorities intensified expenditure prioritization and minimized discretionary spending. However, additional resources were needed to cover wages and other essential spending. To address the fiscal gap, the authorities first exhausted cash balances built from past saving and later obtained temporary advances from the Central Bank of Somalia (CBS). Since September 2021, the Ministry of Finance (MOF) has been cautiously using resources under the 2021 General SDR Allocation to meet priority expenditure (including debt service and full repayment of CBS advances) and build a small cash

[2] In December 2021, IMF and World Bank staffs adopted the national accounts data (2012–2020) produced by the Somalia National Bureau of Statistics. The new GDP series represents a 25 percent upward shift in the level of nominal GDP in 2017 (base year) compared to the prior estimates used by the IMF.

buffer, preventing domestic arrears.[3] The overall fiscal deficit stood at 1.1 percent of GDP in 2021.

7. The current account deficit widened as imports rebounded strongly. Despite substantial increase in remittances, a strong increase in imports (primarily construction and medical equipment) and a decline in budget grants widened the current account deficit to 15 percent of GDP in 2021 (from 10.8 percent of GDP in 2020). The financial account increased reflecting the 2021 General SDR Allocation, with the portion distributed to the CBS accounting for the increase in international reserves.

8. The CBS is making progress on promoting financial development, though challenges remain. The banking sector is highly liquid and profitable as a whole. However, some smaller banks have faced losses in the past 2 years, partly due to the pandemic—although their leverage ratio appears adequate, supervisors need to monitor these banks closely. Overall, bank intermediation remains limited, partly due to the small pool of creditworthy borrowers. The fragile nature of correspondent banking relations also constrains banks' capacity to provide financial services.

Program Performance

9. Notwithstanding the multiple challenges, the authorities met most of the conditionality established at the first review (Table 12). They have also taken steps to preserve macroeconomic stability and continued to implement policies in line with the objectives of the program, in close collaboration with staff.

- The QPC and IT on net foreign assets (NFA) of the CBS were consistently met.
- The QPC and IT on Federal Government of Somalia (FGS) spending on compensation of employees, goods and services, and contingency were consistently met with a margin.
- The authorities did not incur any new debt and no new domestic arrears were accumulated.
- The QPC and IT on domestic revenue and IT on the fiscal balance were met in December 2020 and March 2021, but missed in June and September 2021 due to revenue underperformance. The authorities are requesting a waiver for the missed June 2021 QPC on domestic revenue based on the revenue measures included in the 2022 budget and new structural benchmarks.
- Three out of four structural benchmarks (SB) were met on time (see below). The Targeted Financial Sanctions Law (TFSL) was submitted to Parliament but did not move forward because Parliament was not in session during the elections period (missed SB #2).

[3] Somalia received SDR157 million from the 2021 General SDR Allocation. Following discussions with IMF staff, the authorities distributed SDR93 million to the MOF and 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 SDR allocation, contributing to the transparency and accountability on the use of SDRs.

POLICY DISCUSSIONS

Outlook and Risks

10. Growth is expected to pick up modestly in 2022, weighed down by more adverse climate conditions and a more challenging external environment. Growth of 2.7 percent would be driven by private consumption, supported by remittances. However prolonged drought conditions and higher international food and fuel costs owing to the war in Ukraine will dampen economic activity and will bring inflation to 8.5 percent in 2022. The current account deficit is expected to remain elevated at 14.5 percent of GDP in 2022, on account of the sharp increase in the commodity prices.

11. Over the medium-term, growth is expected to accelerate on the basis of the policies and reforms underpinning the ECF arrangement and HIPC process. Growth is expected to increase to 4.1 percent by 2027, supported by a gradual scaling up of public spending and greater private investment, as fiscal, financial, and structural reforms pay off. As commodity prices recede, inflation is expected to remain low at around 3½ percent, in the context of the de-facto dollarized economy. The sizeable trade deficit is expected to be largely offset by remittances and official grants. The current account deficit is expected to be financed by foreign direct investment, with a modest increase in concessional borrowing after the HIPC Completion Point opens access to international financing. The fiscal deficit is expected to remain at about 1.5 percent of GDP, with domestic revenues increasing gradually on the back of broad-based revenue-enhancing reforms, which will make room for greater investment and social spending.

12. Although the nature of risks to the outlook and the program remains as outlined in the ECF-request, near-term risks are tilted to the downside. Prolonged drought would hurt growth and increase food insecurity. Additional pressures on international food and energy prices, along with possible supply constraints, heighten food security risks and compound the economic hardship on the population. Other risks include the duration of the COVID-19 pandemic, resurgence of the desert locust infestation, and security risks. Shortfalls or delays in disbursement of budget support grants would also create risks for the budget and the program. A delay in reaching the HIPC Completion Point (targeted for 2023) would have detrimental consequences on growth and fiscal sustainability. If any of these adverse risks materialize, then economic growth and domestic revenue would be lower, increasing financing needs. While the sequestration rule and current grant commitments help mitigate some risks, the authorities would need additional support from the international community to address a significant adverse scenario.

Fiscal Policy

13. The authorities are committed to implementing a 2022 budget consistent with the objectives of the ECF-supported program. The 2022 budget, anchored by the medium-term fiscal

framework, was submitted to the new Parliament for approval.[4]

- **Domestic revenue collection will be supported by the implementation of 2022 budget measures.** Revenue collection in January and February 2022 was 25.3 percent higher than the corresponding period in 2021. However, the war in Ukraine is expected to impact the collection of taxes on international trade, as an estimated 17 percent of imports originate from Ukraine and Russia. Overall, revenues in the second half of the year will be supported by the implementation of the 2022 budget measures, including introduction of turnover taxes and improvements to the enforcement of sales taxes on telecom, electricity companies, and cable providers (Text Table 1).

Text Table 1. Somalia: Change in Domestic Revenue

	(US$ millions)	
	2022	2023
Projected increase in domestic revenue	**17.4**	**51.4**
New measures/better enforcement		
Introduction of turnover taxes	2.3	-
Increase in tax collection from telecom, large business	4.0	20.0
Spectrum fees	-	7.0
Ongoing measures		
Tax on international trade	2.3	16.9
Other tax revenue	2.4	3.7
Nontax revenue	6.5	3.8

Source: Somali authorities and Fund staff estimates

- **Grants remain crucial.** Budget support is expected to increase from 0.5 percent of GDP in 2021 to 1.4 percent of GDP in 2022, with donor disbursements resuming now that elections are completed (Text Table 2).

Text Table 2. Somalia: Draft Budget vs. Staff Projections for 2022

	(Millions of U.S. dollars)	
	Draft budget	Staff proj.
	2022	2022
Revenue and grants	11.4	6.7
Domestic revenue	3.0	3.0
Grants	8.4	3.6
Budget support	2.4	1.6
Project grants	5.9	2.0
Expenditure	11.2	7.0
Non-project	5.3	5.0
Project	5.9	2.0
Overall balance	0.1	-0.3

Source: Somali authorities and Fund staff estimates.
Note: Staff assumes a more conservative level of budget and project grants than the budget—and therefore lower overall spending—taking into account past disbursement rates and the completion of elections 5 months into the fiscal year. Higher grant disbursement than in the baseline would be associated with an equivalent increase in spending, and would therefore not affect the estimated budget deficit.

- **The overall spending envelope continues to be extremely tight, and the modest increase in spending to GDP is basically on higher social spending and transfers to Federal Member States (FMS)** (Text Table 3)**.** The budget includes a nominal wage freeze and limits the headcount increase to the already committed new recruits in the security sector. As a result, compensation of employees falls as a percent of GDP and contracts by 5 percent in real terms. The impact of climate and food price shocks is

[4] Between January 1 and March 31, 2022, spending was temporarily authorized up to one-twelfth per month of the 2021 budget, in accordance with the Public Finance Management Law. Spending for April 1 to June 30, 2022 also follows one-twelfth per month of the 2021 budget, as authorized under an emergency Presidential decree.

being partly mitigated through the expanded rollout of cash transfers (supported by the World Bank, the World Food Program, and other partners). Social spending is expected to increase by 0.5 percent of GDP (84 percent in real terms), including the expansion of the Baxnaano cash transfer program financed by the World Bank. A significant portion of budget support (an increase of 0.4 percentage points of GDP compared to 2021) is expected to be shared with FMS.

- **The overall deficit is expected to narrow** to 0.6 percent of GDP in 2022, compared to 1.1 percent of GDP in 2021. Below the line, the budget will accommodate debt service to the World Bank and a transfer to Somaliland (0.3 percent of GDP). The deficit is expected to be financed by the use of SDRs, at which point the SDRs distributed to the MOF would be depleted.

Text Table 3. Somalia: Federal Government Fiscal Operations

	(Percent of GDP)		
	2020	2021	2022
Total revenue and grant	7.1	5.1	6.7
Domestic revenue	3.0	3.1	3.0
Grant	4.1	2.0	3.6
Budget support	2.2	0.5	1.6
Project grants	1.9	1.5	2.0
Total expenditure	6.8	6.2	7.0
Compensation of employees	3.3	3.4	3.2
Use of goods and service	1.2	1.4	1.4
Transfers to FMS and Banadir Region	1.1	0.6	1.0
Social benefits	0.9	0.5	1.0
Other expenditure	0.3	0.3	0.4
Overall balance	0.4	-1.1	-0.3
Financing			
World Bank debt service	-0.2	-0.2	-0.2
Use of SDR	0.0	1.0	0.6
Net changes in cash balances	0.2	-0.3	0.1

Source: Somali authorities and Fund staff estimates

14. The authorities are taking steps to reduce liquidity risks. Even with strict expenditure prioritization, financing needs in 2022 are approximately US$10 million per month, which were covered with the MOF's SDRs between January and June. With elections finalized, budget support from development partners is expected to fully cover financing needs for the rest of the year. If budget support is not disbursed between July and September, some temporary advances from the CBS could be used as bridge financing.[5] However, if disbursements are not released until after September, revenue shortfalls would jeopardize essential spending. In any case, the authorities will continue to prioritize spending, accelerate the implementation of revenue measures, and actively engage with development partners to facilitate timely disbursement of budget support.

Fiscal structural reforms

15. Additional progress has been made on domestic revenue mobilization since the first review. Following the initial tax audits in 2020, the second round of tax audits was undertaken in 2021. Collection of sales taxes from hotels has improved through the roll-out of Point of Sales (POS) machines that transmit sales data to tax offices on a real-time basis. The new Customs Automated

[5] The CBS can lend the FGS up to 15 percent of the most recent audited domestic revenue for up to 3 months. The outturn for 2020, the latest audited revenues, suggests the CBS could provide advances of up to $31.7 million.

System (CAS) is being piloted in Mogadishu port and airport.

16. Domestic revenue mobilization remains a pillar of the program:

- **Customs modernization.** Further reforms are needed to adopt and apply a single import duty tariff schedule at all ports (HIPC Completion Point Trigger (CPT)). A shift from specific tariffs based on package size to ad-valorem tariffs will be key to increase customs duties collection over the medium-term. To create a legal basis for the introduction of ad-valorem tariffs, the authorities will issue the customs regulations on valuation and declarations and enact the law specifying the ad valorem tariff schedule by November 2022 (proposed SB #5, Table 13). In order to develop the infrastructure for ad valorem customs valuation, they will operationalize the CAS at the ports and airports of Mogadishu, Bosaso, and Garowe, and Kismayo by April 2023 (proposed SB#6).
- **Revenue mobilization from telecom sector.** Bringing effective tax rates on the telecom sector up to a level comparable to that of peer countries is essential to achieve the domestic revenue targets. By July 2022, the authorities will issue a spectrum fee schedule for telecom operators approved by the National Communication Authority's Board in agreement with the MoF (proposed SB#7). In order to improve enforcement of sales taxes, the authorities will operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors by end-March 2023 (proposed SB#8).
- **Income Tax Law.** The authorities will submit for Parliament approval the new Income Tax Law (ITL), which is currently at an advanced stage of preparation. 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 administration measures.** The authorities will issue the implementing regulations of the Revenue Management Law, which cover a range of enforcement issues and facilitate harmonization of revenue administration functions across the FGS and FMS. They will implement the Integrated Tax Administration System to enable the collection and use of third-party data, enhance tax audits, automate collection processes, and improve inland tax administration effectiveness.

17. Efforts continue to strengthen public financial management (PFM), including by enhancing the transparency and accountability of the aggregated FGS and FMS fiscal accounts (Table 12). The aggregated budget—which presents budgets of FGS, five FMSs, and Banadir region—was published as part of the 2021 Budget Policy Framework Paper (SB#3 Table 12, met). The authorities plan to publish the aggregated budget for 2022 once finalized. Since January 2021, the consolidated reports of fiscal outturns of FGS and five FMSs have been published in the MOF website on a monthly basis (SB#3, met). The Somalia Public Procurement portal, which provides a one-stop platform for publication of procurement information, was launched and is being operationalized.

18. Further reforms will be implemented to improve PFM, including payroll integration.

Around one-third of compensation of employees is currently processed outside the payroll process, which creates risks of arrears and irregular wage payments. To address non-payroll compensation and help contain wage bill pressures over the medium-term, by October 2022, the authorities will obtain the Cabinet approval of (i) a pay and grade policy and (ii) a roadmap to implement an integrated payroll that controls all compensation of employees of FGS, as part of the 2023 budget documents (proposed SB#9). To fill gaps in the existing wage policy, the pay and grade policy will set out salary scales for temporary workers and other employees, eligibilities for allowances included in non-payroll payments, and clarify the roles and responsibilities of the MoF and National Civil Service Commission in their controls and financial clearance. The authorities will extend coverage of payroll to 50 percent of non-payroll compensation of FGS employees by end-May 2023 (proposed SB#10). To lay the foundation for reforms, the authorities will speed up the issuance of regulations to the PFM Act (CPT). They will also develop the invoice tracking functionality in the Somalia Financial Management Information System that would allow for timely verification and recording of invoices, which is essential to ensure monitoring of arrears accumulation and prevent irregular spending.

19. Work is ongoing to harmonize the Extractive Industries Income Tax (EIIT) Bill and the Production Sharing Agreement (PSA), and refine the tender process. The Model Oil and Gas Production Sharing Agreement (PSA) was approved by the Inter-Ministerial Concessions Committee in November 2021. To promote competition in bidding rounds for petroleum exploration contracts, by August 2022, the authorities are to finalize the tender protocol in line with IMF recommendations to include objective and transparent bid evaluation criteria, clear prequalification procedures, and an adequate timeframe for the evaluation of bids and signature of contracts (proposed SB#11). Staff urged the authorities not to issue any oil exploration licenses until the Petroleum Act is operationalized, the EIIT is enacted (CPT), the model PSA is finalized, and the associated PFM regulations are issued. Staff also emphasized that any direct negotiations should be limited and informed by price discovery through previous licensing rounds.

Financial Structural Reforms

20. The CBS is strengthening its institutional capacity, including through implementation of IMF Safeguards recommendations. The new National Payment System enables a safer and more efficient payment infrastructure. The two largest mobile money operators were granted licenses in 2021. The guidance for financial reporting for Islamic banks was issued in December 2020 and the guidance for Shariah bank governance framework was issued in November 2020 (SB#1, met). Implementation of IMF Safeguards recommendations is progressing well and the CBS resolved the recurring audit qualification of the CBS financial statements and published the 2020 audited financial statements. Staff is following up closely with the CBS on the implementation of the remaining recommendations, which include strengtheing currency operations and accounting capacity and procedures.

21. The CBS will continue efforts to improve institutional capacity and support financial deepening. To enhance transparency and accountability, the audited CBS financial statements for

2021 will be published by end-August 2022 (proposed SB#12, Safeguards recommendation). Regulations on banking institutions' capital adequacy and liquidity risk management are being updated to comply with Basel committee recommendations. Staffing and capacity of the CBS Licensing and Supervision Department will continue to be strengthened to improve the quality of supervision. Draft bills for the National Payment System, revised Financial Institutions Law, and Insurance are expected to be submitted to Parliament in coming months.

22. Some important steps were taken on AML/CFT, but weaknesses remain. The National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee. The National ML/FT Risk Assessment was finalized in May 2022. However, the legal framework needs to be completed and criminal enforcement efforts do not appear to be commensurate with risks. The authorities will resubmit the TFSL to the new Parliament for enactment and issue related regulations (SB#13, reset delivery date to December 2022). The authorities need to develop and implement the National Strategic AML/CFT Action Plan in a prioritized manner in light of the MENA-FATF Mutual Evaluation Assessment in 2024.

Other Structural Reforms

23. The authorities have made some progress on improving governance and fighting corruption. Positive steps include accession to the UN Convention Against Corruption in August 2021 (CPT) and ratification of regional anti-corruption conventions. The authorities are reviewing existing laws to identify any gaps with the UN Convention and need for amendments. The Independent Anti-Corruption Commission was established in 2020 and is developing its capacity. To enhance the transparency in the regulatory process for key industries, the CBS and National Communication Authority published the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators (SB#4, met). Staff stressed the importance of developing an action plan to implement the National Anti-Corruption Strategy (NACS).

24. The government continues to make headway toward the HIPC Completion Point triggers, and the staffs of the IMF and IDA have not changed their assumption that achieving the Completion Point by 2023 appears feasible. Reforms are advancing on public financial management, domestic revenue mobilization, governance, social sectors, and statistics (Annex I). The new authorities' firm commitment to reform, Somalia's track-record of reform implementation since 2016, the backing of the HIPC process by regional leaders, and the continued support from development partners provide support to the timely achievement of the HIPC Completion Point. It remains critical, however, that development partners continue to provide the necessary budget support and project financing, as well as capacity building support.

25. Somalia will continue to need extensive capacity development support to meet the program's goals and to reach the HIPC Completion Point. IMF technical assistance (TA) is closely integrated with Somalia's ECF-supported program and complements the activities of Somalia's other TA providers. IMF TA is financed by the Somalia Country Fund (SCF). Fundraising for Phase II of the SCF, which will support TA delivery through FY2024, has been relatively slow, representing a risk to future IMF TA and the success of the ECF-supported program.

PROGRAM FINANCING AND PROGRAM MODALITIES

26. Staff supports the authorities' request for a waiver for the missed June 2021 QPC on revenue. Underperformance is partly explained by the COVID-19 impact (see paragraph 5) . Revenues are expected to recover with support of corrective revenue actions included in the 2022 budget and new structural benchmarks.

27. Understandings have been reached with the new authorities on newly proposed conditionality.

- **QPCs and ITs are set through June 2023** (Table 11). The proposed fiscal targets are consistent with the 2022 budget. Given uncertainty regarding the timing of disbursement of budget support grants, an adjustor is included on the fiscal balance floor in the event of delays or shortfalls in budget support grants as compared to the budget estimate. The definition of the domestic revenue floor will be modified to exclude the CBS distributable earnings.

- **Target on net international reserves (NIR).** A new floor on NIR is introduced. The NIR definition better accounts for foreign liabilities, and therefore replaces the floor on net foreign asset as the QPC for the program. In addition, adjustors are included on the NIR floor if: (i) the CBS transfers distributable earnings to the government as per the Central Bank of Somalia Act; and (ii) the CBS provides the MoF with temporary liquidity advances to finance delays or shortfalls in budget support grants relative to the budget estimate.

- **Proposed structural benchmarks (SBs)** (Table 13). SBs are tailored to country circumstances, and are key to unlock larger gains in Somalia's reform agenda. In view of Somalia's fragility and weak institutional capacity—especially in a post-elections context—the proposed SBs are parsimonious, carefully prioritized and sequenced, and anchored in capacity development support. The design of structural benchmarks complements other development partner programs and capacity development where possible.

28. The authorities are requesting the rephasing of access and an extension of the ECF arrangement to December 2023 to reach the program objectives. Following the delays in completion of the 2nd and 3rd reviews, the additional 9 months are needed to provide time for the incoming administration to design and implement reforms to reach all the program objectives. Availability dates for the 4th , 5th and 6th reviews would be shifted to October 15, 2022, April 15, 2023 and October 15, 2023 respectively, while keeping disbursement amounts at SDR 7 million each (Table 7).

29. The program is fully financed, with firm commitments through June 2023 and good prospects for the remainder of the program. The World Bank Group is preparing a series of two Development Policy Financing Operations (DPO) to support the government's economic reform program and the completion of several HIPC CP triggers. The first DPO operation is expected to be presented to the World Bank Board in July 2022. The second DPO is expected in 2023 if all

conditions are met. Budget support grants from the EU are also in the pipeline. Together, these provide firm financing assurances through June 2023. 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.

30. Debt remains in distress but is sustainable in a forward-looking sense. Somalia is in debt distress, both for external and overall public debt. Somalia is in arrears to external creditors, and debt restructuring negotiations are ongoing. Nevertheless, Somalia's debt is assessed as sustainable in a forward-looking sense, contingent on the full delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI), and beyond-HIPC assistance at the Completion Point. Full delivery of this debt relief would bring all debt burden indicators significantly below their respective thresholds, consistent with achieving a moderate risk rating at the Completion Point.

31. Negotiations with creditors on external public debt restructuring are advancing. The authorities have reached debt relief agreements with almost all Paris Club members and with the Kuwait Fund for Arab Economic Development, thereby covering the majority of Somalia's creditors. Staff confirmed that, as of May 2022, the authorities are actively engaged with several key non-Paris Club creditors on resolving arrears and restructuring their debt. Consequently, arrears to non-Paris Club creditors can be deemed away under the Fund's policy on Non-Toleration of Arrears to Official Creditors.

32. The authorities are requesting a third HIPC interim assistance. As of May 20, 2022, the IMF has received SDR 251.9 million of the estimated SDR 252.9 million total cost of the IMF's share in debt relief to Somalia. Total commitments by 121 members and the European Union amount to about SDR 286.6 million.[6] The Board approved two interim assistances of SDR1.111 million and SDR 0.68 million to cover the obligations due to the IMF during March 25, 2020 through March 24, 2021 and March 25, 2021 through March 24, 2022, respectively. The third interim HIPC assistance requested in the amount of SDR 680,000 will fully cover Somalia's eligible debt service payments to the Fund due during the June 17, 2022 to June 16, 2023. The additional assistance is below the annual limit of 20 percent of total assistance committed by the IMF established by the PRG-HIPC Trust Instrument and would bring the cumulative interim HIPC assistance provided so far to 1 percent of the IMF's total debt relief committed at the HIPC Decision Point.

33. Somalia's capacity to repay the Fund is adequate, albeit subject to higher-than-usual risks due to its fragility. Outstanding credit would reach 179 percent of quota in 2023 (equivalent to 4.7 percent of GDP and 261.6 percent of reserves) and total obligations to the Fund would peak at 52.3 percent of reserves in 2029 (Table 9). To mitigate debt servicing risks, fiscal policy needs to be anchored on ensuring debt sustainability and borrowing after HIPC Completion Point should rely on concessional sources.

[6] For the IMF, the MDRI Trust Fund is closed, but financing is being sought for beyond-HIPC relief.

STAFF APPRAISAL

34. **Notwithstanding multiple shocks, Somalia has preserved macroeconomic stability, thanks to the authorities' adept efforts and supported by the use of the 2021 General SDR Allocation.** Since the time of the first review, Somalia has had to navigate significant challenges related to COVID-19, severe drought conditions, surge in commodity prices, elections delays, and sharp revenue shortfalls. The authorities have managed to navigate these challenges skillfully, despite the severe fiscal constraints. In 2021 and early 2022 the economy gained momentum and inflation remained moderate. A small deficit in 2021 was financed with available cash balances and partial use of the SDR allocation.

35. **Despite the delays in completion of the reviews, the authorities met most of the conditionality established at the first review, and the reform momentum has been maintained, reflecting the authorities' strong commitment to the program.** All QPCs and all ITs from December 2020 to September 2021 were met except for the June and September 2021 targets on domestic revenue and the fiscal balance due to revenue underperformance linked to the impact of COVID-19 and pause in budget grants until elections were completed. The authorities are requesting a waiver for non-observance of the June 2021 QPC on domestic revenue on the basis of corrective actions included in the 2022 budget and new structural benchmarks that support domestic revenue collection. All structural benchmarks were met with the exception of enacting the Targeted Financial Sanctions Law, for which the authorities are requesting a new target date of December 2022 to allow sufficient time for consideration by the new Parliament.

36. **The 2022 budget is aligned with the ECF objectives and the medium-term fiscal framework.** Domestic revenue will be supported by the implementation of the 2022 budget measures. Expenditure will continue to be carefully prioritized, including a nominal wage freeze. The modest increase in spending to GDP is mainly on higher social spending—including greater cash transfers to help address climate and food price shocks—and transfers to FMS. External budget support remains crucial for the budget. Additional grants and broader humanitarian assistance are also needed to further mitigate food security risks.

37. **The ongoing reforms to strengthen domestic revenue mobilization are welcome.** The authorities should continue steady progress on customs modernization by creating the legal basis and developing the infrastructure for the introduction of ad-valorem tariffs. Achieving higher revenue targets will require raising the effective tax rates on the telecom sector up to a level comparable to that of peers, including through the implementation of spectrum fees and improved enforcement of sales taxes. Other important reforms include the revised Income Tax Law and revenue administration measures.

38. **Staff commends the efforts to strengthen public financial management, including greater transparency and accountability.** Improvements in reporting of aggregated FGS and FMS fiscal accounts are well noted. Payroll integration will contribute to greater expenditure control and fiscal transparency. Issuance of the PFM regulations should be expedited. The authorities need to

finalize the harmonization and implementation of the extractive industries legal framework, including refinements to the tender process to promote competition.

39. Staff is encouraged by the continued improvements in institutional capacity of the CBS. The launch of the National Payment System is a major achievement. The guidance for financial reporting for Islamic banks and the guidance for Shariah bank governance framework will strengthen the CBS's capacity to promote financial stability. Regular publication of the audited CBS financial statements is critical for transparency and accountability.

40. Some important steps have been taken on AML/CFT, but remaining weaknesses need to be addressed. The legal framework needs to be completed and enforcement efforts need to be increased. The authorities should act promptly to ensure the enactment of the Targeted Financial Sanctions Law. Other key actions include development of the National Strategic AML/CFT Action Plan, and its implementation in light of the MENA-FATF Mutual Evaluation Assessment in 2024.

41. The authorities have made some progress on improving governance and fighting corruption. Positive steps include accession to the UN Convention Against Corruption and publication of the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators. Staff stressed the importance of developing an action plan to implement the NACS.

42. The staffs of the IMF and IDA have not changed their assumption that achieving the HIPC CP by March 2023 appears feasible. Timely achievement of the HIPC completion point is supported by continued program ownership and strong track-record of reform implementation since 2016, the backing of the HIPC process by regional leaders, and the continued support from development partners. It remains critical, however, that development partners continue to provide the necessary budget support and project financing, as well as capacity building support.

43. The authorities have made progress in reaching debt relief agreements with creditors consistent with the HIPC framework. Sustained efforts, together with support from creditors, will be needed to fully secure the required level of debt relief and ensure Somalia's debt sustainability on reaching the HIPC Completion Point.

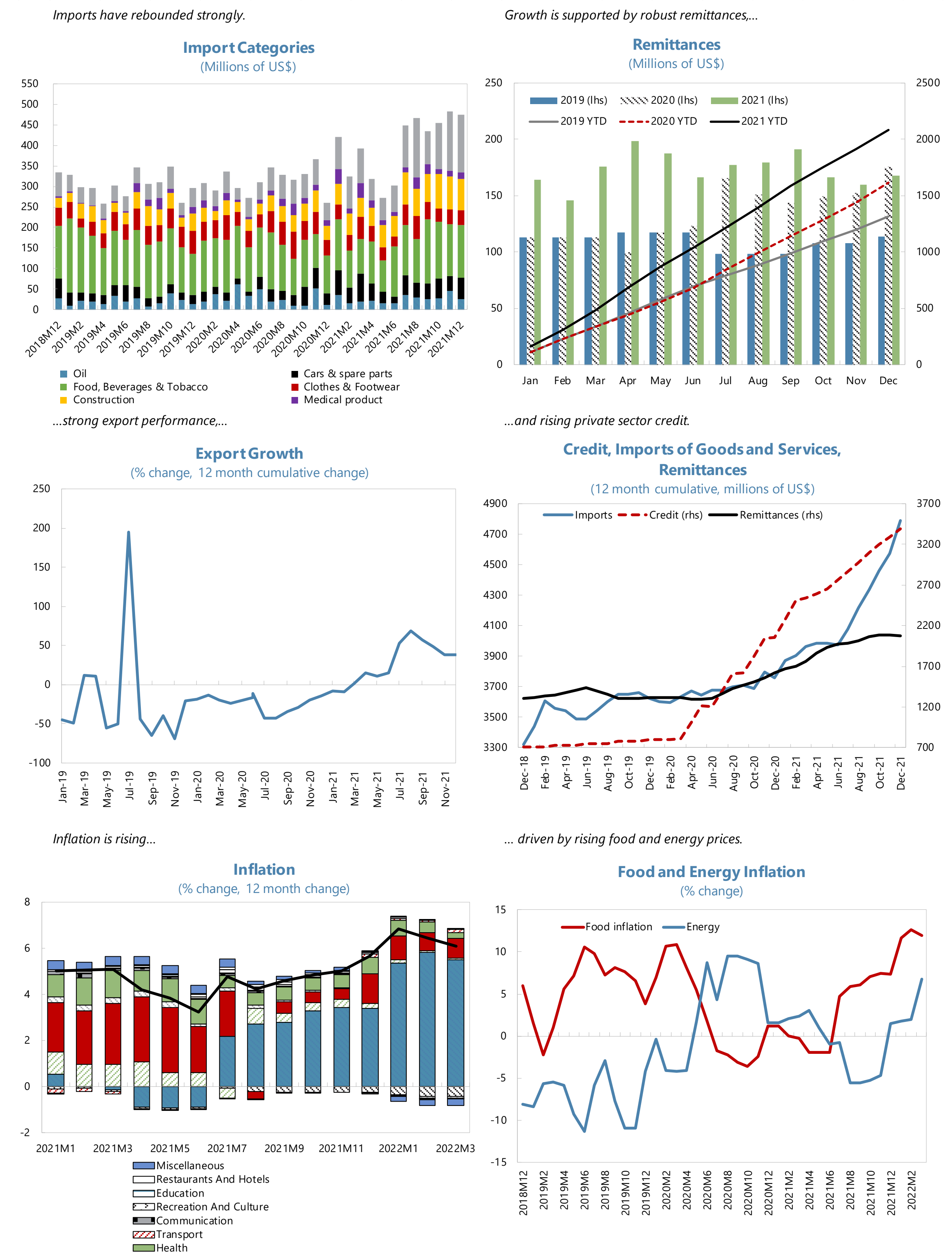
44. Staff supports the authorities' efforts to raise funds to support Phase II of the Somalia Country Fund (SCF) and the related capacity development program. Staff encourages Somalia's partners to accelerate their pledges to the SCF to ensure a continued smooth delivery of IMF TA to support the goals of the ECF and HIPC process.

45. Risks to the outlook and program are significant and reflect the drivers of Somalia's fragility. Near-term risks include the duration of the COVID-19 pandemic, prolonged drought conditions or new weather-related shocks, resurgence of the desert locust infestation, security risks, and further increases in the level and volatility of international food and energy prices. Shortfalls or delays in disbursement of budget support grants would also create risks for the budget and the program, which the authorities should prepare for. Risks to the program are mitigated by the new

authorities' firm commitment to reform, Somalia's long-standing track record of reform implementation, and continued support from development partners.

46. Staff supports the completion of the second and third reviews and disbursement of SDR 14 million under the ECF. Staff supports the request for a waiver, the new floor on NIR in place of NFA, the modification to the definition of the domestic revenue floor, and the inclusion of new adjustors. Staff also supports the rephasing and extension of the arrangement to allow enough time to meet program objectives. Staff supports the authorities' request for a third HIPC interim assistance in light of the policy performance under the program and continued policy commitment to reform. The attached Letter of Intent (LOI) and Memorandum of Economic and Financial Policies (MEFP) sets out the appropriate policies that meet the program objectives.

Figure 1. Somalia: High Frequency Indicators, 2019–21

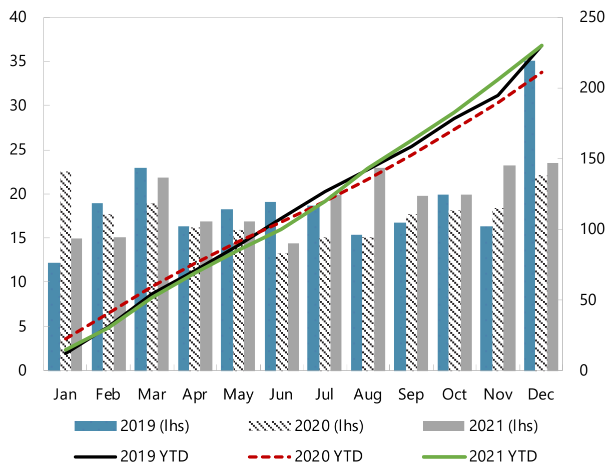


Source: Authorities' data, IMF staff calculations.

Figure 2. Somalia: Fiscal Indicators, 2018–2021

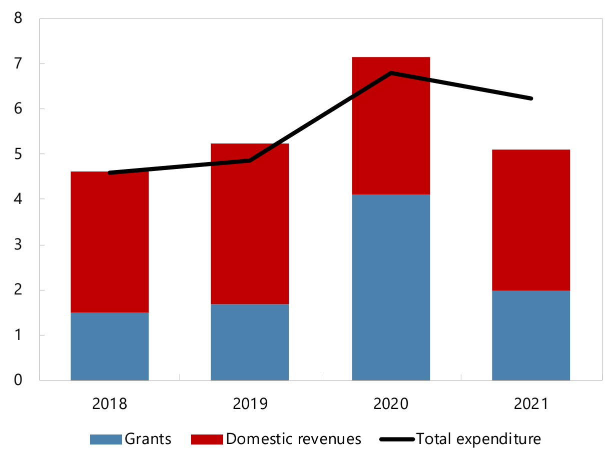
Domestic revenues in 2021 softened, affected by the pandemic.

Domestic Revenues
(Millions of US$)



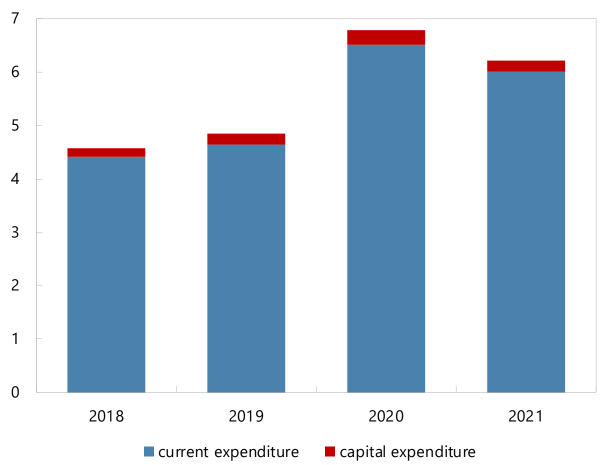
Grant financing fell, as budget support was put on hold until elections were completed.

Revenue and Expenditure
(Percent of GDP)



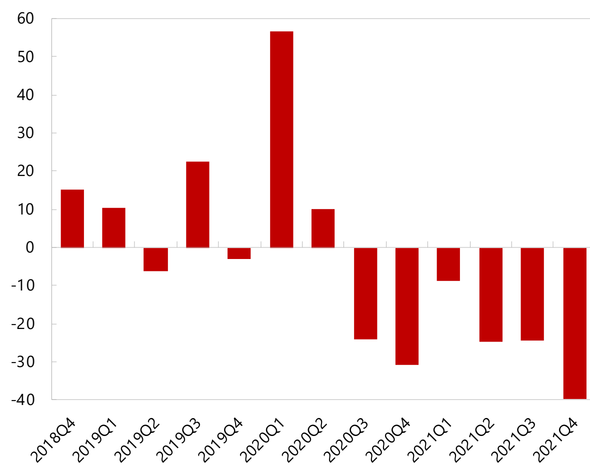
Amid compressed revenues, public expenditure contracted.

Expenditure
(% of GDP)



A small deficit in 2021 was financed with the fiscal buffer and SDRs.

Overall Balance
(Millions of US$)

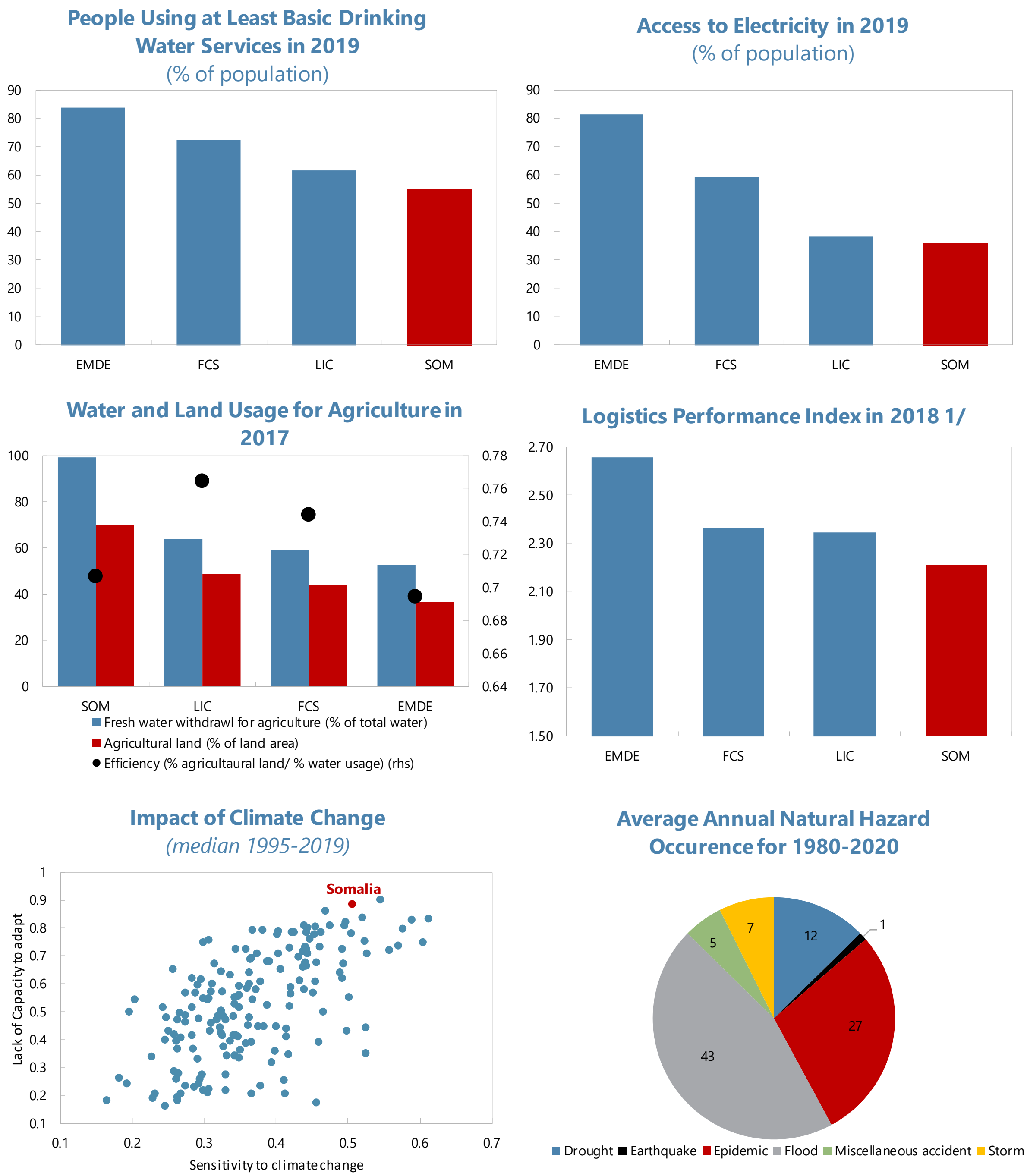


Source: Authorities' data, IMF staff calculations.

Figure 3a. Somalia: Social Indicators

Sources: WB, IMF staff calculations, Global hunger index, UNFPA (2016). Educational Characteristics of the Somali People.

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



Sources: WB, IMF staff calculations, Notre Dame Global Adaptation Initiative.
1/ The LPI measures the performance along the logistics supply chain within a country to gauge the logistics friendliness for these countries.

Table 1. Somalia: Selected Economic Indicators, 2019–2027

(Population, 15.2 million, 2021 estimate)

	Est.			Proj.					
	2019	2020	2021	2022	2023	2024	2025	2026	2027
National income and prices									
Nominal GDP in millions of U.S. dollars	6,477	6,965	7,373	8,202	8,839	9,621	10,498	11,461	12,485
Real GDP in millions of U.S. dollars	6,016	5,996	6,115	6,281	6,507	6,747	7,011	7,291	7,590
Real GDP, annual percentage change	3.3	-0.3	2.0	2.7	3.6	3.7	3.9	4.0	4.1
Real GDP per capita in U.S. dollars	419	406	403	402	405	409	413	418	425
CPI (period average, percent change)	4.5	4.3	4.6	8.5	3.6	3.8	3.7	3.5	3.3
CPI (e.o.p., percent change)	3.1	4.8	5.7	7.8	3.5	3.7	3.6	3.4	3.2
				(Percent of GDP)					
Central government finances 1/									
Revenue and grants	5.2	7.1	5.1	6.7	6.7	4.2	4.6	5.0	5.3
of which:									
Tax	2.4	2.0	2.2	2.1	2.4	2.7	3.1	3.4	3.7
Grants 2/	1.7	4.1	2.0	3.6	3.3	0.5	0.5	0.5	0.4
Expenditure (FGS)	4.9	6.8	6.2	7.0	6.8	6.1	6.4	6.7	6.8
Compensation of employees 3/	2.5	3.3	3.4	3.2	3.1	2.9	3.1	3.2	3.3
Purchase of non-financial assets	0.2	0.3	0.2	0.3	0.3	0.5	0.5	0.6	0.7
Overall balance	0.4	0.4	-1.1	-0.3	-0.1	-1.9	-1.8	-1.7	-1.5
Net change in the stock of cash	0.4	0.2	-0.3	0.1	-0.2	0.0	0.0	0.0	0.0
Stock of domestic arrears	1.0	1.0	0.9	0.8	0.8	0.7	0.6	0.5	0.4
Public debt 4/, 5/	83.0	57.1	47.5	43.8	7.3	9.7	10.6	11.3	11.8
				(Percent of GDP)					
Monetary Sector									
Net Foreign Assets	1.9	-2.7	-3.3	-4.3	-0.1	-0.3	-0.2	-0.1	-0.1
Central Bank claims on non-residents 6/	2.3	2.8	3.0	3.3	3.0	2.5	2.3	2.1	1.9
Net Dometic Assets	6.2	13.9	14.9	14.3	10.3	10.9	11.6	12.7	13.3
Credit to the private Sector	3.2	3.1	3.5	3.9	4.5	5.4	6.6	8.2	9.7
Broad Money 7/	8.1	11.1	11.6	10.0	10.2	10.6	11.4	12.6	13.3
Net Foreign Assets (Program Definition, in millions of U.S. dollars)	25	80	175	…	…	…	…	…	…
				(Percent of GDP)					
Balance of payments									
Current account balance	-10.4	-10.8	-15.0	-14.3	-12.4	-12.6	-13.6	-13.5	-13.5
Trade balance	-63.7	-63.4	-70.7	-71.0	-69.5	-68.0	-67.9	-67.8	-67.8
Exports of goods and services	17.3	13.9	17.4	16.9	16.9	17.2	17.2	17.2	17.2
Imports of goods and services	81.0	77.3	88.1	87.9	86.5	85.2	85.1	85.0	85.0
Remittances	24.4	23.2	28.2	29.1	28.9	28.9	28.4	28.4	28.4
Grants	29.4	29.9	28.0	28.2	28.7	26.9	26.3	26.3	26.3
Foreign Direct Investment	6.9	7.7	7.9	7.8	7.8	7.8	7.8	8.0	8.0
External debt 8/	82.0	56.5	46.8	42.3	6.5	9.1	10.1	10.8	11.4

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/ 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.
3/ The increase in compensation of employees in 2020 reflects a reallocation of allowances from G&S to compensation in the context of Somali National Army reform.
4/ Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and "beyond-HIPC" relief at Completion Point in 2023.
5/ 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.
6/ Includes FGS grants held abroad.
7/ Primarily desposits at commercial banks. Data before 2020 does not yet include balances held with MMOs.
8/ 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, 2019–2027 1/

(In millions of U.S. dollars)

	2019	2020	2021			2022	2023	2024	2025	2026	2027
	Est.	Latest est.	Budget	ECF Prog.	Prel.			Proj.			
Revenue and grants	338.3	496.9	680.5	595.3	376.5	546.3	594.0	404.5	488.0	575.7	667.2
Revenue	229.7	211.2	269.7	266.9	229.6	247.0	298.4	354.5	436.4	522.4	612.3
Tax revenue	154.8	139.5	182.9	177.0	162.8	173.7	214.3	257.8	324.9	393.6	463.3
Tax on income, profit, and capital gains	11.7	16.2	13.8	12.9	15.8	15.8	22.0	29.0	42.5	55.0	66.2
Taxes on goods and services	25.0	21.3	30.0	30.8	23.4	30.8	45.8	60.3	88.2	114.1	137.5
Taxes on international trade and transactions	107.0	91.1	128.0	120.7	109.0	111.3	128.2	147.4	169.9	196.4	227.1
Other taxes	11.1	11.0	11.0	12.6	14.6	15.9	18.3	21.1	24.3	28.1	32.4
Non-tax revenue	74.9	71.7	86.8	89.9	66.8	73.3	84.1	96.7	111.5	128.9	149.0
Grants 2/	108.6	285.7	410.8	328.4	147.0	299.3	295.5	50.0	51.6	53.2	54.9
Bilateral	36.4	15.0	30.0	31.0	2.5	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	72.2	270.7	380.8	297.4	144.5	299.3	295.5	50.0	51.6	53.2	54.9
of which projects	*18.0*	*132.3*			*108.6*	*164.6*	*164.6*				
Total expenditure 3/	314.5	472.2	666.5	520.6	460.2	572.3	599.1	590.0	676.1	764.9	852.2
Current	300.3	453.6	583.5	469.5	444.1	548.6	575.5	540.0	621.2	692.4	768.4
Compensation of employees 4/	162.3	227.0	252.7	238.3	250.1	260.8	274.9	276.9	320.8	362.7	407.4
Use of goods and services	92.7	80.3	183.2	143.0	106.1	118.0	127.1	128.0	148.3	167.7	188.4
Interest and other charges	0.0	1.8	2.5	1.2	0.9	0.9	10.0	16.8	21.1	25.6	30.0
Subsidies	0.0	2.2	11.9	10.9	1.3	3.1	3.1	3.1	3.6	4.0	4.5
Transfers to sub-national governments & Banadir Regior	43.5	78.9	70.5	46.3	43.6	81.5	75.5	23.6	27.2	31.4	36.3
Social benefits	0.0	62.1	60.2	27.0	39.9	80.3	80.3	87.0	95.0	95.0	95.0
Other expenses 5/	0.7	1.4	2.5	0.0	2.3	1.6	2.0	2.0	2.3	2.6	3.0
Contingency	0.4	0.0	0.0	2.7	0.0	2.5	2.5	2.5	2.9	3.3	3.7
Purchase of non-financial assets	14.1	18.6	83.0	51.1	16.1	23.6	23.6	50.0	54.9	72.5	83.9
Overall fiscal balance	23.9	24.7	14.0	74.7	-83.7	-26.0	-5.2	-185.5	-188.1	-189.2	-185.0
Net cash inflow from financing activities	-0.5	-12.7	-14.0	-17.4	60.7	38.0	-11.7	182.8	188.1	189.2	185.0
Net accumulation of domestic debt	-0.5	0.0	0.0	-1.8	0.0	0.0	-3.0	-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
Repayment of arrears and advances (-)	-0.5	0.0	0.0	-1.8	0.0	0.0	-3.0	-3.0	-3.0	-3.0	-3.0
Net accumulation of external debt	0.0	-12.7	-14.0	-15.6	60.7	38.0	-8.7	185.8	191.1	192.2	188.0
New external borrowing (+)	0.0	0.0	0.0	0.0	74.4	50.6	0.0	196.5	204.0	208.5	206.4
Amortization of external debt (-)	0.0	-12.7	-14.0	-15.6	-13.7	-12.7	-6.8	-8.0	-9.6	-12.9	-14.9
Reconstitution of SDR (-)	0.0	0.0			0.0	0.0	-1.9	-2.7	-3.3	-3.4	-3.4
Net change in the stock of cash	23.3	12.0	0.0	57.3	-22.9	12.0	-16.9	-2.7	0.0	0.0	0.0
Memorandum items											
Public debt 5/	5,379	3,980	…	3,925	3,499	3,596	641	934	1,117	1,297	1,471
of which external public debt 6/	5,311	3,912	…	3,860	3,431	3,468	575	871	1,058	1,241	1,419
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	…	65.0	67.8	67.8	67.8	64.8	61.8	58.8	55.8
Stock of SDR allocations 8/	0.0	0.0	…	0.0	130.0	130.0	130.0	130.0	130.0	130.0	130.0
Stock of SDR holdings 8/	0.0	0.0	…	0.0	55.6	5.0	5.0	5.0	5.0	5.0	5.0
Stock of cash and other balances 9/	48.8	66.7	…	48.8	43.2	55.2	38.3	35.6	35.6	35.6	35.6
Budget grants	90.6	153.4	…	…	38.4	134.7	130.9	…	…	…	…
Project grants	18.0	132.3	…	…	108.6	164.6	164.6	…	…	…	…

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

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

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

4/The increase in 2020 reflects a reallocation of allowances from goods and services to compensation of employees in the context of Somlia National Army reform.

5/ Debt stock reported herein assumes debt relief through the HIPC Initiative, MDRI, and beyond HIPC at Completion Point, which is assumed for 2023 (consistent with DSA's altenative

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$133 million).

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

Table 2b. Somalia: Federal Government Operations, 2019–2027 1/

(In percent of GDP)

	2019	2020		2021			2022	2023	2024	2025	2026	2027
	Est.	ECF Prog.	Est.	Budget	ECF Prog.	Prel.	Proj.					
Revenue and grants	5.2	9.5	7.1	12.7	10.8	5.1	6.7	6.7	4.2	4.6	5.0	5.3
Revenue	3.5	4.5	3.0	5.0	4.8	3.1	3.0	3.4	3.7	4.2	4.6	4.9
Tax revenue	2.4	3.0	2.0	3.4	3.2	2.2	2.1	2.4	2.7	3.1	3.4	3.7
Tax on income, profit, and capital gains	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.3	0.4	0.5	0.5
Taxes on goods and services	0.4	0.5	0.3	0.6	0.6	0.3	0.4	0.5	0.6	0.8	1.0	1.1
Taxes on international trade and transactions	1.7	2.0	1.3	2.4	2.2	1.5	1.4	1.5	1.5	1.6	1.7	1.8
Other taxes	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3
Non-tax revenue	1.2	1.5	1.0	1.6	1.6	0.9	0.9	1.0	1.0	1.1	1.1	1.2
Grants 2/	1.7	5.0	4.1	7.7	6.0	2.0	3.6	3.3	0.5	0.5	0.5	0.4
Bilateral	0.6	0.6	0.2	0.6	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multilateral	1.1	4.4	3.9	7.1	5.4	2.0	3.6	3.3	0.5	0.5	0.5	0.4
Total expenditure 3/	4.9	9.1	6.8	12.4	9.5	6.2	7.0	6.8	6.1	6.4	6.7	6.8
Current	4.6	8.3	6.5	10.9	8.5	6.0	6.7	6.5	5.6	5.9	6.0	6.2
Compensation of employees 4/	2.5	4.2	3.3	4.7	4.3	3.4	3.2	3.1	2.9	3.1	3.2	3.3
Use of goods and services	1.4	2.5	1.2	3.4	2.6	1.4	1.4	1.4	1.3	1.4	1.5	1.5
Interest and other charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Subsidies	0.0	0.2	0.0	0.2	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.7	0.8	1.1	1.3	0.8	0.6	1.0	0.9	0.2	0.3	0.3	0.3
Social benefits	0.0	0.5	0.9	1.1	0.6	0.5	1.0	0.9	0.9	0.9	0.8	0.8
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	0.0	0.0	0.0	0.0	0.0
Purchase of non-financial assets	0.2	0.8	0.3	1.5	0.9	0.2	0.3	0.3	0.5	0.5	0.6	0.7
Overall fiscal balance	0.4	0.4	0.4	0.3	1.4	-1.1	-0.3	-0.1	-1.9	-1.8	-1.7	-1.5
Net cash inflow from financing activities	0.0	-0.3	-0.2	-0.3	-0.3	0.8	0.5	-0.1	1.9	1.8	1.7	1.5
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	0.0	-0.3	-0.2	-0.3	-0.3	0.8	0.5	-0.1	1.9	1.8	1.7	1.5
New external borrowing (+)	0.0	0.0	0.0	0.0	0.0	1.0	0.6	0.0	2.0	1.9	1.8	1.7
Amortization of external debt (-)	0.0	-0.3	-0.2	-0.3	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Reconstitution of SDR (-)	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	0.4	0.0	0.2	0.0	1.0	-0.3	0.1	-0.2	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 5/	83.0	74.6	57.1	…	71.3	47.5	43.8	7.3	9.7	10.6	11.3	11.8
of which external public debt 6/	82.0	73.3	56.2	…	70.1	46.5	42.3	6.5	9.1	10.1	10.8	11.4
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	0.0
Stock of domestic arrears 7/	1.0	1.3	1.0	…	1.2	0.9	0.8	0.8	0.7	0.6	0.5	0.4
Stock of SDR allocations 8/	0.0	0.0	0.0	…	0.0	1.8	1.6	1.5	1.4	1.2	1.1	1.0
Stock of SDR holdings 8/	0.0	0.0	0.0	…	0.0	0.8	0.1	0.1	0.1	0.0	0.0	0.0
Stock of cash and other balances 9/	0.8	0.9	1.0	…	0.9	0.6	0.7	0.4	0.4	0.3	0.3	0.3
Budget grants	1.4	…	2.2	…	…	0.5	1.6	1.5	…	…	…	…
Project grants	0.3	…	1.9	…	…	1.5	2.0	1.9	…	…	…	…

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

1/ Fiscal operations are recorded on a cash basis. Positions shown are cumulative year to date. For 2020 and 2021, "ECF Prog." and "Budget" are based on GDP before rebasing.

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

4/The increase in 2020 reflects a reallocation of allowances from goods and services to compensation of employees in the context of Somlia National Army reform.

5/ Public debt stock reported herein assumes debt relief through the HIPC Initiative, MDRI, and beyond HIPC at Completion Point, which is assumed for 2023 (consistent with DSA's altenative scenario).

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$ 133 million).

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

Table 2c. Somalia: General Government Operations, 2019-2021 1/

(In millions of U.S. dollars)

	2019	2020					2021				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenue and grants	508.2	153.0	176.1	110.6	205.3	645.0	108.3	138.3	124.0	146.5	517.1
Revenue	323.7	80.2	64.4	73.0	84.2	301.9	77.6	75.3	89.2	96.3	338.4
Tax revenue	250.9	53.6	47.2	55.2	60.8	216.8	59.0	54.0	66.7	68.1	247.8
Tax on income, profit, and capital gains	12.3	2.3	3.2	3.1	4.2	12.7	2.9	3.4	3.8	4.8	14.9
Taxes on payroll and workforce 2/	0.0	1.5	2.6	1.5	4.0	9.7	1.7	2.1	2.5	2.3	8.7
Taxes on property 2/	0.0	0.2	0.2	0.2	0.2	0.7	0.2	0.1	0.1	0.2	0.6
Taxes on goods and services	69.1	12.4	11.2	14.4	15.7	53.7	13.7	12.9	17.1	17.1	60.8
Taxes on international trade and transactions	156.4	37.3	30.1	35.9	36.7	139.9	39.8	34.7	42.6	42.9	160.1
Other taxes	6.1	0.0	0.0	0.0	0.0	0.0	0.7	0.7	0.4	0.7	2.6
Non-tax revenue	128.9	26.6	17.2	17.8	23.5	85.1	18.6	21.3	22.5	28.2	90.6
Grants	184.5	72.8	111.7	37.6	121.1	343.1	30.7	63.0	34.8	50.2	178.7
Transfer from FGS 3/	11.8	6.9	9.5	7.4	25.2	48.9	4.6	3.3	6.7	10.9	25.6
Bilateral	37.4	0.0	7.5	0.0	7.8	15.3	0.0	0.0	0.0	2.7	2.7
Multilateral	135.3	65.9	94.7	30.2	88.1	278.9	26.2	59.6	28.1	36.6	150.5
Total expenditure	458.1	95.2	164.3	130.0	229.2	618.7	120.2	164.9	149.7	189.4	624.3
Current	434.4	93.1	158.1	125.4	220.3	597.0	115.9	157.6	142.2	179.5	595.1
Compensation of employees	251.1	57.8	78.7	69.5	97.1	303.0	74.9	80.3	87.6	90.5	333.3
Use of goods and services	125.8	17.8	29.1	30.2	41.4	118.5	25.2	33.3	33.6	61.2	153.2
Interest and other charges	0.0	1.5	5.6	1.9	5.5	14.4	4.2	2.7	2.3	5.4	14.6
Subsidies	0.0	0.0	0.2	1.3	0.7	2.2	0.1	0.9	0.2	0.0	1.3
Transfers to sub-national governments & Banadir Region	55.5	13.4	22.1	12.6	36.4	84.5	9.4	7.4	14.0	13.3	44.1
Social benefits	1.0	0.4	20.7	7.9	34.7	63.7	0.4	31.7	2.8	6.6	41.5
Other expenses	0.0	2.3	1.8	2.0	4.6	10.7	1.6	1.3	1.7	2.4	7.0
Contingency	1.0	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	2.1	6.2	4.6	8.9	21.7	4.4	7.3	7.5	9.9	29.2
Overall fiscal balance	50.1	57.8	11.8	-19.5	-23.9	26.2	-11.9	-26.7	-25.7	-42.8	-107.2

Sources: Somali authorities; and Fund staff estimates.
1/ Unconsolidated basis. 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.

Table 2d. Somalia: General Government Operations, 2019-2021 1/

(In percent of GDP)

	2019	2020					2021				
	Total	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenue and grants	7.8	2.2	2.5	1.6	2.9	9.3	1.5	1.9	1.7	2.0	7.0
Revenue	5.0	1.2	0.9	1.0	1.2	4.3	1.1	1.0	1.2	1.3	4.6
Tax revenue	3.9	0.8	0.7	0.8	0.9	3.1	0.8	0.7	0.9	0.9	3.4
Tax on income, profit, and capital gains	0.2	0.0	0.0	0.0	0.1	0.2	0.0	0.0	0.1	0.1	0.2
Taxes on payroll and workforce 2/	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.1
Taxes on property 2/	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	1.1	0.2	0.2	0.2	0.2	0.8	0.2	0.2	0.2	0.2	0.8
Taxes on international trade and transactions	2.4	0.5	0.4	0.5	0.5	2.0	0.5	0.5	0.6	0.6	2.2
Other taxes	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-tax revenue	2.0	0.4	0.2	0.3	0.3	1.2	0.3	0.3	0.3	0.4	1.2
Grants 3/	2.8	1.0	1.6	0.5	1.7	4.9	0.4	0.9	0.5	0.7	2.4
Transfer from FGS	0.2	0.1	0.1	0.1	0.4	0.7	0.1	0.0	0.1	0.1	0.3
Bilateral	0.6	0.0	0.1	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.0
Multilateral	2.1	0.9	1.4	0.4	1.3	4.0	0.4	0.8	0.4	0.5	2.0
Total expenditure	7.1	1.4	2.4	1.9	3.3	8.9	1.6	2.2	2.0	2.6	8.5
Current	6.7	1.3	2.3	1.8	3.2	8.6	1.6	2.1	1.9	2.4	8.1
Compensation of employees	3.9	0.8	1.1	1.0	1.4	4.4	1.0	1.1	1.2	1.2	4.5
Use of goods and services	1.9	0.3	0.4	0.4	0.6	1.7	0.3	0.5	0.5	0.8	2.1
Interest and other charges	0.0	0.0	0.1	0.0	0.1	0.2	0.1	0.0	0.0	0.1	0.2
Subsidies	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 Regi	0.9	0.2	0.3	0.2	0.5	1.2	0.1	0.1	0.2	0.2	0.6
Social benefits	0.0	0.0	0.3	0.1	0.5	0.9	0.0	0.4	0.0	0.1	0.6
Other expenses	0.0	0.0	0.0	0.0	0.1	0.2	0.0	0.0	0.0	0.0	0.1
Contingency	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	0.1	0.1
Purchase of non-financial assets	0.4	0.0	0.1	0.1	0.1	0.3	0.1	0.1	0.1	0.1	0.4
Transfer to government deposits held abroad	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall fiscal balance	0.8	0.8	0.2	-0.3	-0.3	0.4	-0.2	-0.4	-0.3	-0.6	-1.5

Sources: Somali authorities; and Fund staff estimates.
1/ Unconsolidated basis. The numbers are based on preliminary reports from FMS and are subject to revision. The fiscal operations are recorded on a
2/ Reporting on these categories commenced in 2020 reporting.
3/ Transfer from FGS to Banadir region is not included.

Table 3. Somalia: Summary Accounts of the Central Bank, 2019–2021

(In millions of U.S. dollars)

	2019				2020				2021			
	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Dec.
						Est.						
Net Foreign Assets	61	51	76	82	(204)	(183)	(220)	(250)	(251)	(285)	(183)	(183)
Foreign assets	125	116	140	146	207	231	204	193	186	154	388	381
SDR holdings 1/	25	25	24	24	39	39	40	51	51	40	201	200
Gold 2/	21	21	21	21	25	25	25	25	31	31	31	31
Foreign exchange	37	34	60	69	101	110	86	77	88	67	110	110
of which:												
Grants	32	29	55	64	95	103	79	52	64	42	103	103
Other foreign assets	2	2	2	2	2	2	2	-	-	-	-	8
Cash (US$) held locally	43	37	34	32	42	57	53	40	16	17	46	40
Foreign liabilities	65	65	63	64	411	414	424	444	437	439	655	650
IMF obligations	-	-	-	-	342	345	352	371	365	367	363	360
SDR allocations	65	65	63	64	69	70	71	73	72	72	292	290
Net Domestic Assets	14	(0)	(5)	(10)	282	260	298	409	417	450	413	409
Domestic assets	84	85	85	85	417	422	431	525	519	533	501	498
of which:												
Claims on government 3/	40	40	39	40	372	375	383	392	386	400	454	451
Domestic liabilities	70	86	90	95	135	161	133	116	102	82	88	89
Government	46	63	66	68	114	125	101	73	72	49	45	54
of which:												
Grants	32	29	55	64	95	103	79	52	64	42	103	103
Other domestic liabilities	24	22	24	26	20	36	32	42	30	33	43	34
Commercial bank reserves 4/	14	14	14	14	17	17	18	20	20	20	20	20
Other commerical bank deposits	8	7	8	11	3	17	11	18	8	10	21	12
Other demand deposits at the CBS	1	0	1	0	0	1	1	1	1	0	0	0
Microfinance grant	-	-	-	-	-	1	1	3	2	2	1	1
MTB deposits	1	1	1	1	1	1	1	1	1	1	1	1
Other demand deposits												
Equity and reserves	75	51	71	72	78	77	78	159	166	165	230	226
of which:												
Property and equipment 5/	44	45	45	45	45	45	46	129	130	130	45	45
Memorandum items:												
NFA (program definition) 6/	25	25	25	25	71	71	71	80	86	76	175	175

Sources: Central Bank of Somalia (CBS); and Fund 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.

6/ Program definition per TMU.

Table 4. Somalia: Consolidated Commercial Banks Balance Sheet, 2019–2021

(In millions of U.S. dollars)

	2019	2020				2021		
	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Dec.
	Est.	Est.	Est.	Est.	Est.	Est.	Est.	Est.
Total assets	556	563	573	604	821	841	956	1,262
Cash on Hand	117	132	121	150	285	311	329	553
Balances with Central Bank	18	15	30	22	29	23	26	28
Deposits with other banks 1/	79	53	53	73	104	99	124	122
Credit to private sector	206	215	193	202	219	246	304	319
Investment 2/	60	60	58	51	61	60	62	86
Other Assets 3/	77	88	118	105	123	102	112	155
Total liabilities	459	455	463	482	704	707	767	975
Customer Deposits 4/	430	413	425	440	659	657	715	900
Financing Liabilities	2	2	3	3	3	3	3	3
Other Liabilities	27	34	21	29	32	36	40	57
Equity	97	108	110	122	117	134	189	288
Memorandum items:								
Credit to private sector								
share of total assets (percent)	37	38	34	33	27	29	32	25
share of GDP (percent)	4	4	3	3	4	4	5	5
y-o-y changes (percent)	12	9	-3	4	7	14	57	46
Total capital to assets (percent)	16	18	18	15	12	10	9	14
Loan to deposits (percent)	48	52	45	46	33	37	43	35
Liquid assets to total assets (percent)	32	30	30	35	45	46	46	54

Sources: Central Bank of Somalia; and Fund 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 2019–2027
(In millions of U.S. dollars)

	2019	2020		2021		2022	2023	2024	2025	2026	2027
	Est.	ECF Prog.	Est.	ECF Prog.	Latest est.			Proj.			
Net foreign assets 1/	124	-183	-190	-174	-246	-349	-9	-27	-20	-9	-7
Claims on nonresidents	188	235	237	264	417	334	339	321	328	336	331
Central Bank 2/	148	193	179	219	357	267	266	242	242	242	237
of which gross reserves of the CBS	51	70	70	88	248	158	157	157	157	157	157
Other Depository Corporations	40	42	57	45	61	67	73	79	86	94	94
Liabilities to Nonresidents 3/	64	418	427	438	663	683	348	348	348	345	338
Net Domestic Claims	399	758	966	806	1100	1172	914	1052	1215	1451	1663
Net Claims on Central Government	-29	299	316	312	415	407	72	96	95	91	89
of which CBS claim on government 1/	40	458	467	478	703	723	388	388	388	385	378
Claims on private sector	206	232	219	269	255	321	401	519	691	943	1207
Other net claims not included in broad money	222	227	432	225	430	444	441	437	429	417	367
Capital and Reserves	115	121	123	127	131	145	156	170	186	203	203
Other items, net	0	7	-7	7	9	10	10	11	12	14	15
Broad Money 4/	523	575	776	632	853	824	905	1025	1195	1442	1656
Memorandum items											
Credit to the private sector (percent of GDP)	3.2	4.4	3.1	4.9	3.5	3.9	4.5	5.4	6.6	8.2	9.7

Sources: Somali authorities, 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/ Includes Federal Governmnet of Somalia (FGS) grants held abroad.
3/ Assuming reaching HIPC Completion Point in 2023.
4/ Primarilly desposits at commercial banks. Data does not yet include balances held with Mobile Network Operators.

Table 6a. Somalia: Balance of Payments, 2019–2027

(In millions of U.S. dollars)

	2019	2020		2021		2022	2023	2024	2025	2026	2027
	Est.	ECF Prog.	Est.	ECF Prog.	Latest est.	Proj.					
Current account balance	-676	-641	-752	-686	-1,109	-1,170	-1,096	-1,210	-1,427	-1,547	-1,684
Overall trade balance	-4,124	-4,639	-4,416	-4,918	-5,210	-5,825	-6,146	-6,540	-7,131	-7,774	-8,467
Goods balance	-3,068	-3,468	-3,304	-3,657	-3,917	-4,397	-4,638	-4,926	-5,366	-5,857	-6,379
Exports of goods, f.o.b.	554	595	545	629	693	756	814	912	995	1,086	1,183
Imports of goods, f.o.b.	-3,622	-4,064	-3,849	-4,287	-4,610	-5,153	-5,452	-5,838	-6,361	-6,943	-7,562
Services, net	-1,056	-1,171	-1,112	-1,261	-1,292	-1,428	-1,508	-1,613	-1,765	-1,917	-2,088
Service credits	566	583	425	601	593	632	681	741	809	883	962
Service debit	-1,623	-1,754	-1,537	-1,862	-1,886	-2,060	-2,189	-2,355	-2,574	-2,800	-3,050
Income (net)	-36	-38	-38	-40	-40	-45	-40	-39	-42	-46	-50
Receipts	46	49	49	51	52	58	63	68	74	81	88
Payments	-81	-86	-88	-91	-93	-103	-103	-107	-117	-127	-139
of which:											
Interest payments, public debt	-4	-1	-2	-1	-2	-2	-10	-15	-15	-15	-14
Multilateral, official		-1	-2	-1	-2	-2	-8	-7	-7	-7	-7
Bilateral, official		0	0	0	0	0	-2	-8	-8	-8	-8
Current transfers (net)	3,483	4,035	3,702	4,272	4,141	4,700	5,090	5,368	5,746	6,273	6,833
Private (net), including remittances	1,579	1,690	1,617	1,801	2,080	2,386	2,554	2,781	2,982	3,255	3,546
Official	1,904	2,345	2,084	2,471	2,061	2,314	2,536	2,588	2,765	3,018	3,288
On budget aid 1/	87	207	229	263	118	239	236	40	44	48	52
Off-budget aid	1,817	2,138	1,856	2,208	1,943	2,075	2,299	2,548	2,721	2,971	3,236
Capital account and financial account	672	659	784	704	1,284	1,079	1,096	1,210	1,427	1,547	1,684
of which:											
Foreign direct investment	447	464	534	495	580	636	685	750	819	917	999
Other Investment	0	0	0	0	222	0	0	196	204	209	206
of which:											
Long-term debt liabilities 2/	0	0	0	0	222	0	0	0	0	0	0
Official concessional borrowing	0	0	0	0	0	0	0	196	204	209	206
Amortization, public debt 3/	0	-16	-13	-16	-16	-15	-7	-8.0	-9.6	-12.9	-14.9
Multilateral, official		-16	-13	-16	-16	-15	-3	-0.5	-0.5	-0.5	-0.5
Bilateral, official		0	0	0	0	0	-3	-7.5	-9.2	-10.3	-10.3
Errors and omissions	0	0	0	0	0	0	0	0	0	0	1
Overall balance and error and omissions	-5	18	32	18	175	-91	0	0	0	0	0
Financing	5	-18	-32	-18	-175	91	0	0	0	0	0
Change in central bank reserves (- = increase)	0	-19	-32	-177	-177	90	0	0	0	0	0
of which : Use of Fund resources (net)	0	19	9	18	70	91	-351	0	0	0	0
Purchases and loans	0	353	370	18	70	91	20	0	0	0	0
Repayments	0	-335	-361	0	-1	-1	-371	0	0	0	0
Arrears, net change (+ = accumulation)	5	-1,801	-4,265	0	-16	-18	-1,226	-8	0	0	0
Prospective debt relief and rescheduling 4/	0	1,802	4,265	1	19	20	1,226	8	0	0	0
Memorandum items:											
Nominal GDP	6,477	5,218	6,965	5,507	7,373	8,202	8,839	9,621	10,498	11,461	12,485
Exports of goods and services	1,120	1,178	970	1,230	1,286	1,388	1,495	1,653	1,804	1,969	2,145
Exports of goods and services (percent change)	0	5	-13	27	33	8	8	11	9	9	9
Exports of goods (percent change)	-3	7	-2	16	27	9	8	12	9	9	9
Imports of goods and services	-5,244	-5,817	-5,386	-6,148	-6,496	-7,213	-7,641	-8,193	-8,935	-9,743	-10,612
Imports of goods and services (percent change)	2	11	3	14	21	11	6	7	9	9	9
Imports of goods (percent change)	1	12	6	11	20	12	6	7	9	9	9
Remittances (percent change)	1	…	23	7	29	15	7	9	7	9	9
Current transfers, official (percent change)	-13	23	9	19	-1	12	10	2	7	9	9
External debt 5/	5,311	…	3,934	…	3,452	3,468	575	871	1,058	1,241	1,419
Net Foreign Assets (Program Definition)	25	79	80	…	175	…	…	…	…	…	…

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

1/ 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.

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

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

4/ Assumes full delivery of HIPC, MDRI, and beyond-HIPC assistance.

5/ 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, 2019–2027

(Percent of GDP, unless otherwise indicated)

	2019	2020		2021		2022	2023	2024	2025	2026	2027
	Est.	ECF Prog.	Est.	ECF Prog.	Latest est.	Proj.					
Current account balance	-10.4	-12.3	-10.8	-12.5	-15.0	-14.3	-12.4	-12.6	-13.6	-13.5	-13.5
Overall trade balance	-63.7	-88.9	-63.4	-89.3	-70.7	-71.0	-69.5	-68.0	-67.9	-67.8	-67.8
Goods balance	-47.4	-66.5	-47.4	-66.4	-53.1	-53.6	-52.5	-51.2	-51.1	-51.1	-51.1
Exports of goods, f.o.b.	8.6	11.4	7.8	11.4	9.4	9.2	9.2	9.5	9.5	9.5	9.5
Imports of goods, f.o.b.	-55.9	-77.9	-55.3	-77.8	-62.5	-62.8	-61.7	-60.7	-60.6	-60.6	-60.6
Services, net	-16.3	-22.4	-16.0	-22.9	-17.5	-17.4	-17.1	-16.8	-16.8	-16.7	-16.7
Service credits	8.7	11.2	6.1	10.9	8.0	7.7	7.7	7.7	7.7	7.7	7.7
Service debit	-25.1	-33.6	-22.1	-33.8	-25.6	-25.1	-24.8	-24.5	-24.5	-24.4	-24.4
Income (net)	-0.5	-0.7	-0.5	-0.7	-0.5	-0.5	-0.5	-0.4	-0.4	-0.4	-0.4
Receipts	0.7	0.9	0.7	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Payments	-1.3	-1.7	-1.3	-1.7	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1	-1.1
Current transfers (net)	53.8	77.3	53.1	77.6	56.2	57.3	57.6	55.8	54.7	54.7	54.7
Private (net), including remittances	24.4	32.4	23.2	32.7	28.2	29.1	28.9	28.9	28.4	28.4	28.4
Official	29.4	44.9	29.9	44.9	28.0	28.2	28.7	26.9	26.3	26.3	26.3
On budget aid 1/		4.0	3.3	4.8	1.6	2.9	2.7	0.4	0.4	0.4	0.4
Off-budget aid		41.0	26.6	40.1	26.4	25.3	26.0	26.5	25.9	25.9	25.9
Capital account and financial account	10.4	12.3	10.8	12.5	15.0	14.3	12.4	12.6	13.6	13.5	13.5
of which:											
Foreign direct investment	6.9	8.9	7.7	9.0	7.9	7.8	7.8	7.8	7.8	8.0	8.0
Other Investment	0.0	0.0	0.0	0.0	3.0	0.0	0.0	2.0	1.9	1.8	1.7
of which:											
Long-term debt liabilities 2/	0.0	0.0	0.0	0.0	3.0	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	0.0	0.0	2.0	1.9	1.8	1.7
Amortization 3/	0.0	-0.3	-0.2	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
Overall balance and error and omissions	-0.1	0.3	0.5	0.3	2.4	-1.1	0.0	0.0	0.0	0.0	0.0
Change in central bank reserves (- = increase)	0.0	-0.4	-0.5	-3.2	-2.4	1.1	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Nominal GDP (Million of U.S. dollars)	6,477	5,218	6,965	5,507	7,373	8,202	8,839	9,621	10,498	11,461	12,485
External debt 4/	82.0	73.3	56.5	70.1	46.8	42.3	6.5	9.1	10.1	10.8	11.4
Exports of goods and services	17.3	22.6	13.9	22.3	17.4	16.9	16.9	17.2	17.2	17.2	17.2
Imports of goods and services	81.0	111.5	77.3	111.6	88.1	87.9	86.5	85.2	85.1	85.0	85.0

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

1/ 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.

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

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

4/ 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: Proposed Revised Schedule of Reviews and Disbursements

Availability date	Amount of Disbursements				Conditions
	Millions of SDRs			Percent of quota 1/	
	PRGT (ECF)	GRA (EFF)	Total		
March 25, 2020	210.86	39.57	250.43	153.26	Approval of arrangement
November 18, 2020	7.00	0.00	7.00	4.28	First review and end-June 2020 performance criteria
April 15, 2021	7.00	0.00	7.00	4.28	Second review, and end-December 2020 performance criteria
October 15, 2021	7.00	0.00	7.00	4.28	Third review and end-June, 2021 performance criteria
October 15, 2022	7.00	0.00	7.00	4.28	Fourth review and end-June 2022 performance criteria
April 15, 2023	7.00	0.00	7.00	4.28	Fifth review and end-December 2022 performance criteria
October 15, 2023	7.00	0.00	7.00	4.28	Sixth review and end-June 2023 performance criteria
Total	252.86	39.57	292.43	178.97	

Source: International Monetary Fund.

1/ New quota of SDR 163.4 million

Table 8. Somalia: External Financing Needs and Sources, 2020–2023

(In millions of U.S. dollars)

	2020	2021	2022	2023	2024	2025	2026
Gross financing requirement	*8,714.3*	*5,404.4*	*5,752.1*	*7,388.3*	*6,570.5*	*7,155.8*	*7,801.6*
Trade deficit	4,416.0	5,209.6	5,825.0	6,146.0	6,539.5	7,131.2	7,774.1
Amortization	11.8	15.8	15.3	6.8	8.0	9.6	12.9
Interest on external obligations	2.1	1.7	1.8	10.1	15.1	14.8	14.6
Official arrears/repayments	4,265.2	0.0	0.0	1,225.8	8.0	0.0	0.0
Of which : IMF	361.3	0.0	0.0	370.9	0.2	0.1	0.1
Change in reserves (increase = +)	19.2	177.3	-89.9	-0.4	0.0	0.2	0.0
Available financing	*3,849.6*	*5,045.7*	*5,463.1*	*5,905.9*	*6,326.1*	*6,908.1*	*7,545.4*
Current transfers (net) 1/	3,473.4	4,023.3	4,460.4	4,853.6	5,328.4	5,702.6	6,225.5
Of Which : Remittances	1,617.5	2,080.0	2,385.7	2,554.4	2,780.5	2,981.6	3,255.0
Foreign Direct Investment	533.9	579.9	635.6	685.0	750.5	818.9	916.9
Other flows 2/	-157.7	442.5	367.1	367.3	247.3	386.6	402.9
Financing gap	*4,864.7*	*358.7*	*289.0*	*1,482.4*	*244.4*	*247.7*	*256.2*
Exceptional Financing	4,265.2	19.0	19.5	1,225.8	8.0	0.0	0.0
HIPC interim assistance (Excl. IMF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief	4,265.2	19.0	19.5	1,225.8	8.0	0.0	0.0
Of which : IMF 3/	0.8	0.5	0.6	371.6	0.9	0.3	0.2
Remaining gap	*599.5*	*339.7*	*269.5*	*256.6*	*236.5*	*247.7*	*256.2*
Identified financing	599.5	339.7	269.5	256.6	236.5	247.7	256.2
Official Grants	228.5	117.6	239.5	236.4	40.0	43.6	47.6
IMF 4/	371.0	222.1	30.0	20.2	0.0	0.0	0.0
ECF	313.3	0.0	30.0	20.2	0.0	0.0	0.0
EFF	56.9	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
Official loans (net) 5/	0.0	0.0	0.0	0.0	196.5	204.0	208.5

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

1/ Official grants, including budget support, and private remittances.

2/ Includes other financial account flows.

3/ Includes HIPC interim assistance on IMF-related operations prior to HIPC Completion Point, and HIPC Relief in 2023.

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

5/ Includes WB loan financing only from 2024 onwards.

Table 9. Somalia: Indicators of Fund Credit and Capacity to Repay, 2020–2036

(In millions of SDR, unless otherwise noted)

	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	Total
Obligations from prospective drawings 1/																
1. Principal																
Repurchases	0.0	0.0	3.3	27.7	50.2	51.6	55.1	57.2	32.8	7.0	5.6	2.1	0.0	0.0	0.0	292.4
2. Charges and interest 2/																
Charges	0.3	0.6	0.6	0.5	0.4	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	3.2
SDR related charges	0.3	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	7.4
Total obligations	0.6	1.1	4.4	28.7	51.1	52.4	55.8	57.8	33.3	7.5	6.1	2.6	0.5	0.5	0.5	303.0
Outstanding Fund credit, end of period	278.4	292.4	289.1	261.5	211.3	159.7	104.7	47.5	14.7	7.7	2.1	0.0	0.0	0.0	0.0	
Memorandum items:																
Outstanding Fund credit, in percent of																
Exports of goods and services	28.0	27.4	24.7	20.6	15.3	10.6	6.5	2.7	0.8	0.4	0.1	0.0	0.0	0.0	0.0	...
External public debt	11.2	71.6	47.1	35.3	24.3	16.1	9.2	3.8	1.1	0.5	0.1	0.0	0.0	0.0	0.0	...
Gross official reserves	246.9	261.6	260.7	237.3	191.8	145.0	95.0	43.1	13.3	7.0	1.9	0.0	0.0	0.0	0.0	...
GDP	4.7	4.7	4.3	3.6	2.6	1.8	1.1	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.0	...
Quota	170.4	179.0	176.9	160.0	129.3	97.7	64.0	29.1	9.0	4.7	1.3	0.0	0.0	0.0	0.0	...
Total Obligations, in percent of																
Exports of goods and services	0.1	0.1	0.4	2.3	3.7	3.5	3.4	3.3	1.8	0.0	0.0	0.0	0.0	0.0	0.0	...
External public debt	0.0	0.3	0.7	3.9	5.9	5.3	4.9	4.6	2.4	0.0	0.0	0.0	0.0	0.0	0.0	...
Gross official reserves	0.5	1.0	4.0	26.0	46.3	47.4	50.5	52.3	30.2	0.0	0.0	0.0	0.0	0.0	0.0	...
GDP	0.0	0.0	0.1	0.4	0.6	0.6	0.6	0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	...
Quota	0.3	0.7	2.7	17.6	31.3	32.1	34.1	35.4	20.4	4.6	3.7	1.6	0.3	0.3	0.3	...
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	...

Source: Fund staff estimates and projections.

1/ Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board. Projections do not include the requested disbursement of interim HIPC assistance. Projections do not incorporate debt relief expected at the HIPC Completion Poin.

2/ Projections are based on current IMF charges.

Table 10. Somalia: Public Debt Holder Profile, 2018–21
(In millions of U.S. dollars, unless otherwise indicated)

	Debt Stock (Millions of U.S. Dollars)				in % of Total Debt	in % of GDP	Debt Service (Millions of U.S. Dollars)		
				Prel.					
	2018 1/	2019	2020	2021	2021		2020	2021	2022
Total Public Debt Outstanding	5,324.1	5,378.7	3,980.1	3,499.3	100.0	47.5	0.0	0.0	0.0
Total stock Public External Debt Outstanding	5,255.4	5,310.8	3,912.2	3,431.5	98.1	46.5	1.9	3.0	3.0
of which: in arrears 2/	5,042.0	5,114.0	1,222.0	1,221.5	34.9	16.6	0.0	0.0	0.0
Multilateral creditors	1,520.3	1,529.6	1,113.6	1,154.7	33.0	15.7	1.9	3.0	3.0
World Bank 3/	501.0	500.0	138.3	121.8	3.5	1.7	13.1	14.1	13.4
International Monetary Fund 4/	335.1	336.1	370.2	433.3	12.4	5.9	0.0	0.0	0.0
AfDB Group	137.2	139.1	26.3	23.8	0.7	0.3	1.4	2.6	2.5
Arab Monetary Fund	285.7	290.6	309.5	304.6	8.7	4.1	0.0	0.0	0.0
Arab Fund for Economic and Social Development	181.9	184.3	187.0	189.8	5.4	2.6	0.0	0.0	0.0
International Fund for Agricultural Development	30.9	31.4	33.1	32.3	0.9	0.4	0.5	0.5	0.5
Islamic Development Bank	13.1	13.0	13.5	13.1	0.4	0.2	0.0	0.0	0.0
OPEC Fund for International Development	35.5	35.7	35.8	35.9	1.0	0.5	0.0	0.0	0.0
Bilateral creditors	3,735.0	3,778.9	2,796.2	2,274.3	65.0	30.8	0.0	0.0	0.0
Paris Club creditors 5/	3,037.6	3,072.2	2,224.5	1,695.5	48.5	23.0	0.0	0.0	0.0
Denmark	8.5	8.5	3.1	3.0	0.1	0.0	0.0	0.0	0.0
France	417.8	433.4	166.4	154.2	4.4	2.1	0.0	0.0	0.0
Italy 6/	615.2	625.6	624.1	112.6	3.2	1.5	0.0	0.0	0.0
Japan 7/	118.6	125.6	135.7	121.8	3.5	1.7	0.0	0.0	0.0
Netherlands	6.6	6.7	2.4	2.2	0.1	0.0	0.0	0.0	0.0
Norway	1.9	1.9	0.6	0.7	0.0	0.0	0.0	0.0	0.0
Russia 8/	678.6	694.5	228.8	237.6	6.8	3.2	0.0	0.0	0.0
Spain	39.5	40.5	40.9	40.9	1.2	0.6	0.0	0.0	0.0
United Kingdom	83.9	85.2	30.4	30.4	0.9	0.4	0.0	0.0	0.0
United States	1,065.4	1,048.8	991.8	991.8	28.3	13.5	0.0	0.0	0.0
EEC IDA Administered Loans	1.6	1.6	0.4	0.4	0.0	0.0	0.0	0.0	0.0
Non-Paris Club creditors 9/	697.4	706.7	571.7	578.8	16.5	7.9	0.0	0.0	0.0
Algeria	1.6	1.6	0.5	0.5	0.0	0.0	0.0	0.0	0.0
Bulgaria	10.5	10.6	3.5	3.7	0.1	0.0	0.0	0.0	0.0
Iraq	181.4	186.8	61.0	63.3	1.8	0.9	0.0	0.0	0.0
Kuwait Fund and Central Bank	118.9	119.7	120.7	121.9	3.5	1.7	0.0	0.0	0.0
Libya	30.4	32.2	26.6	27.6	0.8	0.4	0.0	0.0	0.0
Romania	2.5	2.5	0.9	0.9	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	109.6	111.1	112.5	113.3	3.2	1.5	0.0	0.0	0.0
United Arab Emirates	240.3	242.2	246.0	247.6	7.1	3.4	0.0	0.0	0.0
Commercial Creditors									
Serbia	2.3	2.3	2.4	2.4	0.1	0.0	0.0	0.0	0.0
Total Domestic Debt Outstanding	68.8	67.8	67.8	67.8	1.9	0.9	0.0	0.0	0.0
Of which : in arrears	68.8	67.8	67.8	67.8	1.9	0.9	0.0	0.0	0.0

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/ The reduction of debt stock in arrears in 2020 reflects provision of HIPC interim debt relief.

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

4/ IMF debt stock reported in 2021 includes net SDR position of government (used for budget support)

5/ Consistent with HIPC Debt Reconciliation Exercise in 2018. Updated 2019-2021 debt stocks as reported by Somalian Debt Management Unit (DMU), reflecting interim debt relief terms under agreements signed for all PC creditors, except Russia.

6/ Debt cancellation of 100 percent of ODA debt became efective on March 2021. The remaining amount reported represents non-ODA debt under Cologne terms assumptions of interim debt relief.

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

8/ As of time of preparation of this report, Russia has not signed a debt relief agreement with Somalia. The amount reported reflects estimates of interim debt relief under Cologne Terms computed as part of the HIPC DRA.

9/ The amount reported for non-PC creditors 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.

Table 11. Somalia: Quantitative Performance Indicators and Indicative Targets Under the ECF (December 2020–June 2023) 1/

(In millions of U.S. dollars)

	Dec. 2020 7/			Mar. 2021			Jun. 2021 4/			Sept. 2021			Jun. 2022 5/	Sept. 2022	Dec. 2022 5/	Mar. 2023	Jun. 2023 5/
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.	Prog.	Prog.
Quantitative Performance Criteria																	
1 FGS domestic revenue, floor 2/							115.0	100.2	Not met				95.0		247.0		115.0
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	308.0	307.3	Met				170.4	152.7	Met				200.0		342.0		220.0
3 Net foreign assets of the CBS, floor 10/	78.7	80.4	Met				79.1 adjusted to 72.1 8/	75.7	Met								
4 Net international reserves, floor													-346.0		-346.0		-346.0
5 Contracting of new domestic debt, ceiling 3/	0.0	0.0	Met				0.0	0.0	Met				0.0		0.0		0.0
6 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0.0	0.0	Met				0.0	0.0	Met				0.0		0.0		0.0
7 Accumulation of new external arrears, ceiling 3/	0.0	0.0	Met				0.0	0.0	Met				0.0		0.0		0.0
Indicative Targets																	
1 FGS domestic revenue, floor 2/	195.0	211.2	Met	50.0	52.0	Met				177.0	162.8	Not met		150.0		55.0	
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				77.0	69.8	Met				255.6	242.7	Met		300.0		110.0	
3 Net foreign assets of the CBS, floor 10/				78.7	86.4	Met				88.1 adjusted to 73.9 8/	177.6	Met					
4 Net international reserves, floor														-346.0		-346.0	
5 Contracting of new domestic debt, ceiling 3/				0.0	0.0	Met				0.0	0.0	Met		0.0		0.0	
6 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0.0	0.0	Met				0.0	0.0	Met		0.0		0.0	
7 Accumulation of new external arrears, ceiling 3/				0.0	0.0	Met				0.0	0.0	Met		0.0		0.0	
8 Fiscal balance, floor (cash basis) 2/	-10.0	24.7	Met	0.0 adjusted to -13.5 9/	-8.7	Met	0.0 adjusted to -13.5 9/	-33.2	Not met	0.0 adjusted to -13.5 9/	-57.7	Not met	0.0	0.0	0.0	0.0	0.0
9 Accumulation of new domestic expenditure arrears, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
10 Contracting or guaranteeing any new external, concessional debt, ceiling 3/ 6/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Memorandum item:																	
Gross international reserves 11/													187.0	187.0	196.7	196.7	206.5

Sources: Somali authorities; and Fund 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 second and third reviews.

5/ Test date for the fourth, fifth, and sixth reviews, respectively.

6/ Excluding any disbursements under Fund arrangement.

7/ At the request of the authorities and approved by the Board, December-2020 PC on FGS domestic revenues was converted from a QPC to an IT to reflect the COVID 19 crisis impact.

8/ The program floor on net foreign assets of the CBS at end-June 2021 is adjusted down to reflect exceptional financing needed because of a shortfall in revenues relative to the program baseline due to a longer-than-anticipated impact of the global COVID-19 pandemic. The adjustment is based on an adjustor included in the context of the first review, which is limited to 1/12 of the annual FGS revenue, as per the November 2020 TMU.

9/ The program floor on the fiscal balance is adjusted down by the amount drawn from the fiscal buffer to cover priority spending, as per the November 2020 TMU.

10/ Net foreign assets as defined in the TMU in IMF Country Report No. 20/310.

11/ Gross international reserves are defined as the sum of (i) gold; (ii) foreign currency held abroad; and (iii) SDR holdings in the IMF SDR department, net of (i) unused portion of the government's share of the 2021 IMF General SDR allocation, (ii) government deposits in foreign currency held abroad; and (iii) other foreign currency deposits by residents of Somalia held abroad.

Table 12. Somalia: Structural Benchmarks Under the ECF (June 2020–September 2021)

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1	Issue guidance for (1) financial reporting and accounting standards and (2) Shariah governance framework for Somali banks.	End-December 2020	Financial stability / CBS	Support financial stability. To clarify the nature of Shariah-compliant assets and liabilities on Somali banks' balance sheets and banks' related governance frameworks, to support better risk assessment.	Submit issued CBS-Board approved guidelines to the IMF.	Met
2	Enact the Targeted Financial Sanctions Law and issue related regulations. 1/	End-June 2021	Governance / MOF	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.	Not met 2/
3	Enhance the clarity and accountablity of the aggregated FGS and FMS fiscal status.	End-June 2021	Fiscal transparency / MOF	Enhance the quality of general government reporting and improve intergovernmental fiscal transparency and accountability.	Publish the aggregated 2021 FGS and FMS budget in the 2021 FGS Budget Strategy paper; publish on the internet the aggregated FGS and FMS fiscal outturns (revenue and expenditures) on a monthly basis using the 6 digit classification codes (with a 2 month lag, following first test date)	Met
4	Enhance transparency in the regulatory process of the Telecommunications and Mobile Money Sectors.	End-March 2021	Governance / NCA and CBS	Improve transparency and accountability in the regulatory process for important industries. This applied to telecommunications and mobile money, but has implications for other important industries in the future.	Publish on the NCA and CBS websites, respectively the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators, i.e. which firms were given licenses, the terms of the licenses (including standard licensing fees), and the criteria for issuing the licenses	Met

1/ Reset SBs left over from SPMIV for end-May 2020.
2/ During the elections, Parliament was not in session to discuss any new legislation.

Table 13. Somalia: Proposed Structural Benchmarks Under the ECF (June 2022–June 2023)

	Benchmarks	Target dates	Sector/FGS Agen	Rationale	Monitoring
5	Issue the customs regulations on valuation and declarations and enact the law specifying the ad valorem tariff schedule	End-November 2022	Domestic revenue / MOF	Support domestic revenue generation and custom modernization	Publish the issued regulations and enacted law on the website of the FGS MOF.
6	Operationalize the Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo	End-April 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.
7	Issue a spectrum fee schedule for telecom operators approved by the NCA Board in agreement with the MoF	End-July 2022	Domestic revenue/ NCA MOF MOCT	Support domestic revenue generation and telecommunication regulations	Publish the NCA-Board approved spectrum fee schedule on the website of the NCA
8	Operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors	End-March 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.
9	Cabinet approval of (i) a pay and grade policy and (ii) a roadmap to implement an integrated payroll that controls all compensation of employees of FGS, as part of the 2023 budget documents	End-October 2022	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF the policy and roadmap approved by the Cabinet
10	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).
11	Finalize the Tender Protocol in line with IMF recommendations to include an objective and transparent bid evaluation criteria, clear prequalification procedures, and an adequate timeframe for the evaluation of bids and signature of contracts	End-August 2022	Governance / MOF MPMR SPA	To protect the interests of Somalia by promoting competition in bidding rounds for petroleum exploration contracts	Provide IMF staff the IMCC approved tender protocol document.
12	Publish audited CBS financial statements for 2021	End-August 2022	Governance / CBS	Enhance central bank transparency and accountability	Publish on the CBS website the 2021 Central Bank of Somalia Annual Report, the audited Financial Statements including the independent external auditor's management letter.
13	Enact the Targeted Financial Sanctions Law and issue related regulations. 1/	End-December 2022	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

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Ministry of Petroleum and Mineral Resources (MPMR), Minstry of Communications and Technology (MOCT), Ministry of Labour 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)
1/ Reset SB left over from the 1st review for end-June 2021.

Annex I. Triggers for the Floating HIPC Completion Point

1. In order to achieve full and irrevocable debt relief under the HIPC initiative, Somalia must meet the Completion Point Triggers (CPT). Notwithstanding the multiple shocks (COVID-19, drought, election delays, severe revenue shortfalls, surge in commodity prices), Somalia has preserved macroeconomic stability and reform momentum. The table below describes progress on each of the CPT.

2. The staffs of the IMF and IDA have not changed their baseline assumption that achieving the Completion Point by 2023 appears feasible. While the prevailing conditions have increased risks to the outlook and the IMF program, the timeline still appears feasible given the authorities' sustained reform commitment. It remains critical, however, that development partners continue to provide the necessary budget support and project financing, as well as capacity building support.

HIPC Completion Point Triggers	Progress
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.	Progress has been made across the four NDP9 pillars, including social, economic, security, and governance policies. However, the COVID-19 pandemic and lower than expected funding have slowed its implementation in 2021. The Annual Progress Report evaluating the implementation of the National Development Plan in 2020 is expected to be completed in 2022H1.
Macroeconomic stability	
2. Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	The 1st review of the ECF-supported program was completed on November 18, 2020. The 2nd and 3rd reviews are expected to be completed by June 2022.
Public financial and expenditure management	
3. Publish at least two years of the audited financial accounts of the FGS.	The Office of the Auditor General published the 2019 and 2020 FGS financial accounts.
4. Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	The PFM regulations—including chapters on debt, public investments, and natural resource revenue management—have been prepared by the MOF and were approved by the Cabinet in May 2022.

HIPC Completion Point Triggers	Progress
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).	The FGS and the FMS reached agreement on the single tariff schedule, which will be submitted to Parliament for approval. Supporting customs regulations are under preparation. The Customs Automated System (CAS) has been piloted first in Mogadishu port and airport before rolling out to Bosaso, Garowe, and Kismayo.
Governance, anticorruption, and natural resource management	
6. Enact the Extractive Industry Income Tax (EIIT) Law.	Cabinet approved the EIIT Bill in December 2020. The Bill has been harmonized with the Production Sharing Agreement (PSA) to ensure consistency. The Bill will be submitted to Parliament for approval.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC).	The UNCAC was ratified by the Somali Parliament and assented by the President in December 2020.
Debt management	
8. Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12 months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12 months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).	The Ministry of Finance is making progress to improve debt reporting. Quarterly debt bulletins have been published for 2020Q4, 2021Q1, 2021Q2, 2021Q3, 2021Q4 and 2022Q1, with information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.
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.	The authorities are establishing a USR with support from the World Bank, the World Food Program (WFP) and UNICEF. The USR design and development of the platform and infrastructure are progressing well. However, progress is needed on the development of the data protection and data privacy Law and operational guidelines.

HIPC Completion Point Triggers	Progress
10. FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.	On July 14, 2021, the FGS and FMS MoEs including Puntland finalized and officially signed the revised draft education cooperation 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.
11. FGS and FMS Ministers of Health adopt a joint national health sector strategy.	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.	The draft Somalia Electricity Bill was subject to consultations and was endorsed by Cabinet and submitted to the Parliament in December 2020. The bill will be prioritized by the 11th Parliament in its first readings.
13. Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	The regulations to the Company 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*.	The *Facts and Figures of Somalia* has been published for 2018, 2019, and 2020.

Appendix I. Letter from the President

Mogadishu, Somalia
May 30, 2022

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

Dear Ms. Georgieva:

Somalia has been making significant strides in state-building and maintaining political and economic stability, notwithstanding the very difficult challenges. This progress has been possible due to the tenacity of the Somali people and steadfast support from the international community.

I want to assure you that we remain resolute in building economic resilience, promoting inclusive growth, and reducing poverty through the reform strategy that is supported by the Extended Credit Facility (ECF) and the HIPC Initiative. In this regard, we endorse its key policy objectives, including augmenting domestic revenue mobilization, strengthening public financial management, deepening central bank capacity, and enhancing governance. Our commitment to these objectives and policies to achieve them are further elaborated in the Letter of Intent signed by the Minister of Finance and the Governor of the Central Bank of Somalia, as well as the Memorandum of Economic and Financial Policies and the Technical Memorandum of Understanding.

I thank you and the Executive Board for your continued support to Somalia and look forward to continuing our strong partnership.

Sincerely yours,

/s/
Hassan Sheikh Mohamud
President of the Federal Republic of Somalia

Appendix II. Letter of Intent

Mogadishu, Somalia
May 30, 2022

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

Dear Ms. Georgieva:

1. 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, continues to implement wide-ranging reforms. With the IMF, since 2016, we have maintained an intensive technical engagement over consecutive Staff Monitored Programs (SMP) and the current program under the Extended Credit Facility (ECF). This engagement continues to help strengthen our key economic and financial policy institutions. We look forward to continuing close collaboration while Somalia works towards completing the HIPC process.

2. The successful completion of elections has paved the way for a peaceful and smooth transition of power to a new government. Elections for the Upper House were finalized in November 2021, and for the Lower House in May 2022. The Speakers of the Senate and of the People's Assembly were selected in late April. President Mohamud was elected and sworn in on May 15, 2022. The President's letter in support of the ECF program affirms the new government's commitment to macroeconomic stability and structural reforms to build resilience, promote inclusive growth, and reduce poverty.

3. Despite the progress achieved, the challenges ahead are significant and continued grant-based support will be critical as we progress through the HIPC process. Growth is currently insufficient to reduce widespread poverty and address large social needs, including creating jobs for the youth. Somalia is highly vulnerable to climate shocks that hurt growth and hinder poverty reduction efforts. Challenges are currently exacerbated by prolonged drought, the sharp rise in global food and energy prices, and inadequate access to COVID-19 vaccines, testing, and treatment. The security situation also remains challenging. Nonetheless, we remain committed to the economic and political reform process, which will benefit current and future generations of Somalis.

4. Considering Somalia's broadly satisfactory performance under the ECF and the commitments laid out in attached Memorandum of Economic and Financial Policies, we request

IMF Executive Board approval of the completion of the second and third reviews of the program and disbursement of SDR 14 million (8.6 percent of quota). We met all quantitative performance criteria (QPC) and all indicative targets (IT) except for the June and September 2021 targets on domestic revenue and the fiscal balance due to revenue underperformance linked to the impact of COVID-19 and pause in budget grants until elections were completed. We therefore request the IMF Board for a waiver for the missed QPC, based on the corrective actions incorporated in the 2022 budget and new structural benchmarks that support a recovery in domestic revenues. Given uncertainty regarding the timing of disbursement of budget support grants, we are requesting the ECF-supported program be modified to include an adjustor on the floor for the fiscal balance in the event of delays or shortfalls in budget support grants as compared to the budget estimate. We are also requesting that the definition of the domestic revenue floor exclude the CBS distributable earnings. In addition, we are requesting the ECF-supported program be modified to include a floor on the net international reserves (NIR) of the Central Bank of Somalia (CBS)—in place of the floor on net foreign assets—with adjustors in the event that: (i) the CBS transfers distributable earnings to the government as per the Central Bank of Somalia Act; and (ii) the CBS provides the Ministry of Finance (MoF) with temporary liquidity advances to finance delays or shortfalls in budget support grants relative to the budget estimate. As previously committed, we plan to use the disbursement under the review to help strengthen our gross external reserves as Somalia seeks to increase its integration in the global trade and financial system. We also request a rephasing of access and an extension of the ECF arrangement by 9 months to December 2023, given that additional time is needed to reach the program objectives.

5. We also request a disbursement of additional interim HIPC assistance in the amount of SDR 680,000 to cover all of Somalia's eligible debt service to the IMF that falls due between June 17, 2022 and June 16, 2023.

6. The attached Memorandum of Economic and Financial Policies (MEFP) describes the reform priorities for the remainder of the arrangement. It identifies specific reforms and conditionality for the subsequent twelve months that build on reforms initiated under consecutive SMPs and the ECF and take account of the policy priorities identified in our national development plan. Additional reforms will be detailed on a 12-month rolling basis during reviews as information on needs and priorities continue to emerge. The policy anchors for the program remain strengthening public financial management (including debt management); domestic revenue mobilization; continued deepening of CBS capacity; and enhancing governance (including AML/CFT). Program objectives will also be supported by the floating HIPC Completion Point-triggers. 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).

7. 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.

8. 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.

Sincerely yours,

/s/	/s/
Abdirahman Duale Beileh	Abdirahman M. Abdullahi
Minister of Finance of Somalia	Governor of the Central Bank of Somalia

Attachments (2)

Attachment I. Supplemental Memorandum of Economic and Financial Policies for 2020–2023

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments and describes recent progress toward the objectives laid out in our program supported by the Extended Credit Facility (ECF). It also updates the previous MEFP and highlights the steps to be taken in the months ahead.

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.** Close to 70 percent of the population lives on less than US$1.90 a day. Growth is currently insufficient to reduce poverty and address large social needs, including health, education, and job creation. Somalia is also highly vulnerable to climate shocks that 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. Therefore, the increased access to grant-based financing expected to materialize as we progress through the HIPC process is critical.

3. **The successful completion of elections has paved the way for a peaceful and smooth transition of power to a new government.** New parliamentarians were sworn in on April 14, 2022 and President Mohamud was elected and sworn in on May 15, 2022. The new government has affirmed its commitment to macroeconomic stability and structural reforms to promote inclusive growth and poverty reduction. Finance Ministers across all the Federal Member States (FMS) are fully committed to supporting the economic reforms needed to underpin the HIPC process, and technical cooperation has gathered pace. Together with our partners' policy and financial assistance, we remain commited to staying the course of reform and continuing to deepen political cooperation at the federal and regional level.

4. **In 2021, Somalia's economy started to rebound, although COVID-19, drought, and rising commodity prices continued to take a toll.** Real GDP growth recovered to 2 percent in 2021, following a contraction of 0.3 percent in 2020, primarily driven by a resurgence of household consumption and exports. Subdued growth has resulted in a decline of real GDP per capita since 2019. More recently, economic activity was affected by prolonged drought that has affected crops and livestock. Food insecurity is being exacerbated by rising global food prices. Access to COVID-19 vaccines, testing, and treatment remains inadequate. Inflation remained at

4.6 percent, but food inflation accelerated in the latter half of 2021 due to drought conditions and global food inflation.

5. In the face of significant revenue shortfalls in 2021, we intensified expenditure prioritization and financed the deficit with past savings and partial use of the SDR allocation. Domestic revenue collection underperformed—including because of the impact of COVID-19—causing the quantitative performance criteria (QPC) and indicative targets (IT) on domestic revenue to be missed in June and September 2021. The pause in budget support grants until elections were completed contributed to the missed IT on the fiscal balance for June and September 2021. However, we intensified expenditure prioritization and the QPC and IT on compensation of employees, goods and service and contingency were consistently met with a margin. While the 2021 budget reflected preliminary costs of selected NDP9 priorities, outturns on social spending mainly reflected on-going multi-year donor-funded projects amid the tight fiscal envelope. To address fiscal gaps, we first utilized the Fiscal Buffer and other cash balances built from past savings and obtained temporary advances from the Central Bank of Somalia (CBS). The timely August 2021 General SDR Allocation allowed us to use part of the SDR distributed to the Ministry of Finance (MoF) to fully repay CBS advances, finance critical expenditure, and meet the IT on no accumulation of domestic arrears for all periods.

6. We continued to make progress in revenue administration reforms. Modeling work on the ad valorem schedule was completed and HS codes were introduced at Mogadishu, Bossaso, and Kismayo in August 2020. 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. Following the first round of tax audits in 2020, in 2021 we undertook a second round of tax audits that have helped improve the quality of tax returns, particularly those submitted by small and medium-size enterprises. As part of our efforts to implement the 2019 Revenue Administration Law, we held public awareness events improve taxpayer's understanding of the new legal requirements.

7. Public financial management (PFM) was strengthened. To strengthen transparency, we published the annual financial statements of the Federal Government of Somalia (FGS) for 2019 and 2020, 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 Paper (structural benchmark (SB) #3 Table 2, met). We have been publishing the monthly consolidation reports of fiscal outturns of the FGS and five FMS in the MoF website since January 2021 (SB#3, met). 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. To improve public procurement, we have launched the Somali Public Procurement website which provides a one-stop platform of publication of procurement information.

8. Debt management was also improved. 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 for 2020Q4 to 2021Q4 (CPT).

9. The CBS is making significant progress on promoting financial development. The launch of the National Payment System is 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. The guidance for Islamic bank financial reporting and the guidance for the Shariah bank governance framework were issued in 2020 (SB#1, met). The two largest mobile money operators were granted licenses in 2021. Mobile money regulations were issued, the payment system and mobile money oversight division was established, and a regulation manual drafted.

10. The CBS is strengthening its organizational framework and institutional capacity, including through implementation of IMF Safeguards recommendations. The CBS is enhancing its governance and decision-making arrangements. A function-based organizational structure was adopted, and a new performance management system was established. Implementation of IMF Safeguards recommendations is progressing well, including resolution of the recurring audit qualification of the financial statements and publication of the 2020 audited financial statements in March 2022.

11. 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. The National ML/FT Risk Assessment (NRA) was finalized. 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.

12. 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 (SB#4, met). We acceded to the UN Convention Against Corruption (UNCAC) in August 2021 (CPT), and ratified the African Union and Arab anti-corruption conventions. The Independent Anti-Corruption Commission (IACC) was established. We published the National Anti-Corruption Strategy (NACS) and outreach is ongoing to different stakeholders to increase awareness of the NACS.

13. We have also 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.

14. **We continue to enhance our capacity to produce macroeconomic and financial statistics.** The 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. A National Labor Survey was published in September 2021.

Outlook and Risks

15. **We expect growth to pick up to 2.7 percent in 2022, although risks are tilted to the downside.** Private consumption will be supported by remittances. Government spending is expected to increase as budget support grants are disbursed. However higher international food and fuel costs will dampen economic activity and will bring inflation to 8.5 percent in 2022. Significant near-term risks include the evolution of the pandemic, new climate shocks, a resurgence of desert locust infestation, security risks, and additional pressures on international food and energy prices. Shortfalls or delays in disbursement of budget support grants also create risks for the budget. Growth is expected to increase to 4.1 percent by 2027, as financial and structural reforms facilitate a gradual scaling up of public spending and foster greater private investment.

16. **We have considered how best to safeguard our objectives under the ECF-supported program in case downside risks materialize.** In such an eventuality, 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. Given the uncertainty around the timing of budget support disbursements, we are requesting the IMF Executive Board that the ECF-supported program be modified to include a downward adjustor on the floor for the fiscal balance by any delays or shortfalls in budget support grants as compared to the budget estimate, up to the maximum amount specified in Technical Memorandum of Understanding (TMU). We are also requesting that the definition of the domestic revenue floor exclude the CBS distributable earnings. In addition, we are requesting the ECF-supported program be modified to include a floor on net international reserves (NIR) of the CBS—in place of the floor on net foreign assets—, with adjustors in the event that: (i) the CBS transfers distributable earnings to the government as per the Central Bank of Somalia Act; and (ii) the CBS provides the MoF with temporary liquidity advances to finance delays or shortfalls in budget support grants relative to the budget estimate.

Economic and Financial Policies

17. **Somalia's ECF-supported program supports continued progress toward the HIPC Completion Point and implementation of NDP9.** Reform priorities in the ECF-supported program include: strengthening PFM (including the legal and regulatory framework, internal and external audit, expenditure controls, cash management, accounting and reporting, and debt management); domestic revenue mobilization; continued deepening of CBS capacity; and enhancing governance (including AML/ CFT). Performance criteria consist of a floor for domestic revenue, a ceiling on recurrent operating expenditures, a floor on the cash-based fiscal balance, no accumulation of domestic arrears, no new debt accumulation, and a floor on the net

international reserves of the CBS (see Table 1 and TMU). Structural benchmarks (Table 2) involve key reform objectives in the areas of revenue administration, public financial management, financial stability, and governance and AML-CFT. Program objectives are also supported by the floating HIPC Completion Point triggers (CPT). 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 increased the efficiency and transparency of fiscal processes, as domestic revenues and expenditures increase; established some limited capacity for monetary and exchange rate policy; and enhanced statistics and governance across all macro-critical sectors.

Fiscal Policy and Reforms

18. **The FGS will continue to improve the fiscal framework and fiscal sustainability over the medium term.** The key fiscal objectives of the program are to anchor policy in a medium-term fiscal framework (MTFF) and integrate the costs of NDP9 priorities into our budgets going forward; improve budget execution; accelerate the mobilization of domestic revenues; improve public financial management to safeguard fiscal resources and strengthen governance; and strengthen inter-governmental fiscal relations.

19. **For 2022, despite liquidity pressures, we will continue focusing on meeting critical expenditure.** Domestic revenue collection will be supported by the introduction of turnover taxes and enforcement of sales taxes on telecom, electricity companies and cable providers. With elections finalized, it is expected that budget support grants will be disbursed. To contain upward pressure on compensation of employees, the 2022 budget includes a nominal wage freeze and limits the headcount increase to the already committed new recruits in the security sector. To support NDP9 implementation, we will increase social benefits spending financed through project grants. To stay above the fiscal balance floor, we will minimize discretionary spending by complying strictly with the priorities of the sequestration rule. The overall deficit in 2022 will be financed by a further drawdown of SDRs, at which point the SDRs distributed to the MoF will be depleted.

20. **For 2023, our fiscal policy will be centered on domestic revenue mobilization, while containing expenditure.** Our updated MTFF indicates that domestic revenues and budget support grants will be sufficient to achieve a balanced budget in 2023, although the fiscal envelop will continue to be extremely tight. To increase revenues, we are committed to implementing a series of measures as delineated below. To contain operating expenses, we will retain the nominal wage freeze and limits on the headcount increases, and also minimize the allocation to discretionary spending. Social benefit spending is expected to be maintained, financed through project grants.

21. **Domestic revenue mobilization is a cornerstone of our fiscal program:**

- **Customs modernization.** We will expedite the reforms needed to adopt and apply a single import duty tariff schedule at all ports (CPT). The implementation of ad valorem tariffs is key

to improving the efficiency of customs administration and mobilizing revenue from trade taxes. In order to create a legal basis for the introduction of ad-valorem tariffs, we will issue the customs regulations on valuation and declarations and enact the law specifying the ad valorem tariff schedule by November 2022 (proposed SB#5, Table 3). In order to develop the infrastructure for ad valorem customs valuation, we will operationalize the Customs Automated System (CAS) at the ports and airports of Mogadishu, Bosaso, and Garowe, and Kismayo by April 2023 (proposed SB#6). In order to protect the integrity and coherence of declaration processing and duty calculation across different ports and airports, we will strengthen collaboration with the FMS on the timely roll-out of the CAS. On completion of these reforms, we will begin application of ad valorem tariffs initially by using a valuation table, which sets references for normal prices of goods for duty calculation. After a transition period using separate valuation tables for the FGS and FMS, we will implement a common valuation table for all ports and airports, which will attain the goal to apply a single tariff schedule. Implementation of these reforms will need to take into account risks of revenue losses from undervaluation and arbitration.

- **Revenue mobilization from 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. By July 2022, we will issue a spectrum fee schedule for telecom operators approved by the National Communication Authority's (NCA) Board in agreement with the MoF (proposed SB#7). When determining spectrum prices, we will maintain a proper balance between revenue mobilization and market development and ensure that the government receives economic value from use of its spectrum assets. In order to improve enforcement of sales taxes, by end-March 2023, we will operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors (proposed SB#8). On completion of these reforms, we plan to introduce additional revenue measures, such as excise taxes on airtime, in order to mobilize further revenue from the telecom sector over the medium-term.

- **Other tax policy measures.** We will submit for Parliament approval the new Income Tax Law (ITL), which is currently at an advanced stage of preparation. 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.

- **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. In order 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. In 2022, we will continue

strengthening tax audits by implementing the new audit manual, which draws lessons from the first and second rounds of audits in 2020 and 2021.

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

- **Payroll integration.** To strengthen controls, we will integrate all compensation of employees into the single payroll included in the SFMIS. By October 2022, we will obtain the Cabinet approval of (i) a pay and grade policy and (ii) a roadmap to implement an integrated payroll that controls all compensation of employees of FGS, as part of the 2023 budget documents (proposed SB#9). To fill gaps in the existing wage policy, the pay and grade policy will set out salary scales for temporary workers and other employees, eligibilities for allowances included in non-payroll payments, and clarify the roles and responsibilities of the MoF and National Civil Service Commission in their controls and financial clearance. Ensuring the payroll integrity requires all compensation of employees to be integrated in the automated payroll of the SFMIS, following a sequenced approach to be set out in the roadmap. As a short-term target, we will extend coverage of payroll to 50 percent of non-payroll compensation of FGS employees by end-May 2023 (proposed SB#10).

- **Streamlining of business processes.** We will streamline the budget execution and Treasury management process in order to enhance financial controls and reporting. To lay the foundation for reforms, we will speed up the issuance of regulations to the PFM Act (CPT). We will develop and enforce an invoice tracking functionality in the SFMIS. 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 in the budget management and reporting process, we plan to accelerate (i) operationalization of the SFMIS budget module, which is to be a single data depository for budget preparation, and (ii) automation of cash planning and revenue management through the SFMIS by eliminating paper-based parallel process 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 the Information and Communication Technology governance.

- **Fiscal transparency and accountability.** At the FGS level, we will continue expanding the additional disclosures in the annual financial statements, including a memorandum annex on SDR holdings and allocations distributed to the MoF. 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). In order to expand the coverage of general government fiscal reports, we will coordinate with the Banaadir to develop the regular fiscal reporting process and encourage their participation in consolidated reporting.

- **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 and sensitization of the procurement laws and guidelines.

23. We continue to advance in negotiations with external creditors on restructuring Somalia's external public debt. We have reached debt relief agreements with most Paris Club members and with the Kuwait Fund for Arab Economic Development. We continue seeking to finalize debt relief agreements with remaining creditors, including non-Paris Club and multilateral creditors.

24. We are working towards finalizing and implementing a harmonized legal framework for the extractive industries. The Model Oil and Gas Production Sharing Agreement (PSA) was approved by the Inter-Ministerial Concessions Committee (IMCC) in November 2021. To promote competition in bidding rounds for petroleum exploration contracts, by August 2022 we will finalize the tender protocol in line with IMF recommendations to include objective and transparent bid evaluation criteria, clear prequalification procedures, and an adequate timeframe for the evaluation of bids and signature of contracts (proposed SB#11). We will not issue any oil exploration licenses until the Petroleum Act is operationalized, the Extractive Industries Income Tax (EIIT) is enacted (CPT), the model PSA is finalized, and the associated PFM regulations are issued. Any direct negotiations will be limited and informed by price discovery through previous licensing rounds.

Monetary and Financial Sector Reforms

25. We will continue implementing reforms to strengthen CBS institutional capacity and support financial deepening. To enhance transparency and accountability, the audited CBS financial statements for 2021 will be published by end-August 2022 (proposed SB#12, Safeguards recommendation). Regulations on banking institutions' capital adequacy and liquidity risk management are being updated to comply with Basel committee recommendations. Staffing and capacity of the CBS Licensing and Supervision Department will continue to be strengthened to improve the quality of supervision. Draft bills for the National Payment System, revised Financial Institutions Law, and Insurance will be submitted to Parliament. We are developing a National Switch to support the national payment system.

26. With World Bank support, we plan to implement the currency exchange project once the preconditions and financing are in place. In addition to addressing the operational and financial needs associated with the project, we will formulate our medium-term policy priorities and develop some basic monetary policy capacity before implementation. We will also need to secure the assets required to backstop the new currency, including by catalyzing donor assistance.

27. 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 incorporate the findings of the NRA into a new National Strategy for AML/CFT, and prepare for the MENA-FATF Mutual Evaluation Assessment in 2024. We will resubmit the Targeted Financial Sanctions Law to Parliament for enactment and will issue related regulations, with a reset target date of December 2022 to allow sufficient time for consideration by the new Parliament (proposed SB#13).

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

28. We continue our strong commitment to improving governance and fighting corruption. We will take steps to implement the UNCAC. We will develop an action plan to implement the National Anti-Corruption Strategy.

29. We remain committed to advancing a broad-based reform agenda to bolster inclusive growth and improve the resilience to climate shocks. We will enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector (CPT). We will also issue the Company Act implementing regulations on minority shareholder protection to encourage private sector investment (CPT). We will continue working towards accession to the World Trade Organization and on improving regional and bilateral trade ties.

30. We will also introduce a national digital ID to support enhanced Know-Your-Customer and financial intermediation, and support targeted delivery of government services. We will develop the legal underpinnings for the digital ID and procure the necessary IT system. We will enact the Digital ID and Data Protection Bills, and establish the national ID agency. We will also leverage the digital ID to support the implementation of targeted social protection programs.

31. We will establish a national social registry (CPT), a necessary building block for a comprehensive shock response safety net system. This will support 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. Over time, the delivery of the scheme will transition to a greater use and reliance on the FGS' own systems, including by strengthening the regulatory environment related to Data Privacy and Data Protection protocols.

32. The FGS and FMS will work jointly on enhancing human capital development. The FGS and FMS Ministers of Education will adopt an agreement defining their respective roles and responsibilities on curriculum and examinations (CPT). The FGS and FMS Ministers of Health will adopt a joint national health sector strategy (CPT), which will support effective functions and accountability across different levels of governments.

33. We are committed to improving key macroeconomic and financial data, acknowledging the critical role it plays in guiding economic policies. To promote data transparency, we are making progress toward joining the IMF Data Standards Initiatives and are

committed to implementing the Enhanced General Data Dissemination System (e-GDDS). Collection of economic activity data is being broadened with the ongoing Household Budget Survey. Work is also ongoing to develop production-based national accounts data.

Program Monitoring and Access

34. Program implementation is being monitored through quantitative performance criteria, continuous performance criteria, and indicative targets (Table 1) and structural benchmarks (Table 2). These will be assessed through semi-annual reviews. The fourth review will be based on the QPCs and ITs set for end-June 2022, and the fifth review on the QPCs and ITs set through end-December 2022 (as described in Table 1 and TMU), and the structural conditionality as described in Table 2. All reviews will be conditioned on quantitative performance criteria outlined in Table 1.

Table 1. Somalia: Quantitative Performance Indicators and Indicative Targets under the ECF (December 2020–June 2023) 1/

(Millions of U.S. dollars)

	Dec. 2020 7/			Mar. 2021			Jun. 2021 4/			Sept. 2021			Jun. 2022 5/	Sept. 2022	Dec. 2022 5/	Mar. 2023	Jun. 2023 5/
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prog.	Prog.	Prog.	Prog.
Quantitative Performance Criteria																	
1 FGS domestic revenue, floor 2/							115.0	100.2	Not met				95.0		247.0		115.0
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	308.0	307.3	Met				170.4	152.7	Met				200.0		342.0		220.0
3 Net foreign assets of the CBS, floor 10/	78.7	80.4	Met				79.1 adjusted to 72.1 8/	75.7	Met								
4 Net international reserves, floor													-346.0		-346.0		-346.0
5 Contracting of new domestic debt, ceiling 3/	0.0	0.0	Met				0.0	0.0	Met				0.0		0.0		0.0
6 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0.0	0.0	Met				0.0	0.0	Met				0.0		0.0		0.0
7 Accumulation of new external arrears, ceiling 3/	0.0	0.0	Met				0.0	0.0	Met				0.0		0.0		0.0
Indicative Targets																	
1 FGS domestic revenue, floor 2/	195.0	211.2	Met	50.0	52.0	Met				177.0	162.8	Not met		150.0		55.0	
2 Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				77.0	69.8	Met				255.6	242.7	Met		300.0		110.0	
3 Net foreign assets of the CBS, floor 10/				78.7	86.4	Met				88.1 adjusted to 73.9 8/	177.6	Met					
4 Net international reserves, floor														-346.0		-346.0	
5 Contracting of new domestic debt, ceiling 3/				0.0	0.0	Met				0.0	0.0	Met		0.0		0.0	
6 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0.0	0.0	Met				0.0	0.0	Met		0.0		0.0	
7 Accumulation of new external arrears, ceiling 3/				0.0	0.0	Met				0.0	0.0	Met		0.0		0.0	
8 Fiscal balance, floor (cash basis) 2/	-10.0	24.7	Met	0.0 adjusted to -13.5 9/	-8.7	Met	0.0 adjusted to -13.5 9/	-33.2	Not met	0.0 adjusted to -13.5 9/	-57.7	Not met	0.0	0.0	0.0	0.0	0.0
9 Accumulation of new domestic expenditure arrears, ceiling 3/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
10 Contracting or guaranteeing any new external, concessional debt, ceiling 3/ 6/	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	0.0	0.0
Memorandum item:																	
Gross international reserves 11/													187.0	187.0	196.7	196.7	206.5

Sources: Somali authorities; and Fund 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 second and third reviews.

5/ Test date for the fourth, fifth, and sixth reviews, respectively.

6/ Excluding any disbursements under Fund arrangement.

7/ At the request of the authorities and approved by the Board, December-2020 PC on FGS domestic revenues was converted from a QPC to an IT to reflect the COVID 19 crisis impact.

8/ The program floor on net foreign assets of the CBS at end-June 2021 is adjusted down to reflect exceptional financing needed because of a shortfall in revenues relative to the program baseline due to a longer-than-anticipated impact of the global COVID-19 pandemic. The adjustment is based on an adjustor included in the context of the first review, which is limited to 1/12 of the annual FGS revenue, as per the November 2020 TMU.

9/ The program floor on the fiscal balance is adjusted down by the amount drawn from the fiscal buffer to cover priority spending, as per the November 2020 TMU.

10/ Net foreign assets as defined in the TMU in IMF Country Report No. 20/310.

11/ Gross international reserves are defined as the sum of (i) gold; (ii) foreign currency held abroad; and (iii) SDR holdings in the IMF SDR department, net of (i) unused portion of the government's share of the 2021 IMF General SDR allocation, (ii) government deposits in foreign currency held abroad; and (iii) other foreign currency deposits by residents of Somalia held abroad.

Table 2. Structural Benchmarks under the ECF (June 2020–September 2021)

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1	Issue guidance for (1) financial reporting and accounting standards and (2) Shariah governance framework for Somali banks.	End-December 2020	Financial stability / CBS	Support financial stability. To clarify the nature of Shariah-compliant assets and liabilities on Somali banks' balance sheets and banks' related governance frameworks, to support better risk assessment.	Submit issued CBS-Board approved guidelines to the IMF.	Met
2	Enact the Targeted Financial Sanctions Law and issue related regulations. 1/	End-June 2021	Governance / MOF	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.	Not met 2/
3	Enhance the clarity and accountablity of the aggregated FGS and FMS fiscal status.	End-June 2021	Fiscal transparency / MOF	Enhance the quality of general government reporting and improve intergovernmental fiscal transparency and accountability.	Publish the aggregated 2021 FGS and FMS budget in the 2021 FGS Budget Strategy paper; publish on the internet the aggregated FGS and FMS fiscal outturns (revenue and expenditures) on a monthly basis using the 6 digit classification codes (with a 2 month lag, following first test date)	Met
4	Enhance transparency in the regulatory process of the Telecommunications and Mobile Money Sectors.	End-March 2021	Governance / NCA and CBS	Improve transparency and accountability in the regulatory process for important industries. This applied to telecommunications and mobile money, but has implications for other important industries in the future.	Publish on the NCA and CBS websites, respectively the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators, i.e. which firms were given licenses, the terms of the licenses (including standard licensing fees), and the criteria for issuing the licenses	Met

1/ Reset SBs left over from SPMIV for end-May 2020.
2/ During the elections, Parliament was not in session to discuss any new legislation.

Table 3. Proposed Structural Benchmarks under the ECF (June 2022 - June 2023)

	Benchmarks	Target dates	Sector/FGS Agen	Rationale	Monitoring
5	Issue the customs regulations on valuation and declarations and enact the law specifying the ad valorem tariff schedule	End-November 2022	Domestic revenue / MOF	Support domestic revenue generation and custom modernization	Publish the issued regulations and enacted law on the website of the FGS MOF.
6	Operationalize the Customs Automated System at the ports and airports of Mogadishu, Bosaso, Garowe, and Kismayo	End-April 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.
7	Issue a spectrum fee schedule for telecom operators approved by the NCA Board in agreement with the MoF	End-July 2022	Domestic revenue/ NCA MOF MOCT	Support domestic revenue generation and telecommunication regulations	Publish the NCA-Board approved spectrum fee schedule on the website of the NCA
8	Operationalize POS machines connected to tax offices and installed at large taxpayers in telecom and tourism sectors	End-March 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.
9	Cabinet approval of (i) a pay and grade policy and (ii) a roadmap to implement an integrated payroll that controls all compensation of employees of FGS, as part of the 2023 budget documents	End-October 2022	PFM / MOF NCSC MOLSA	Strengthen payroll integrity and expenditure control and governance	Submit to IMF the policy and roadmap approved by the Cabinet
10	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).
11	Finalize the Tender Protocol in line with IMF recommendations to include an objective and transparent bid evaluation criteria, clear prequalification procedures, and an adequate timeframe for the evaluation of bids and signature of contracts	End-August 2022	Governance / MOF MPMR SPA	To protect the interests of Somalia by promoting competition in bidding rounds for petroleum exploration contracts	Provide IMF staff the IMCC approved tender protocol document.
12	Publish audited CBS financial statements for 2021	End-August 2022	Governance / CBS	Enhance central bank transparency and accountability	Publish on the CBS website the 2021 Central Bank of Somalia Annual Report, the audited Financial Statements including the independent external auditor's management letter.
13	Enact the Targeted Financial Sanctions Law and issue related regulations. 1/	End-December 2022	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

Note: Ministry of Finance (MOF), Central Bank of Somalia (CBS), Ministry of Petroleum and Mineral Resources (MPMR), Minstry of Communications and Technology (MOCT), Ministry of Labour 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)
1/ Reset SB left over from the 1st review for end-June 2021.

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 blended Extended Credit Facility and Extended Financing Facility spanning March 2020- December 2023. 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 Financial and Policies (MEFP).** Quantitative targets after June 2023 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.

<u>QPCs for June 2022, December 2022, and June 2023, and related ITs for September 2022 and March 2023:</u>

- 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 new domestic debt contracted by the FGS;
- Ceiling on accumulation of new external arrears by the FGS; and
- Ceiling on contracting or guaranteeing any new external, non-concessional debt.

<u>ITs for June, September, December 2022 and March, June 2023:</u>

- Floor on the FGS fiscal balance (on a cash basis);
- Ceiling on accumulation of new domestic arrears by the FGS; and
- Ceiling on contracting or guaranteeing any new external, concessional debt, excluding disbursements under an IMF arrangement.

Definitions and Computation

2. **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

budgetand federal members states (FMS). For the purpose of monitoring external debt, the general government is defined as the FGS and federal members states (FMS) (Galmudug, Hirshabelle, Jubaland, Puntland, and South West State) and the Banaadir region.

3. **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 Minister of Finance.

4. **Government domestic revenue includes all tax and nontax receipts received into the FGS general accounts and excludes grants.** Domestic revenues include taxes, non-tax 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.

5. **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 service 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 breakdown to those financed by general government fund, contingency funds, and project support grants specified in the Appropriation Law.

6. **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 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. They include 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.

7. **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).

8. **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 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.

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

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

	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Maximum amount of the fiscal balance adjustor	**74.7**	**95.8**	**64.1**	**33.5**	**67.9**
Memorandum items					
Budget support grants in the Budget estimate	110.0	150.0	199.7	60.0	110.0
Possible sources of financing for fiscal deficit	74.7	95.8	64.1	67.9	67.9
Proceeds from SDR holdings distributed to the MOF	50.6	50.6	50.6	0.0	0.0
Withdrawal of cash buffers (including fiscal buffer and SDR transit account) 1/	13.5	13.5	13.5	33.5	33.5
Proceeds from CBS temporary advances 2/	10.6	31.7	0.0	34.4	34.4

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

9. **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 in 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 service, 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.

10. **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 creditorsin 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.

11. For program monitoring, debt is defined for program purposes 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 (includingcurrency) or services, and which requires the obligor to make one or more payments in the formof 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 thatare 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 paymentsuntil 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 totalexpected service life of the property, while the lessor retains the title to the property. For theguideline, 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.

12. Under the definition of debt set out in this paragraph, arrears, penalties, and judiciallyawarded 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.

13. 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.

14. 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. ITs on external debt are cumulative ceilings on 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, a debt 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. 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.

15. 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 December 30, 2019 exchange rate of US$1.382830 per SDR. IMF representative exchange rates against the U.S. dollar at December 30, 2019 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 December 31, 2019 (US$ 1,517.275 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[1];

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.

16. 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 Table 2.

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

[1] As part of the 2021 IMF General SDR Allocation, Somalia received SDR157 million. Of this, the authorities distributed SDR93 million to the MoF and 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).

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.

Table 2. Adjustors to the NIR Floor

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

	Maximum adjustment amounts				
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23
Adjustor 1, in the event that the CBS transfers distributable earnings to the government	-1.5	-1.5	-1.5	-3.0	-3.0
Adjustor 2, in the event of CBS temporary liquidity advances to the government 1/	-10.6	-31.7	0.0	-34.4	-34.4

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 2022, the most recent audited domestic revenue corresponds to 2020 and the maximum amount of liquidity advances from the CBS is USD31.7 million. For 2023, the most recent audited domestic revenue will correspond to 2021 and the maximum amount of liquidity advances from the CBS is currently estimated at USD34.4 million--this amount will need to be updated in forthcoming program reviews once the audited accounts for 2021 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

17. Program-Monitoring Committee. The Somali authorities shall maintain a program-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 programwithin four weeks of the end of each quarter, using the latest available data.

Data Reporting to the Fund

18. 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.

Somalia: Data Reporting, March 2020–December 2023				
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 sheet data 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; starting withthe end-March 2021 data point.	4 weeks after the end of each quarter
	Other financial indicators	Prudential data as per associated CBS regulations (total capital, core capital, total net assets, high quality liquid assets, and 30-day funding requirement), and average profit rates and 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
	FGS external accounts	Provide end-month balances included in the Treasury Single Account held abroad by the CBS on 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

Somalia: Data Reporting, March 2020–December 2023 (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Ministry of Finance	FGS budget operations	For annual and supplemental budgets: • Revenue by GFS 6-digit revenue classification; • Proposed Appropriation by MDA, program/project and 4-digit objectcode; • 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 of budget transfers to each FMS andother units. Reports 1A and 1B (as amended)	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
		A comprehensive table summarizing Government operations including revenue, expenditure (by MDA and Object code), andTSA balances for the month and YTD. Theseshould include the fiscal buffer balances. (Report 5A, 5B, 5C and 5D).	Monthly	4 weeks after the end of the month
		The 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
		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

Somalia: Data Reporting, March 2020–December 2023 (continued)				
		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); 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
		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
		Table showing balances of SDR holdings and SDR allocations distributed to 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 inspectionsreport generated from both the Custom Automated System (CAS) (after the operationalization) and the Somali Single Administrative Document (SOMSAD) system (until being replaced by the CAS).	Monthly	4 weeks after the end of the month
	FMS and Banaadir budgets	For annual and supplemental budgets: Budget for each FMS and BRA, and aggregated budget (both revenue and expenditure).	As required	Within a week of approval
	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 August 2022)
	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

Somalia: Data Reporting, March 2020–December 2023 (concluded)				
	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 January 2023)
	Domestic debt	The amount of new domestic debt contracted 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 theCBS, by creditor.	Annually	30 days after the end of each year
		Accumulation of any new arrears (principalor 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 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

INTERNATIONAL MONETARY FUND

SOMALIA

June 3, 2022

SECOND AND THIRD REVIEWS UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, REQUEST FOR WAIVER OF NONOBSERVANCE OF A PERFORMANCE CRITERION, MODIFICATION OF PERFORMANCE CRITERIA, INTERIM ASSISTANCE, AND A REPHASING OF ACCESS AND EXTENSION OF THE ARRANGEMENT —DEBT SUSTAINABILITY ANALYSIS

Approved By
Thanos Arvanitis and Gavin Gray (IMF), Marcello Estevão and Asad Alam (IDA)

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

Risk of external debt distress:	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Sustainable*
Application of judgment	*No*

This debt sustainability analysis (DSA) provides an update of the November 2020 DSA. Total public debt is US$ 3.5 billion, or 47.5 percent of GDP at end-2021—nearly all of which is external (Tables 1 and 2).[1] The revised baseline scenario includes (i) updated macroeconomic assumptions, (ii) adoption of the Somalia National Bureau of Statistics nominal GDP series, (iii) use of the 2021 SDR allocation, (iv) interim assistance received since the Heavily Indebted Poor Countries (HIPC) Decision Point in March 2020, and (v) updated information consistent with debt relief agreements signed with Paris Club creditors. Somalia is in debt distress, both for external and overall public debt. The present value of external debt in 2021 is 42 percent of GDP, well above the 30 percent threshold for countries like Somalia with weak capacity to manage debt. The baseline forecast indicates substantial and sustained breaches of the PV of external debt-to-exports and the external debt service-to-revenues indicative thresholds, highlighting the risks of any delay in reaching the HIPC Completion Point. Somalia is in arrears with external creditors, and debt restructuring negotiations are ongoing. Nevertheless, Somalia's debt is assessed as sustainable in a forward-looking sense, contingent on the full delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI), and beyond-HIPC assistance at the Completion Point (an alternative scenario under the DSA analysis). Full delivery of this debt relief would bring all debt burden indicators significantly below their respective thresholds, consistent with achieving a moderate risk rating at the Completion Point.

[1] The DSA reflects a debt carrying capacity of weak considering Somalia's Composite Indicator of 1.61, based on the April 2022 World Economic Outlook and the latest CPIA vintage (2020).

PUBLIC DEBT COVERAGE

1. Public debt data coverage is limited to the federal government. The coverage of public debt captured by the Debt Sustainability Assessment (DSA) is near complete.[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) (Text Table 1).[3] 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 arrears. Default settings are applied to the DSA contingent liability stress test and no other tailored stress tests are applicable to Somalia. A reconciliation exercise of external obligations was finalized in conjunction with the March 2020 HIPC Decision Point document, and its findings continue to figure in this DSA.[4] External debt for the DSA is defined on a residency basis.

Text Table 1. Somalia: Public Debt Coverage

	Subsectors of the public sector	Check box
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

		Default	Used for the analysis	Reasons for deviations from the default settings
1	The country's coverage of public debt	The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt		
2	Other elements of the general government not captured in 1.	0 percent of GDP	0.1	Potential increase in debt in dispute with Russia
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	0.00	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	
	Total (2+3+4+5) (in percent of GDP)		5.1	

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%.

Source: Somali Authorities and IMF staff estimates.

BACKGROUND ON DEBT

2. The November 2020 DSA reported that the nominal level of the total stock of debt outstanding in 2019 was US$ 5.3 billion at end-2019, of which US$5.1 billion was in arrears. The vast bulk of this debt is with official creditors.[5] Most is owed to Paris Club creditors (58 percent), followed by multilaterals

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

[3] Somalia's general government debt stock excludes a Russian claim on a non-central government entity. The claim concerns special correspondent accounts at the Central Bank of Somalia totaling about $7.5 million (or 0.1 percent of GDP). PPPs may potentially be agreed at some point in the future; the International Finance Corporation (IFC) is providing support on the legislative framework.

[4] See Somalia—Enhanced Heavily Indebted Poor Countries (HIPC) Initiative Decision Point Document (March 2020, Country Report No. 20/86).

[5] Of the $191 million not in arrears, $31 million and $160 million are obligations to the African Development Fund and the International Development Association, respectively.

(29 percent), and non-Paris Club bilateral creditors (13 percent). All domestic debt (1.5 percent of GDP) represents central government arrears.[6]

3. The Fund and the Bank adopted the national accounts data (2012-2020) produced by the Somalia National Bureau of Statistics (SNBS) in December 2021. The new GDP series incorporates data and methodological improvements, with technical assistance from the IMF, World Bank and Statistics Sweden. Adopting the new series represents a 25 percent upward shift in the level of nominal GDP in 2017 (base year) compared to the prior estimates used by the Fund and the Bank. The exports historical data series has not been revised.

4. Debt stock estimates for end-2021 reflect updates from information provided by the Somali authorities. The overall level of public debt stock is estimated at end-2021 at US$ 3.5 billion, or 47 percent of GDP (see Table 5). This estimate incorporates debt stock levels at end-2021 provided from the authorities for IDA, the IMF and the AfDB Group, as well as for all bilateral creditors that have already signed a debt relief agreement in 2020-21. For this set of creditors, debt stocks for 2020 differ from the 2019 estimates in the November 2020 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 2020 through end-2021 (to IDA and AfDB). For the remaining multilateral and bilateral creditors (mostly Non-Paris club), the debt stocks are the same as in the November 2020 DSA (consistent with the HIPC Decision Point figures). For bilateral creditors that have not yet signed an agreement, it continues to assume the application of Cologne terms.[7] Overall, debt in USD terms is higher than in the amount projected for end-2021 in the Nov 2020 DSA mostly because of differences between the assumptions made for interim relief under HIPC in the November DSA and the actual terms in the signed debt relief agreements.[8]

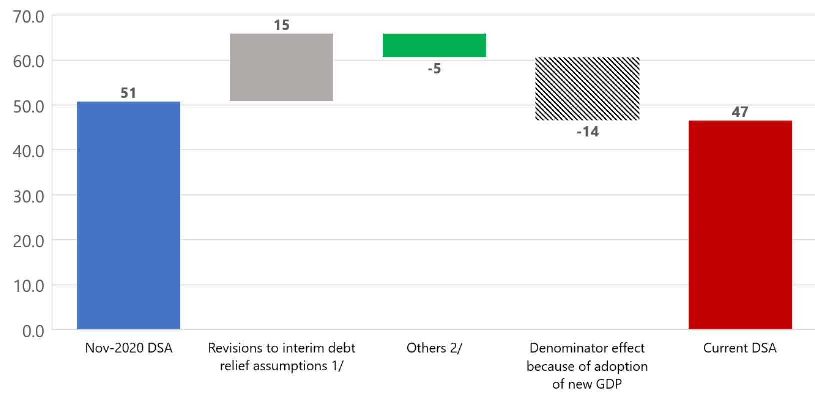
[6] Somalia's stock of domestic debt (estimated at US$68.8 million, end-2018) reflects the accumulation government wage arrears to civil servants due to constrained resources and longstanding weaknesses in public financial management. No new arrears have been accumulated since end-2017, and the authorities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

[7] Under Cologne terms, most HIPC countries receive a reduction in eligible non-official development assistance (non-ODA) debt of 90 percent in net present value (NPV) terms on debt service falling due and 67 percent in net present value (NPV) terms on arrears. 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.

[8] For example, some agreements signed provide a 100 percent cancellation of debt at HIPC Completion Point (e.g., Japan), while for others such as Italy, the cancellation of 100 percent of ODA debt became effective at the time of signature of the debt relief agreement on March 2021. For the U.S. previous assumptions did not incorporate terms included in the signed agreement, the agreement consolidates non-ODA debt after interim relief with ODA debt, and incorporates the capitalization of interests over the consolidation and grace period to the debt stock.

Contributions to change in the 2021 Debt to GDP Ratio

(in percent of GDP)



1/ Mainly reflects revisions between agreements signed and HIPC figures used in the November 2020 DSA.
2/ Mainly reflects exchange rate fluctuations and the SDR net position of the FGS.

5. **Somalia has signed contracts with individual creditors to restructure its external public debt.** The authorities continue to advance in negotiations around the modalities of a debt restructuring with most multilateral creditors (Arab Monetary Fund , Islamic Development Bank, Arab Fund for Economic and Social Development, and the International Fund for Agricultural Development). In an agreement signed on March 31, 2020, countries of the Paris Club agreed to provide interim debt relief as part of the HIPC Initiative.[9] Debt relief and restructuring agreements have been signed subsequently with most Paris Club creditors, except Russia.[10] The authorities signed an agreement with the Kuwait Fund for Arab Economic Development (KFAED) on April 24, 2022.[11] The authorities report that negotiations are advanced with the Saudi Fund, and Abu Dhabi Fund. The Somali authorities are receiving technical assistance [from the AfDB African Legal Support Facility] to support the discussions on the restructuring debt with creditors.

6. **The FGS is strengthening 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 is being 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 started to issue quarterly debt bulletins at the end of 2020, and the quality of these bulletins has been improving with technical assistance from the IMF.[12] The coordination between the DMU and other departments is improving. For the preparation of 2022 budget, for the first time the DMU is preparing an information annex on debt, to enhance debt transparency. This improved treatment of debt

[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.

[10] The authorities are actively engaged in negotiations on a debt relief agreement with Russia.

[11] The agreement includes a clause which states KFAED is committed to delivering its full share of debt relief to Somalia under the HIPC initiative.

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

issues in national budget documents is a performance and policy action under the IDA Sustainable Development Financing Policy.[13] A joint IMF-WB technical assistance mission took place in 2021. The mission helped to establish a roadmap for strengthening debt management capacity, focusing on the legal framework, the institutional framework, as well as debt recording, monitoring, and reporting.

7. **Data weaknesses constrain macroeconomic analysis, limiting the significance of the results provided by the standardized stress tests in the LIC-DSF.** Although data quality is gradually improving, important limitations remain due to a relatively short time series for national accounts data, substantial gaps in balance-of-payments data, and a heavy reliance on third-party data for trade estimates and secondary transfers. Direct investment data are currently estimated.

BACKGROUND ON MACROECONOMIC FORECASTS

8. **Parliamentary and Presidential elections have been successfully completed.** Following election delays since early 2021, Upper House elections were completed in November 2021 and Lower House elections in May 2022. President Mohamud was elected and sworn in on May 15, 2022.

9. **The growth rebound in 2021 was subdued.** Real GDP growth was estimated at 2 percent in 2021, compared to 2.9 percent projected in the Nov 2020 DSA. The recovery in 2021 was affected by (i) climate-related shocks (flooding, desert locust infestation, drought in 2021H2); (ii) several waves of COVID-19 impacting trade and mobility, and (iii) the delay in elections, which led to a pause in budget grants and affected the implementation of investment projects. Somalia has suffered various Covid waves and only 8.7 percent of the population had been fully vaccinated as of May 13.

10. **Growth is expected to pick up modestly in 2022, weighed down by more adverse climate conditions and a more challenging external environment.** Growth of 2.7 percent would be driven by private consumption, supported by remittances. However, prolonged drought and higher international food and fuel costs owing to the war in Ukraine will dampen economic activity and bring inflation to 8.5 percent in 2022. The impact of the climate-related disasters is being mitigated through the expanded rollout of cash transfers (supported by the World Bank, the World Food Program, and other partners), as well as increased construction of water points. COVID-19 infections are expected to wane in 2022 and efforts are ongoing to rollout vaccines, with the support of international partners including the World Bank. The pandemic's impact on households is expected to continue to be mitigated by the tax relief measures on core basic food commodities reinstated in March 2021, and efforts to increase financing to small and medium enterprises through the Gargaara Facility. However, near-term downside risks include a longer-than-expected duration of the COVID-19 pandemic, prolonged drought conditions or new weather-related shocks, resurgence of the

[13] 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".

desert locust infestation, additional pressures on international food and energy prices, security risks, and spillovers from geopolitical developments.

11. A significant fall in revenue created intense fiscal pressure in 2021. Since early 2021, development partners put budget support on hold until the elections are completed. As a result, grant revenue dropped to one-third of the budget estimate. Disbursement of project grants was also significantly lower than the budget estimate, due to slower implementation. In addition, there was a significant fall in domestic revenues linked to the COVID-19 shock and political uncertainty, including a shortfall in revenue from khat, interruption in the introduction of turnover taxes, and delay in the implementation of spectrum fees. In the face of significant revenue shortfalls in 2021, the authorities intensified expenditure prioritization and minimized discretionary spending. However, additional resources were needed to cover wages and other essential spending. To address the fiscal gap, the authorities first exhausted the Fiscal Buffer (US$13.5 million) and other cash balances built from past saving (US$12.4 million), and later obtained temporary advances from the Central Bank of Somalia (CBS) totaling US$22 million. Since September 2021, the Ministry of Finance (MOF) has been cautiously using resources under the 2021 General SDR Allocation to meet priority expenditure (including debt service) and build a small cash buffer (US$8 million at the end 2021), preventing domestic arrears.[14] While the SDR allocation offered temporary respite, the liquidity situation continues to be challenging.

12. The 2022 budget is likely to result in a small overall deficit. While domestic revenue is expected to recover, external budget support remains crucial. The 2022 budget reintroduces turnover taxes and incorporates improvements to enforcement of sales taxes on telecom, electricity companies, and cable providers. External budget support is expected to increase from 0.5 percent of GDP in 2021 to 1.4 percent of GDP in 2022. The overall spending envelope continues to be extremely tight. The budget includes a nominal wage freeze and limits the headcount increase to the already committed new recruits in the security sector. As a result, compensation of employees falls as a percent of GDP and contracts by 5 percent in real terms. Social spending is expected to increase by 0.5 percent of GDP (84 percent in real terms), including the expansion of the Baxnaano cash transfer program financed by the World Bank. A significant portion of budget support (an increase of 0.4 percentage points of GDP compared to 2021) is expected to be shared with FMS. The overall deficit is expected to narrow to 0.6 percent of GDP in 2022, compared to 1.1 percent of GDP in 2021.

13. Over the medium-term, growth is expected to accelerate on the basis of the policies and reforms underpinning the ECF-supported program and HIPC process, though with some scarring from the COVID-19 and climate shocks. The growth projection for 2023-27 has been marked down from 4.0 percent in Nov 2020 DSA to 3.9 percent (Text Table 2). Growth over the medium- and long-term would be driven by: (i) confidence effects related to reaching the HIPC Completion Point (currently anticipated in 2023) and renewed 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

[14] Somalia received SDR157 million from the 2021 General SDR Allocation. Following discussions with IMF staff, the authorities distributed SDR93 million to the MOF and 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 SDR allocation, contributing to the transparency and accountability on the use of SDRs.

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, compared to 4.8 percent envisaged at the time of HIPC DP. Staff considers this new 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).[15] Somalia has limited monetary and fiscal policy response options to respond to these shocks, although new sources of financing to address the drivers of shocks could open up upon reaching the HIPC CP.

14. Somalia's medium- and long-term external sector is expected to remain robust. Exports of agricultural products, especially livestock (representing about 80 percent of total exports of goods) are projected to remain strong, as limits on visitors to Hajj pilgrimage are lifted, as well as because of an on-going diversification of export markets beyond Saudi Arabia and outside of the Hajj period. The livestock sector is expected to be supported by new insurance products to help mitigate risks. Expected pipeline investments in electricity and transport are expected to support the emergence of new productive sectors such as fisheries. A gradual increase in the trade deficit, as imports pick up to support growth, will be financed by renewed access to international finance and higher FDI inflows. The latter is expected to result from a confidence boost as Somalia reaches HIPC Completion Point, currently anticipated for 2023, coupled by a gradually improving business environment.

15. Over the medium and long term, Somalia is expected to have modest deficits to 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 2023-27, on the back of broad-based revenue-enhancing reforms.[16] Over the medium-term, trade related revenue (customs duties, sales tax on imports and port fees) are expected to increase due to efficiency gains from the introduction of ad-valorem tariffs and improved data, processes, and systems at customs. 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 telecom are projected to lead to an increase in income and sale taxes.[17] 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 the long term, grants are projected to gradually fall after HIPC Completion Point, as they are replaced by concessional loans. The fiscal primary deficit is projected to widen

[15] The medium- to long-term growth forecast at HIPC 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. For Somalia, it was assumed at HIPC DP that growth would accelerate starting at 0.2 ppts per year, and then increase to 0.4 ppts. The current projection assumes growth (post-HIPC DP) to accelerate by around 0.2 ppts per year and then moderate to 0.1 ppts.

[16] Compared to the LT forecast at HIPC decision point, revenues are still expected to reach 9 percent of GDP by 2040 but following a more gradual path. 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 2.4 percent of GDP in 2019. The projected medium-term and long-term path for revenues is comparable to the experience of other HIPC fragile countries.

[17] 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.

gradually in the medium and long term from -1.0 percent of GDP in 2024 to -1.5 percent of GDP in 2040, driven by increasing public investment, as Somalia benefits from renewed access to concessional borrowing.

16. Notwithstanding the recent challenges, the authorities continued to make sustained progress in their policy reform agenda. Important progress has been made towards achieving the HIPC Completion Point triggers, including on public financial and expenditure management, domestic revenue mobilization, governance, social sectors, and statistics. See Annex I for a description of the main pillars of the reform agenda. Furthermore, the authorities have made commendable progress in implementing the performance and policy actions under the IDA Sustainable Development Financing Policy, including maintaining a commitment to not borrow on 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 which is currently under preparation and will further support progress in achieving HIPC Completion Point triggers.

17. Although the nature of risks to the outlook remains as outlined in the ECF-supported program request, near-term risks are tilted to the downside. Prolonged drought conditions would hurt growth and increase food insecurity. Additional pressures on international food and energy prices due to the war in Ukraine, along with possible supply constraints, heighten food security risks and compound the economic hardship on the population. Other risks include the duration of the COVID-19 pandemic, resurgence of the desert locust infestation, and security risks. On the medium to long term, the risks are balanced. On the upside, the growth dividend of reaching the HIPC Completion Point on foreign investment inflows could be larger than currently anticipated. The development of new sectors (like the petroleum sector) and enhancement of others (like commercial fishing) could also increase growth. Renewed intergovernmental dialogue following successful elections could also support greater political stability and advances in the fiscal federalism agenda. On the downside, a potential delay in reaching the HIPC Completion Point relative to what was assumed at Decision Point (2023) would have detrimental consequences on growth and the country's fiscal sustainability. In addition, the expected transition from ATMIS to the Somalia National Army (SNA), potential frictions between the Federal Government of Somalia (FGS) and the FMS during the development of the fiscal framework, and an intensification of climate shocks represent important medium-term risks.

Text Table 2. Somalia: Macroeconomic Projections

(Percent of GDP, unless otherwise indicate

	DSA Nov 2020 1/							Current DSA 2/ 3/						
	2021	2022	2023	2024	2025	2026	2027-42	2021	2022	2023	2024	2025	2026	2027-42
GDP growth (percent)	2.9	3.2	3.4	3.6	3.9	4.3	4.9	2.0	2.7	3.6	3.7	3.9	4.0	4.5
Per capita GDP growth (percent)	0.0	0.3	0.5	0.7	1.0	1.4	1.9	-0.8	-0.1	0.8	0.9	1.1	1.2	1.6
GDP deflator (percent)	6.0	2.1	2.1	2.1	2.1	2.1	2.1	3.8	8.3	4.0	5.0	5.0	4.9	2.3
							(in percent of GDP)							
Non-interest current account deficit	12.9	12.8	13.1	14.8	14.2	13.5	12.5	15.1	14.5	12.5	11.3	12.3	12.2	12.1
Exports	21.8	22.0	22.1	22.2	22.1	22.0	21.0	17.4	16.9	16.9	17.2	17.2	17.2	17.2
Primary fiscal deficit	0.9	1.3	1.0	-2.1	-1.6	-1.0	0.1	1.1	0.5	-0.3	0.7	0.7	0.7	1.0
Revenues and grants	10.9	12.6	13.8	10.9	11.5	12.2	12.9	5.1	6.4	6.7	5.9	6.3	6.6	8.8
of which: grants	6.1	7.4	8.0	4.4	4.2	4.1	3.1	2.0	3.4	3.3	2.3	2.1	2.0	1.5

Sources: Somali authorities and IMF staff estimates.

1/ IMF Country Report No. 20/310

2/ The right panel figures correspond to the DSA baseline scenario, which includes interim debt relief but excludes HIPC Completion Point relief. The macroeconomic tables in the staff report, Include interim debt assistance and HIPC Completion Point relief (as in the DSA alternative scenario).

3/ The Fund and the Bank adopted the national accounts data (2012-2020) produced by the Somalia National Bureau of Statistics (SNBS) in December 2021. The new GDP series represents a 25 percent upward shift in the level of nominal GDP in 2017 (base year) compared to the prior estimates used by the Fund. This results in a decline in the reported variables in percent of GDP in the current DSA.

18. The available realism tools are not applicable. Given that Somalia's debt stock is largely determined by its progress under the HIPC Initiative, the realism tool comparing debt stocks and flows across DSA vintages is not yet applicable. Furthermore, the tool assessing the realism of the public investment-growth nexus is inoperable due to gaps in Somalia's investment data. Other tools suggest that the planned fiscal adjustment is in the middle of the distribution and signal optimism on the growth path, but the latter does not recognize that the reported adjustment (a modest decline in the fiscal deficits in 2022 and 2023 of about 0.5 percentage points of GDP each year) are mostly associated with a normalization of donor budget support grant disbursements, coupled by a modest increase in public expenditures, and hence, not contractionary. It also does not consider that growth in 2021 was still subdued—as the economy faced several COVID-19 waves, prolonged droughts conditions, and the delay in the Parliamentary and Presidential elections—and so economic growth in 2022-23 is expected to gradually rebound from these shocks. (Figure 3).

19. The baseline scenario continues to assume interim HIPC debt relief, consistent with the guidance under the Bank-Fund Low-Income Country Debt Sustainability Framework.[18] The scenario assumes no new borrowing over the interim period. Compared to the November-2020 DSA, this baseline DSA incorporates information of debt relief agreements already signed with Paris Club creditors (as described in paragraph 5). Consistent with the LIC-DSF guidance note and the HIPC Debt Relief Analysis, the baseline does not include relief under the HIPC Initiative at the Completion Point or MDRI.[19] The assumption remains that Somalia will reach the HIPC Completion Point in 2023, as the country has continued to make progress on the triggers for the HIPC floating completion point, notwithstanding the coronavirus pandemic, climate related

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

[19] For the IMF, the MDRI Trust Fund is closed, but financing is being sought for beyond-HIPC relief.

shocks, and political uncertainty. Reaching that milestone would result in an additional stock reduction of external debt of about 85 percent of GDP relative to the baseline, to 6.5 percent of GDP.[20]

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

20. 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. The DSA for Somalia uses the April 2022 vintage of the WEO and the 2020 CPIA. The latest available composite indicator score for Somalia is 1.61 (Text Table 3).[21]

21. An alternative scenario is presented that incorporates the full impact of multilateral arrears clearance, interim debt relief, HIPC, MDRI and beyond HIPC debt relief. This scenario assumes full delivery of additional debt relief at HIPC's Completion Point (as in the November 2020 DSA). 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. This is 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 scenario 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.

[20] See Appendix V in "Guidance Note on the Bank-Fund Debt Sustainability Framework for Low Income Countries," (February 2018).

[21] The revised composite index reflects an increase in the WB CPIA in 2019 to 2.0 from 1.83 in 2018. The 2020 assessment was unchanged.

Text Table 3. Somalia: Composite Indicator and Threshold Tables

Debt Carrying Capacity and Thresholds

Country	Somalia
Country Code	**726**

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 1.61	Weak 0.57	#N/A ...

Note: Until the April 2019 WEO vintage is released, the two previous vintages ago classification and corresponding score are based solely on the CPIA per the previous framework.

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

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

Note: Calculated based on the most recent WEO vintage (April 2022) and the latest CPIA vintage (2020).

EXTERNAL DEBT SUSTAINABILITY

22. Somalia remains in debt distress in the baseline scenario, which assumes interim HIPC relief. The revised DSA assumptions result in an improvement in all indicators in the near term compared to the November 2020 DSA, including because of the adoption of the nominal GDP series produced by the Somali National Bureau of Statistics (SNBS) (see paragraph 3). This is partially offset in the medium term (and more than fully offset in the long term) by an increase in the present value of external debt, resulting from both the update in the interim HIPC relief (see paragraph 5) and slightly higher deficit projections than assumed in the November 2020 DSA.[22] All in all, however, the PV of external debt-to-GDP and the PV of the external debt-to-exports continue to see significant breaches of the corresponding benchmarks over the forecast period. Moreover, the external debt service thresholds are breached beyond 2023 (debt service to revenue), and 2027 (debt service to exports), highlighting the risks that Somalia would face if it would reach the HIPC Completion Point later than currently anticipated. Somalia is in arrears with external creditors, and debt restructuring negotiations are ongoing. That said, in a forward-looking sense, Somalia's debt is still considered sustainable, given the expectation that all outstanding arrears will be treated under debt restructuring agreements since Somalia has reached the HIPC Decision Point.

[22] The PV of external debt-to-GDP in the current DSA baseline (which only incorporates interim relief) is 45 percent in 2022, about 10 percentage points of GDP lower relative to the Nov 2020 DSA baseline. However, the PV of external debt-to-GDP in the current DSA baseline is projected to decline at a slower rate than in the November 2020 DSA baseline over the medium and long term, reaching 21 percent in 2040 (about 7 percentage points higher than in the November 2020 DSA baseline).

23. While the revisions to the macroeconomic outlook and the PV of debt imply exacerbated debt vulnerabilities and further worsening of the debt situation, the HIPC Initiative does include provisions to ensure countries exit in a sustainable situation. The HIPC Initiative does provide for instances where countries experience a fundamental change in their economic circumstances due to exogenous factors during the interim period. While it is premature to provide an assessment at this stage, if specific conditions are met, Somalia could seek additional debt relief from all creditors, beyond the amount committed at the Decision Point, to reduce debt burden indicators to the HIPC thresholds, ensuring a sustainable debt burden at the conclusion of the process.

24. The standardized stress tests continue to demonstrate that Somalia's external debt position is subject to considerable vulnerabilities and highlight the importance of debt relief. While the application of the standard DSA stress test to Somalia is complicated by the short historical data series as well as severe structural breaks, most debt indicators deteriorate substantially under temporary shock scenarios.[23,] While the standardized stress test suggests the most serious shocks stem from a one-time depreciation, this shock is unlikely to occur in Somalia's de-facto dollarized context. As such, the non-debt flow shock (a shock in current official transfers) is a greater vulnerability, as a consistently high-ranking shock scenario across all indicators, which highlights Somalia's high dependence on external aid. Furthermore, the external debt service-to-revenue ratio experiences large breaches under all shock scenarios, accentuating liquidity risks during the HIPC interim period.

25. Somalia's debt situation is markedly better under the alternative scenario that assumes debt relief through the HIPC Initiative, MDRI, and beyond HIPC, underscoring that traditional debt relief alone is insufficient. Assuming full delivery of this additional debt relief at the Completion Point, as under the previous DSA, all debt burden indicators would be significantly below their respective thresholds from 2022, consistent with achieving a moderate risk rating at the Completion Point. There are, however, risks around the time it will take the authorities to complete all HIPC Completion Point triggers, and a delay could slow the expected progress in the debt restructuring assumptions underpinning the alternative scenario.

PUBLIC DEBT SUSTAINABILITY

26. With domestic debt being negligible, indicators of public debt are similar to the indicators for external debt. The PV of total public debt-to-GDP is well above the benchmark, with serious breaches under the various stress scenarios. 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 arrears. As in the external debt sustainability analysis, under the alternative scenario debt burden indicators improve significantly and drop below their respective thresholds.

[23] The standardized tests embedded in the LIC-DSF generate a financing gap that is assumed to be filled by the accumulation of new debt. However, Somalia would have limited (or no) access to any formal debt financing under the DSA baseline (which assume no HIPC Completion). While the DSA assumes additional financing, in practice, any additional financing needs would be expected to be accommodated through lower fiscal expenditures, lower imports, or higher grants. In addition, Somalia's severe data weaknesses could also bias the simulation results.

RISK RATING AND VULNERABILITIES

27. Somalia's external public debt and overall public debt remain in distress under the baseline scenario. The baseline incorporates the expected impact from economic scarring, coupled with an upward revision in the present value of debt due to updates in the interim relief assumptions, which imply a deterioration of Somalia's debt carrying capacity in the long term. The external debt burden indicators relative to GDP and exports remain well above their indicative thresholds over the medium term, and the debt service to revenue indicator would see an immediate breach should Somalia reach the HIPC Completion Point later than currently anticipated. This stresses once more the need for debt relief.

28. However, in a forward-looking sense, overall debt is assessed as sustainable contingent on the full delivery of eligible debt relief at the HIPC Completion Point. Debt relief under the HIPC Initiative, MDRI, and beyond-HIPC assistance improve Somalia's external debt situation and bring debt to a manageable level such that it can be judged sustainable in a forward-looking sense. The inclusion of domestic debt does not materially impact the analysis. The authorities' ongoing commitment to reform and strong track-record of reform implementation since 2016, the backing of the HIPC process by regional leaders, and the continued support from development partners provide support to the timely achievement of the HIPC completion point. Even after full debt relief, Somalia is expected to remain highly vulnerable to shocks, underscoring the importance of strengthening domestic revenue mobilization, debt management institutions, and institutional capacity over the medium term.

AUTHORITIES' VIEWS

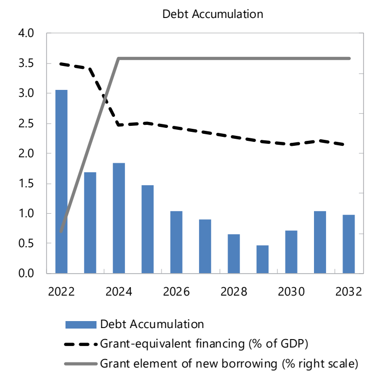
29. The authorities underscored the important progress that has been made towards the HIPC Completion Point. Debt relief agreements have been reached with most Paris Club members and the KFAED, and negotiations are advancing with remaining creditors. Reforms to complete the HIPC Completion Point triggers are moving forward steadily, including on domestic revenue mobilization, PFM, governance, social sectors, and statistics. The authorities reiterated their steadfast commitment to timely implementation of reforms in order to achieve the Completion Point within the planned timelines.

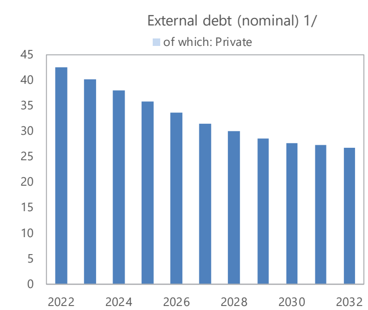
Table 1. Somalia: External Debt Sustainability Framework, Baseline Scenario, 2019–2042

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 8/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
External debt (nominal) 1/	82.0	56.5	46.8	42.5	40.1	38.0	35.8	33.5	31.5	26.7	27.7	**35.8**	**32.9**
of which: public and publicly guaranteed (PPG)	82.0	56.5	46.8	42.5	40.1	38.0	35.8	33.5	31.5	26.7	27.7	**35.8**	**32.9**
Change in external debt	-7.8	-25.5	-9.7	-4.4	-2.4	-2.1	-2.1	-2.3	-2.0	-0.5	0.1		
Identified net debt-creating flows	-5.2	-2.6	4.1	5.6	3.2	2.0	3.0	2.8	2.8	2.7	2.6	**-2.0**	**3.0**
Non-interest current account deficit	10.4	10.8	15.0	14.5	12.2	10.8	11.9	11.8	11.7	11.7	11.9	**8.2**	**11.9**
Deficit in balance of goods and services	63.7	63.4	70.7	71.0	69.5	68.0	67.9	67.8	67.8	67.8	67.9	**57.6**	**68.2**
Exports	17.3	13.9	17.4	16.9	16.9	17.2	17.2	17.2	17.2	17.2	17.2		
Imports	81.0	77.3	88.1	87.9	86.5	85.1	85.1	85.0	85.0	85.0	85.1		
Net current transfers (negative = inflow)	-53.8	-53.1	-56.2	-57.1	-57.6	-57.2	-56.1	-56.1	-56.1	-56.1	-56.1	**-49.9**	**-56.4**
of which: official	-29.4	-29.9	-28.0	-28.0	-28.7	-28.3	-27.7	-27.7	-27.7	-27.7	-27.7		
Other current account flows (negative = net inflow)	0.5	0.5	0.5	0.5	0.3	0.0	0.1	0.1	0.0	0.1	0.2	**0.5**	**0.1**
Net FDI (negative = inflow)	-6.9	-7.7	-7.9	-7.8	-7.8	-7.8	-7.8	-8.0	-8.0	-8.2	-8.4	**-5.8**	**-7.9**
Endogenous debt dynamics 2/	-8.7	-5.7	-3.1	-1.1	-1.2	-1.0	-1.0	-1.0	-0.9	-0.9	-0.9		
Contribution from nominal interest rate	0.0	0.0	0.0	0.0	0.2	0.4	0.3	0.3	0.4	0.3	0.2		
Contribution from real GDP growth	-2.7	0.3	-1.1	-1.1	-1.4	-1.4	-1.4	-1.3	-1.3	-1.1	-1.2		
Contribution from price and exchange rate changes	-6.0	-6.0	-2.1	...	...	...	...	...	...	...	...		
Residual 3/	-2.7	-22.9	-13.7	-9.9	-5.6	-4.1	-5.2	-5.1	-4.8	-3.2	-2.4	**-7.1**	**-4.8**
of which: exceptional financing	0.0	-61.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators													
PV of PPG external debt-to-GDP ratio	...	...	41.6	40.2	38.8	37.4	35.6	33.6	31.7	26.0	22.5		
PV of PPG external debt-to-exports ratio	...	...	238.7	237.2	229.4	217.4	207.1	195.4	184.2	151.1	130.9		
PPG debt service-to-exports ratio	0.0	1.4	1.3	1.2	2.4	4.5	6.4	7.7	10.5	4.0	3.6		
PPG debt service-to-revenue ratio	0.0	6.6	7.4	6.9	11.9	21.2	26.4	29.1	36.9	10.9	6.3		
Gross external financing need (Million of U.S. dollars)	228.8	231.4	545.2	566.8	429.2	365.5	540.4	584.3	691.0	734.1	1365.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.3	-0.3	2.0	2.7	3.6	3.7	3.9	4.0	4.1	4.5	4.5	**3.2**	**4.0**
GDP deflator in US dollar terms (change in percent)	7.2	7.9	3.8	8.3	4.0	5.0	5.0	4.9	4.6	2.1	2.1	**3.7**	**3.9**
Effective interest rate (percent) 4/	0.0	0.0	0.0	0.0	0.5	1.0	1.0	1.0	1.2	1.2	0.9	**0.0**	**1.0**
Growth of exports of G&S (US dollar terms, in percent)	0.0	-13.4	32.6	8.0	7.7	10.5	9.1	9.1	8.9	6.7	6.7	**4.7**	**8.0**
Growth of imports of G&S (US dollar terms, in percent)	2.2	2.7	20.6	11.0	5.9	7.2	9.0	9.0	8.9	6.8	6.7	**6.6**	**7.8**
Grant element of new public sector borrowing (in percent)	...	...	...	10.6	32.2	53.7	53.7	53.7	53.7	53.7	...	**...**	**47.8**
Government revenues (excluding grants, in percent of GDP)	3.5	3.0	3.1	3.0	3.4	3.7	4.2	4.6	4.9	6.3	10.0	**2.3**	**4.8**
Aid flows (in Million of US dollars) 5/	111.0	311.3	64.4	276.8	295.5	254.5	296.3	317.3	338.1	449.2	1014.9		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	3.5	3.4	2.5	2.5	2.4	2.3	2.1	2.2	**...**	**2.5**
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	77.8	95.7	93.2	88.7	87.4	86.3	82.4	71.1	**...**	**86.4**
Nominal GDP (Million of US dollars)	6,477	6,965	7,373	8,202	8,839	9,622	10,494	11,451	12,471	17,362	33,191		
Nominal dollar GDP growth	10.7	7.5	5.9	11.2	7.8	8.9	9.1	9.1	8.9	6.7	6.7	**7.0**	**8.1**
Memorandum items:													
PV of external debt 7/	...	...	41.6	40.2	38.8	37.4	35.6	33.6	31.7	26.0	22.5		
In percent of exports	...	...	238.7	237.2	229.4	217.4	207.1	195.4	184.2	151.1	130.9		
Total external debt service-to-exports ratio	0.0	1.4	1.3	1.2	2.4	4.5	6.4	7.7	10.5	4.0	3.6		
PV of PPG external debt (in Million of US dollars)			3070.3	3295.1	3433.4	3596.1	3736.8	3846.5	3948.8	4510.8	7469.1		
(PVt-PVt-1)/GDPt-1 (in percent)				3.0	1.7	1.8	1.5	1.0	0.9	1.0	1.2		
Non-interest current account deficit that stabilizes debt ratio	18.3	36.3	24.7	18.8	14.6	12.9	14.0	14.0	13.8	12.2	11.7		

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 - ρ(1+g) + Ɛα (1+r)]/(1+g+ρ+gρ) 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.

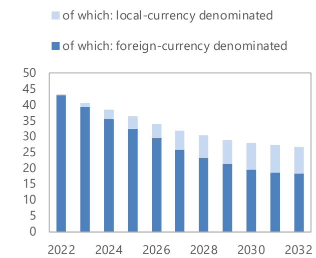
8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

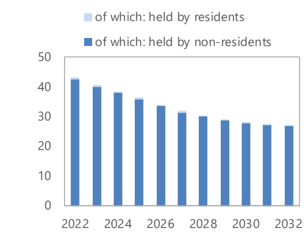
Table 2. Somalia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2042
(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/	83.0	57.1	47.5	43.3	40.5	38.6	36.4	34.0	31.9	26.8	27.7	36.6	33.3
of which: external debt	82.0	56.5	46.8	42.5	40.1	38.0	35.8	33.5	31.5	26.7	27.7	35.8	32.9
Change in public sector debt	-8.0	-25.9	-9.7	-4.2	-2.8	-2.0	-2.2	-2.4	-2.1	-0.5	0.1		
Identified debt-creating flows	-9.2	-67.4	-2.0	-4.2	-3.2	-2.2	-2.0	-1.7	-1.4	-0.1	0.1	-20.5	-1.5
Primary deficit	-0.4	-0.4	1.1	0.5	-0.3	0.7	0.7	0.7	0.8	1.0	1.3	-0.1	0.7
Revenue and grants	5.2	7.1	5.1	6.4	6.7	5.9	6.3	6.6	6.8	7.9	11.2	3.8	6.9
of which: grants	1.7	4.1	2.0	3.4	3.3	2.3	2.1	2.0	1.9	1.6	1.1		
Primary (noninterest) expenditure	4.9	6.8	6.2	6.9	6.4	6.6	7.0	7.3	7.6	8.9	12.5	3.7	7.6
Automatic debt dynamics	-8.8	-5.8	-3.1	-4.8	-2.9	-2.9	-2.7	-2.5	-2.2	-1.1	-1.2		
Contribution from interest rate/growth differential	-8.8	-5.8	-3.1	-4.8	-2.9	-2.9	-2.7	-2.5	-2.2	-1.1	-1.2		
of which: contribution from average real interest rate	-5.9	-6.1	-2.0	-3.5	-1.4	-1.4	-1.2	-1.1	-0.8	0.1	0.0		
of which: contribution from real GDP growth	-2.9	0.3	-1.1	-1.2	-1.5	-1.4	-1.4	-1.4	-1.3	-1.2	-1.2		
Contribution from real exchange rate depreciation	0.0	0.0	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	-61.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-6.1	0.0
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)	0.0	-61.2	0.0	0.0	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	1.2	41.5	-7.7	0.1	0.4	0.2	-0.2	-0.6	-0.7	-0.4	0.0	11.3	-0.4
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	...	...	42.6	41.0	39.3	38.0	36.2	34.1	32.1	26.1	22.5		
PV of public debt-to-revenue and grants ratio	...	...	833.4	641.7	584.8	639.2	574.8	517.8	470.2	330.8	201.9		
Debt service-to-revenue and grants ratio 3/	0.0	2.8	4.5	3.3	5.7	8.4	16.7	20.2	26.4	7.0	5.6		
Gross financing need 4/	-0.4	-61.4	1.3	0.0	-0.3	0.4	0.7	0.8	0.8	1.0	1.9		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.3	-0.3	2.0	2.7	3.6	3.7	3.9	4.0	4.1	4.5	4.5	3.2	4.0
Average nominal interest rate on external debt (in percent)	0.0	0.0	0.0	0.0	0.5	1.0	1.0	1.0	1.2	1.2	0.9	0.0	1.0
Average real interest rate on domestic debt (in percent)	-6.7	-7.3	-3.6	-7.7	3.8	2.9	2.9	2.9	2.3	2.8	2.8	-2.6	2.1
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	...	...	...	...	...	...	...	...	0.0	...
Inflation rate (GDP deflator, in percent)	7.2	7.9	3.8	8.3	4.0	5.0	5.0	4.9	4.6	2.1	2.1	3.7	3.9
Growth of real primary spending (deflated by GDP deflator, in percent)	9.6	38.9	-6.1	14.2	-3.7	6.2	10.3	8.7	8.2	8.0	7.6	17.6	7.5
Primary deficit that stabilizes the debt-to-GDP ratio 5/	7.6	25.5	10.8	4.7	2.5	2.6	2.9	3.1	2.9	1.5	1.2	14.6	2.5
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.

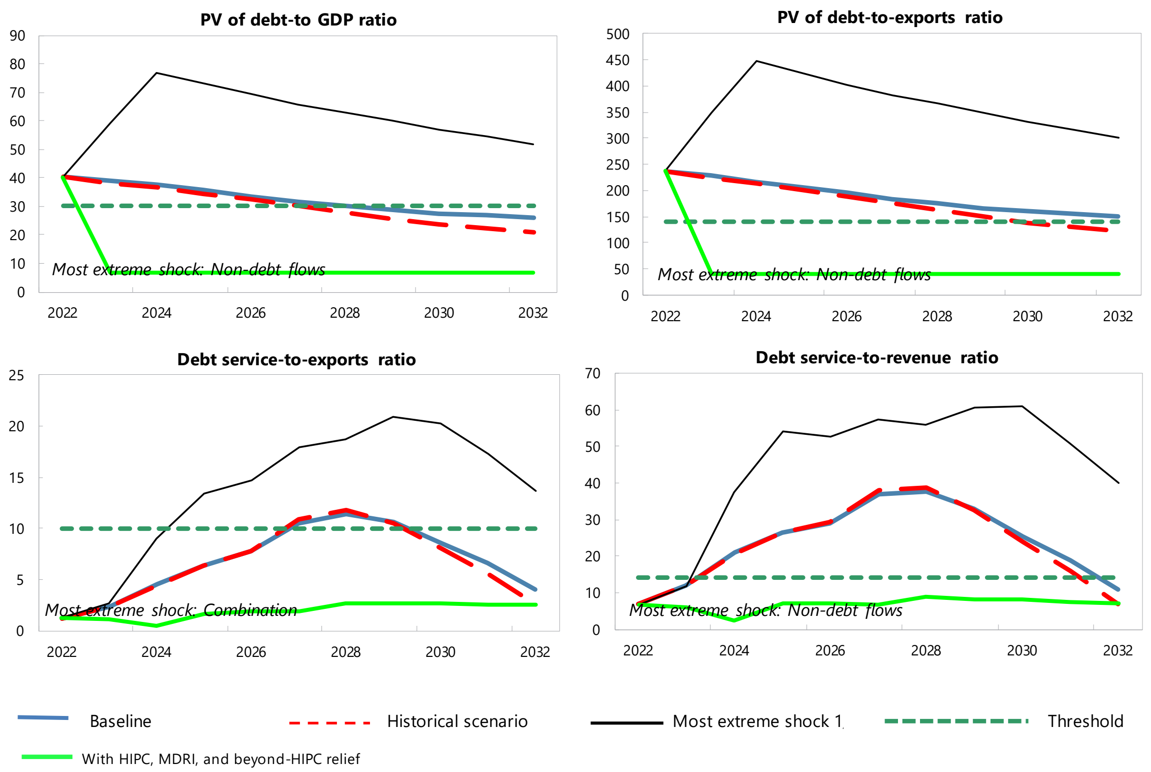
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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.

Figure 1. Somalia: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2022–2032



Customization of Default Settings	Size	Interactions
Tailored Stress		
Combined CL	Yes	
Natural disaster	n.a.	n.a.
Commodity price	n.a.	n.a.
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	0.6%	2.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	32	38
Avg. grace period	5	5

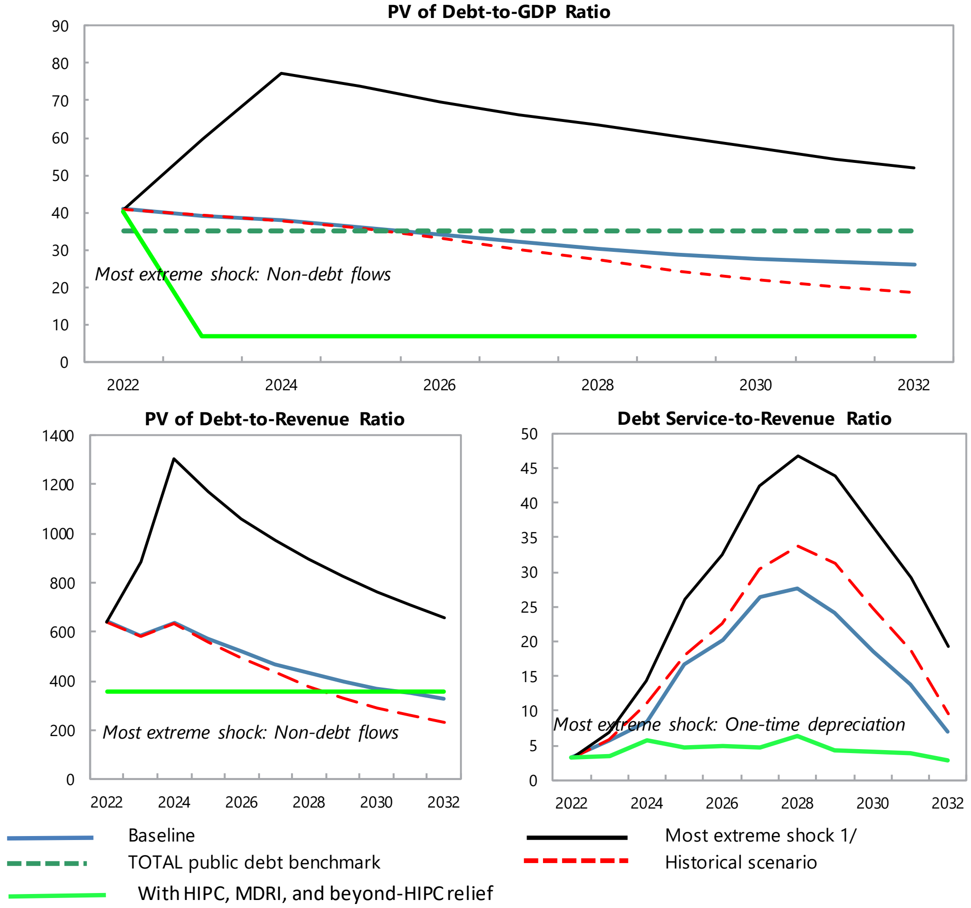
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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/ 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, 2022–2032



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	77%	77%
Domestic medium and long-term	0%	0%
Domestic short-term	23%	23%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.6%	2.0%
Avg. maturity (incl. grace period)	32	38
Avg. grace period	5	5
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	-3.9%	-3.9%

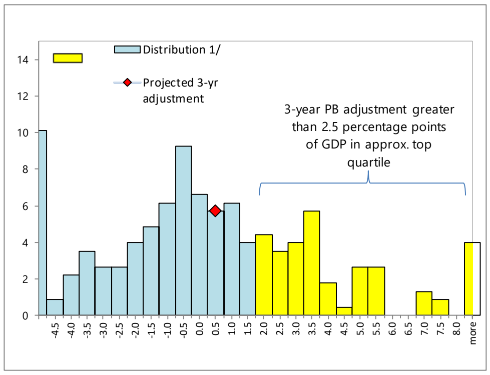
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 2032. 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.

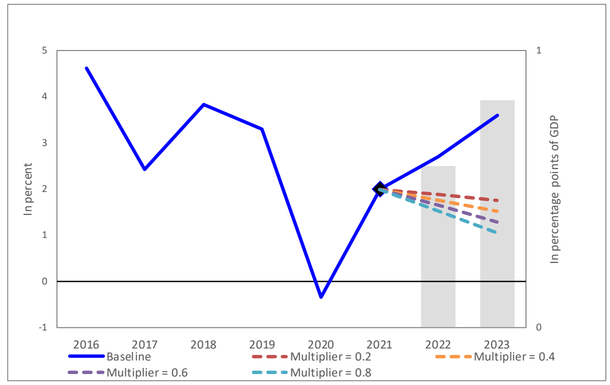
Figure 3. Somalia: Realism Tools

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).

Table 3. Somalia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2022–2032

(In percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	**40**	**39**	**37**	**36**	**34**	**32**	**30**	29	27	27	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**40**	**38**	**37**	**35**	**32**	**30**	28	26	24	22	21
B. Bound Tests											
B1. Real GDP growth	**40**	**40**	**40**	**38**	**36**	**34**	**32**	**31**	30	29	28
B2. Primary balance	**40**	**40**	**39**	**37**	**36**	**35**	**34**	**34**	**34**	**33**	**33**
B3. Exports	**40**	**41**	**43**	**41**	**39**	**37**	**35**	**33**	**32**	**31**	30
B4. Other flows 3/	**40**	**59**	**77**	**73**	**69**	**66**	**63**	**60**	**57**	**54**	**52**
B5. Depreciation	**40**	**49**	**34**	**33**	**31**	29	27	26	25	24	24
B6. Combination of B1-B5	**40**	**58**	**69**	**66**	**62**	**59**	**56**	**54**	**51**	**49**	**47**
C. Tailored Tests											
C1. Combined contingent liabilities	**40**	**42**	**41**	**40**	**38**	**37**	**37**	**36**	**36**	**35**	**35**
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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											
Baseline	**237**	**229**	**217**	**207**	**195**	**184**	**175**	**167**	**160**	**156**	**151**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**237**	**224**	**213**	**201**	**188**	**175**	**163**	**150**	139	130	122
B. Bound Tests											
B1. Real GDP growth	**237**	**229**	**217**	**207**	**195**	**184**	**175**	**167**	**160**	**156**	**151**
B2. Primary balance	**237**	**235**	**224**	**217**	**209**	**203**	**200**	**197**	**195**	**193**	**190**
B3. Exports	**237**	**283**	**352**	**335**	**316**	**299**	**284**	**271**	**260**	**251**	**243**
B4. Other flows 3/	**237**	**349**	**447**	**426**	**403**	**382**	**367**	**350**	**331**	**316**	**301**
B5. Depreciation	**237**	**229**	**158**	**151**	**142**	133	126	119	115	113	112
B6. Combination of B1-B5	**237**	**356**	**368**	**436**	**413**	**391**	**374**	**356**	**338**	**324**	**310**
C. Tailored Tests											
C1. Combined contingent liabilities	**237**	**247**	**239**	**232**	**224**	**217**	**214**	**210**	**208**	**206**	**203**
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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											
Baseline	1	2	5	6	8	**11**	**11**	**11**	9	7	4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	1	2	4	6	8	**11**	**12**	**10**	8	6	3
B. Bound Tests											
B1. Real GDP growth	1	2	5	6	8	**11**	**11**	**11**	9	7	4
B2. Primary balance	1	2	5	7	8	**11**	**12**	**11**	10	8	5
B3. Exports	1	3	7	**10**	**12**	**16**	**17**	**17**	**14**	**11**	8
B4. Other flows 3/	1	2	8	**13**	**14**	**16**	**17**	**19**	**20**	**18**	**15**
B5. Depreciation	1	2	5	5	6	9	10	9	5	4	1
B6. Combination of B1-B5	1	3	9	**13**	**15**	**18**	**19**	**21**	**20**	**17**	**14**
C. Tailored Tests											
C1. Combined contingent liabilities	1	2	5	7	8	**11**	**12**	**12**	10	8	5
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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											
Baseline	7	12	**21**	**26**	**29**	**37**	**38**	**33**	**25**	**19**	11
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	7	12	**21**	**26**	**29**	**38**	**39**	**33**	**24**	**16**	7
B. Bound Tests											
B1. Real GDP growth	7	12	**23**	**28**	**31**	**40**	**40**	**35**	**27**	**20**	12
B2. Primary balance	7	12	**22**	**27**	**30**	**38**	**40**	**36**	**29**	**23**	**15**
B3. Exports	7	12	**23**	**30**	**33**	**40**	**41**	**37**	**30**	**23**	**15**
B4. Other flows 3/	7	12	**37**	**54**	**53**	**57**	**56**	**61**	**61**	**51**	**40**
B5. Depreciation	7	**15**	**27**	**24**	**29**	**40**	**41**	**36**	**20**	13	4
B6. Combination of B1-B5	7	13	**37**	**49**	**49**	**55**	**54**	**57**	**53**	**44**	**33**
C. Tailored Tests											
C1. Combined contingent liabilities	7	12	**24**	**29**	**32**	**40**	**41**	**36**	**29**	**23**	**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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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.

Table 4. Somalia: Somalia: Sensitivity Analysis for Key Indicators of Public Debt, 2022–2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of Debt-to-GDP Ratio											
Baseline	**41**	**39**	**38**	**36**	34	32	30	29	28	27	26
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	**41**	**39**	**38**	**36**	33	30	27	24	22	20	19
B. Bound Tests											
B1. Real GDP growth	**41**	**40**	**40**	**38**	**35**	33	30	28	27	26	25
B2. Primary balance	**41**	**39**	**38**	**35**	33	30	28	25	24	23	22
B3. Exports	**41**	**41**	**43**	**41**	**38**	**36**	34	33	31	30	29
B4. Other flows 3/	**41**	**60**	**77**	**74**	**70**	**66**	**63**	**60**	**57**	**54**	**52**
B5. Depreciation	**41**	**51**	**48**	**45**	**41**	**37**	33	30	28	26	24
B6. Combination of B1-B5	**41**	**38**	**36**	34	31	28	25	21	19	17	15
C. Tailored Tests											
C1. Combined contingent liabilities	**41**	**43**	**41**	**38**	**35**	32	30	28	26	25	24
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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											
Baseline	642	585	639	575	518	470	430	397	370	350	331
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	642	584	631	559	493	434	377	328	289	260	233
B. Bound Tests											
B1. Real GDP growth	642	591	661	591	527	472	423	383	354	334	316
B2. Primary balance	642	587	633	561	496	440	390	350	319	297	278
B3. Exports	642	609	721	648	584	532	487	450	419	395	371
B4. Other flows 3/	642	887	1,303	1,171	1,061	970	896	829	764	710	658
B5. Depreciation	642	786	834	728	634	552	481	422	376	342	312
B6. Combination of B1-B5	642	574	608	539	471	409	349	295	252	221	196
C. Tailored Tests											
C1. Combined contingent liabilities	642	634	682	604	535	475	424	381	349	326	305
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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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											
Baseline	3	6	8	17	20	26	28	24	19	14	7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2032 2/	3	6	11	18	23	30	34	31	25	19	10
B. Bound Tests											
B1. Real GDP growth	3	6	11	22	28	36	39	37	31	26	18
B2. Primary balance	3	6	13	20	25	33	36	34	28	23	15
B3. Exports	3	6	9	19	22	28	29	26	22	17	10
B4. Other flows 3/	3	6	18	35	37	41	41	45	46	39	30
B5. Depreciation	3	7	14	26	32	42	47	44	37	29	19
B6. Combination of B1-B5	3	6	8	17	23	31	33	31	24	18	10
C. Tailored Tests											
C1. Combined contingent liabilities	3	6	30	26	27	34	37	34	29	23	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	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
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.

Table 5. Somalia: Public Debt Holder Profile, 2018–21

(In millions of U.S. Dollars, unless otherwise indicated

	Debt Stock (Millions of U.S. Dollars)				in % of Total Debt	in % of GDP
	2018 1/	2019	2020	Prel. 2021	2021	
Total Public Debt Outstanding	5,324.1	5,378.7	3,980.1	3,499.3	100.0	47.5
Total stock Public External Debt Outstanding	5,255.4	5,310.8	3,912.2	3,431.5	98.1	46.5
of which: in arrears 2/	5,042.0	5,114.0	1,222.0	1,221.5	34.9	16.6
Multilateral creditors	1,520.3	1,529.6	1,113.6	1,154.7	33.0	15.7
World Bank 3/	501.0	500.0	138.3	121.8	3.5	1.7
International Monetary Fund 4/	335.1	336.1	370.2	433.3	12.4	5.9
AfDB Group	137.2	139.1	26.3	23.8	0.7	0.3
Arab Monetary Fund	285.7	290.6	309.5	304.6	8.7	4.1
Arab Fund for Economic and Social Development	181.9	184.3	187.0	189.8	5.4	2.6
International Fund for Agricultural Development	30.9	31.4	33.1	32.3	0.9	0.4
Islamic Development Bank	13.1	13.0	13.5	13.1	0.4	0.2
OPEC Fund for International Development	35.5	35.7	35.8	35.9	1.0	0.5
Bilateral creditors	3,735.0	3,778.9	2,796.2	2,274.3	65.0	30.8
Paris Club creditors 5/	3,037.6	3,072.2	2,224.5	1,695.5	48.5	23.0
Denmark	8.5	8.5	3.1	3.0	0.1	0.0
France	417.8	433.4	166.4	154.2	4.4	2.1
Italy 6/	615.2	625.6	624.1	112.6	3.2	1.5
Japan 7/	118.6	125.6	135.7	121.8	3.5	1.7
Netherlands	6.6	6.7	2.4	2.2	0.1	0.0
Norway	1.9	1.9	0.6	0.7	0.0	0.0
Russia 8/	678.6	694.5	228.8	237.6	6.8	3.2
Spain	39.5	40.5	40.9	40.9	1.2	0.6
United Kingdom	83.9	85.2	30.4	30.4	0.9	0.4
United States	1,065.4	1,048.8	991.8	991.8	28.3	13.5
EEC IDA Administered Loans	1.6	1.6	0.4	0.4	0.0	0.0
Non-Paris Club creditors 9/	697.4	706.7	571.7	578.8	16.5	7.9
Algeria	1.6	1.6	0.5	0.5	0.0	0.0
Bulgaria	10.5	10.6	3.5	3.7	0.1	0.0
Iraq	181.4	186.8	61.0	63.3	1.8	0.9
Kuwait Fund and Central Bank	118.9	119.7	120.7	121.9	3.5	1.7
Libya	30.4	32.2	26.6	27.6	0.8	0.4
Romania	2.5	2.5	0.9	0.9	0.0	0.0
Saudi Arabia	109.6	111.1	112.5	113.3	3.2	1.5
United Arab Emirates	240.3	242.2	246.0	247.6	7.1	3.4
Commercial Creditors						
Serbia	2.3	2.3	2.4	2.4	0.1	0.0
Total Domestic Debt Outstanding	68.8	67.8	67.8	67.8	1.9	0.9
Of which : in arrears	68.8	67.8	67.8	67.8	1.9	0.9

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/ The reduction of debt stock in arrears in 2020 reflects provision of HIPC interim debt relief.

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

4/ IMF debt stock reported in 2021 includes net SDR position of government (used for budget support)

5/ Consistent with HIPC Debt Reconciliation Exercise in 2018. Updated 2019-2021 debt stocks as reported by Somalian Debt Management Unit (DMU), reflecting interim debt relief terms under agreements signed for all PC creditors, except Russia.

6/ Debt cancellation of 100 percent of ODA debt became efective on March 2021. The remaining amount reported represents non-ODA debt under Cologne terms assumptions of interim debt relief.

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

8/ As of time of preparation of this report, Russia has not signed a debt relief agreement with Somalia. The amount reported reflects estimates of interim debt relief under Cologne Terms computed as part of the HIPC DRA.

9/ The amount reported for non-PC creditors 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.

Annex I. Somalia Policy Reform Agenda

1. **The authorities have achieved significant progress in key reform areas, with support from the international community.** Highlights include (i) a significant increase in domestic revenue mobilization, including the introduction of income and sales taxes, development of the Revenue Law, and the establishment of a large- and medium-taxpayers' office; (ii) enhanced PFM, including the implementation of the Somalia Financial Management Information System (SFMIS) and implementation of a strict commitment control process; (iii) progress on fiscal federalism, including the establishment of the Intergovernmental Fiscal Forum (IGFF) and publication of an aggregated FGS and FMS budget and expenditure reports; (iv) a strengthening of capacity at the CBS and an expansion of regulatory oversight to the mobile money sector; (v) a stronger AML/CFT framework, including with the enactment of a new AML/CFT law and publication of the National ML/FT Risk Assessment; (vi) efforts to improve governance and reduce the risk of corruption, including the enactment of an Anti-Corruption Act, accession to the UN Convention Against Corruption in August 2021, and ratification of regional anti-corruption conventions; (vii) reforms to support inclusive growth and resilience to climate shocks, including enactment of the Somali Standards and Quality Control Bill and establishment of the Somali Bureau of Standards; and (viii) progress on developing key statistics, such as national accounts, balance of payments, CPI, and monetary statistics.

2. **The authorities remain committed to an ambitious reform agenda, in line with the ECF-supported program and HIPC initiative and anchored by the National Development Plan (NDP9)**. Progress has been made across the four NDP9 pillars, including social, economic, security, and governance policies. However, the COVID-19 pandemic, climate shocks, and lower than expected funding have slowed its implementation in 2021. In the years ahead, critical work will continue on domestic revenue mobilization, public financial management (PFM), debt management, fiscal federalism, data and statistics, monetary policy, financial sector regulation, and governance and anti-corruption, including within the framework of future IMF programs and WB operations. Challenges to these objectives include limitations on resources, as well as important capacity constraints and aid absorption bottlenecks.

3. **Reforms focus on the following key areas and will continue to be supported by technical assistance and other support from the IMF, World Bank, and other development partners:**

- **Fiscal:** The authorities aim to increase domestic revenues further, including by implementing the Revenue Act and the Customs Reform Roadmap (which includes applying a single import duty tariff schedule at all ports), and modernizing the Income Tax Law. They also plan to further strengthen PFM, including by issuing key regulations to the PFM Act. They will develop an action plan to strengthen the capacity of the debt management unit. They are working towards harmonizing the Extractive Industries Income Tax Law (EIIT, to be enacted) and the Production Sharing Agreement (PSA), and refining the tender process. They will continue working to deepen fiscal federalism, including by revising the expenditure assignment guidelines.

- **Financial:** The authorities will continue implementing the Financial Sector Reform Roadmap, including further efforts to deepen financial sector supervision, and structural reforms to improve the payment system. They will complete the transition to the new CBS organizational structure, and continue strengthening the AML/CFT operational and legal framework. The authorities will also work towards developing their National Strategic AML/CFT Action Plan and preparing for the MENA-FATF Mutual Evaluation Assessment in 2024.
- **Inclusive growth**. The authorities will move forward with plans to establish a national digital ID, which will help improve the private sector's access to credit. Growth will also be supported by improvements to infrastructure, including in the energy sector (policy reforms and new investments) and transportation.
- **Statistics.** The authorities will implement their Statistical Action Plan to underpin further improvements in statistical capacity. Key priorities include further work on GDP by expenditure, the development of a production-based estimate of GDP, and to develop a new national CPI.

Annex II. HIPC Completion Point

1. **Notwithstanding the multiple shocks, Somalia has preserved macroeconomic stability and reform momentum.** Somalia has been navigating challenges related to COVID-19, drought, surge in commodity prices, and severe revenue shortfalls. Nonetheless, several indicators suggest that the economy is gaining momentum. Inflation has remained moderate at 4.6 percent in 2021. A small deficit in 2021 has been financed with the fiscal buffer and SDRs. On reforms, important progress has been made towards achieving the HIPC Completion Point triggers (CPTs), including on PFM, domestic revenue mobilization, governance, social sectors, and statistics. The table below describes progress on each of the CPTs.

2. **Risks to the outlook are significant and reflect the drivers of Somalia's fragility.** Near-term risks include prolonged drought conditions or new weather-related shocks, additional pressures on international food and energy prices, resurgence of the desert locust infestation, the duration of the COVID-19 pandemic, security risks, and spillovers from geopolitical developments in neighboring countries. Shortfalls or delays in disbursement of budget support grants would also create risks for the budget.

3. **The staffs of the IMF and IDA have not changed their assumption that achieving the HIPC Completion Point by 2023 appears feasible.** The authorities' ongoing commitment to reform and strong track-record of reform implementation since 2016, the backing of the HIPC process by regional leaders, and the continued support from development partners provide support to the timely achievement of the HIPC completion point. It remains critical, however, that development partners continue to provide the necessary budget support and project financing, as well as capacity building support.

HIPC Completion Point Triggers	Progress
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.	Progress has been made across the four NDP9 pillars, including social, economic, security, and governance policies. However, the COVID-19 pandemic and lower than expected funding have slowed its implementation in 2021. The Annual Progress Report evaluating the implementation of the National Development Plan in 2020 is expected to be competed in 2022H1.
Macroeconomic stability	
2. Maintain macroeconomic stability as evidenced by satisfactory implementation of the 3-year ECF-supported program.	The 1st review of the ECF-supported program was completed on November 18, 2020. The 2nd and 3rd reviews are expected to be completed by June 2022.

HIPC Completion Point Triggers	Progress
Public financial and expenditure management	
3. Publish at least two years of the audited financial accounts of the FGS.	The Office of the Auditor General published the 2019 and 2020 FGS financial accounts.
4. Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	The PFM regulations—including chapters on debt, public investments, and natural resource revenue management—were prepared by the MoF and 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).	The FGS and the FMS reached agreement on the single tariff schedule, which will be submitted to Parliament for approval. Supporting customs regulations are under preparation. The Customs Automated System (CAS) has been piloted first in Mogadishu port and airport before rolling out to Bosaso, Garowe, and Kismayo.
Governance, anticorruption, and natural resource management	
6. Enact the Extractive Industry Income Tax (EIIT) Law.	Cabinet approved the EIIT Bill in December 2020. The Bill has been harmonized with the Production Sharing Agreement (PSA) to ensure consistency. The Bill will be submitted to Parliament for approval.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC)	The UNCAC was ratified by the Somali Parliament and assented by the President in December 2020.
Debt management	
8. Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12 months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12 months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).	The Ministry of Finance is making progress to improve debt reporting. Quarterly debt bulletins have been published for 2020Q4, 2021Q1, 2021Q2, 2021Q3, 2021Q4, and 2022Q1 with Information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.

HIPC Completion Point Triggers	Progress
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	The authorities are establishing a USR with support from the World Bank, the World Food Program (WFP) and UNICEF. The USR design and development of the platform and infrastructure are progressing well. However, progress is needed on the development of the data protection and data privacy Law and operational guidelines.
10. FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations	On July 14, 2021, the FGS and FMS MoEs including Puntland finalized and officially signed the revised draft education cooperation 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.
11. FGS and FMS Ministers of Health adopt a joint national health sector strategy	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.	The draft Somalia Electricity Bill was subject to consultations and was endorsed by Cabinet and submitted to the Parliament in December 2020. The bill will be prioritized by the 11th Parliament in its first readings.
13. Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	Regulations to the Company Act of 2019 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.	The Facts and Figures of Somalia has been published for 2018, 2019, and 2020.

Statement by Ms. Mannathoko, Executive Director for Somalia and Mr. Abdullahi, Senior Advisor to the Executive Director. June 17, 2022

Since reaching the HIPC Decision Point, the Somali authorities have shown remarkable commitment to agreed reforms under the ECF program, preserving economic stability despite lower revenues and substantial expenditure pressures due to the pandemic, drought, and the suspension of budget support by development partners when elections were delayed. Elections have now been held following over a year of delay, with new members of parliament sworn in on April 14, 2022, and a new President elected on May 15, 2022. The new President has been a longstanding advocate of IMF programs, having initiated the country's HIPC process some years back. He has committed his administration to the ECF program benchmarks negotiated by the previous administration, and beyond that intends to deepen reforms particularly with respect to intergovernmental fiscal relations, governance, public finance management and domestic revenue mobilization. The immediate priority of the government is food security and mitigating the impact of the drought on vulnerable households, and in this regard a new Presidential Special Envoy for the Drought Response was appointed to advance and coordinate government efforts. In the medium term, efforts to boost sustainable and inclusive growth will be prioritized. The authorities aim to reduce the high incidence of poverty. 70 percent of the population are estimated to live on under $1.90 per day.

Introduction

1. Our Somali authorities appreciate staff's continued engagement and candid policy discussions on the combined second and third reviews of the Extended Credit Facility (ECF) Arrangement. They broadly share staff's appraisal of key policy priorities.

2. The past couple of years have been especially challenging. The country faced multiple shocks amidst very limited fiscal scope. The global pandemic and worsening drought conditions have, together with global supply disruptions, led to a severe food crisis, with a third of the population facing acute food insecurity amidst deteriorating humanitarian conditions. This crisis was exacerbated by security challenges. Nevertheless Somalia has continued to make substantial progress in rebuilding government and economic institutions with help from the IMF and other international development partners. This is reflected in robust program performance. While varied shocks threatened to setback reform progress, the authorities remained steadfast, sustaining prudent economic management to meet their ECF program targets and preserve macroeconomic stability, while continuing to pursue the Ninth National Development Plan (NDP9) priorities. The NDP9 and ECF prioritize strengthening economic institutions, public finance management, domestic revenue mobilization and creating a conducive environment for sustained and inclusive growth.

3. The country currently faces a looming humanitarian crisis. A joint UN agencies report released on June 6, 2022 indicates that in the wake of drought with four failed rainy seasons, the Somali population faces catastrophic hunger and severe food insecurity. The report estimates

that nearly 50 percent of the population will experience food insecurity or worse through September 2022 and possibly, beyond. The crisis is further exacerbated by high food inflation which has impacted vulnerable households the most, as they spend a significant share of their income on food. With a weak social safety net and limited fiscal space, Somalia continues to rely heavily on external donor support to help reduce the risk of famine. We appeal to development partners to redouble their support to the country to help avert a humanitarian crisis and save lives.

Recent Economic Developments and Outlook

4. The economy grew by 2 percent in 2021 following contraction in 2020. The modest recovery reflected some recovery in exports and household consumption. was buttressed by higher remittances The economy is expected to grow by 2.7 percent in 2022, however, the outlook is clouded by the prolonged and severe drought, on-going security challenges, higher fuel and food prices, and the risk of COVID-19 resurgence due to very low vaccination rates. Nevertheless in the medium-term, GDP growth is projected at 4.1 percent supported by higher private investment, public spending, and on-going reforms.

5. Inflation recorded at 4.6 percent in 2021, is expected to accelerate to 8.5 percent in 2022, as food and energy prices continue to rise reflecting spillovers from the war in Ukraine alongside the prolonged and severe drought. Inflation is projected to moderate to less than 4 percent in 2023 and beyond.

6. Despite strong exports and increased remittance flows, the current account deficit widened from 10.8 percent of GDP in 2020 to 15.0 percent in 2021 reflecting a higher import bill and decline in donor support. The current account deficit is projected to remain elevated in the medium term and is expected to be financed through remittances and foreign direct investment, and in the medium-term, by modest concessional loans.

7. Since the beginning of the global health crisis, Somalia has experienced multiple COVID-19 waves. Inadequate vaccine access and limited capacity to administer particularly outside major urban areas have resulted in extremely low vaccination rates.

As of June 9, 2022, less than 9 percent of the population were fully vaccinated.

Program Performance

8. Given the strong performance under the ECF arrangement amidst especially challenging conditions, the authorities seek Executive Directors' support for the completion of the second and third reviews of the program and for associated waivers and modifications. As the timing of budget support disbursements is uncertain, the authorities request the use of an adjustor on the floor for the fiscal balance to reflect this. They are also requesting rephasing of

access and the extension of the ECF arrangement to end-2023 to adjust for delays in the second and third reviews. They seek disbursement of the third tranche of interim HIPC assistance of SDR 680,000 to cover debt service to the Fund falling due through June 2023.

9. All quantitative performance criteria and all indicative targets from December 2020 to September 2021 were met except for the floors on domestic revenue and the fiscal balance, as the authorities could not prevent pandemic-induced shortfalls in revenue or the pause in budget support in response to delayed elections. The authorities have committed to taking corrective actions to address revenue shortfalls including through the introduction of new tax measures in the 2022 budget as well as revenue administrations reforms. The recent successful elections are also expected to unlock donor budget support.

10. The authorities have also met all structural benchmarks on time except one on the Targeted Financial Sanctions Law. While Cabinet had approved the law and it was submitted to the previous Parliament, it did not move forward because Parliament was not in session during the elections period. The authorities intend to resubmit the bill to the new Parliament for approval in June 2022. They are also making steady progress in implementing HIPC Completion Point triggers with a view to reaching the Completion Point by early 2023.

Fiscal Policy

11. Despite substantial spending pressures fueled by severe drought, the pandemic, security challenges, and an election cycle, the authorities have exercised remarkable restraint and pursued prudent expenditure management. The suspension of donor budget support alongside pandemic impacts also contributed to the significant revenue shortfall. Judicious use of the SDR allocation, strategic advances from the Central Bank of Somalia (CBS), and effective and careful expenditure management helped preserve macroeconomic stability and allowed the authorities to meet critical expenditures while limiting the negative cash balance to 0.3 percent of GDP. Moving forward, they remain committed to effective expenditure control and domestic revenue mobilization anchored by the medium-term fiscal framework supporting NDP9 implementation. Continued support from development partners will however remain essential at the center of the authorities' medium-term fiscal framework. In the short run should donor support fail to materialize in time to meet critical spending and mitigate liquidity risks, the authorities have contingencies in place including temporary advances from the CBS, expenditure reprioritization and acceleration of revenue measures. However, given the severe humanitarian challenges the country faces, timely donor support is critical as sustained austerity has significant risks.

12. The authorities will boost domestic revenue collection by broadening the tax base and improving the efficiency of tax administration. New tax measures in the 2022 budget and

resumption of donor support are expected to ease pressures in 2022 and beyond and to support spending priorities including critical higher social spending. Starting in 2023, more revenues are expected from the telecom sector with the application of an effective tax rate consistent with those in other countries in the region, and fair spectrum fees which the authorities plan to introduce by July 2022. In addition, the deployment of point-of-sale machines is being prioritized to improve accuracy of sales data and increase sales tax collection from large taxpayers. The current outdated income tax law will also be updated with the submission of a new modern income tax law to Parliament. The authorities will develop an integrated tax administration system by the end of this year as well as draft the regulations for the Revenue Management Law, to enhance tax administration efficiency. They have also prioritized modernizing and improving the efficiency of customs administration. They intend to shift to an ad valorem tariff structure across all ports of entry of the Federal Republic of Somalia and its member states. They will issue customs regulations on valuation and declarations and enact the law specifying the ad valorem tariff schedule this year. They will also operationalize the Customs Administration System at ports and airports as part of the infrastructure for ad valorem customs valuation.

13. On expenditure, the authorities will implement payroll reforms. The integrated payroll system will capture all compensation of employees (including the share currently outside the payroll process) in the Somalia financial management information system (SFMIS). Cabinet will approve a new pay and grade policy that will codify salary scales and allowances in support of this process. In the short run, nominal wages will be frozen, and growth of public sector employees limited to new recruitments in the security sector. The authorities will also improve budget execution and the treasury management process. They plan to develop invoice tracking and efficient budget management functionality under the SFMIS. The functionality of the commitment control module in the SFMIS has been operationalized to strengthen expenditure management and is already contributing to more effective cash and other expenditure management.

14. The authorities continue to strengthen public financial management (PFM), building on previous reforms. They published audited annual financial statements of the Federal Government of Somalia (FGS) for 2019, and 2020 and 2021 statements will be released after their consideration by the new parliament. In 2021, the authorities published the aggregate comprehensive budget of the FGS, federal member states plus and Banadir Regional Administration for the first time. In May 2022 the stalled 2018 PFM Act regulations including provisions on debt, public investments, and natural resource management were issued and implementation will commence immediately. This is an important step towards building a strong foundation for more effective and cooperative intergovernmental fiscal relations. In addition, the authorities are stepping up the implementation of the Public Procurement Law and regulations as well as building capacity for public sector employees to ensure they fully understand the legislation and associated regulations. To boost transparency, the authorities launched the public procurement portal that will serve as a one stop repository of all

procurement related information.

15. Since reaching the HIPC Decision point, the authorities have been in active negotiations with all their creditors to secure the required level of debt relief and ensure debt sustainability at HIPC Completion Point. As a result, agreements have been reached with all Paris Club members except Russia as well as with the Kuwait Fund for Arab Economic Development. Negotiations are on-going with the remaining creditors, as the authorities seek and hope for their cooperation. The authorities have substantially improved their debt management capacity with the adoption of the Commonwealth Meridian debt recording management system. As a result, the Debt Management Unit has been able to publish accurate quarterly public debt reports since 2020Q4.

Monetary and Financial Sector Policies

16. The authorities remain committed to strengthening monetary policy. The central bank has limited policy levers to mitigate current high inflation given that the economy is de facto dollarized. Although the currency exchange project which will replace counterfeit currency in circulation and usher in full currency reform in the future remains a high priority, the authorities are taking a careful and considered approach to ensure successful implementation. They will endeavor to have in place operational, security and financial requirements as well as basic monetary policy instruments and capacity before this critical reform is operationalized. The authorities will also seek the support of development partners to secure the required financial resources and technical support, in this regard.

17. The authorities have prioritized rebuilding the capacity of the central bank by creating a function-based organizational structure and executive committee to improve decision making efficiency. The full implementation of the IMF safeguards recommendations, which cover external and internal audit, legal, reporting and controls, in line with the Central Bank of Somalia's (CBS) strategic plan, remains a priority. Significant progress has been made in the implementation of these recommendations. The authorities have also taken steps to improve the CBS's internal operations such as accounting practices, and for the first time in FY2020, the CBS's financial statements received an unqualified audit opinion, with no material weaknesses or significant deficiencies cited. The audit was conducted by a reputable international independent certified public accounting company. The CBS is also in the process of modernizing its legal framework. In this regard, the draft National Payment System Bill and revised Financial Institutions Law and Insurance Bills are now under final technical and legal reviews and will be submitted to Cabinet in October 2022.

18. Somalia's banking sector has remained resilient to shocks benefitting from ample capital and liquidity buffers. Nevertheless, regulations on banking institutions' capital adequacy and liquidity risk management are being updated to comply with Basel committee recommendations. With support from the Fund, the CBS supervision department has also taken

concrete steps to build technical capacity and improve the regulation of the banking sector, including Islamic banks, including with a tailored training plan for supervisory staff. Guidance has also been issued on both Islamic bank financial reporting and the governance framework. Concerted efforts to improve the accounting practices and develop the capacity of accounting staff with support from international development partners including the IMF are bearing fruit. The CBS has also issued modern mobile money regulations and gave mobile money operators 24 months to meet the regulatory requirements. Licenses were issued to two large mobile money operators that were compliant with all the requirements.

Together they account for nearly 80 percent of all mobile transactions. Two additional licenses are currently under consideration.

Structural Reforms and Governance

19. Addressing governance weaknesses and fighting corruption remains a high priority. An independent Anti-Corruption Commission was established, and the national anticorruption strategy published. The authorities note the importance of developing an action plan for the anti-corruption strategy once ongoing outreach to stakeholders is concluded. Somalia's August 2021 accession to the UN Convention Against Corruption set the stage and an implementation action plan is being developed. The authorities also ratified the African Union and Arab League anti-corruption conventions. On the AML/CFT front, the authorities have completed a comprehensive National Risk Assessment with support from the World Bank. The assessment highlights areas for improvement that will inform the development and implementation of a new National Strategy on AML/CFT to address identified shortcomings before the MENA-FAFT Mutual Evaluation Assessment in 2024.

20. Our authorities intend to create a strong social safety net to support vulnerable households. With the support of the World Bank, the Shock Responsive Safety Net for Human Capital Project (Baxnaano) which is based on the World Food Program system was launched in April 2020 and has played a critical role in supporting drought and COVID-19 affected households. A national registry system will also be established along with the necessary regulations including those addressing data privacy and data protection protocols. The most vulnerable households will be targeted for support. The authorities are also making progress towards a national ID to support financial intermediation and delivery of government services, including social programs.

21. Somalia has the potential to become an important oil and gas producer in the region. To ensure the country derives maximum benefit from any future exploration and that proceeds from production of oil and gas accrue to the people of Somalia, the Inter-Ministerial Concession Committee approved a model oil and gas production sharing agreement (PSA). The Extractive Industries Income Tax (EIIT) Bill has been revised to make it internally consistent with the PSA. The authorities also plan to adopt a strong tender protocol in line with IMF recommendations and international best practice, to promote competitive bidding for petroleum

exploration contracts. On the advice of the IMF, the authorities will refrain from issuing exploration licenses before regulatory building blocks including the Petroleum Act, EIIT, and the model PSA and associated PFM regulations are in place.

22. Our Somali authorities recognize the increasing urgency of climate change adaptation and its importance to protect growth and food security and reduce climate-induced poverty. The authorities are concerned at the increasing impact of the climate change and are keen to implement pertinent reforms for adaptation and resilience. The increasing frequency and severity of droughts and floods and resultant food insecurity is a concern but to date the authorities have been constrained by the lack of resources to adapt. Somali authorities appreciate the continued support of their international partners to deepen reforms to adapt to climate change.

Conclusion

23. The Somali authorities remain committed to implementing difficult reforms notwithstanding the extremely challenging environment. They value their engagement with IMF staff and the substantial technical assistance and capacity development support they receive. They look forward to the support of Executive Directors towards the completion of the second and third reviews of the ECF program.