INTERNATIONAL MONETARY FUND

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SOMALIA

June 2024

STAFF REPORT FOR THE FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOMALIA

In the context of the Staff Report for the First Review Under the Extended Credit Facility Arrangement, and Requests for Modification of Performance Criteria, 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 May 29, 2024, following discussions that ended on March 8, 2024, 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 April 17, 2024.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association.
- A **Staff Statement** updating information on recent developments.
- 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.

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

FOR IMMEDIATE RELEASE

- The IMF Executive Board completed the first review under Somalia's Extended Credit Facility (ECF) arrangement. The decision allows for an immediate disbursement of about US$10 million to Somalia to support its economic policies and reforms.
- Real GDP growth is expected to rise to 3.7 percent in 2024 compared to 2.8 percent in 2023, supported by continued recovery in agriculture, greater remittances, and higher investment.
- Somalia has continued to advance its reform agenda and program performance has been strong. Policy priorities are to maintain fiscal sustainability, strengthen revenues and public financial management, promote financial deepening, improve governance, and enhance statistics.

Washington, DC – May 29, 2024: The Executive Board of the International Monetary Fund (IMF) today completed the first review of the Extended Credit Facility (ECF) arrangement for Somalia. The Board's decision enables the immediate disbursement of SDR 7.5 million (about US$ 10 million), which will be channeled for budget support, bringing Somalia's total disbursement under the Extended Credit Facility (ECF) to SDR 37.5 million (about US$ 50 million).

Somalia's ECF arrangement was originally approved by the Executive Board on December 19, 2023 (see Press Release No. 23/463). The program supports the authorities' reform strategy, after achieving the completion point under the Heavily Indebted Poor Countries (HIPC) initiative, to further strengthen key economic institutions and promote macroeconomic stability and growth. This is in line with Somalia's national development plan and the government's long-term vision to maintain economic stability, strengthen revenues and public financial management, promote financial deepening, improve governance, and enhance statistics.

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

"The Somali authorities have maintained strong reform momentum, after reaching the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative in December 2023. Somalia's performance under the Fund-supported Extended Credit Facility Arrangement has been strong. The authorities' continued strong ownership of the reform agenda will be important to build resilience, promote inclusive growth, and reduce poverty. Continued and timely support from development partners is also critical for the successful implementation of the reform strategy.

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“The authorities’ strong revenue performance and steadfast implementation of revenue-enhancing reforms are welcome. Sustained efforts on domestic revenue mobilization would help to make room for priority spending. Key reforms include customs modernization and the new income tax law. Further strengthening of public financial management is also important, including continued progress on payroll integration, enhancing expenditure controls, as well as developing debt management capacity.

“Ongoing reforms to strengthen central bank institutional capacity are commendable. Careful formulation of the monetary and exchange rate policy frameworks is important in the context of the planned currency reform. Efforts should continue to promote financial deepening and financial inclusion and to advance reforms to improve the AML/CFT framework and governance.

“Measures to bolster inclusive growth and strengthen resilience are important. The authorities are focused on building capacity in the petroleum sector and implementing its legal framework. Addressing food insecurity, building climate resilience, and enhancing trade integration are central to ensuring Somalia’s long-term development.”

INTERNATIONAL MONETARY FUND

SOMALIA

April 17, 2024

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA

EXECUTIVE SUMMARY

Context. Economic activity has picked up in recent months, supported by a rebound in agriculture, though still affected by the lingering effects of two years of drought and recent severe flooding. The security situation remains challenging, with the government scaling up its military actions against the Al-Shabab terrorist group, amid the planned withdrawal of the African Union Transition Mission in Somalia (ATMIS) by end-December 2024. Despite these significant challenges, the authorities remain committed to the reform effort, leveraging the benefits of the HIPC Completion Point achieved in December 2023.

Reform priorities. The overall fiscal deficit of 0.5 percent of GDP for 2024 accommodates priority expenditure that supports growth, security, and development while limiting other discretionary spending. This will be supported by increasing domestic revenues—including on the back of the new income tax law and increasing revenue collection from large businesses—that will fully cover the cost of compensation of employees. Efforts also continue on payroll integration and the implementation of the Pay and Grade policy, as well as to strengthen public financial management and debt management capacity. A careful assessment of the fiscal costs of proposed new pension regimes will be carried out before moving forward with implementation. The Central Bank of Somalia will continue to strengthen its institutional framework and capacity, including financial regulation and supervision. In consultation with the IMF, the authorities will work on formulating the monetary and exchange rate policy frameworks for the currency reform, with implementation to be supported by IMF technical assistance. To support key policy areas, the program includes new indicative targets and structural benchmarks through March 2025.

Program performance. All quantitative performance criteria (QPCs) and indicative targets (ITs) due for this review were met. The authorities are requesting modifications to the June and December 2024 QPCs to: (i) raise the floor on domestic revenues in line with revised projections and to a level that matches the cost of compensation of employees; (ii) raise the ceiling on government expenditure on compensation of employees, goods and services and contingency to accommodate higher spending that supports security and growth; and (iii) reduce the floor on net international reserves to reflect the transfer

to the Ministry of Finance of the SDR 7 million windfall from the HIPC debt relief and remove the associated NIR adjustor. They also request to modify the TMU definition of the continuous ceiling on accumulation of external payments arrears to exclude external payment obligations for which the creditor has extended a payment deferral or for which payments are made into a designated account due to the risks of blocking of the payment by correspondent banks. The authorities are also requesting a modification to the definition of goods and services expenditure to exclude the commission paid to the central bank. The authorities met the structural benchmarks related to expanding invoice tracking functionality to all goods and services, and submission of amendments to the AML/CFT Law to Parliament. The program is fully financed for the next 12 months.

Program and other risks. Food insecurity can worsen if rainy seasons fail, or new natural disasters hit Somalia. Additional risks include deterioration of the global/regional security situation, risks related to the ATMIS transition, political risks linked to federalism, and lower global growth. Risks to the program are mitigated by continued program ownership, capacity development, and sustained support from development partners.

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

Discussions were held in Nairobi, Kenya during February 26–March 7, 2024. The staff team consisted of Ms. Jaramillo (Head), Mr. Baltabaev, Ms. Bendjellal (all MCD), Mr. Nguyen (FAD), Mr. Abbas (SPR), Ms. Sozzi (STA), Mr. Le Hen (Resident Representative), Mr. Irungu and Mr. Osman (Resident Representative Office). Mr. Abdullahi, (OED) participated in key policy meetings. Ms. Gupta and Ms. Ament supported the preparation of this report. The mission met with Finance Minister Egeh, Minister of Planning Mohamud, Central Bank Governor Abdullahi, and other senior officials. The mission also met with development partners and private sector representatives.

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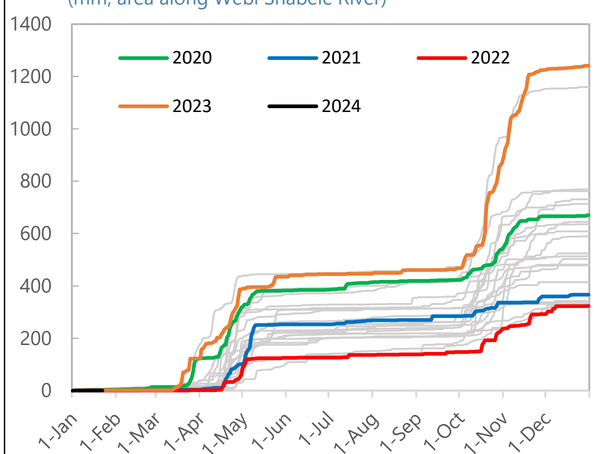
CONTEXT

1. **Somalia achieved a remarkable milestone by reaching the Completion Point under the Heavily Indebted Poor Countries (HIPC) Initiative in December 2023.**[1] This milestone was achieved thanks to Somalia's strong track record of reform implementation and support from international partners over several years. Total debt relief provided at the Completion Point amounted to US$4.5 billion, reducing the country's total external debt to 6 percent of GDP by end-2023, compared to 64 percent of GDP at end-2018. The debt relief is expected to facilitate access to new external financing from multilateral and bilateral partners to support inclusive growth and poverty reduction.

2. **Economic activity has picked up in recent months, although food insecurity remains a concern.** Livestock and crops have started to recover, but improvement has been gradual due to the lingering effects of two years of drought and recent severe flooding.

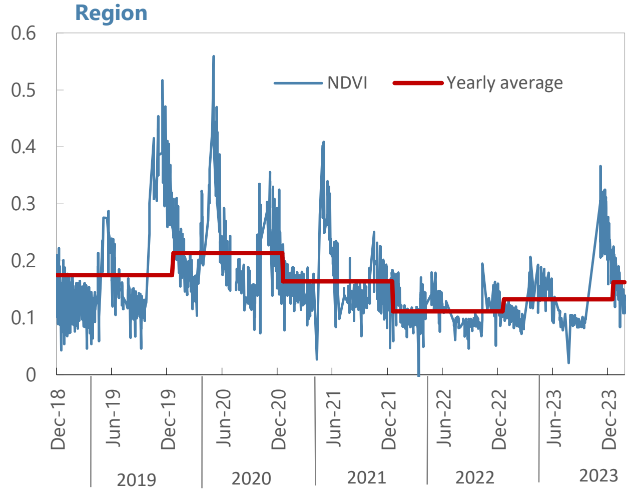
Somalia: Cumulative Precipitation

(mm, area along Webi Shabele River)



Source: NASA and IMF Staff calculations

Somalia: Vegetation Index in Beledweyne Region



Source: Copernicus Sentinel-2 and IMF Staff estimates

Note: The graph illustrates the mean normalized difference vegetation index (NDVI) in Beledweyne, a region known for its substantial agricultural productivity. NDVI, a commonly employed metric that assesses vegetation health and density through sensor data, exhibits a strong correlation with the actual condition of vegetation on the terrain.

3. **While some progress has been made, security challenges remain elevated.** In December 2023, the UN Security Council lifted the arms embargo on the Federal Government of Somalia (FGS), which had been in place since 1992. The government continues to advance against the Al-Shabab terrorist group, amid the planned withdrawal of the African Union Transition Mission in Somalia (ATMIS) by end-December 2024. However, there are ongoing challenges related to

[1] On March 13, 2024, all Paris Club creditors reached consensus to provide Somalia HIPC and beyond-HIPC nominal debt relief amounting to more than US$2 billion.

establishing durable local security arrangements and providing targeted social assistance to the liberated areas. To address these challenges, the FGS has developed the Somalia Security Sector Development Plan and implementation of the Plan will depend on financing from partners.[2] As described in Somalia's 2022 Country Engagement Strategy (CES), greater security will support economic stability by boosting business and consumer confidence, facilitating greater agriculture production, and allowing the government to, over time, deliver public services and infrastructure to the entire territory. It will also improve the ability of the government to enforce taxation, regulations, and other institutional reform efforts that will help set the conditions for inclusive growth.

4. Somalia's recent membership to the East African Community (EAC) provides the opportunity to enhance the country's regional integration, and naval ties with Türkiye have strengthened amidst recent tensions with Ethiopia. As of March 4, 2024, Somalia became the eighth Partner State of the EAC. The EAC Secretariat is currently developing a roadmap for Somalia's full integration into the EAC. This will be based on the negotiated agreements between the Federal Republic of Somalia, the other seven Partner States, and the EAC Secretariat. Separately, in January 2024, Somalia rejected a Memorandum of Understanding (MoU) signed between Ethiopia and Somaliland that would grant Ethiopia naval and commercial access to Berbera port in the Gulf of Aden, in exchange for Ethiopia to assess whether to recognize Somaliland's independence.[3] Somalia has accused Ethiopia of breaching its sovereignty, and the dispute adds to growing tensions in the Horn of Africa region. In February 2024, Somalia and Türkiye signed a 10-year maritime defense pact that is expected to pave the way for Türkiye to provide training and equipment to Somalia's Navy, in a bid to protect Somali marine resources and counter threats emanating from piracy and terrorism. Modalities of the agreement, including Türkiye's role in Somalia's maritime exclusive economic zone, are currently being discussed between the two governments.

5. The FGS and Federal Member States (FMS) continue to advance the federalism agenda, though challenges remain. While high level agreements were reached in 2023 on revenue responsibilities and revenue sharing among the FGS, four out of five FMS, and the Mayor of Mogadishu, discussions continue with Puntland. An agreement with all FMS will be needed to move forward on a permanent Constitution and fiscal federalism. As described in Somalia's 2022 CES, lack of political consensus among the FGS and all FMS impacts implementation of federal fiscal reforms.

6. Despite these challenges, the Somali authorities remain committed to advancing key reforms under an IMF-supported program approved in December 2023. The program envisages to support the authorities' post-HIPC reform strategy to further strengthen key economic institutions and promote macroeconomic stability and inclusive and sustainable growth, in line with Somalia's national development plan and the government's long-term vision.

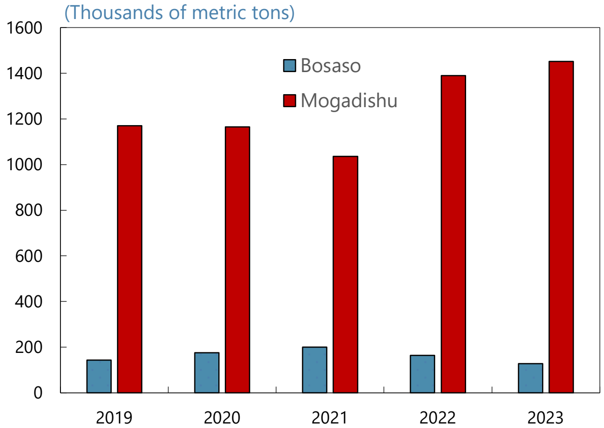
[2] The Plan includes the request for a new and limited African Union sanctioned mission post-ATMIS, to be considered by the UN by end-March 2024.

[3] Somaliland declared independence from Somalia in 1991 but has not been recognized by the international community.

RECENT ECONOMIC DEVELOPMENTS

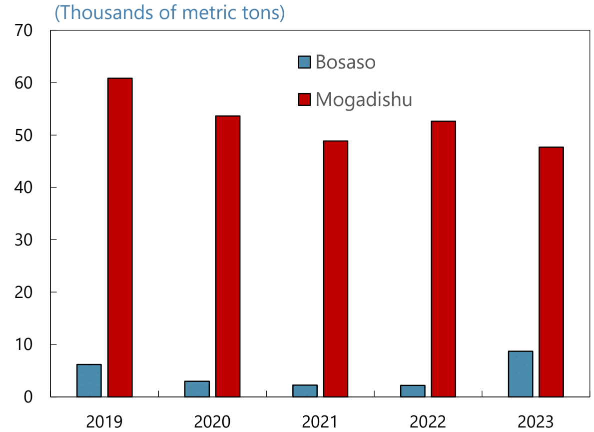
7. Growth in 2023 improved modestly to 2.8 percent compared to 2.4 percent in 2022, supported by a rebound in agriculture production and exports, as rains resumed. However, remittances growth slowed in 2023 relative to 2022, partly due to the impact of global inflation on the purchasing power of the diaspora community. Food and fuel prices have been moderating, but inflation remains sticky, with December 2023 inflation at 6.6 percent compared to 6.1 percent at end-December 2022.

Somalia: Yearly Import Volume for Selected Ports
(Thousands of metric tons)



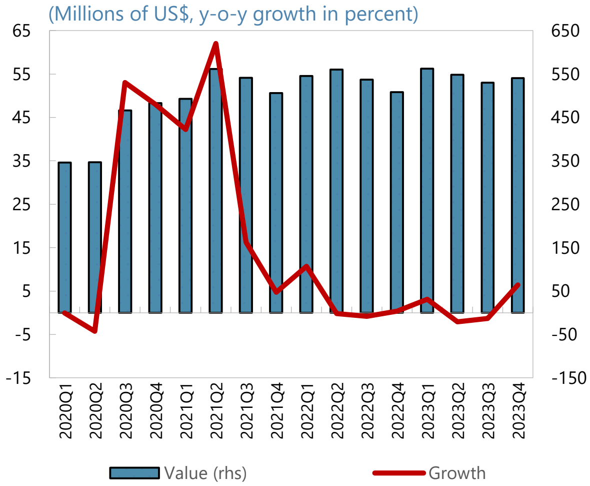
Source: IMF Portwatch and IMF Staff estimates

Somalia: Yearly Export Volume for Selected Ports
(Thousands of metric tons)



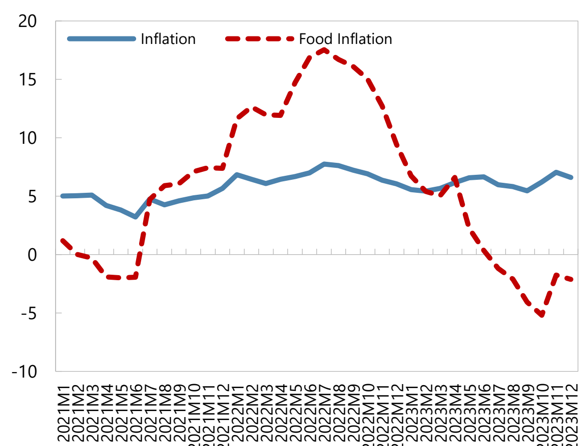
Source: IMF Portwatch and IMF Staff estimates

Somalia: Remittance Inflows (Individuals, MTBs + Commercial/SWIFT)
(Millions of US$, y-o-y growth in percent)



Source: Authorities' data and IMF Staff estimates

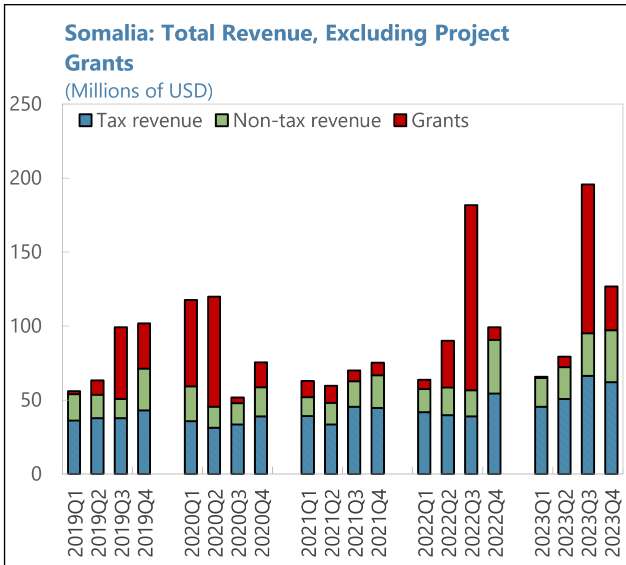
Somalia: Food and Headline Inflation
(Percent change)



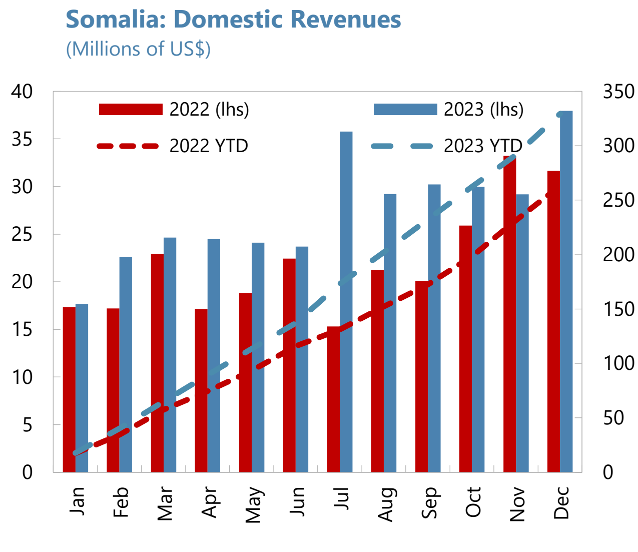
Source: Authorities' data and IMF Staff estimates

8. In 2023, domestic revenues performed strongly and expenditures were within the 2023 Supplementary Budget. Collection of domestic revenues strengthened in the second half of 2023, supported by higher collections at customs following implementation of the Somalia Customs

Automated System (SOMCAS) and as well as better inland revenue collection due to improvements in tax administration. Domestic revenue reached US$329 million, exceeding the end-December 2023 program target. In January 2024, data suggests that delays in shipments due to the heightened security situation in the Red Sea had a modest impact on customs collections in Mogadishu, though the shortfall was temporary and revenues recovered in February as traders found alternative routes.[4] Expenditure in 2023 followed the supplementary budget and was within the program ceiling. A small budget surplus of US$6 million was achieved for the year. The IMF disbursement at ECF approval in December 2023 and budget grant disbursements (including US$75 million from the World Bank and US$7.5 million from Türkiye) contributed to larger cash balances that will partially address liquidity needs in 2024.



Source: Authorities' data and IMF staff estimates



Source: Authorities' data and IMF staff estimates

9. **The World Bank (WB) has extended grant financing terms for new commitments for an additional year.** As of the HIPC Completion Point in December 2023, Somalia is assessed as being at moderate risk of debt distress and therefore, under conventional IDA20 financing terms, Somalia would have been expected to only have access to new concessional loans (rather than grants) starting in July 2024. In February 2024, however, the WB Executive Board approved the extension of Somalia's grant status under IDA20 until end-June 2025, to avoid tightening financing terms for Somalia until a discussion on the IDA grant allocation framework can take place in the context of IDA21 discussions (during CY24). Consequently, Somalia's financing terms for new commitments will be maintained as grants until end-June 2025. This improvement in financing terms, with the same overall envelope of disbursements, is reflected in the current baseline and Debt Sustainability Analysis (DSA).

[4] Based on IMF PortWatch data, more than 90 percent of imports (in metric tons) into Somalia (excluding Berbera port in Somaliland) went through Mogadishu port in 2023. For Mogadishu, the top five upstream port connections are Mina Raysut, Oman (29 percent), Mombasa, Kenya (23 percent), Mina Jabal Ali, UAE (11 percent), Fujayrah Harbor, UAE (5 percent), and Karachi, Pakistan (5 percent). So, most imports do not travel through Bab El-Mandeb Strait.

10. Financial deepening continues, although from a very low base. Private sector credit growth accelerated in November 2023, nearing 40 percent (y-o-y), though it is still below 5 percent of GDP. Deposit growth reached 25 percent over the same period. Financial soundness indicators reported by the CBS show bank capital and liquidity at comfortable levels, and NPLs under 3 percent in 2023Q3.

PROGRAM PERFORMANCE

11. Program performance has been satisfactory. All quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2023 were met (Table 10). The structural benchmarks due for the 1st review were also met (Table 11). The roadmap to expand the coverage of invoice tracking functionality to all goods and services was approved on February 28, 2024 (SB#4, met, due end-February 2024). The authorities submitted amendments to the AML/CFT Law, in line with IMF recommendations, to Parliament on March 30, 2024 (SB#8, met, due end-March 2024).

OUTLOOK AND RISKS

12. In 2024, growth is expected to pick up, supported by a continued recovery in agriculture, remittances, and investment. Growth is expected to rise to 3.7 percent as crops and livestock recover more fully during the year. Foreign direct investment is expected to trend upwards in 2024, following Somalia's achievement of the HIPC Completion Point in December 2023. Remittances are projected to increase, bolstered by the moderation of global inflation and the upgrade of the growth outlook in several host countries. Inflation is expected to continue on a downward trend as fuel and food prices decline, falling to 4.8 percent, although at a slower pace than anticipated earlier.

13. The medium-term outlook remains broadly unchanged since the ECF approval, and growth is expected to accelerate as structural reforms pay-off and access to financing improves after HIPC CP. Growth is projected to gradually accelerate to 4.5 percent by 2029, as public and private investment scale up, supported by structural reforms and greater access to financing. The current account deficit will widen gradually as Somalia gradually losses access to grants, financed by foreign direct investment and a modest increase in concessional borrowing. The baseline projections do not incorporate the impact of joining the EAC, as further clarity is needed on the roadmap for Somalia's integration and its timeline, which can span several years.

14. Near-term uncertainty remains high and risks are tilted to the downside (Annex I). Food insecurity can aggravate if rainy seasons fail or new natural disasters hit Somalia. Additional risks stem from a deterioration of the global/regional security situation (including the security situation in the Red Sea), risks related to the ATMIS transition, political risks linked to federalism, and lower global growth. If any of these adverse risks materialize, economic growth and domestic revenue (including revenues collected at the ports) would be lower, increasing financing needs. While existing cash buffers, expenditure rationalization, and current financing commitments help mitigate some risks, the authorities would need additional support from the international community to address a significant adverse scenario.

PROGRAM AND POLICY DISCUSSIONS

A. Fiscal Policy

15. The authorities are committed to continue improving domestic revenue collection and making room for priority spending. An overall fiscal deficit of 0.5 percent of GDP is expected for 2024 (including World Bank financing on grant terms), accommodating priority expenditure that is supportive of growth, security, and development while limiting other discretionary spending.[5] Project spending will continue to be supported by development partners.[6] Ongoing grant financing from the UAE (US$38 million) for the security sector is now being channeled through the budget, to cover higher budget spending on non-civilian compensation of employees (US$34.1 million) and food for soldiers. While the UAE grant financing means that the higher security spending in the budget can be accommodated without impacting the overall deficit, to support sustainability, the authorities are raising the domestic revenue program target upward from US$345 million to US$357 million to fully cover the now higher cost of compensation of employees. The higher level of revenues for 2024 can be achieved by locking in higher revenue yields of existing measures, in particular SOMCAS implementation and improvements in tax administration, in light of strong performance in 2023.

Text Table 1. Somalia: Estimated Increase in Domestic Revenues

(Percent of GDP)

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

Source: Somali authorities and IMF staff calculations.

16. The authorities continue to advance reforms to raise domestic revenues. The development of the new tax policy and revenue administration roadmap for 2024-2027 (SB#1, due June 2024) is ongoing, and includes a broad range of measures to expand the tax base, improve tax

[5] This is in line with the authorities' fiscal anchor of keeping deficits below 3.5 percent of GDP financed with concessional loans, of which at a minimum 1.5 percent of GDP will come from multilateral creditors that provide highly concessional financing terms (at least 50 percent grant element).

[6] A new Somalia Country Partnership Framework (CPF) was approved by the World Bank Board in February 2024, with a focus on (1) Macroeconomic Stability and Governance Foundations, (2) Inclusive, Private-sector-led Job Creation and Economic Growth; (3) Enhanced Human Capital; and (4) Greater Resilience to Climatic and other Shocks.

compliance, and digitalize collections. The authorities are expected to submit the Income Tax Bill to Parliament by end-June 2024 (SB#2). They are also working on improving the compliance enforcement of large/medium-sized taxpayers, including those in the telecom sector. These revenue reforms are being supported by IMF CD. SOMCAS implementation has been smooth in Mogadishu and customs processing through SOMCAS is being carried out for some goods in Kismayo as part of the gradual approach to harmonization. Further progress on customs modernization is expected to align with requirements under the EAC membership. The development of the Integrated Tax Administration System (ITAS) is being supported by the World Bank, though is still in early stages. As revenue reforms progress, it is important for the FGS to reach agreement with all FMS on revenue responsibilities across levels of government.

17. Progress continues to be made on PFM reforms. The roadmap to expand the coverage of invoice tracking to all payments for goods and services was approved in February 2024 (SB#4, met). The integration of the remaining non-payroll compensation of FGS employees into a single payroll (SB#3, due June 2024) is ongoing. By end-December 2024, the authorities will develop a roadmap to implement the Pay and Grade policies, which would include as elements (i) a plan and timeline for the development of a strategy to align the salaries of temporary workers with the pay scale of permanent workers and (ii) a plan and timeline for conducting a costing exercise to understand the fiscal implications of the proposed shift of permanent and temporary workers to a new pay scale (proposed SB#9). The authorities will request IMF capacity development support in developing capacity in public investment management—in particular on project appraisal and selection to ensure the implementation of quality and affordable projects. In addition, to strengthen expenditure controls and improve transparency and accountability, the authorities are moving towards a paperless environment in PFM systems, with IMF CD support. They will update the PFM regulations relating to digital signatures for the purchase order to payment process and they will implement the digital signatures in the SFMIS by end-June 2025 (proposed SB#10), including training of Ministries, Departments, and Agencies (MDAs).

18. Implementation of proposed new pension schemes for civil servants and for the security sector require careful consideration to ensure fiscal costs are manageable and sustainable. The Pension Law for civil servants was passed by Parliament in January 2024, but has not yet been signed by the President. A new pension scheme for the security sector is being developed, connected to the overall reforms in the security sector. The authorities have indicated that, before moving forward with the approval and implementation, they will carry out a careful assessment of the fiscal costs of the reform and sustainability of the proposed pension regimes. Staff encouraged the authorities to seek IMF CD support in this area.

19. The authorities are continuing efforts to strengthen debt management capacity. With IMF CD support, the authorities are making progress on (i) issuing a Prime Ministerial Decree that articulates the key parameters for debt policy and establishes the procedures to be followed for entering into new borrowing and issuing sovereign guarantees; and (ii) amending the PFM regulations to include a clear definition of “other financial liabilities” that are considered guarantees as per Article 37 (6) of the PFM Act (SB#5, due end-June 2024). Further, the Debt Management Unit has committed to regular and timely publication of the quarterly debt bulletin, within 4 weeks after the end of each quarter.

Text Table 2. Somalia: Fiscal Accounts
(Millions of USD)

	2022	2023		2024		
	Actual	Budget	Proj.	Budget	Prog.	Proj.
Revenue excluding projects	**434**	**454**	**471**	**531**	**390**	**515**
Domestic revenue	263	283	329	346	345	357
Tax	182	190	225	241	241	254
Non-tax	81	93	105	105	104	103
Budget support grant	171	171	141	185	45	158
Expenditure excluding projects	**432**	**480**	**465**	**570**	**534**	**575**
Operational expenditure	346	411	389	482	447	485
Compensation of employee	252	282	291	357	324	357
Goods and services	93	124	93	116	111	116
Interest	1	6	5	10	13	13
Other expenditure	86	69	76	87	87	90
Transfer to FMS	78	51	71	73	62	75
Social benefits	0	0	0	0	0	0
Other expenses	0	3	0	3	14	3
Capital expenditure	8	16	5	11	11	11
Overall balance excluding projects	**2**	**-27**	**6**	**-38**	**-144**	**-60**
Projects						
Project grants	287.8	497	270	510	473	389
Project expenditure 1/	287.8	497	270	510	473	389
o/w social benefits	188.9	201	135	86	91	194
o/w other	98.9	295	136	424	382	195
Total revenues including projects	**721.9**	**951**	**741**	**1041**	**863**	**904**
Total expenditure including projects	**719.5**	**977**	**736**	**1079**	**1007**	**964**
Overall balance including projects	**2.4**	**-27**	**6**	**-38**	**-144**	**-60**

1/ Social benefits (cash transfers under the Baxnaano program) were sharply increased in 2022-2024 in the project budgets to help address multiple shocks (Covid-19, locust infestation, prolonged drought, severe flooding) which are expected to gradually subside over the medium term.

B. Monetary and Financial Policy

20. The CBS continues to strengthen its institutional framework and capacity for financial sector regulation and supervision. Since the 2020 Safeguards Assessment, improvements to financial reporting practices and internal audit capacity have been made, owing to strong ownership by CBS management. The 2024 Safeguards Assessment recommended further enhancements to the internal control environment, including to advance risk management, and controls in currency and banking operations. Amendments to the CBS Law are being drafted to strengthen aspects of governance and autonomy. By end-March 2025, the authorities plan to submit the amendments to the CBS Law to Parliament, in line with the IMF safeguards recommendations (proposed SB#11). Separately, the CBS is engaging with banks to ensure compliance with the new regulations on capital adequacy and liquidity coverage ratios that became effective on January 1, 2024. The CBS is also on track to develop an action plan to improve the quality of data submitted by commercial banks and communicate the action plan to commercial banks (SB#7, due end-July 2024), with IMF CD support. To support the national payment system, the CBS is also advancing the work on developing a National QR code and National SWITCH.

21. The authorities continue to improve the AML/CFT framework, while they engage with the ongoing 2024 Mutual Evaluation undertaken by the Middle East and North Africa Financial Action Task Force (MENAFATF). They submitted the amendments to the AML/CFT Act on March 30, 2024 (SB#8, met), which were prepared with IMF CD support. Fund staff also provided technical assistance and training on the implementation of targeted financial sanctions to support the authorities' preparation for the mutual evaluation.

22. In consultation with the IMF, the authorities are working on formulating the monetary and exchange rate policy frameworks for the currency reform, with implementation of the frameworks to be supported by IMF technical assistance. The currency exchange project, which is being supported by the World Bank, will reintroduce Somalia Shillings (SOS) as legal tender by replacing old and counterfeit notes in circulation.[7] The precise timing for the implementation of the currency exchange project is unclear as it depends on raising the necessary external financing and securing a firm agreement between the FGS and all FMS.[8] Along with the implementation of this project, the authorities need to make a decision on the new monetary and exchange rate frameworks to be adopted as part of the currency reform. The Somali economy is currently de facto dollarized, and the high dollarization is expected to persist for some time even after new SOS are introduced. Exchange and monetary policy frameworks for Somalia should (1) provide a stable and predictable policy environment to establish confidence in the national currency across Somalia; (2) build credibility of the CBS in managing the new currency; (3) facilitate development of the domestic financial market. Considering Somalia's capacity constraints for both the public and the private sectors, staff advised that a currency board arrangement would provide Somalia with a credible framework that will also help set the conditions to gradually build policy capacity and strengthen financial institutions (Annex II). Given the explicit legislative commitment under a currency board arrangement to exchange domestic currency for a specified foreign currency at a fixed exchange rate, the CBS would need to maintain foreign reserves to fully cover its monetary liabilities.[9] Complementary policies and reforms would be needed for a currency board, including to (1) maintain fiscal discipline and ensure fiscal sustainability; (2) ensure CBS operational independence and prevent fiscal dominance; (3) strengthen CBS capacity, including financial regulation and supervision, and policies to promote transparency; (4) develop financial markets and support capacity building of financial institutions;

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[7] The CBS has not issued currency since 1991. SOS notes currently in circulation are old and mostly counterfeit and are not backed by the CBS. The World Bank estimates that old shillings in circulation range between SOS 1.022- 1.546 trillion (USD 40.9 - 61.8 million). There are currently no deposits in shillings. This contrasts with about USD 1.2 billion in bank deposits and some estimates suggests that a similar amount is held in mobile money wallets.

[8] The World Bank currency exchange project is expected to provide about US$40 million in grant financing, against a total estimated cost of US$72 million for the currency exchange. The authorities are approaching bilateral partners to fill the funding gap. Once approved by the World Bank Board, implementation of the currency exchange is expected to take 18-24 months.

[9] Somalia currently has sufficient gross usable international reserves (in the form of SDRs (about US$200 million) and gold (about US$33 million)) to cover the estimated stock of old shillings in circulation that would be replaced for new SOS during the currency exchange. However, the CBS would need to assess whether its income would be sufficient to cover any costs associated with the use of SDR holdings. As noted at program approval, once there is greater certainty about the timing of this reform, an augmentation of the ECF arrangement could be considered in a subsequent program review to back the new currency and enhance credibility.

and (5) improve the quality, frequency, and timeliness of macroeconomic and financial data. While acknowledging the merits of a currency board arrangement, the authorities indicated that internal stakeholder consultations are needed before arriving at a political decision on the frameworks to be adopted.

C. Governance, Inclusive Growth, and Resilience

23. The authorities continue building capacity on petroleum sector issues. Progress is being made on developing regulations for the Extractive Industries Fiscal Regime Law, with IMF CD support, and for the Petroleum Act. The Prime Minister has indicated that the production sharing agreements (PSA) signed in March 2023—based on direct negotiations with a private firm that holds a seismic option agreement from 2013—will only be valid once they go through the proper legal process, including review by the Inter-Ministerial Concessions Committee (IMCC) to ensure that they are in line with the 2021 model PSA and the legal framework. Separately, as part of the preparations for new licensing round, the authorities are considering updates to the model for production sharing agreement approved by the IMCC in 2021. Any proposed changes to the 2021 model PSA would require IMCC approval. The licensing round and any new negotiated production sharing agreements should be in line with the established legal framework.

24. Additional reforms are needed to strengthen the framework for procurement and concessions and bolster the management of public assets. The Ministry of Finance continues efforts to disseminate the standard operating procedures of the IMCC among MDAs. The authorities continue to advance the draft PPP bill with a framework that adequately manages fiscal risks and establishes a gateway process managed by the Ministry of Finance (SB#6, due by end-June 2024). Further progress is needed on implementing the new policy on the management of public assets.

25. Continued efforts are needed to bolster the anti-corruption framework, with support from development partners. Following enactment of the Audit Law in 2023, efforts are ongoing to enhance capacity of the Auditor General's Office, with support of the World Bank. To help with the implementation of the United Nations Convention Against Corruption (UNCAC), the authorities have secured UNODC technical assistance for the self-assessment. A review of the current legal framework to identify gaps is also needed. The authorities also plan to update the Anti-Corruption Strategy and remain committed to timely staffing and capacity building of the Independent Anti-Corruption Commission (IACC).

26. The authorities are determined to bolster inclusive growth, improve resilience to extreme weather shocks and climate change, and enhance trade integration. The authorities started rolling out the Somalia National Digital ID in September 2023. As of February 2024, 23 thousand individuals have been enrolled in the National Identification and Registration Agency. The digital ID will support the implementation of targeted social protection programs and enhance AML/CFT efforts by facilitating customer due diligence measures. To strengthen food systems and build climate resilience, the authorities launched a Food Security Crisis Plan in December 2023, which will be implemented in partnership with the World Bank. Following Somalia's accession to the EAC, the authorities indicated that full integration into the EAC—including the adoption of a customs union and common market—can span several years as Somalia builds capacity and aligns its institutional and policy framework with the EAC. Staff will continue to monitor Somalia's progress towards full regional integration. Availability of economic activity and social data will be broadened with the expected finalization of the Business Survey in July 2024. Work is also ongoing to develop production-based national accounts data in 2025 by using data from the Business Survey.

FINANCING AND PROGRAM MODALITIES

27. Understandings have been reached with the authorities on program conditionality.

- **Performance criteria** (Table 10)**.** The authorities have requested modifications to the June and December 2024 QPCs to: (1) incorporate a higher domestic revenue target; (2) accommodate higher spending that supports security and growth within the ceiling on compensation of employees, goods and services and contingency; and (3) reduce the floor on net international reserves to reflect the transfer to the Ministry of Finance of the SDR 7 million windfall from the HIPC debt relief and remove the associated NIR adjustor. New indicative targets are proposed for March 2025.

- **Modification to Technical Memorandum of Understanding (TMU) definitions.** For the purposes of the expenditure ceiling set in the program, the definition of spending on goods and services goods will be modified to exclude the commission paid to the CBS (1.5 percent of revenues) so that overperformance of domestic revenues or budget grants does not impact the authorities' ability to meet the expenditure ceiling. The definition of net international reserves (NIR) will also be revised to remove all SDR holdings belonging to the MoF from the total SDR holdings of Somalia, in order to reflect the reserves that belong solely to the CBS. Finally, the TMU definition of the continuous ceiling on accumulation of external payments arrears will be modified to exclude external payment obligations for which the creditor has extended a payment deferral or payments are made into a designated account due to the risks of blocking of the payment by correspondent banks.[10]

- **New structural benchmarks** (Table 11 and Memorandum of Economic and Financial Policies (MEFP)) include: (1) develop a roadmap to implement the Pay and Grade policies, which would include as elements (i) a plan and timeline for the development of a strategy to align the salaries of temporary workers with the pay scale of permanent workers and (ii) a plan and timeline for conducting a costing exercise to understand the fiscal implications of the proposed shift of permanent and temporary workers to a new pay scale (proposed SB#9, end-December 2024), (2) update the PFM regulations relating to digital signatures for the purchase order to payment process and implement the digital signatures in the SFMIS (proposed SB#10, end-June 2025); and (3) submission of amendments to the CBS Law to Parliament, in line with the IMF safeguards recommendations (proposed SB#11, end-March 2025).

[10] This applies to debt service due to Russia where the transfer of funds is impeded by the implementation of international sanctions.

28. The debt sustainability assessment remains broadly unchanged from the December 2023 DSA. Staff assesses Somalia's external and overall public debt to be sustainable in the medium-term. Full delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative, and beyond-HIPC assistance at the HIPC CP brought all debt burden indicators significantly below their respective thresholds in the baseline. The extension of World Bank grant financing until end-June 2025 has no material impact on the DSA. Some indicators of external debt burden continue to breach the indicative thresholds under the stress scenarios, consistent with a moderate risk rating. The authorities are continuing good faith negotiations to finalize debt relief agreements with remaining creditors that have any HIPC eligible debt (Table 14). As the Paris Club agreement with Somalia is representative, based on the Paris Club's comparability of treatment, principal arrears to non-Paris club creditors can be deemed away under the Fund's Lending into Official Arrears (LIOA) policy.

29. The program is fully financed. The authorities secured firm financing commitments for the next 12 months of the program, including from the World Bank (US$100 million), EU (EUR10 million), and UAE (US$38 million). The continued strong engagement of international donors indicates that there are good prospects that financing will be adequate for the remaining program period.

Text Table 3. Somalia: Projected Financing Gap in 2024 and 2025

(Percent of GDP)

External financing need	2024	2025	Fiscal financing need	2024	2025
External financing requirement	**58.3**	**57.3**	**Fiscal deficit, excl. budget support grants**	**1.7**	**1.4**
of which:			Revenue and grants, excl. budget support grants	5.8	5.8
Trade balance	58.2	57.2	Expenditure	7.5	7.2
Official arrears/repayments	0.0	0.0			
Available financing	**56.9**	**56.1**	**Total financing, excl. projects**	**0.3**	**0.2**
of which:			Net acquisition of financial assets	0.4	0.3
Current transfers (net)	48.6	48.5	Net incurrence of liabilities	-0.1	-0.1
HIPC debt relief	0.0	0.0			
External financing gap	**1.4**	**1.2**	**Fiscal financing gap**	**1.4**	**1.2**
Financing commitments so far	**1.4**	**1.2**	**Financing commitments so far**	**1.4**	**1.2**
IMF ECF	0.2	0.1	IMF ECF	0.2	0.1
World Bank budget support grants	0.9	0.1	World Bank budget support grants	0.9	0.1
World Bank concessional loans	0.0	0.6	World Bank concessional loans	0.0	0.6
Other	0.4	0.3	Other	0.4	0.3

Sources: Somali authorities, and IMF staff estimates

30. Somalia's capacity to repay the Fund remains adequate, albeit subject to risks. With HIPC debt relief and the current ECF program, IMF credit outstanding based on existing and prospective drawings is projected to peak at 70.75 percent of quota in 2026 (SDR 115.6 million), below the applicable normal cumulative access limit. To mitigate debt servicing risks, the program includes reforms to increase revenues and ceilings on overall deficits and non-concessional borrowing.

31. Somalia will continue to need extensive CD support, financed by the Somalia Country Fund (SCF). Thanks to the generous support from several development partners, Phase II of SCF is now fully funded through April 2025. However, additional financing will be needed for CD support beyond April 2025.

STAFF APPRAISAL

32. **Building on the achievements under the HIPC process and prior IMF-supported program, the authorities have maintained strong reform momentum.** Program performance has been strong and the economy has been recovering. The authorities remain committed to advancing their reform efforts, which are critical to put Somalia's economy on a sounder footing, achieve inclusive and sustainable growth and maintain strong support from development partners.

33. **The 2024 budget continues the authorities' fiscal efforts and is aligned with the ECF objectives.** The overall fiscal deficit of 0.5 percent of GDP for 2024 is appropriate to accommodate priority expenditure that is supportive of growth, security, and development while limiting other discretionary spending. The higher domestic revenue target for 2024 fully covers the cost of compensation of employees and advances the authorities' goal of covering operational expenses with domestic revenues by 2027. External budget support remains crucial.

34. **Sustained revenue mobilization efforts are crucial to fully cover operational expenditure and make room for development spending over time.** Revenues must also rise to offset the expected decline in budget support grants after the HIPC Completion Point. To strengthen revenues and improve transparency, continued progress is needed on customs modernization (including to align with EAC requirements), a new income tax law, increasing revenue collection from large businesses (including the telecom sector), and enhancement of revenue administration.

35. **The authorities should continue to strengthen public financial management and debt management capacity.** Key expenditure management reforms include fully integrating all compensation of FGS employees into the payroll, expanding the invoice tracking to all goods and services, implementing digital signatures, and outlining the steps to implement the Pay and Grade policies. Somalia also needs to build public investment management capacity to ensure the implementation of high quality and affordable projects. A careful assessment of the fiscal costs and sustainability of proposed new pension regimes for civil servants and for the security sector is necessary before moving forward with their implementation. The authorities need to strengthen the public debt management framework, including by fully articulating and disseminating the procedures for initiating loan negotiations and entering into loan agreements.

36. **Staff encourage further reforms to promote financial deepening and financial inclusion.** Continued efforts are needed to bolster CBS financial regulation and supervision capacity, including steps to improve the quality of data submitted by commercial banks. In line with the 2024 Safeguards Assessment recommendations, the CBS should further enhance its internal control environment, including to advance risk management, and controls in currency and banking operations. The authorities should also move forward with the planned amendments to the CBS Law, to enhance CBS autonomy and operations. The recent submission to Parliament of the AML/CFT Bill is welcome. Continued efforts are needed to address ML/TF risks and future reforms should be informed by the findings of the MENAFATF Mutual Evaluation taking place in 2024. Staff encourage the authorities to formulate, in consultation with the IMF, the monetary and exchange

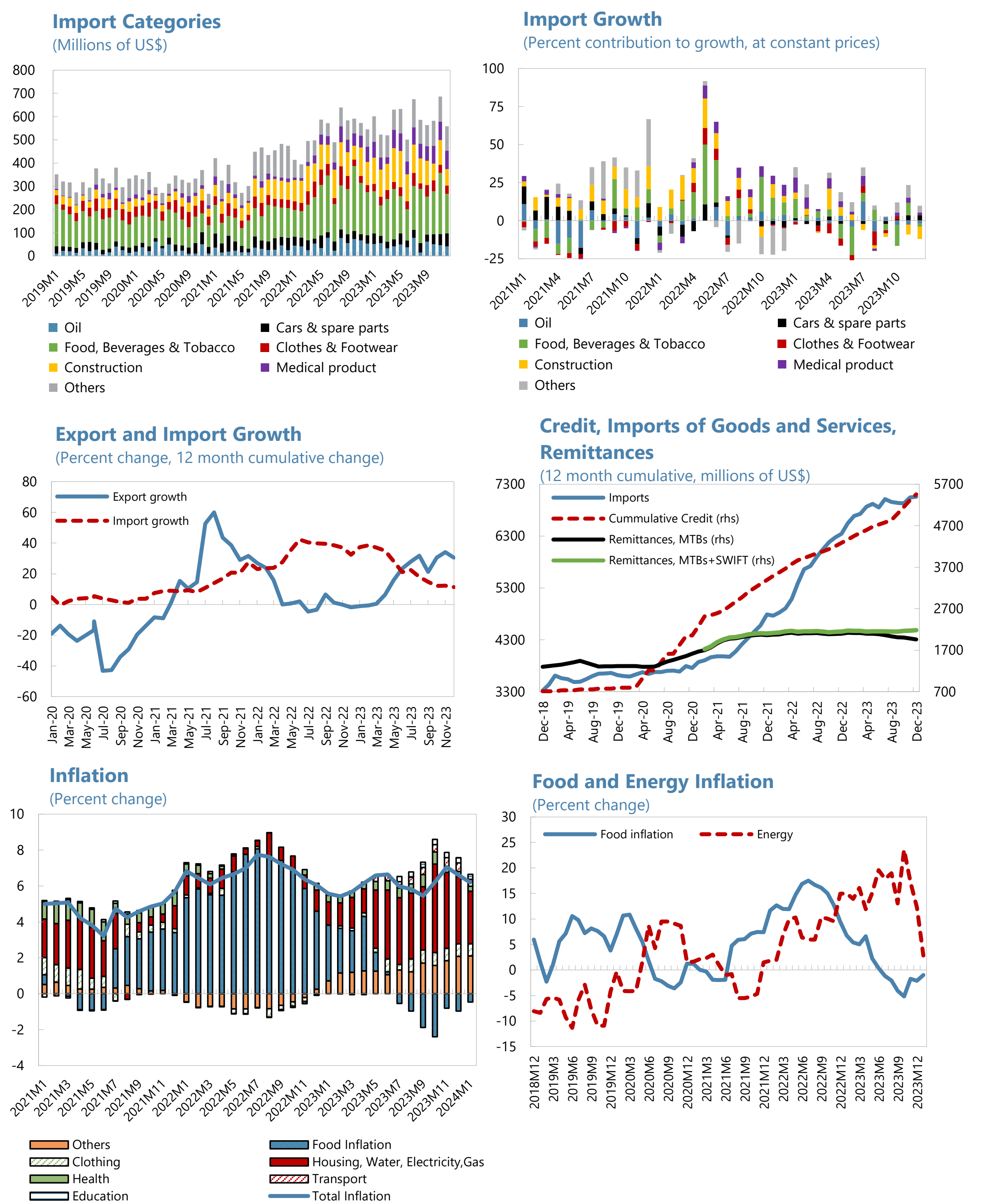
rate policy frameworks to be adopted in the context of the currency reform and seek IMF CD support for the implementation. Given capacity constraints of both the public and private sectors and de facto dollarization, staff view a currency board arrangement as a good fit for Somalia as it would provide the country with a credible framework, while helping to set the conditions to enhance capacity and financial institutions over time.

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

38. Despite the progress, risks remain high and tilted to the downside. Risks include extreme weather shocks, deterioration of the global/regional security situation (including the security situation in the Red Sea), risks related to the ATMIS transition, political risks linked to federalism, and lower global growth. These risks are mitigated by continued program ownership, capacity development, and sustained support from development partners.

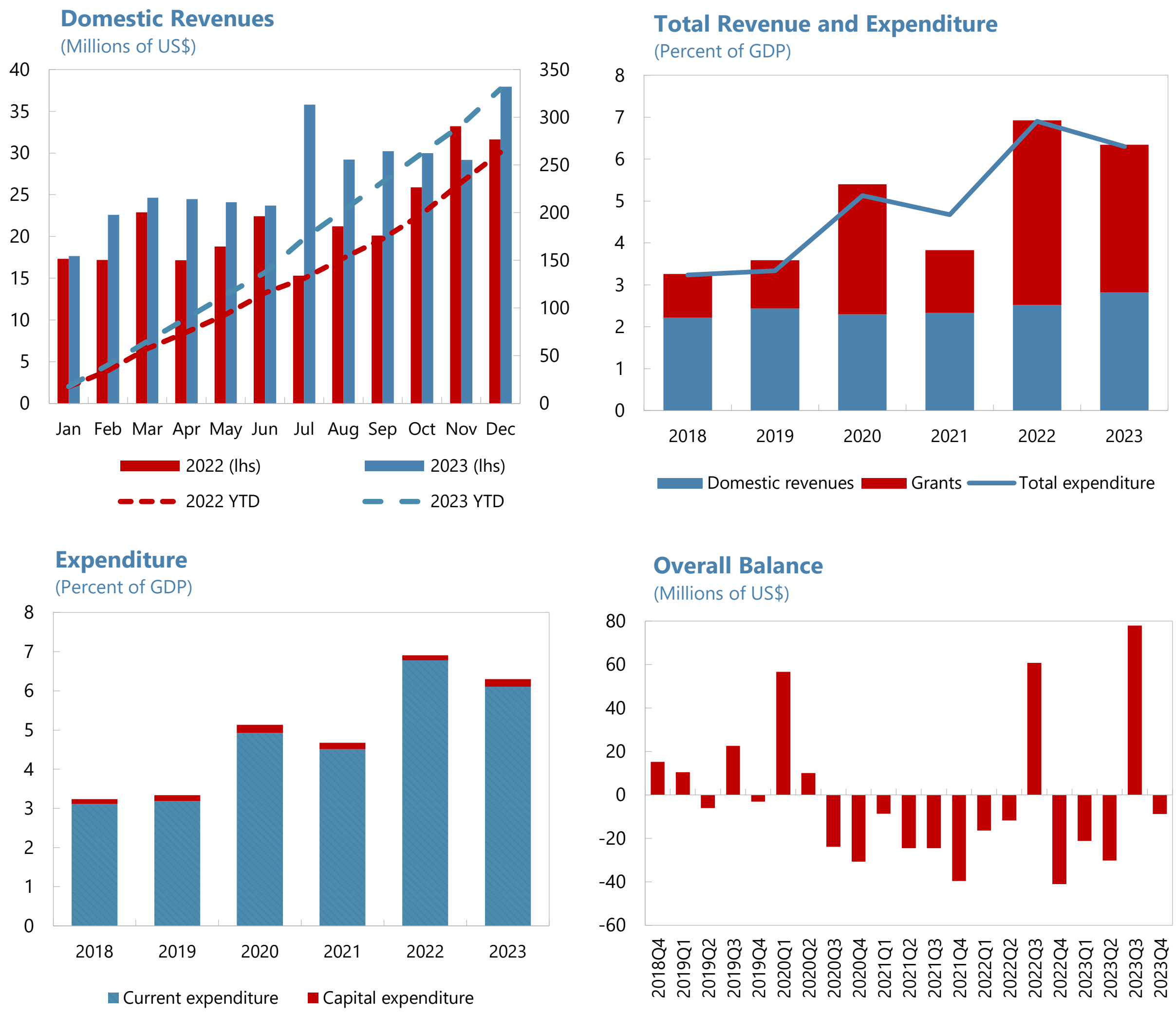
39. Staff supports completion of the first review and disbursement of SDR 7.5 million under the ECF arrangement. The authorities plan to use the disbursement for direct budget support, as indicated at the time of the approval of the ECF arrangement. Staff supports the request for the modifications to the June and December 2024 QPCs on: (1) domestic revenues; (2) compensation of employees, goods and services, and contingency; (3) net international reserves. The attached Letter of Intent and the Memorandum of Economic and Financial Policies set out the appropriate policies that meet the program objectives.

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



Source: Authorities' data and IMF Staff estimates

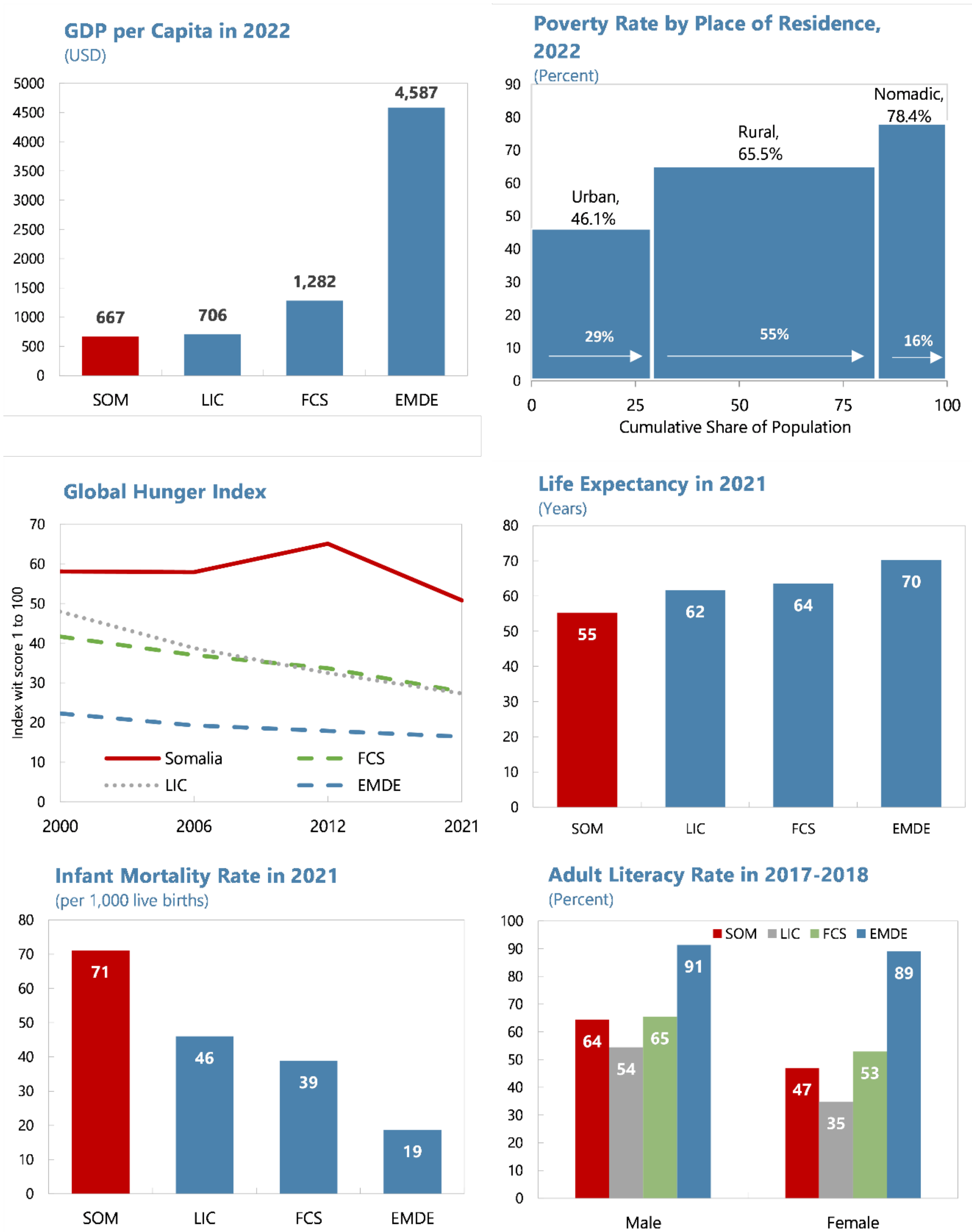
Figure 2. Somalia: Fiscal Indicators, 2018–2023



Source: Authorities' data and IMF Staff estimates

Figure 3a. Somalia: Social Indicators

(Median of Country Group)

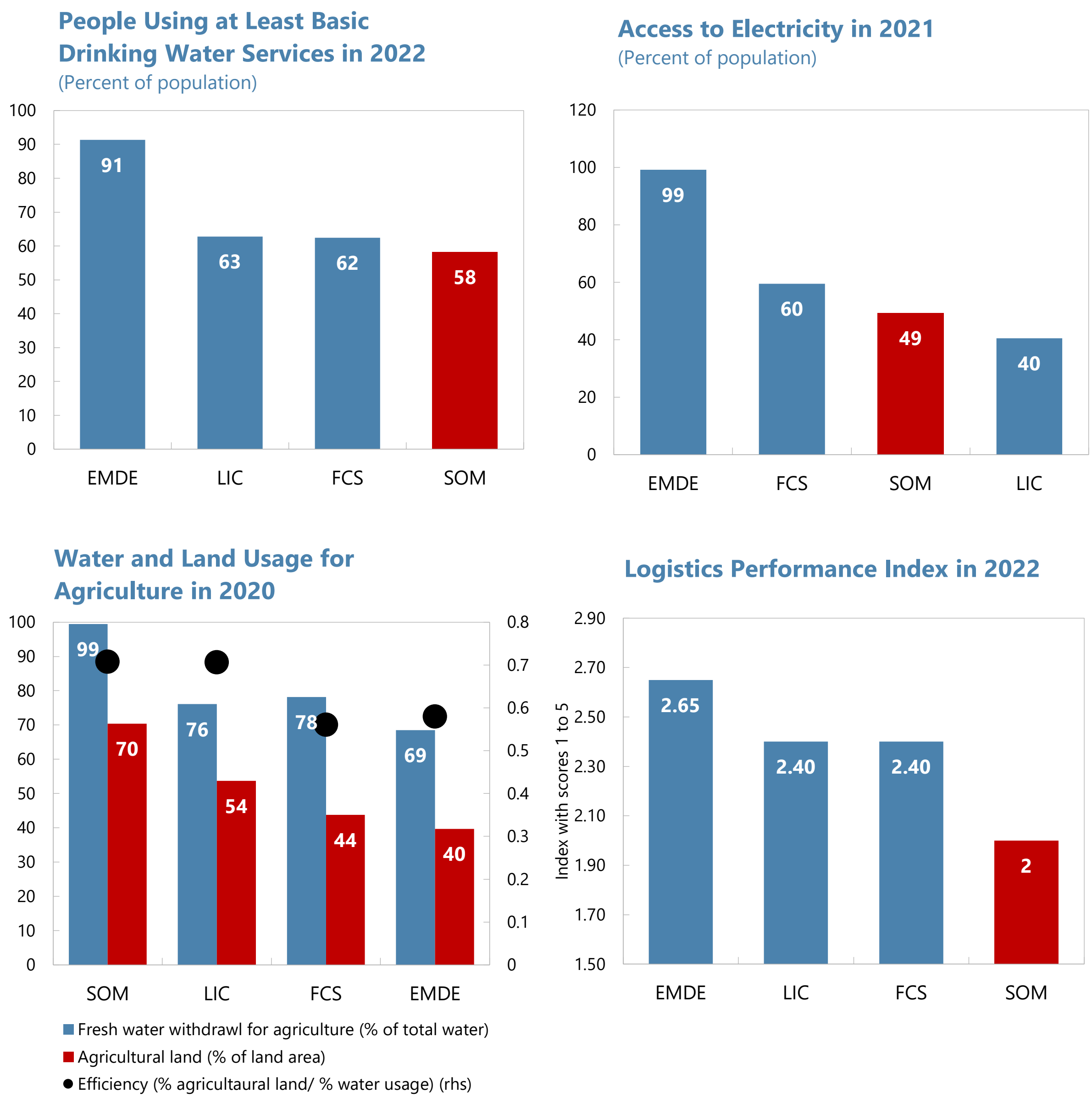


Sources: WEO, Somalia Poverty Report 2023, IMF Staff estimates, World Bank Development Indicators, Global Hunger Index, UNFPA (2016), Educational Characteristics of the Somali People

Note: SOM Somalia; LIC Low Income Countries; FCS Fragile and conflict-affected states; EMDE Emerging markets and developing economies

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

(Median of Country Group)



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

Table 1. Somalia: Selected Economic and Financial Indicators, 2022–2029 1/

Population: 15.6 million, 2022 estimate

	2022	2023		2024		2025	2026	2027	2028	2029
	Est.	Prog.	Est.	Prog.	Proj.	Proj.				
National income and prices										
Nominal GDP in millions of U.S. dollars	10,420	11,515	11,680	12,489	12,804	13,891	15,059	16,310	17,638	18,985
Real GDP in millions of U.S. dollars	10,420	10,711	10,711	11,108	11,108	11,541	12,002	12,495	13,032	13,618
Real GDP, annual percentage change	2.4	2.8	2.8	3.7	3.7	3.9	4.0	4.1	4.3	4.5
Real GDP per capita in U.S. dollars	667	667	667	673	673	680	688	699	711	725
CPI (period average, percent change)	6.8	5.7	6.1	4.1	4.8	3.9	3.6	3.4	3.2	3.0
CPI (e.o.p., percent change)	6.1	4.6	6.6	3.9	4.3	3.7	3.5	3.3	3.1	2.6
			(Percent of GDP)							
Central government finances 1/										
Revenue and grants	6.9	6.4	6.3	6.9	7.1	5.9	4.8	4.4	4.4	4.5
of which:										
Tax	1.7	1.9	1.9	1.9	2.0	2.1	2.4	2.8	3.1	3.3
Grants 2/	4.4	3.7	3.5	4.1	4.3	2.8	1.5	0.7	0.4	0.3
Expenditure (FGS)	6.9	6.5	6.3	8.1	7.5	7.2	6.7	6.4	6.4	6.6
Compensation of employees	2.5	2.5	2.5	2.6	2.8	2.7	2.6	2.6	2.5	2.5
Purchase of non-financial assets	0.1	0.3	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.5
Overall balance	0.0	-0.1	0.0	-1.2	-0.5	-1.3	-1.9	-2.0	-2.0	-2.1
Net change in the stock of cash	0.4	0.1	0.3	-0.5	-0.4	-0.3	0.0	0.0	0.0	0.0
Stock of domestic arrears	0.7	0.6	0.6	0.5	0.5	0.5	0.4	0.4	0.3	0.3
Public debt 3/, 4/	37.4	6.1	6.6	6.8	6.1	6.6	8.0	9.4	10.7	12.0
			(Percent of GDP)							
Monetary Sector										
Net Foreign Assets	-1.3	2.0	1.5	2.0	1.5	1.5	1.5	1.5	1.5	1.4
Central Bank claims on non-residents 5/	3.0	2.9	3.1	2.7	2.8	2.6	2.4	2.2	2.0	1.7
Net Dometic Assets	15.2	10.9	13.4	11.2	12.7	12.0	11.3	10.2	9.4	8.8
Credit to the private sector	3.8	4.3	4.6	4.9	4.8	5.0	5.2	5.5	5.7	6.0
Broad Money 6/	13.9	12.9	14.9	13.2	14.2	13.5	12.8	11.7	10.8	10.2
Gross International Reserves (program definition, in millions of US$)	265.5	221.4	265.3	221.4	265.3	265.3	263.4	259.6	251.1	230.7
in months of next year's imports 7/	0.4	…	0.3	…	0.3	0.3	0.2	0.2	0.2	0.2
			(Percent of GDP)							
Balance of payments										
Current account balance	-8.0	-9.5	-9.6	-9.0	-8.7	-8.8	-10.5	-10.8	-10.4	-10.5
Trade balance	-61.2	-61.0	-58.8	-60.8	-58.2	-57.2	-56.4	-56.1	-55.8	-55.6
Exports of goods and services	17.3	18.1	17.9	19.2	18.9	20.1	20.9	21.6	22.0	22.0
Imports of goods and services	78.5	79.0	76.7	79.9	77.1	77.2	77.3	77.7	77.8	77.6
Remittances	20.6	20.6	18.8	20.9	18.8	18.9	19.1	19.3	19.6	19.6
Grants	33.0	31.3	30.8	31.2	31.0	29.8	27.2	26.4	26.2	25.9
Foreign Direct Investment	5.2	5.2	5.2	5.4	5.4	5.4	5.4	5.4	5.4	5.4
External debt 3/, 8/	36.7	5.5	6.0	6.3	5.6	6.1	7.6	9.1	10.4	11.7

Sources: Somali authorities; and IMF 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 July 2025. 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/ Includes HIPC debt relief, including HIPC interim assistance received between the Decision and Completion Points, and MDRI and beyond-HIPC debt relief at Completion Point in 2023.

4/ 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.

5/ Includes FGS grants held abroad.

6/ Primarily desposits at commercial banks.

7/ For Somalia's de facto dollarized economy, reserve to imports coverage is less applicable.

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, 2022–2029 1/

(Millions of U.S. dollars) 2/

	2022		2023		2024			2025	2026	2027	2028	2029
	Est.		Prog.	Est.	Budget	Prog.	Proj.			Proj.		
Revenue and grants	721.9		732.4	741.3	1040.8	863.0	904.1	814.2	724.3	721.6	781.2	861.0
Revenue	262.7		312.2	329.5	346.2	345.1	357.1	423.2	504.3	601.6	704.2	811.0
Tax revenue	181.7		219.3	224.6	241.4	241.4	253.7	297.9	368.4	454.3	545.2	624.3
Tax on income, profit, and capital gains	18.7		20.8	24.4	23.2	23.2	26.2	33.1	45.6	60.3	70.7	81.5
Taxes on goods and services	25.8		39.7	38.6	46.6	46.6	46.6	53.3	77.1	98.5	132.3	159.5
Taxes on international trade and transactions	116.2		152.6	154.1	164.5	164.5	173.4	203.4	236.2	284.3	329.0	368.6
Other taxes	21.1		6.3	7.6	7.0	7.0	7.4	8.1	9.4	11.3	13.1	14.7
Non-tax revenue	81.0		92.8	104.9	104.8	103.7	103.4	125.2	135.9	147.2	159.1	186.7
Grants 2/	459.2		420.3	411.8	694.6	517.8	547.0	391.0	220.0	120.0	77.0	50.0
Bilateral	37.1		0.8	8.3	38.1	0.0	38.1	0.0	0.0	0.0	0.0	0.0
Multilateral	422.1		419.5	403.5	656.5	517.8	508.8	391.0	220.0	120.0	77.0	50.0
of which projects	*287.8*		*291.0*	*270.5*	509.7	473.0	*389.0*	376.0	220.0	120.0	77.0	50.0
Total expenditure 3/	719.5		746.4	735.5	1079.3	1008.5	963.6	996.3	1012.8	1051.6	1127.0	1252.5
Current	706.3		716.2	713.0	1015.5	966.6	927.9	958.5	973.0	1008.1	1079.6	1155.3
Compensation of employees	259.6		291.7	294.7	361.0	327.1	361.8	376.0	394.7	418.2	447.1	482.4
Use of goods and services	140.7		173.4	166.3	324.5	285.5	221.7	225.5	224.5	236.7	263.3	296.5
Interest and other charges	0.8		5.6	5.1	9.8	14.5	12.7	13.8	14.2	15.4	17.3	18.9
Subsidies	5.1		4.8	4.4	13.2	11.4	6.4	6.3	5.8	5.9	5.8	5.7
Transfers to sub-national governments & Banadir Region	111.2		92.2	107.8	218.5	222.1	127.9	139.9	152.5	149.3	166.1	175.2
Social benefits	188.9		144.8	134.6	85.6	90.8	193.5	192.0	176.1	177.6	175.1	171.7
Other expenses	0.0		1.8	0.0	0.0	0.9	0.9	2.0	2.0	2.0	2.0	2.0
Contingency	0.0		2.0	0.0	3.0	14.4	3.0	3.0	3.0	3.0	3.0	3.0
Purchase of non-financial assets	13.2		30.2	22.6	63.8	41.9	35.8	37.8	39.8	43.5	47.4	97.2
Overall fiscal balance	2.4		-14.0	5.8	-38.5	-145.5	-59.6	-182.2	-288.5	-330.1	-345.8	-391.5
Net cash inflow from financing activities	35.9		25.7	27.3	0.0	86.4	11.2	141.5	288.5	330.1	345.8	391.5
Net accumulation of domestic debt	0.0		0.0	0.0	0.0	0.0	0.0	0.0	-3.0	-3.0	-3.0	-3.0
New domestic debt (+)	0.0		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears and advances (-)	0.0		0.0	0.0	0.0	0.0	0.0	0.0	-3.0	-3.0	-3.0	-3.0
Net accumulation of external debt	32.7		25.7	27.3	0.0	86.4	11.2	141.5	291.5	333.1	348.8	394.5
New external borrowing (+)	44.6		40.1	41.6	0.0	95.2	19.9	153.3	305.2	348.6	364.8	428.4
of which												
Multilateral, external						75.0		133.3	285.1			
IMF: ECF arrangement			40.1	40.0		20.2	19.9	20.0	20.0			
Official bilateral, external												
Amortization of external debt (-)	-11.9		-14.4	-14.4	0.0	-8.7	-8.7	-11.8	-13.7	-15.5	-16.0	-33.9
Disposal of assets	3.3		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in the stock of cash	38.3		11.8	33.0	-38.5	-59.1	-48.4	-40.7	0.0	0.0	0.0	0.0
Memorandum items												
Public debt 4/	3,895	..	706	769	...	851	780	921	1,210	1,540	1,886	2,277
of which external public debt 5/	3,827	..	638	701	...	783	712	854	1,145	1,478	1,827	2,222
Accumulation of domestic arrears 6/	0.0	..	0.0	0.0	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 6/	67.8	..	67.8	67.8	...	67.8	67.8	67.8	64.8	61.8	58.8	55.8
Stock of SDR allocations 7/	130.0	..	130.0	130.0	...	130.0	130.0	130.0	130.0	130.0	130.0	130.0
Stock of SDR holdings 7/	10.4	..	9.0	16.0	...	9.0	16.0	16.0	16.0	16.0	16.0	16.0
Stock of cash and other balances 8/	56.1	..	67.8	89.1	...	8.7	40.7	0.1	0.1	0.1	0.1	0.1
Budget grants	171.4		129.3	141.3	185.0	44.8	158.0	15.0	0.0	0.0	0.0	0.0
Project grants	287.8		291.0	270.5	509.7	473.0	389.0	376.0	220.0	120.0	77.0	50.0

Sources: Somali authorities; and IMF 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 July 2025 because Somalia is 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/ Public debt stock reported herein includes debt relief under the Enhanced HIPC Initiative, and MDRI, and beyond-HIPC debt relief at Completion Point, which took place in December 2023.

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

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

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

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

Table 2b. Somalia: Federal Government Operations, 2022–2029 1/

(Percent of GDP) 2/ 3/

	2022	2023		2024			2025	2026	2027	2028	2029
	Est.	Prog.	Est.	Budget	Prog.	Proj.	Proj.				
Revenue and grants	6.9	6.4	6.3	8.1	6.9	7.1	5.9	4.8	4.4	4.4	4.5
Revenue	2.5	2.7	2.8	2.7	2.8	2.8	3.0	3.3	3.7	4.0	4.3
Tax revenue	1.7	1.9	1.9	1.9	1.9	2.0	2.1	2.4	2.8	3.1	3.3
Tax on income, profit, and capital gains	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.4	0.4	0.4
Taxes on goods and services	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.5	0.6	0.7	0.8
Taxes on international trade and transactions	1.1	1.3	1.3	1.3	1.3	1.4	1.5	1.6	1.7	1.9	1.9
Other taxes	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Non-tax revenue	0.8	0.8	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9	1.0
Grants 2/	4.4	3.7	3.5	5.4	4.1	4.3	2.8	1.5	0.7	0.4	0.3
Bilateral	0.4	0.0	0.1	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Multilateral	4.1	3.6	3.5	5.1	4.1	4.0	2.8	1.5	0.7	0.4	0.3
Total expenditure	6.9	6.5	6.3	8.4	8.1	7.5	7.2	6.7	6.4	6.4	6.6
Current	6.8	6.2	6.1	7.9	7.7	7.2	6.9	6.5	6.2	6.1	6.1
Compensation of employees 3/	2.5	2.5	2.5	2.8	2.6	2.8	2.7	2.6	2.6	2.5	2.5
Use of goods and services	1.4	1.5	1.4	2.5	2.3	1.7	1.6	1.5	1.5	1.5	1.6
Interest and other charges	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Subsidies	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	1.1	0.8	0.9	1.7	1.8	1.0	1.0	1.0	0.9	0.9	0.9
Social benefits	1.8	1.3	1.2	0.7	0.7	1.5	1.4	1.2	1.1	1.0	0.9
Other expenses	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	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Purchase of non-financial assets	0.1	0.3	0.2	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.5
Overall fiscal balance	0.0	-0.1	0.0	-0.3	-1.2	-0.5	-1.3	-1.9	-2.0	-2.0	-2.1
Net cash inflow from financing activities	0.3	0.2	0.2	0.0	0.7	0.1	1.0	1.9	2.0	2.0	2.1
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
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 (-)	0.0	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	0.3	0.2	0.2	0.0	0.7	0.1	1.0	1.9	2.0	2.0	2.1
New external borrowing (+)	0.4	0.3	0.4	0.0	0.8	0.2	1.1	2.0	2.1	2.1	2.3
of which,											
Multilateral, external	0.0	0.0	0.0	0.0	0.6	0.0	1.0	1.9			
IMF: ECF arrangement	0.0	0.3	0.3	0.0	0.2	0.2	0.1	0.1			
Official bilateral, external	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0			
Amortization of external debt (-)	-0.1	-0.1	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Disposal of assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net change in the stock of cash	0.4	0.1	0.3	-0.3	-0.5	-0.4	-0.3	0.0	0.0	0.0	0.0
Memorandum items											
Public debt 4/	37.4	6.1	6.6	…	6.8	6.1	6.6	8.0	9.4	10.7	12.0
of which external public debt 5/	36.7	5.5	6.0	…	6.3	5.6	6.1	7.6	9.1	10.4	11.7
Accumulation of domestic arrears 6/	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Stock of domestic arrears 6/	0.7	0.6	0.6	…	0.5	0.5	0.5	0.4	0.4	0.3	0.3
Stock of SDR allocations 7/	1.2	1.1	1.1	…	1.0	1.0	0.9	0.9	0.8	0.7	0.7
Stock of SDR holdings 7/	0.1	0.1	0.1	…	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Stock of cash and other balances 8/	0.5	0.6	0.8	…	0.1	0.3	0.0	0.0	0.0	0.0	0.0
Budget grants	1.6	1.1	1.2	1.4	0.4	1.2	0.1	0.0	0.0	0.0	0.0
Project grants	2.8	2.5	2.3	4.0	3.8	3.0	2.7	1.5	0.7	0.4	0.3

Sources: Somali authorities; and IMF 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 July 2025 because Somalia is 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/ Compensation of employees for 2023 in the budget column includes the expected spending for the hiring of teachers, which was classified under goods and services in the Parliament approved budget.

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

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

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

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

Table 2c. Somalia: Federal Government Operations Excluding Donor-Funded Projects, 2022–2028

(Millions of U.S. Dollars)

	2022	2023		2024			2025	2026	2027	2028
	Actual	Budget	Proj.	Budget	Prog.	Proj.	Proj.	Proj.	Proj.	Proj.
Revenue excluding projects	**434.1**	**454**	**471**	**531**	**390**	**515**	**438**	**504**	**602**	**704**
Domestic revenue	262.7	283	329	346	345	357	423	504	602	704
Tax	181.7	190	225	241	241	254	298	368	454	545
Non-tax	81.0	93	105	105	104	103	125	136	147	159
Budget support grant	171.4	171	141	185	45	158	15	0	0	0
Expenditure excluding projects	**431.7**	**480**	**465**	**570**	**534**	**575**	**610**	**659**	**695**	**775**
Operational expenditure	346.1	411	389	482	447	485	505	532	568	627
Compensation of employee	251.9	282	291	357	324	357	371	390	414	443
Goods and services	93.4	124	93	116	111	116	120	128	139	167
Interest	0.8	6	5	10	13	13	14	14	15	17
Other expenditure	85.6	69	76	87	87	90	105	126	126	148
Transfer to FMS	77.8	51	71	73	62	75	89	106	102	120
Social benefits	0.0	0	0	0	0	0	0	0	0	0
Other expenses	0.0	3	0	3	14	3	3	3	3	3
Capital expenditure	7.8	16	5	11	11	11	13	17	21	25
Overall balance excluding projects	**2.4**	**-27**	**6**	**-38**	**-144**	**-60**	**-172**	**-155**	**-93**	**-71**
Projects										
Project grants	287.8	497	270	510	473	389	376	220	120	77
Project expenditure 1/	287.8	497	270	510	473	389	386	354	357	352
o/w social benefits	188.9	201	135	86	91	194	192	176	178	175
o/w other	98.9	295	136	424	382	195	194	178	179	177
Total revenues including projects	**721.9**	**951**	**741**	**1041**	**863**	**904**	**814**	**724**	**722**	**781**
Total expenditure including projects	**719.5**	**977**	**736**	**1079**	**1007**	**964**	**996**	**1013**	**1052**	**1127**
Overall balance including projects	**2.4**	**-27**	**6**	**-38**	**-144**	**-60**	**-182**	**-289**	**-330**	**-346**
					(percent of GDP)					
Revenue excluding projects	**4.2**	**3.9**	**4.0**	**4.1**	**3.0**	**4.0**	**3.2**	**3.3**	**3.7**	**4.0**
Domestic revenue	2.5	2.4	2.8	2.7	2.7	2.8	3.0	3.3	3.7	4.0
Tax	1.7	1.6	1.9	1.9	1.9	2.0	2.1	2.4	2.8	3.1
Non-tax	0.8	0.8	0.9	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Budget support grant	1.6	1.5	1.2	1.4	0.4	1.2	0.1	0.0	0.0	0.0
Expenditure excluding projects	**4.1**	**4.1**	**4.0**	**4.4**	**4.2**	**4.5**	**4.4**	**4.4**	**4.3**	**4.4**
Operational expenditure	3.3	3.5	3.3	3.8	3.5	3.8	3.6	3.5	3.5	3.6
Compensation of employee	2.4	2.4	2.5	2.8	2.5	2.8	2.7	2.6	2.5	2.5
Goods and services	0.9	1.1	0.8	0.9	0.9	0.9	0.9	0.8	0.9	0.9
Interest	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Other expenditure	0.8	0.6	0.7	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Transfer to FMS	0.7	0.4	0.6	0.6	0.5	0.6	0.6	0.7	0.6	0.7
Social benefits	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Capital expenditure	0.1	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Overall balance excluding projects	**0.0**	**-0.2**	**0.0**	**-0.3**	**-1.1**	**-0.5**	**-1.2**	**-1.0**	**-0.6**	**-0.4**
Projects										
Project grants	2.8	4.3	2.3	4.0	3.7	3.0	2.7	1.5	0.7	0.4
Project expenditure 1/	2.8	4.3	2.3	4.0	3.7	3.0	2.8	2.4	2.2	2.0
o/w social benefits	1.8	1.7	1.2	0.7	0.7	1.5	1.4	1.2	1.1	1.0
o/w other	0.9	2.5	1.2	3.3	3.0	1.5	1.4	1.2	1.1	1.0
Total revenues including projects	**6.9**	**8.1**	**6.3**	**8.1**	**6.7**	**7.1**	**5.9**	**4.8**	**4.4**	**4.4**
Total expenditure including projects	**6.9**	**8.4**	**6.3**	**8.4**	**7.9**	**7.5**	**7.2**	**6.7**	**6.4**	**6.4**
Overall balance including projects	**0.0**	**-0.2**	**0.0**	**-0.3**	**-1.1**	**-0.5**	**-1.3**	**-1.9**	**-2.0**	**-2.0**

Source: IMF Staff estimates.

1/ Social benefits (cash transfers under the Baxnaano program) were sharply increased in 2022-2024 in the project budgets to help address multiple shocks (Covid-19, locust infestation, prolonged drought, severe flooding) which are expected to gradually subside over the medium term.

Table 2d. Somalia: General Government Operations, 2022–2023 1/

(Millions of U.S. dollars)

	2022					2023				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenue and grants	118.3	202.8	284.9	324.4	930.4	121.4	126.2	304.0	334.0	885.7
Revenue	87.8	87.8	82.5	122.8	380.9	96.0	98.9	108.9	108.3	412.1
Tax revenue	65.5	63.7	59.8	87.7	276.6	70.7	65.9	77.8	72.1	286.5
Tax on income, profit, and capital gains	4.2	4.3	4.2	6.5	19.3	4.3	6.2	7.7	7.5	25.8
Taxes on payroll and workforce 2/	2.2	2.3	2.3	3.2	10.0	2.6	1.8	1.2	1.6	7.1
Taxes on property 2/	0.2	0.1	0.2	0.2	0.7	0.0	0.0	0.0	0.0	0.1
Taxes on goods and services	13.6	12.6	12.4	21.4	60.1	13.7	15.1	18.2	14.1	61.1
Taxes on international trade and transactions	41.8	39.8	36.9	51.4	169.8	48.0	40.4	48.2	46.7	183.3
Other taxes	3.5	4.5	3.8	5.0	16.8	2.2	2.5	2.3	2.1	9.2
Non-tax revenue	22.3	24.1	22.7	35.1	104.2	25.2	33.0	31.2	36.2	125.5
Grants	30.5	115.0	202.4	201.5	549.5	25.4	27.4	195.1	225.8	473.6
Transfer from FGS 3/	7.2	10.9	38.2	17.2	73.6	6.0	7.1	23.7	10.6	47.4
Bilateral	0.0	29.6	7.5	0.3	37.4	0.5	1.4	0.5	0.8	3.3
Multilateral	23.4	74.5	156.7	184.0	438.5	19.0	18.9	170.9	214.3	423.0
Total expenditure 4/	133.7	215.6	205.5	384.5	939.4	144.0	147.8	214.4	352.7	858.9
Current	128.1	205.9	194.5	367.6	896.1	138.2	144.0	205.1	347.7	835.1
Compensation of employees	83.7	87.2	86.4	109.3	366.6	84.4	84.4	87.9	105.0	361.7
Use of goods and services	28.7	39.5	47.9	83.6	199.8	33.6	39.3	47.7	68.7	189.2
Transfers to sub-national governments & Banadir Region	12.1	27.3	42.3	29.3	111.1	12.3	14.3	42.7	59.2	128.5
Contingency	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	5.6	9.7	10.9	17.0	43.3	5.8	3.8	9.2	5.0	23.8
Overall fiscal balance	-15.4	-12.8	79.4	-60.2	-9.0	-22.6	-21.5	89.6	-18.7	26.8

Sources: Somali authorities; and IMF Staff estimates.

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

2/ Reporting on these categories commenced in 2020 reporting.

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

4/ Advances and transfers to MDAs are not included.

Table 2e. Somalia: General Government Operations, 2022–2023 1/

(Percent of GDP) 2/

	2022					2023				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
Revenue and grants	1.1	1.9	2.7	3.1	8.9	1.0	1.1	2.6	2.6	6.4
Revenue	0.8	0.8	0.8	1.2	3.7	0.8	0.8	0.9	0.8	3.0
Tax revenue	0.6	0.6	0.6	0.8	2.7	0.6	0.6	0.7	0.6	2.1
Tax on income, profit, and capital gains	0.0	0.0	0.0	0.1	0.2	0.0	0.1	0.1	0.1	0.2
Taxes on payroll and workforce 3/	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Taxes on property 3/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Taxes on goods and services	0.1	0.1	0.1	0.2	0.6	0.1	0.1	0.2	0.1	0.4
Taxes on international trade and transactions	0.4	0.4	0.4	0.5	1.6	0.4	0.3	0.4	0.4	1.3
Other taxes	0.0	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.1
Non-tax revenue	0.2	0.2	0.2	0.3	1.0	0.2	0.3	0.3	0.3	0.9
Grants 4/	0.3	1.1	1.9	1.9	5.3	0.2	0.2	1.7	1.8	3.4
Transfer from FGS	0.1	0.1	0.4	0.2	0.7	0.1	0.1	0.2	0.1	0.3
Bilateral	0.0	0.3	0.1	0.0	0.4	0.0	0.0	0.0	0.0	0.0
Multilateral	0.2	0.7	1.5	1.8	4.2	0.2	0.2	1.5	1.7	3.0
Total expenditure 5/	1.3	2.1	2.0	3.7	9.0	1.2	1.3	1.8	2.8	6.2
Current	1.2	2.0	1.9	3.5	8.6	1.2	1.2	1.8	2.7	6.0
Compensation of employees	0.8	0.8	0.8	1.0	3.5	0.7	0.7	0.8	0.8	2.6
Use of goods and services	0.3	0.4	0.5	0.8	1.9	0.3	0.3	0.4	0.5	1.4
Interest and other charges	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.1
Subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to sub-national governments & Banadir Region	0.1	0.3	0.4	0.3	1.1	0.1	0.1	0.4	0.5	0.9
Social benefits	0.0	0.4	0.1	1.3	1.8	0.0	0.0	0.1	0.9	0.9
Other expenses	0.0	0.0	0.0	0.0	0.1	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
Purchase of non-financial assets	0.1	0.1	0.1	0.2	0.4	0.0	0.0	0.1	0.0	0.2
Overall fiscal balance	-0.1	-0.1	0.8	-0.6	-0.1	-0.2	-0.2	0.8	-0.1	0.2

Sources: Somali authorities; and IMF Staff estimates.

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

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

3/ Reporting on these categories commenced in 2020 reporting.

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

5/ Advances and transfers to MDAs are not included.

Table 3. Somalia: Summary Accounts of the Central Bank, 2020–2023
(Millions of U.S. dollars)

	2020	2021	2022	2023			
				Mar	June	Sept.	Dec
Net Foreign Assets	(250)	(183)	(301)	(356)	(327)	(281)	73
Foreign assets	193	322	346	297	328	367	407
SDR holdings 1/	51	200	174	176	184	181	233
Gold 2/	25	31	30	-	-	-	-
Foreign exchange	77	51	74	41	65	81	52
of which:							
Grants	52	32	57	39	55	88	75
Foreign Corresp. Banks	43	33	56	39	65	81	52
Other foreign assets	-	8	-				
Cash (US$) held locally	40	40	68	80	79	105	122
Foreign liabilities	444	650	646	653	655	648	334
IMF obligations	371	360	371	375	380	375	56
SDR allocations	73	290	276	279	276	273	278
Net Domestic Assets	409	409	378	401	377	352	(38)
Domestic assets	525	498	519	525	519	514	148
of which:							
Claims on government 3/	392	451	472	478	472	467	101
Domestic liabilities	116	89	141	123	141	162	187
Government	73	54	94	73	76	126	123
of which:							
Grants	52	103	103	103	103	103	103
Other domestic liabilities	42	34	43	45	59	29	56
Commercial bank reserves 4/	20	20	20	20	20	2	23
Other commercal bank deposits	18	12	22	23	38	26	31
Other demand deposits at the CBS	1	0	0	0	0	0	0
Microfinance grant	3	1	1	1	0	0	1
MTB deposits	1	1	1	1	1	1	1
Other demand deposits							
Equity and reserves	159	226	77	45	50	70	34
of which:							
Property and equipment 5/	129	45	45	45	45	45	45

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

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

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

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

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

5/ Including revaluation reserves.

Table 4. Somalia: Consolidated Commercial Banks Balance Sheet, 2020–2023
(Millions of U.S. dollars)

	2020	2021	2022	2023			
				Mar.	June	Sept	Dec
				Est.			
Total assets	764	1,182	1,259	1,364	1,292	1,505	1,617
Cash on Hand	285	553	476	446	449	534	616
Balances with Central Bank	29	28	41	46	60	51	55
Deposits with other banks 1/	47	41	59	47	41	44	73
Credit to private sector	219	319	400	429	410	526	535
Investment 2/	61	86	138	127	135	143	154
Other Assets 3/	123	155	145	269	198	208	185
Fixed Assets	62	64	58	65	60	66	64
Intangible Assets	3	10	15	16	18	18	17
Other Assets	59	81	72	188	119	124	105
Total liabilities	704	975	1,247	1,268	1,219	1,400	1,506
Customer Deposits	659	900	1,164	1,171	1,113	1,297	1,431
Financing Liabilities	3	3	3	3	3	3	4
Other Liabilities	32	57	57	63	57	81	52
Equity	60	207	11	96	73	105	111
Memorandum items:							
Credit to private sector							
share of total assets (percent)	29	27	32	31	32	35	33
share of GDP (percent)	3	4	5	5	5	6	6
y-o-y changes (percent)	7	46	18	20	10	32	25
Total capital to assets (percent)	12	13	13	13	14	16	15
Loan to deposits (percent)	33	35	34	37	37	41	37
Liquid assets to total assets (percent)	45	54	49	43	46	46	49

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

1/ Primarily deposits and placements with non-resident banks and other financial institutions.

2/ Primarilly investment in real estate.

3/ Fixed, intangible and other assets.

Table 5. Somalia Monetary Survey, 2022–2029 1/
(Millions of U.S. dollars)

	2022	2023		2024		2025	2026	2027	2028	2029
	Est.	Prog.	Est.	Prog.	Proj.			Proj.		
Net foreign assets 1/	-140	227	176	246	192	207	223	242	260	266
Claims on nonresidents	519	559	520	578	536	551	565	578	588	586
Central Bank 2/	316	334	359	334	359	359	357	354	345	325
of which gross reserves of the CBS (program definition)	266	221	265	221	265	265	263	260	251	231
Other Depository Corporations	203	225	161	244	177	192	208	225	243	262
Liabilities to Nonresidents	659	332	344	332	344	344	342	336	328	320
Net Domestic Claims	1586	1256	1565	1402	1631	1670	1700	1665	1652	1673
Net Claims on Central Government	381	36	36	36	37	38	38	37	39	52
of which CBS claim on government 1/	699	372	384	372	384	384	382	376	368	360
Claims on private sector	400	496	535	615	613	696	789	894	1012	1140
Other net claims not included in broad money	805	725	994	751	980	936	873	733	601	481
Capital and Reserves	228	252	256	274	281	304	330	357	387	416
Other items, net	15	10	13	11	12	13	15	15	16	16
Broad Money 3/	1446	1483	1741	1648	1822	1876	1923	1907	1912	1939
Memorandum items										
Credit to the private sector (percent of GDP)	3.8	4.3	4.6	4.9	4.8	5.0	5.2	5.5	5.7	6.0

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$ 132 million).

2/ Includes Federal Government of Somalia (FGS) grants held abroad.

3/ Primarily deposits at commercial banks. Data does not yet include balances held with Mobile Network Operators.

Table 6a. Somalia: Balance of Payments, 2022–2029 1/

(Millions of U.S. dollars)

	2022	2023		2024		2025	2026	2027	2028	2029
	Est.	Prog.	Proj.	Prog.	Proj.			Proj.		
Current account balance	-838	-1,092	-1,119	-1,127	-1,108	-1,228	-1,582	-1,757	-1,828	-1,986
Overall trade balance	-6,378	-7,020	-6,868	-7,589	-7,446	-7,941	-8,498	-9,153	-9,842	-10,559
Goods balance	-5,636	-6,155	-6,044	-6,658	-6,563	-7,004	-7,486	-8,056	-8,629	-9,277
Exports of goods, f.o.b.	704	859	851	1,020	1,016	1,205	1,395	1,594	1,803	1,921
Imports of goods, f.o.b.	-6,340	-7,014	-6,896	-7,678	-7,579	-8,209	-8,881	-9,650	-10,431	-11,198
Services, net	-742	-865	-824	-931	-883	-936	-1,012	-1,097	-1,214	-1,283
Service credits	1,100	1,221	1,238	1,374	1,408	1,584	1,747	1,925	2,081	2,259
Service debit	-1,842	-2,085	-2,062	-2,305	-2,291	-2,520	-2,759	-3,022	-3,295	-3,542
Income (net)	-45	-44	-46	-39	-42	-46	-50	-54	-58	-63
Receipts	58	64	64	69	71	77	83	90	97	105
Payments	-102	-108	-110	-108	-113	-123	-133	-144	-156	-168
of which:										
Interest payments, public debt	-1	-6	-5	-14	-13	-14	-14	-15	-17	-19
Multilateral, official	-1	-6	-5	-7	-5	-6	-7	-8	-10	-12
Bilateral, official	0	0	0	-8	-8	-8	-8	-8	-7	-7
Current transfers (net)	5,584	5,972	5,795	6,501	6,380	6,759	6,966	7,450	8,072	8,636
Private (net), including remittances	2,142	2,367	2,201	2,607	2,408	2,619	2,869	3,142	3,458	3,722
Official	3,443	3,606	3,594	3,894	3,972	4,140	4,097	4,307	4,614	4,914
On budget aid 1/	459	420	412	518	547	391	220	120	77	50
Off-budget aid	2,983	3,185	3,182	3,376	3,425	3,749	3,877	4,187	4,537	4,864
Capital account and financial account	836	1,061	1,103	1,107	1,088	1,208	1,560	1,753	1,820	1,965
of which:	3,443	3,606	3,594	3,894	3,972	4,140	4,097	4,307	4,614	4,914
Foreign direct investment	542	599	607	674	691	750	813	881	952	1,025
Other Investment	0	0	0	75	0	133	285	349	365	428
of which:										
Long-term debt liabilities 2/	0	0	0	0	0	0	0	0	0	0
Official concessional borrowing	0	0	0	75	0	133	285	349	365	428
Amortization, public debt 3/	-11.9	-14	-14.4	-8.7	-8.7	-11.8	-13.7	-15.5	-16.0	-33.9
Multilateral, official	-11.9	-14	-14	-5	-5	-6	-7	-9	-13	-32.3
Bilateral, official	0	0	0	-4	-4	-6	-6	-6	-3	-2
Errors and omissions	0	0	0	0	0	0	0	0	0	0
Overall balance and error and omissions	-2	-31	-15	-20	-20	-20	-22	-4	-9	-20
Financing	2	31	15	20	20	20	22	4	9	20
Change in central bank reserves (- = increase)	-70	-28	-43	0	0	0	2	4	9	20
Use of Fund resources (net)	72	-276	-275	20	20	20	20	0	0	0
Purchases and loans	72	59	59	20	20	20	20	0	0	0
of which: ECF arrangement		40	40.0	20	20	20	20	0	0	0
Repayments	0	-335	-334	0	0	0	0	0	0	0
Arrears, net change (+ = accumulation)	0	-2,913	-2,792	0	0	0	0	0	0	0
Debt relief and rescheduling 4/	0	3,248	3,126	0	0	0	0	0	0	0
Memorandum items:										
Nominal GDP	10,420	11,515	11,680	12,489	12,804	13,891	15,059	16,310	17,638	18,985
Gross International Reserves (program definition)	266	221	265	221	265	265	263	260	251	231
in months of next year's imports 5/	0.4	…	0.3	…	0.3	0.3	0.2	0.2	0.2	0.2
Exports of goods and services	1,804	2,079	2,090	2,394	2,424	2,788	3,141	3,519	3,884	4,181
Exports of goods and services (percent change)	18	15	16	15	16	15	13	12	10	8
Exports of goods (percent change)	-2	22	21	19	19	19	16	14	13	7
Imports of goods and services	-8,182	-9,100	-8,957	-9,983	-9,870	-10,729	-11,640	-12,672	-13,726	-14,740
Imports of goods and services (percent change)	25	11	9	10	10	9	8	9	8	7
Imports of goods (percent change)	32	11	9	9	10	8	8	9	8	7
Remittances (percent change)	1	11	3	10	9	9	10	10	10	8
Current transfers, official (percent change)	52	5	4	8	11	4	-1	5	7	6
External debt 4/, 6/	3,827	638	701	783	712	854	1,145	1,478	1,827	2,222

Sources: Somali Authorities, Direction of Trade Statistics, UN Comtrade, and IMF 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 July 2025 because Somalia is 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, HIPC, MDRI, and beyond-HIPC debt relief. Excludes payments to the IMF.

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

5/ For Somalia's de facto dollarized economy, reserve to imports coverage is less applicable.

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

Table 6b. Somalia: Balance of Payments, 2022–2029 1/

(Percent of GDP, unless otherwise indicated) 2/

	2022	2023		2024		2025	2026	2027	2028	2029
	Est.	Prog.	Proj.	Prog.	Proj.			Proj.		
Current account balance	-8.0	-9.5	-9.6	-9.0	-8.7	-8.8	-10.5	-10.8	-10.4	-10.5
Overall trade balance	-61.2	-61.0	-58.8	-60.8	-58.2	-57.2	-56.4	-56.1	-55.8	-55.6
Goods balance	-54.1	-53.5	-51.7	-53.3	-51.3	-50.4	-49.7	-49.4	-48.9	-48.9
Exports of goods, f.o.b.	6.8	7.5	7.3	8.2	7.9	8.7	9.3	9.8	10.2	10.1
Imports of goods, f.o.b.	-60.8	-60.9	-59.0	-61.5	-59.2	-59.1	-59.0	-59.2	-59.1	-59.0
Services, net	-7.1	-7.5	-7.1	-7.5	-6.9	-6.7	-6.7	-6.7	-6.9	-6.8
Service credits	10.6	10.6	10.6	11.0	11.0	11.4	11.6	11.8	11.8	11.9
Service debit	-17.7	-18.1	-17.7	-18.5	-17.9	-18.1	-18.3	-18.5	-18.7	-18.7
Income (net)	-0.4	-0.4	-0.4	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Receipts	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Payments	-1.0	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9
Current transfers (net)	53.6	51.9	49.6	52.1	49.8	48.7	46.3	45.7	45.8	45.5
Private (net), including remittances	20.6	20.6	18.8	20.9	18.8	18.9	19.1	19.3	19.6	19.6
Official	33.0	31.3	30.8	31.2	31.0	29.8	27.2	26.4	26.2	25.9
On budget aid 1/	4.4	3.7	3.5	4.1	4.3	2.8	1.5	0.7	0.4	0.3
Off-budget aid	28.6	27.7	27.2	27.0	26.8	27.0	25.7	25.7	25.7	25.6
Capital account and financial account	8.0	9.5	9.6	9.0	8.7	8.8	10.5	10.8	10.4	10.5
of which:										
Foreign direct investment	5.2	5.2	5.2	5.4	5.4	5.4	5.4	5.4	5.4	5.4
Other Investment	0.0	0.0	0.0	0.6	0.0	1.0	1.9	2.1	2.1	3.3
of which:										
Long-term debt liabilities 2/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
New concessional borrowing	0.0	0.0	0.0	0.6	0.0	1.0	1.9	2.1	2.1	2.3
Amortization 3/	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.2
Overall balance and error and omissions	0.0	-0.3	-0.1	-0.2	-0.2	-0.1	-0.1	0.0	0.0	-0.1
Change in central bank reserves (- = increase)	-0.7	-0.2	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.1
Memorandum items:										
Nominal GDP (Million of U.S. dollars)	10,420	11,515	11,680	12,489	12,804	13,891	15,059	16,310	17,638	18,985
External debt 4/, 5/	36.7	5.5	6.0	6.3	5.6	6.1	7.6	9.1	10.4	11.7
Exports of goods and services	17.3	18.1	17.9	19.2	18.9	20.1	20.9	21.6	22.0	22.0
Imports of goods and services	78.5	79.0	76.7	79.9	77.1	77.2	77.3	77.7	77.8	77.6

Sources: Somali Authorities, Direction of Trade Statistics, UN Comtrade, and IMF 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 July 2025 because Somalia is 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, HIPC, MDRI, and beyond-HIPC debt relief. Excludes payments to the IMF.

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

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 7. Somalia: Schedule of Reviews and Disbursements

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

Source: IMF

1/ Somalia's quota is SDR163.4 million.

Table 8. Somalia: External Financing Needs and Sources, 2021–2029 1/

(Millions of U.S. dollars)

	2021	2022	2023	2024	2025	2026	2027	2028	2029
Gross financing requirement	*5,093.0*	*6,461.0*	*10,056.6*	*7,467.5*	*7,966.1*	*8,524.3*	*9,180.2*	*9,867.1*	*10,591.7*
Trade deficit	5,012.3	6,378.0	6,867.7	7,446.0	7,940.5	8,498.3	9,153.1	9,842.3	10,559.3
Amortization	13.7	11.9	14.4	8.7	11.8	13.7	15.5	16.0	33.9
Interest on external obligations	0.9	0.8	5.1	12.7	13.8	14.2	15.4	17.3	18.9
Official arrears/repayments	0.0	0.0	3,126.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF	0.0	0.0	334.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in reserves (increase = +)	66.1	70.4	43.3	0.0	0.0	-1.9	-3.8	-8.5	-20.5
Available financing	*4,742.4*	*6,217.2*	*6,728.9*	*7,289.6*	*7,797.8*	*8,219.1*	*8,831.6*	*9,502.3*	*10,163.3*
Current transfers (net) 1/	4,345.4	5,413.0	5,653.4	6,222.0	6,743.6	6,966.2	7,450.0	8,072.3	8,636.2
Of Which: Remittances	2,118.4	2,141.7	2,200.8	2,407.5	2,618.9	2,869.2	3,142.5	3,458.4	3,722.5
Foreign Direct Investment	511.6	541.8	607.4	691.4	750.1	813.2	880.7	952.5	1,025.2
Other flows 2/	-114.6	262.3	468.1	376.2	304.1	439.7	500.9	477.5	501.9
Financing gap	*350.7*	*243.9*	*3,327.7*	*177.9*	*168.3*	*305.2*	*348.6*	*364.8*	*428.4*
Exceptional Financing	15.8	0.0	3,126.1	0.0	0.0	0.0	0.0	0.0	0.0
HIPC interim assistance (Excl. IMF)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
HIPC debt relief	15.8	0.0	3,126.1	0.0	0.0	0.0	0.0	0.0	0.0
Of which: IMF 3/	0.5	0.6	334.0	0.0	0.0	0.0	0.0	0.0	0.0
Remaining gap	*334.8*	*243.9*	*201.7*	*177.9*	*168.3*	*305.2*	*348.6*	*364.8*	*428.4*
Identified financing	334.8	243.9	201.7	177.9	168.3	305.2	348.6	364.8	428.4
Official budget grants	38.4	171.4	141.3	158.0	15.0	0.0	0.0	0.0	0.0
IMF 4/	222.1	27.9	58.7	19.9	20.0	20.0	0.0	0.0	0.0
ECF 2020	0.0	27.9	18.7	0.0	0.0	0.0	0.0	0.0	0.0
ECF: 2023 arrangement	…	…	40.0	19.9	20.0	20.0	…	…	…
EFF	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDR	222.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Official loans (net) 5/	74.4	44.6	1.6	0.0	133.3	285.1	348.6	364.8	428.4

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

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

2/ Includes other financial account flows.

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

4/ Disbursements in 2024-26 are conditional on Board approval of ECF reviews.

5/ Includes WB loan financing only from 2025 onwards.

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

(In millions of SDR, unless otherwise noted)

	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Obligations from existing and prospective drawings																
1. Principal																
Repurchases and Repayments	250.4	0.0	0.0	1.4	2.8	6.3	15.2	18.2	19.8	20.6	17.1	8.3	5.3	2.3	0.0	0.0
2. Charges and interest 1/																
SDR related charges	0.0	1.6	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Total obligations	250.4	1.6	1.4	2.8	4.2	7.7	16.6	19.6	21.2	22.0	18.5	9.7	6.7	3.7	1.4	1.4
Outstanding Fund credit, end of period	72.0	87.0	102.0	115.6	112.8	106.5	91.4	73.2	53.5	32.9	15.8	7.5	2.3	0.0	0.0	0.0
Net Use of Fund Credit	-206.4	15.0	15.0	13.6	-2.8	-6.3	-15.2	-18.2	-19.8	-20.6	-17.1	-8.3	-5.3	-2.3	0.0	0.0
Disbursements and Purchases	44.0	15.0	15.0	15.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and Repurchases	250.4	0.0	0.0	1.4	2.8	6.3	15.2	18.2	19.8	20.6	17.1	8.3	5.3	2.3	0.0	0.0
Memorandum items:																
Outstanding Fund credit, in percent of																
Exports of goods and services	4.6	4.8	4.9	4.9	4.3	3.6	2.9	2.2	1.5	0.9	0.4	0.2	0.0	0.0	0.0	0.0
External public debt	13.7	16.2	15.9	13.4	10.1	7.8	5.5	3.8	2.4	1.3	0.5	0.2	0.1	0.0	0.0	0.0
Gross official reserves	36.1	43.6	51.1	58.4	57.8	56.4	52.6	44.5	32.5	20.0	9.6	4.6	1.4	0.0	0.0	0.0
GDP	0.8	0.9	1.0	1.0	0.9	0.8	0.6	0.5	0.3	0.2	0.1	0.0	0.0	0.0	0.0	0.0
Quota	44.1	53.2	62.4	70.7	69.0	65.2	55.9	44.8	32.7	20.1	9.6	4.6	1.4	0.0	0.0	0.0
Total Obligations, in percent of																
Exports of goods and services	15.9	0.1	0.1	0.1	0.2	0.3	0.5	0.6	0.6	0.6	0.5	0.2	0.1	0.1	0.0	0.0
External public debt	47.5	0.3	0.2	0.3	0.4	0.6	1.0	1.0	0.9	0.9	0.6	0.3	0.2	0.1	0.0	0.0
Gross official reserves	125.5	0.8	0.7	1.4	2.2	4.1	9.5	11.9	12.8	13.4	11.2	5.9	4.0	2.2	0.9	0.9
GDP	2.9	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Quota	153.3	1.0	0.9	1.7	2.6	4.7	10.1	12.0	12.9	13.5	11.3	5.9	4.1	2.2	0.9	0.9
Quota	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4	163.4

Source: IMF staff estimates and projections.

1/ Projections are based on current IMF charges.

Table 10. Somalia: Quantitative Performance Indicators and Indicative Targets Under the ECF Arrangement (December 2023 – March 2025) 1/

(Millions of U.S. dollars)

	Dec. 2023 4/			Mar. 2024	June. 2024 4/		Sept. 2024		Dec. 2024 4/		Mar. 2025
	Prog.	Prel.	Status	Prog.	Prog.	Proposed	Prog.	Proposed	Prog.	Proposed	Proposed
Quantitative Performance Criteria											
1 FGS domestic revenue, floor 2/	312	329	Met		145	150			345	357	
2A Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	384	384	Met		236				437		
2B Spending on FGS compensation of employees, goods & services (excl. CBS commission), & contingency, ceiling 2/ 8/						252				468	
3A Net international reserves, floor 7/	0.7 adjusted	13	Met		10				10		
3B Net international reserves (excl. all SDR holdings of MoF), floor 7/ 8/						1.5				1.5	
4 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0	0	Met		0	0			0	0	
5 Accumulation of new external arrears, ceiling 3/	0	0	Met		0	0			0	0	
Indicative Targets											
1 FGS domestic revenue, floor 2/				69			231	239			85
2A Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				118			349				
2B Spending on FGS compensation of employees, goods & services (excl. CBS commission), & contingency, ceiling 2/ 8/								374			131
3A Net international reserves, floor 7/				10			10				
3B Net international reserves (excl. all SDR holdings of MoF), floor 7/ 8/								1.5			1.5
4 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0			0	0			0
5 Accumulation of new external arrears, ceiling 3/				0			0	0			0
6 Fiscal balance, floor (cash basis) 2/ 5/	-44 adjusted	6	Met	-48	-21	-21	6	6	-38	-38	-47
7 Contracting of new domestic debt, ceiling 3/	0	0	Met	0	0	0	0	0	0	0	0
8 Accumulation of new domestic expenditure arrears, ceiling 3/	0	0	Met	0	0	0	0	0	0	0	0
Memorandum item											
Contracting or guaranteeing of new external concessional debt 5/ 6/				0	0	0	75	0	75	0	133

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

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

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

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

5/ The fiscal balance floor is in line with the authorities' 2024 budget (US$38 million), which is consistent with the IMF staff forecast (US$60 million). The authorities' budget assumes higher budget grants (by US$27 million) that what is incorporated in the IMF baseline. In addition, in the authorities' 2024 budget, interest payments are estimated based on signed agreements with creditors (US$10 million), while the IMF forecast shows interest payments assuming agreements are reached with all creditors (US$10 million). For 2024, the fiscal balance floor would be adjusted downward by any delays or shortfalls in budget support grants as compared to the 2024 budget estimate, or if interest payments are higher than the budget estimate, as per the TMU.

6/ Excludes IMF disbursements.

7/ The floor on NIR would be adjusted downward if the CBS transfers distributable earnings to the government, and if the CBS provides temporary liquidity advances to the government, as per the TMU.

8/ Revised definition introduced in the 1st review.

Table 11. Somalia: Structural Benchmarks Under the ECF-Arrangement, December 2023–April 2025

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1	Publish a Tax Policy and Revenue Administration Roadmap approved by the Minister of Finance, in line with IMF staff recommendations	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Publish roadmap approved by the Minister of Finance on the MOF website.	
2	Submit the Income Tax Bill to Parliament	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Send to the IMF staff the version of the Bill submitted to Parliament	
3	Ensure full payroll integration of FGS employees in the SFMIS payroll module by reducing the ratio of non-payroll compensation of employee payments to total compensation of employees to less than 1 percent	End-June 2024	PFM / MOF NCSC MOLSA	Strengthen payroll integrity, expenditure controls, and governance	Submit to IMF staff monthly SFMIS reports detailing amount of payroll and non-payroll payments for FGS compensation of employees. A ratio of non-payroll compensation of employee payments to total compensation of employees to be decreased to less than 1 percent on average between April and June 2024 (relative to 10.9 percent in May-July 2023)	
4	Publish a plan approved by the Minister of Finance to expand invoice tracking functionality to all goods and services	End-February 2024	PFM / MOF	Strengthen PFM, expenditure controls, transparency, and accountability	Publish the plan approved by the Minister of Finance on the MOF website.	Met
5	(1) Issue a Prime Ministerial Decree that articulates the key parameters for debt policy and establishes the procedures to be followed for entering into new borrowing and issuing sovereign guarantees, in line with IMF staff recommendations; (2) amend the PFM regulations to include a clear definition of "other financial liabilities" that are considered guarantees as per Article 37 (6) of the PFM Act, in line with IMF staff recommendations.	End-June 2024	Public debt/ MOF	Define debt policy and strengthen debt management framework and capacity, in order to preserve fiscal sustainability.	Publish the approved Prime Ministerial Decree on the MoF website. Publish the amended PFM regulations on the MoF website.	
6	Submit the PPP Bill to Parliament with a framework that adequately manages fiscal risks and establishes a gateway process managed by the Ministry of Finance	End-June 2024	Governance / MOF	Reduce fiscal risks and contingent liabilities/ Strengthen governance and reduce corruption risks	Send to the IMF staff the version of the Bill submitted to Parliament	
7	Develop an action plan to improve the quality of data submitted by commercial banks, in line with IMF recommendations, and communicate the action plan to commercial banks.	End-July 2024	Financial Supervision / CBS	Improve risk-based financial supervision	Provide IMF staff with the action plan approved by the CBS Board and copies of the letters from the CBS Governor to commercial banks with the details of the action plan approved by the CBS Board.	
8	Submit to Parliament amendments to the AML/CFT Law, in line with IMF staff recommendations	End-March 2024	AML-CFT Governance / FRC MOF CBS	Improve the legal framework for AML/CFT	Send to the IMF staff the version of the AML/CFT Act amendments submitted to Parliament	Met
	Proposed SBs					
9	Develop a roadmap to implement the Pay and Grade policy, which would include as elements (i) a plan and timeline for the development of a strategy to align the salaries of temporary workers with the pay scale of permanent workers and (ii) a plan and timeline for conducting a costing exercise to understand the fiscal implications of the proposed shift of permanent and temporary workers to a new pay scale	End-December 2024	PFM / MOF NCSC MOLSA	Strengthen payroll integrity, expenditure controls, and governance	Publish the roadmap approved by the Cabinet on the Ministry of Finance website.	
10	(i) Publish the updated PFM regulations relating to digital signatures for the purchase order to payment process; and (ii) implement the digital signatures in the SFMIS	End-June 2025	PFM / MOF	Strengthen expenditure controls and improve transparency and accountability	Publish the amended PFM regulations on the MoF website. Confirm implementation of digital signatures in SFMIS. Provide a list of users using digital signatures and the number and amount of payment vouchers processed using digital signatures	
11	Submit amendments to the CBS Law to Parliament, in line with IMF safeguards recommendations	End-March 2025	Financial Supervision / CBS	Enhance central bank operations and independence	Send to the IMF staff the version of the Bill submitted to Parliament	

Source: IMF

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

Table 12. Somalia: Summary Table on Projected External Borrowing Program (January 1, 2024 – December 31, 2024)

PPG external debt contracted or guaranteed	Volume of new debt, USD million	Percent
Sources of debt financing	**19.9**	**100**
Concessional debt, 1/	**19.9**	**100**
o/w IMF prospective	19.9	
o/w Other 2/	0.0	0
Non-concessional debt	**0.0**	**0**
o/w Semi-concessional 3/	0.0	0
o/w Commercial terms 4/	0.0	0
Uses of debt financing	**19.9**	**100**
Project Financing	0.0	0
Budget Financing	19.9	100
Type of interest rate	**19.9**	**100**
Fixed Interest Rate	19.9	100
Variable Interest Rate	0.0	0
Currency denomination	**19.9**	**100**
USD denominated loans	19.9	100
Loans denominated in other currency	0.0	0
Memorandum items 5/		
Indicative projection FY2025	**153.3**	
Indicative projection FY2026	**305.2**	

1/ Debt with a grant element of at least 35 percent.
2/ Can include multilateral lenders such as the World Bank and the AfDB.
3/ Debt with a positive grant element that is lower than the minimum grant element of 35 percent.
4/ Debt without a positive grant element.
5/ HIPC Completion Point reached in December 2023.

Table 13. Somalia: Decomposition of Public Debt and Debt Service by Creditor, 2022–24

	Debt Stock (end of period)			Debt Service					
	2022			2022	2023	2024	2022	2023	2024
	(In millions of US$)	(Percent total debt)	(Percent GDP)	(In millions of US$)			(Percent GDP)		
Total 1/	3894.8	100.0	33.3	16.4	17.7	12.9	0.2	0.2	0.2
External	3827.0	98.3	32.8	16.4	17.7	12.9	0.2	0.2	0.2
Multilateral creditors	1074.9	27.6	9.2	16.4	17.7	10.0	0.2	0.2	0.1
IMF 2/	370.5	9.5	3.2	0.0	2.3	2.3	0.0	0.0	0.0
World Bank 3/	104.6	2.7	0.9	13.4	12.5	0.0	0.2	0.2	0.0
AfDB	20.1	0.5	0.2	2.5	2.3	0.0	0.0	0.0	0.0
Other Multilaterals	579.6	14.9	5.0	0.5	0.5	7.6	0.0	0.0	0.1
Arab Monetary Fund	298.6	7.7	2.6	0.0	0.0	1.8	0.0	0.0	0.0
Arab Fund for Economic and Social Development	191.5	4.9	1.6	0.0	0.0	4.3	0.0	0.0	0.1
International Fund for Agricultural Development	26.2	0.7	0.2	0.5	0.5	0.5	0.0	0.0	0.0
Islamic Development Bank	27.2	0.7	0.2	0.0	0.0	0.4	0.0	0.0	0.0
OPEC Fund for International Development	36.1	0.9	0.3	0.0	0.0	0.6	0.0	0.0	0.0
Bilateral Creditors	2752.1	70.7	23.6	0.0	0.0	2.9	0.0	0.0	0.0
Paris Club 4/	2004.5	51.5	17.2	0.0	0.0	0.2	0.0	0.0	0.0
Denmark	2.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	109.7	2.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Italy 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan 6/	109.0	2.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	2.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia 7/	711.1	18.3	6.1	0.0	0.0	0.2	0.0	0.0	0.0
Spain	40.9	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	28.6	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
United States	998.4	25.6	8.5	0.0	0.0	0.0	0.0	0.0	0.0
EEC IDA Administered Loans	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Serbia	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other international creditors 8/	745.0	19.1	6.4	0.0	0.0	2.7	0.0	0.0	0.0
Algeria	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bulgaria	11.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Iraq	201.9	5.2	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait Fund and Central Bank	125.3	3.2	1.1	0.0	0.0	2.7	0.0	0.0	0.0
Libya	30.4	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Romania	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	118.9	3.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	253.5	6.5	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	67.8	1.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Of which: in arrears	67.8	1.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	11680								

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

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

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

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

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

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

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

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

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

Table 14. Somalia: Progress on Negotiations with Creditors for Restructuring Outstanding HIPC-Eligible Debt (as of March 3, 2024)

	Enhanced HIPC Debt Relief in PV Terms (in US$ million) 1/	Percentage of Total Assistance under HIPC	Status of Negotiations
AFESD	99.1	5.2	Authorities are continuing to negotiate with the AFESD to agree on debt servicing terms.
AMF	155.6	8.2	Set aside an amount of 26,119 thousand AAD, from which the Republic of Somalia is exempted once a debt settlement agreement is signed. The remaining of the exemption plus the interest calculated from August 1, 2024 to March 31, 2024, has been agreed to be rescheduled. The authorities met the AMF leadership to discuss outstanding arrears. Authorities are seeking a further softening of debt servicing terms for the first fiew years (grace period for a minimum of three years), and have proposed to find a potential donor to service debt during the first five years, and sought AMF cooperation on the matter. Awaiting AMF's decision.
IsDB	15.5	0.8	Draft agreement has been forwarded to the IsDB Board of Directors for approval.
OFID	19.3	1.0	A bridge loan has been agreed in principle with KSA, targeting clearance of outstanding arrears, with a specific focus on certain OPEC fund member countries. Modalities of the bridge loan are being finalized with KSA authorities.
Total Multilateral	**822.5**	**43.2**	
o/w Pending	**289.5**	**15.2**	
Paris Club Creditors	806.6	42.4	The Paris Club completed debt treatment for Somalia under the HIPC process during the March 13 HIPC exit debt treatment for Somalia. In addition to HIPC debt relief, various bilateral PC creditors also agreed to provide beyond-HIPC debt relief.
Non-Paris Club Creditors			
Algeria	0.3	0.0	Informal agreement on writing off debt, but this has not officially been received. Authorities are continuing to negotiatiate with the Algerian authorities.
Bulgaria	1.9	0.1	Bulgaria had indicated its willingness to provide debt relief after Somalia's HIPC exit debt treatment by the Paris Club. With the exit debt treatment having been completed on March 13, 2024, the authorities are reaching out to their Bulgarian counterparts to follow up.
Iraq	32.3	1.7	Authorities are negotiating with their Iraqi counterparts for softening the terms of debt relief offered.
Libya	14.0	0.7	The creditor is yet to respond.
Romania	0.5	0.0	Romania had indicated its willingness to provide debt relief after Somalia's HIPC exit debt treatment by the Paris Club. With the exit debt treatment having been completed on March 13, 2024, the authorities are reaching out to their Romanian counterparts to follow up.
United Arab Emirates	131.0	6.9	Under negotiation - United Arab Emirates participated in March 2020 Paris Club meeting as an observer country. Negotiations on debt relief in Paris Club comparable terms with the Abu Dhabi Fund for Development are ongoing, especially on softening the debt servicing terms further.
Commercial			
Serbia 2/	0.4	0.0	Since the Serbia debt was identified as commercial debt owed to a private creditor (Invest-Import, a.d. Belgrade), authorities are in the pocess of identifying their counterparts to offer comparable terms for debt restructuring. The authorities had previously been negotiating with the Government of Serbia, had offered comparable terms (as PC), and requested input on the terms and conditions.
Total Bilateral and Commercial	**1,081.0**	**56.8**	
o/w Pending	**180.4**	**9.5**	
TOTAL	**1,903.5**	**100.0**	
o/w Total Pending	**469.9**	**24.7**	

Sources: Somali authorities; and IMF and World Bank staff estimates.

1/ The data are in December 31, 2018 PV terms as revised at completion point.

2/ Serbia's loan was classified as other official bilateral debt at the decision point; then it was reclassified as commercial debt at completion point based on updated information provided by the creditor to the authorities.

Annex I. Risk Assessment Matrix

Nature/Source of Main Risks	Overall Level of Concern	
	Relative Likelihood	**Expected Impact if Threat Materializes**
CONJUNCTURAL RISKS		
Intensification of regional conflict(s). Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	**High**	**High** Intensifying spillovers form Russia's war in Ukraine and commodity price shocks would exacerbate inflation in Somalia. Humanitarian support to Somalia may also be affected by the supply shock (of food). Lower economic growth could reduce remittances, affecting local consumption and investment. Escalation of conflicts in the region can have negative repercussions on security, trade and fiscal revenues in Somalia.
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, export restrictions, and OPEC+ decisions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, cross-border spillovers, and social and economic instability.	**High**	
Social discontent. High inflation, real income loss, and spillovers from crises in other countries (including migration) worsen inequality, trigger social unrest, and give rise to financing pressures and detrimental populist policies. This exacerbates imbalances, slows growth, and triggers market repricing.	**Medium**	**High** Social discontent shock may intensify the already precarious security situation in Somalia.
Monetary policy miscalibration. Amid high economic uncertainty, major central banks loosen policy stance prematurely, hindering disinflation, or keep it tight for longer than warranted, causing abrupt adjustments in financial markets and weakening the credibility of central banks.	**Medium**	**High** As a dollarized economy, Somalia does not conduct active monetary policy but imports monetary policy from advanced economies. High global commodity price inflation will significantly impact the poor households which account for 70 percent of the population.

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

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

Considering Somalia's capacity constraints, a currency board arrangement (CBA) would provide a credible policy framework for Somalia, while maintaining a dual currency regime. The CBA would also help provide the conditions for Somalia to gradually build its policy capacity and strengthen financial institutions. The IMF remains committed to providing ongoing policy advice and capacity development support to Somalia in the design and implementation of new monetary and exchange rate policy frameworks in the context of the currency reform.

A. Context

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

2. **The currency reform is considered a national priority.[2]** The currency exchange project will reintroduce the national currency as a legal tender by replacing old and counterfeit notes in circulation. Nonetheless, even after new SOS banknotes are introduced, the Somali economy is expected to remain highly dollarized for some time. The currency reform will:

- Restore credibility in the national currency.
- Support financial inclusion of the most vulnerable populations that have limited access to formal financial services.
- Fulfill an important liquidity function by facilitating payments for small value transactions.
- Over the long-term, create the preconditions for the central bank to develop monetary policy as a tool to help address aggregate demand shocks.
- Furthermore, the Federal Government of Somalia (FGS) views the currency reform as an opportunity to contribute to peace-building as the national currency will be a symbol of national sovereignty and unity.

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

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

3. The World Bank is supporting the authorities for the currency exchange, while the IMF will provide support on the monetary and exchange rate frameworks.[3] The World Bank is considering taking the currency exchange project to their Board in 2024H2, though timing for approval of the project will depend on ability to secure co-financing and a firm agreement between FGS and Federal Member States (FMS).[4]

B. Key Challenges that Affect the Design of the Monetary and Exchange Rate Policy Frameworks for Somalia

4. Somalia faces a number of institutional challenges and capacity constraints that affect the design of the monetary and exchange rate policy frameworks, including:

- **De facto dollarization** (currency, asset, and financial dollarization), which has served as Somalia's nominal anchor to keep inflation low.
- **Mobile money in US dollars** is used extensively.[5]
- **Very low net international reserves** at the CBS and currently no mechanisms to accumulate net reserves.[6]
- **Weak capacity of the central bank**. The CBS was only reestablished in 2009. The CBS has no recent experience with monetary policy and no channels for monetary policy transmission. It has limited experience with reserve management and cash management. Though improving, regulatory and supervisory capacity remains weak.
- **Weak capacity of the financial system and undeveloped markets**. Money and foreign exchange markets are not developed.[7] Banks and mobile money operators do not have capacity in managing exchange rate risks.
- **Limited availability of macroeconomic and market data** that is timely and accurate.

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[3] The scope of the World Bank's Currency Exchange Project is a combination of traditional exchange of banknotes with several legal, regulatory, and institutional reforms and capacity building activities to ensure the sustainability of the currency operation. World Bank support will be provided toward the implementation of four components: (a) designing and printing of new banknotes; (b) currency exchange implementation; (c) CBS capacity building; and (d) project management. The project is intended to only replace the stock of the SOS currently in circulation and not to expand the monetary base nor replace the U.S. dollar. The Fund (MCM, LEG and MCD) has provided TA previously in support of the currency reform in 2016-17. In close cooperation with the IMF, the CBS prepared a currency reform roadmap in 2016, which outlined key steps for the currency reform: (1) anti-counterfeiting; (2) accounting and reporting modules; (3) management function; (4) scope of exchange and conversion; (5) storage, distribution, collection, invalidation, and destruction; (6) legal framework; and (7) accountability elements.

[4] With World Bank support, a survey of SOS currency in circulation has been conducted as well as the costing for printing and circulation. The World Bank project currently is expected to provide US$20-40 million in grant financing, against a total estimated cost of US$72 million for the currency exchange project.

[5] Approximately 73 percent of the Somali population over 16 years of age uses mobile money services for airtime purchase, P2P money transfers, savings, retail transactions, salary payments, remittances, and mobile banking.

[6] The CBS is also undercapitalized and, once the SOS become a liability of the CBS, this would lead to a negative capital position on the CBS balance sheet. IMF safeguards recommendations include strengthening the CBS recapitalization provisions in amendments to the CBS Law.

[7] There is excessive liquidity in the banking system (51 percent of assets, 60 percent of liabilities).

C. Proposal for a Currency Board Arrangement for Somalia

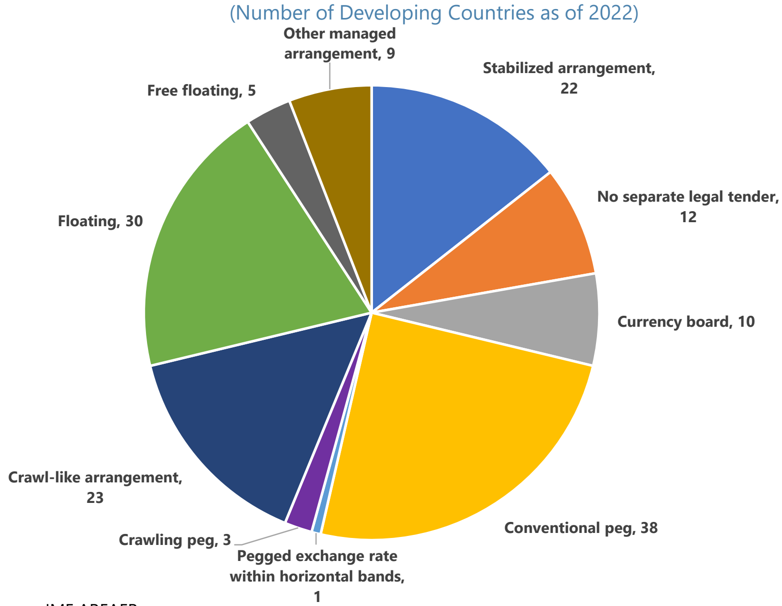
5. Given Somalia's capacity constraints, the choice of the exchange and monetary policy frameworks should:[8]

- Provide a stable and predictable policy environment to establish confidence in the national currency across Somalia;
- Build credibility of the CBS in managing the new currency; and
- Facilitate development of the domestic financial market.

6. Considering Somalia's capacity constraints for both the public and the private sectors, a currency board arrangement would provide Somalia with a credible framework, while maintaining a dual currency regime.[9] Key criteria for selecting a fixed exchange rate arrangement as the best option for Somalia are discussed in Table 2.2.[10]

Exchange Rate Arrangements in Developing Countries 1/

(Number of Developing Countries as of 2022)



Source: IMF AREAER

1/ Based on a sample of 153 developing countries, as defined by IMF WEO.

[8] Options of exchange regimes and their advantages and disadvantages are discussed in Table 2.1.

[9] We would recommend giving legal tender to the SOS only although it is understood that the US$ would continue to circulate and to be used on a contractual basis.

[10] Table 2.2 discusses the criteria as identified by Casaraghi, Habermeier, Harjes (2022), "Monetary Policy Frameworks: Choice of Exchange Rate Arrangement", Monetary and Capital Markets Department Technical Assistance Handbook.

D. Key Features of a Currency Board Arrangement (CBA)

7. Currently, 11 countries around the world have a currency board arrangement (CBA). The CBA is a monetary regime based on an explicit legislative commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate.[11] This structure implies that domestic currency is issued only against foreign exchange (there is no domestic credit creation by the central bank) and therefore domestic currency remains fully backed by foreign assets. The CBA's convertibility and foreign reserve coverage would not extend to deposits at commercial banks nor to any other financial assets, although experience has varied across countries (Ho, 2002).

Countries with a Currency Board Arrangement

Countries	Currency
Bosnia and Herzegovina	Euro
Bulgaria	Euro
Brunei Darussalam	Singapore dollar
Djibouti	US Dollar
Hong Kong SAR	US Dollar
Antigua and Barbuda	US Dollar
Dominica	US Dollar
Grenada	US Dollar
St. Kitts and Nevis	US Dollar
St. Lucia	US Dollar
St. Vincent and the Grenadines	US Dollar

Source: Annual Report of Exchange Arrangements and Exchange Restrictions 2021

8. Under the CBA, the central bank cannot issue credit, leaving little scope for discretionary monetary policy.[12] Thus, the CBA eliminates traditional central bank functions like control over money supply, provision of credit to the banking system, and the lender of last resort (LOLR). It also cannot make loans to the fiscal authorities and state-owned enterprises. Consequently, a CBA imposes a hard budget constraint and discipline on the economy.

9. Under a CBA, the money supply depends on foreign exchange outflows and inflows. It is characterized by an automatic adjustment mechanism whereby: (1) in the case of capital inflows and shift to domestic currency, the expansion in money supply will lead to a decrease in domestic interest rates; or (2) in the case of capital outflows and a flight into the anchor currency, the contraction of money supply will lead to domestic interest rate increases.[13] These, in turn, will counteract the movement of foreign exchange and will have an effect on output and employment.

10. The main benefit of a CBA lies in the credible commitment to low inflation and macroeconomic stability.[14] The CBA provides an effective nominal anchor by allowing national authorities to import credibility from the central bank of the anchor currency. It follows a rules-

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[11] Baliño and Enoch (1997), "Currency Board Arrangements: Issues and Experiences", IMF Occasional Paper No. 151. August 1997.

[12] CBAs that maintain foreign reserves well in excess of what is needed to back the monetary aggregate covered by the arrangement (such as Bulgaria and Hong Kong) have used those excess reserves to conduct monetary operations or to provide LOLR.

[13] Functioning of the interest rate channel will depend on the level of development of domestic financial markets.

[14] However, a non-credible CBA can result in a sharp deterioration of the country's terms of trade and be prone to crisis as in the 2001/2002 Argentine crisis. Although there is no consensus on the causes of the Argentine crisis, the currency overvaluation is seen as one of the prominent factors of this crisis. The exchange rate misalignment resulted from at least three causes: (i) the lack of fiscal discipline, (ii) labor market inflexibility, (iii) contagion from the financial crises in Russia and Brazil.

based approach, with no monetary policy discretion, which minimizes the risk of moral hazard in a country with limited institutional capacity. Moreover, the guarantee of a fixed exchange rate is expected to improve trade and investment prospects.[15]

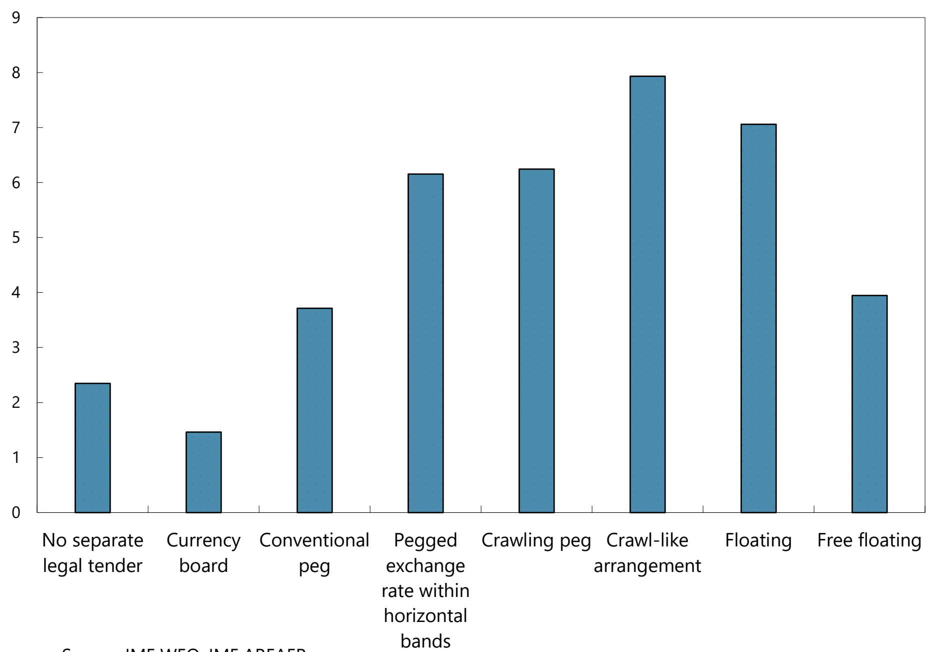
11. In the CBA, the central bank accumulates reserves over time in line with the demand for local currency. A CBA generates profits from the difference between the interest it earns on its foreign reserve assets and the expense of maintaining its liabilities, albeit subject to fluctuations in the value of foreign assets and gold.

E. Why is the CBA a Good Fit for Somalia?

12. Key benefits of a currency board arrangement for Somalia include:

- The CBA provides an efficient nominal anchor.
- The framework is simple, transparent, and easily understandable by businesses and households.

Average Inflation by ER Arrangement Developing Countries 1/
(percent)



Source: IMF WEO; IMF AREAER.

1/ Based on the sample 153 developing countries, defined as per the IMF WEO.

- Operationalizing the framework can be done even with limited central bank resources and operational capacity.

[15] Gulde Anne-Marie, Juha Kähkönen and Peter Keller (2000), "Pros and Cons of Currency Board Arrangements in the Lead-up to EU Accession and Participation in the Euro Zone", IMF Policy Discussion Paper No. PDP/00/1, January 2000.

- The CBA would require only enough gross foreign reserves to back up the initial level of domestic currency, and thereafter reserves would build up in parallel to the demand for new SOS.[16]
- The central bank can build foreign reserves and earn interest income on foreign asset holdings.
- The CBA would preclude monetary financing of the budget, protecting CBS independence and ensuring that fiscal policy is consistent with the monetary regime.
- The CBA provides a reasonable degree of certainty for banks' balance sheets as they gain experience managing the dual currency and exchange rate risks.
- From a political economy perspective, the rules-based/no-discretion approach would support trust and communication between the FGS and FMS.
- Some of the inherent constraints of a CBA (no LOLR and no financing of the Treasury) would not impose additional restrictions to what Somalia currently faces under the de facto dollarization (the CBS currently cannot offer LOLR facility, and CBS short-term financing of the government is very limited).

F. What is Needed for Somalia to be Able to Implement a CBA Successfully, and What Capacity Needs to be Developed?

13. A comprehensive roadmap will be needed to lay out the sequencing of reforms and the capacity that needs to be developed for the implementation of the CBA, with support of IMF CD. Key elements include:

- **Maintain reserves to cover CBS liabilities in domestic currency and build reserve management capacity.** Under CBA, the central bank is required to have sufficient foreign exchange reserves to fully cover its liabilities in domestic currency.[17] The central bank will need to build capacity to manage these reserves safely and efficiently, while also being readily available. The central bank will also need to manage exchange rate risk if assets and liabilities are denominated in different currencies.

- **Maintain fiscal discipline**. To prevent fiscal dominance and maintain the credibility of the currency, the authorities will need to ensure fiscal sustainability. The government will also need

[16] Somalia currently has sufficient gross usable international reserves (in the form of SDRs (about US$200 million) and gold (about US$33 million)) to cover the estimated stock of old shillings in circulation that would be replaced for new SOS during the currency exchange. However, the CBS would need to assess whether its income would be sufficient to cover any costs associated with the use of SDR holdings. As noted at program approval, once there is greater certainty about the timing of this reform, an augmentation of the ECF arrangement could be considered in a subsequent program review to back the new currency and enhance credibility.

[17] The coverage ratio of gross international reserves would typically be between 105-110 percent of domestic currency to have some buffer for valuation effects. Over time, coverage should be provided by net international reserves rather than gross international reserves. The central bank would not be expected to transfer profits until net international reserve coverage ratio is met.

to strengthen its cash management and over time develop alternative liquidity tools, as temporary advances from the CBS would not be feasible under the CBA.

- **Protect CBS independence and accountability.** Under the CBA, there would not be room to provide central bank financing or liquidity to the government.[18] The CBS will need considerable capacity building and policies to promote transparency.

- **Establish the legal framework.** The CBA should be established by law specifying, among others, the fixed exchange rate and that foreign reserves need to be sufficient to cover domestic liabilities.

- **Set the initial exchange rate at the CBA introduction**. Setting the right initial exchange rate is paramount for the sustainability of the arrangement. It should not be more appreciated than the going rate in the market at the time of the initiation.

- **Ensure convertibility and a unified exchange rate system.** Under the CBA, the CBS would buy and sell foreign exchange for all current account transactions at a fixed rate. The central bank would have a spread of 50 to 100 bps between the buying and selling to cover its operational costs. It would also be useful to build CBS capacity to regulate and supervise foreign exchange dealers.

- **Protect against risk of counterfeit dollars and counterfeit SOS**.

- **Develop cash management capacity of the CBS.** Arrangements need to be made for the supply of adequate quantity of SOS banknotes. The CBS will also need to set up a window to provide foreign exchange to commercial banks and decide whether to provide access also to money transfer businesses (MTB) and mobile money operators (MMO).

- **Strengthen financial sector regulation and supervision**. CBS needs to adopt and enforce a set of appropriate prudential regulations, including on domestic and foreign currency liquidity, reserve requirements in both currencies, and limits on open foreign exchange positions. Financial skills and the risk management arrangements need to be developed at the CBS and financial institutions to effectively manage the risks inherent in operation a dual currency system.

- **Develop financial markets and capacity of financial institutions.** In the absence of a lender of last resort, a well-functioning payment system and interbank market plays a crucial role for banks to manage their liquidity.

- **Improve quality, frequency, and timeliness of macroeconomic and financial data.** This includes data on the exchange rate, interest rates, monetary aggregates, and domestic prices in local currency.

[18] As is currently the case, the Treasury will need to maintain a fiscal buffer to address volatility in revenues. Any further liquidity needs of the government would need to be filled by other sources of financing.

G. What are the Main Risks around a CBA in Somalia?

14. Cross-country experience suggests that key risks for the credibility and sustainability of the CBA include[19]:

- **Monetary authorities lend to the government,** breaching the CBA basic principles. If the central bank creates SOS liabilities to provide financing for the government or other agencies, this would erode the backing of SOS by foreign currency, which would make the regime unsustainable.
- **Inadequate exchange rate level.** Under a CBA, it is very important to set the right initial exchange rate, as an overvalued shilling could cause excess demand for dollars which the CBS would not be able to meet.
- **Risk of a bank run if the public loses trust in the banking system or currency.**
- **Building adequate capacity and transparency at the CBS.** Credibility of the new currency will also depend on the ability of the CBS to carry out smoothly and transparently the necessary operations.
- **Counterfeit SOS and USD.**
- **Mobile money.** Widespread use of mobile money in USD, which also allows for small transactions, could imply that there will be little demand for the new SOS.

[19] For example, see Gurtner (2004).

Table 1. Summary of Advantages and Disadvantages of Exchange Arrangements

Among IMF members, there are a range of exchange rate arrangements on the basis of their degree of flexibility and the existence of formal or informal commitments to exchange rate paths.

While it is difficult to assess the exchange arrangements out of the context, Table 1 presents in general the advantages and disadvantages of each exchange regime.

<table>
<tr><th colspan="2">Regime</th><th>Advantages</th><th>Disadvantages</th><th>Common issues</th></tr>
<tr><td colspan="2">Dollarization: official use of foreign currency in all transactions</td><td>• Provides a nominal anchor, inflation low if anchor currency inflation is low
• No currency risk
• No possibility for monetary financing of fiscal deficit
• Potentially improves integration of trade with "dollar zone" countries
• Potentially facilitates investment</td><td>• No LOLR
• Loss of seigniorage
• No independent MP
• Large REER volatility
• Banknote recycling
• Limited scope to accumulate reserves</td><td rowspan="3">• Fiscal discipline is required under any regime
• CBS operational independence and prevention of fiscal dominance
• CBS transparency and Capacity building
• Development of financial markets
• Quality, frequency and timeliness of macroeconomic and financial data</td></tr>
<tr><td rowspan="2">Fixed</td><td>Currency Board: an explicit legislative commitment to exchange domestic currency for a specified foreign currency at a fixed exchange rate</td><td>• Credibility if strictly rules-based
• No FX volatility
• Provides a nominal anchor for public expectations for the exchange rate and inflation
• No possibility for monetary financing of fiscal deficit</td><td rowspan="2">• No independent MP
• Unable to respond to shocks (e.g. balance of payments crisis).
• Need sufficient reserves
• Limited LOLR role (limited to excess reserves)
• Potential conflict of policies--the fixed exchange rate may not be compatible with other economic targets (growth, inflation and unemployment) and this may cause conflicts of policies. This is especially true if the exchange rate is fixed at a level that is either too high or too low
• In the context of structural changes in the economy, challenging to determine the appropriate exchange rate level</td></tr>
<tr><td>Hard Peg: The country (formally or de facto) pegs its currency at a fixed rate to another currency or a basket of currencies</td><td>• No FX volatility
• Stable inflation</td></tr>
</table>

<table>
<tr><th colspan="5">Table 1. Summary of Advantages and Disadvantages of Exchange Arrangements (concluded)</th></tr>
<tr><td>Float</td><td>Managed Float: The monetary authority attempts to influence the exchange rate without having a specific exchange rate path or target</td><td>• Greater autonomy for monetary policy
• Flexibility
• Exchange rate helps absorb external shocks</td><td rowspan="2">• Foreign exchange and inflation volatility
• Requires deep financial market, including hedging instruments</td><td rowspan="2"></td></tr>
<tr><td></td><td>Free Float: The exchange rate is market-determined, with any official foreign exchange market intervention aimed at preventing undue fluctuations in the exchange rate, rather than at establishing a level for it.</td><td>• Greater autonomy for monetary policy
• Exchange rate helps absorb external shocks
• Less policy constraints
• Exchange rate is determined by market forces</td></tr>
</table>

Table 2. Somalia: Key Criteria for Choosing an Exchange Rate Arrangement[1]

Criteria	Context	Conditions favor:	
		Fixed FX regime	Flexible FX regime
Macroeconomic initial conditions			
Level of inflation	Inflation has remained low and stable, in the context of de facto dollarization that serves as the nominal anchor. Inflation measured in local currency is not clear.	√	
Size of external imbalances	Large current account deficits are financed by FDI and other financial account flows. Current account deficits are expected to persist in the medium term due to structural rigidities, including the underdeveloped manufacturing industry in Somalia and the country's development needs. Competitiveness is unlikely to be corrected by changes in the real exchange rate.	√(?)	
Foreign exchange reserves	Due to the de facto dollarization, the authorities do not accumulate reserves. Foreign assets of the central bank that are readily available in times of crisis is minimal – including about $6 million in cash deposit, 16 ounces of gold (about $30 million) and about SDR 120 million.	√ in a carefully managed currency board arrangement were reserves back 100% of domestic currency	√
Financial system vulnerabilities	In a dollarized environment, currently there is no apparent currency mismatch on the balance sheet of the banks. A fixed exchange rate provides an implicit "insurance" against exchange risks and may give incentive to banks to take on more exchange risks. At the same time, Somalia does not have a foreign exchange (FX) market or hedging instruments for banks to manage their FX risks if the exchange rate is flexible. Regardless of the choice of exchange regime, banks' foreign currency exposures need to be closely monitored and prudently supervised.	(?)	(?)
Fiscal position	The FGS currently has a broadly balanced budget, though with heavy reliance on budget grants. Post-HIPC, the authorities' fiscal anchor is based on keeping deficits below 3.5 percent of GDP financed with concessional loans, of which at a minimum 1.5 percent of GDP will come from multilateral creditors that provide highly concessional financing terms (at least 50 percent grant element). The post-HIPC fiscal framework is yet to be tested.	√ requires sound fiscal conditions and discipline	√ requires sound fiscal conditions and discipline to prevent excessive FX volatility

[1] Criteria outlined in the table follow Casaraghi, Habermeier, Harjes (2022), "Monetary Policy Frameworks: Choice of Exchange Rate Arrangement", Monetary and Capital Markets Department Technical Assistance Handbook.

Table 2. Somalia: Key Criteria for Choosing an Exchange Rate Arrangement (continued)			
Capacity constraints of the central bank	Low institutional capacity to implement a flexible exchange rate arrangement and the associated independent monetary policy, as well as effective financial regulation and supervision.	√	
Capacity constraints of the financial sector	Banks and mobile money operators do not have capacity in managing exchange rate risks. Money and foreign exchange markets are not developed. Correspondent banking relationships are weak.	√	
Characteristics of the economy			
Size of the economy	Small open economy will find it difficult to conduct independent monetary policy.	√	
Openness	Somalia being an open economy (import and export accounts for 108 percent of GDP). A fixed exchange rate would reduce trading and transaction cost. Frequent exchange rate adjustment or large exchange rate fluctuations can be disruptive to trade and financial flows, with adverse effects on domestic activities and prices.	√	
Diversification of exports and output	Exports are concentrated in primary agricultural products, which makes the country vulnerable to terms-of-trade shocks. In principle, a flexible exchange rate can act as a shock absorber to external shocks. However, exchange rate movements that are too large can be disruptive. In addition, given structural rigidities, competitiveness is unlikely to be corrected by changes in the real exchange rate.	√	√
Trade and political integration	Somalia has a diverse group of trading partners (SAU, TUR, OMN) and economic partners (remittance sources include USA, GBR, EU, CAN, KEN).	(?)	(?)
Flexibility of labor markets	Wages in the public sector have been frozen for a number of years, despite inflation, implying that real wages have been declining. The less flexible the labor market, the stronger the case for more flexible exchange rates.	(?)	(?)
Mobility of capital	No portfolio investment in Somalia by non-residents at the moment. Weak correspondent banking relationships also affect the mobility of capital. Even after Somalia reaches the HIPC CP, the main financing sources are likely to be multilateral financial institutions, which are expected to be stable (and in some cases countercyclical). Higher capital mobility supports the adoption of a flexible exchange rate regime.	√	
Dollarization	De facto dollarized. The economy is expected to remain highly dollarized for an extended period even after the currency reform takes place. Monetary policy transmission will be hampered. Credibility of macroeconomic policies needs to be established for a gradual dedollarization.	√	

Table 2. Somalia: Key Criteria for Choosing an Exchange Rate Arrangement (concluded)			
Financial system development	Underdeveloped financial market. Hedging instruments not available.	√	
Types of shocks to the economy			
Real shocks	Shocks in the past few years have been climate-related, or domestic political and security shocks. External shocks include global pandemics, and higher prices of food and fuel. Larger and more frequent foreign shocks argue for greater exchange rate flexibility.	(?)	(?)
Volatile capital flows	After the HIPC CP, Somalia will still rely on multilateral financial institutions for financing. In the near term, it is unlikely that large amounts of cross-border loans from private creditors and portfolio investment will flow into Somalia after the HIPC CP, and result in volatile and large capital outflows later.	√	

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Appendix I. Letter of Intent

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

Mogadishu, Somali
April 13, 2024

Dear Ms. Georgieva:

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

Despite the progress achieved under the HIPC process and the 2020 IMF-supported program completed in December 2023, our country continues to face significant challenges ahead, including those stemming from economic, social, security, and climate risks. Growth is currently insufficient to reduce widespread poverty, address large social needs, and create sufficient jobs for the youth. Somalia is highly vulnerable to climate shocks that hurt growth and hinder poverty reduction efforts. The security situation remains challenging, as the government has scaled up its military, financial, and ideological campaign against Al-Shabab amid the gradual withdrawal of the African Union Transition Mission in Somalia.

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

We are resolved to maintain the strong reform momentum, supported by the 3-year Extended Credit Facility (ECF) arrangement approved in December 2023. The program and the related capacity development support will help Somalia further strengthen key economic institutions and promote macroeconomic stability and growth, in line with Somalia's Ninth National Development Plan and the government's long-term vision. Building on progress so far, policy priorities are to maintain macroeconomic stability, increase domestic revenues, strengthen public financial management, promote financial deepening and financial inclusion, improve the business environment and governance, and enhance statistics. We are also taking steps to strengthen our capacity for public debt management and debt risk assessments—as Somalia is expected to face a structural shift in the size and composition of the FGS external financing following the HIPC Completion Point—and also for public investment management as the FGS is expected to gradually scale up quality investment projects. We will also work, with support from the IMF, on formulating and implementing new monetary and exchange rate policy frameworks in the context of the currency reform to reintroduce the Somali shilling as legal tender.

Considering Somalia's satisfactory performance under the ECF arrangement and the commitments laid out in the attached Memorandum of Economic and Financial Policies (MEFP), we request IMF Executive Board approval of the completion of the 1st review of the program and disbursement of SDR 7.5 million (about 4.56 percent of quota). We met all quantitative performance criteria (QPCs) and indicative targets (ITs) for end-December 2023. We are requesting a modification to the June and December 2024 QPCs to (1) incorporate a higher domestic revenue target; (2) accommodate higher spending that supports security and growth within the ceiling on compensation of employees, goods and services and contingency; and (3) reduce the floor on net international reserves to reflect the transfer to the Ministry of Finance of the SDR 7 million windfall from the HIPC debt relief and remove the associated NIR adjustor. We request to modify the definition of the continuous ceiling on accumulation of external payments arrears to exclude external payment obligations for which the creditor has extended a payment deferral or for which payments are made into a designated account at the Central Bank of Somalia due to the risks of blocking of the payment by correspondent banks. We also request a modification on the definition of goods and services expenditure to exclude the commission paid to the CBS so that overperformance on domestic revenues or budget grants does not impact our ability to meet the expenditure ceiling. As previously communicated, we plan to use the disbursement under this 1st review of the ECF arrangement for budget support.

The attached MEFP (Attachment I) sets out the economic policies and reform measures that we intend to implement to achieve the objectives of the three-year ECF arrangement. It identifies specific reforms and conditionality between March 2024 and March 2025. Additional reforms will be detailed on a 12- month rolling basis during reviews as information on needs and priorities continue to emerge. We will continue to seek technical assistance support from our partners where necessary to implement the agreed reforms. To facilitate the monitoring of performance under the program, the FGS will continue to regularly provide IMF staff with all necessary information within the deadlines specified in the attached Technical Memorandum of Understanding (TMU, Attachment II).

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

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

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

Sincerely yours,

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

Attachments (2)

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

This Memorandum of Economic and Financial Policies (MEFP) reviews recent economic developments and reforms, and describes the policies that the Federal Government of Somalia (FGS) plans to implement in 2024-2026 under the 3-year Extended Credit Facility (ECF) arrangement.

Background and Program Performance

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

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

3. **We are taking action to address food insecurity in several districts that remain affected by the lingering impact of prolonged drought.** Following consecutive failed rainy seasons in 2021-2022, livestock and crops are recovering gradually, but food insecurity remains severe. The government has been coordinating with the UN system on delivery of humanitarian assistance. The Baxnaano cash transfer program has been expanded and provides a safety net for more than 200,000 households (over 1 million individuals).

4. **The government has stepped up its fight against terrorism to improve security across the country.** In December 2023, the UN Security Council lifted the arms embargo on the FGS, which had been in place since 1992. Since mid-2022, the government has scaled up the military, ideological, and financial campaign against Al-Shabab. The Somali military—with support of the community defense, the general population, and international partners —has gained ground against Al- Shabab in the central Somali regions, which has facilitated the delivery of humanitarian assistance, with the Somalia Disaster Management Agency (SODMA) providing the emergency response. Stabilization efforts in these regions include delivery of health and education services and the beginnings of the

establishment of local governance. At the same time, the Somali National Armed Forces are gradually taking over security responsibilities from the African Union Transition Mission in Somalia (ATMIS), which is expected to gradually withdraw its forces by December 2024. The ATMIS transition, the scale-up of the military campaign, as well as the stabilization policies for the liberated areas are generating pressures on government finances. The FGS has developed the Somalia Security Sector Development Plan and discussions are ongoing with development partners on security financing.

5. Economic activity is improving modestly, supported by a rebound in agriculture production and exports as rains resumed. In 2023, real GDP growth is forecast at 2.8 percent, compared to 2.4 percent in 2022. Crops and livestock are gradually recovering, though they remain affected by the lingering effects of two years of drought and recent severe flooding. Remittances growth was weaker in 2023 relative to 2022, partly attributed to the impact of global inflation on the purchasing power of the diaspora community. Although food and fuel prices have been moderating, inflation remains persistent, with December 2023 inflation at 6.6 percent compared to 6.1 percent at end-December 2022.

6. Somalia joined the East African Community (EAC) as its eighth Partner State. On November 24, 2023, Somalia was admitted as a full member of the EAC. The Federal Parliament of Somalia ratified the Treaty in February 2024, and the instrument of ratification of the Treaty of Accession was deposited by the authorities with the EAC Secretary General on March 4, 2024, making Somalia the eighth Partner State of the EAC. The EAC Secretariat are currently developing a roadmap for Somalia's full integration into the EAC. This will be based on the negotiated agreements between the Federal Republic of Somalia, the seven other Partner States, and the EAC Secretariat. Full integration, including the adoption of a customs union and common market, can span several years as Somalia builds capacity and aligns its institutional and policy framework with the EAC.

7. A small overall fiscal surplus was achieved in 2023, with strong domestic revenue outturns. Strong domestic revenue performance was supported by the implementation of higher customs duties and tax administration improvements. Total expenditure followed the 2023 Supplementary Budget and a small overall surplus achieved for the year. Revenue overperformance and budget support grants allowed us to maintain a cash balance to partially address liquidity needs in early 2024.

8. We continued to make progress in revenue administration reforms.

- **Customs modernization.** Implementation of the Somalia Customs Automated System (SOMCAS) and ad valorem tariffs are key to improving the efficiency of customs administration and increasing revenue over time. Before this reform was implemented, the authorities charged customs duties depending on the size of bundles and cartons, regardless of their content. Key elements of the customs modernization have included: (1) enactment of the ad valorem tariff schedule in June 2022; (2) issuance of customs regulations on valuation and declarations in September 2022; and (3) the SOMCAS being rolled out to different ports and airports has incorporated harmonized tariffs, Harmonized System (HS) codes, and harmonized item descriptions. SOMCAS has been fully operationalized in Mogadishu port and airport as of early

October 2023. In Kismayo port and airport in Jubaland State, SOMCAS has been partially implemented, as shipping lines and airlines are entering manifests into the system and declarations are being made for khat imports. Discussions are ongoing in Jubaland on how to implement the common valuation table. Once this is resolved, Kismayo will be able to move forward to carry out all the customs processing through SOMCAS. Training and additional IT equipment have been provided to support smooth implementation of the customs reform.

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

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

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

- **Digitalization of rental income tax and road tax.** To improve the efficiency of tax administration and tax compliance, we developed a new IT system for generating electronic invoices and receipts and tracking payments of rental income tax for all rental properties in Mogadishu. In addition, we developed a mobile app—Somalia Road Tax—that allows users to manage and pay their road tax bills, and to view their payment receipts.

- **Extension of sales tax to services.** To broaden the tax base, as part of the 2024 Appropriations Law, we extended the scope of application of the sales tax to a range of services (including telecom, electricity, and TV cable providers) that had not been taxed before under the 1984 Sales Tax Law, and issued the related regulations.

- **Revenue administration measures.** We rolled out Point of Sales (POS) machines at restaurants and 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 a first round of tax audits in 2020, we have since undertaken new rounds of tax audits every year, which has helped improve the quality of tax returns, particularly those submitted by small and medium-sized enterprises. As part of our efforts to implement the 2019 Revenue Administration Law, we held public awareness events to improve taxpayer's understanding of the new legal requirements. Capacity of the revenue administration has also been strengthened.

9. Public financial management (PFM) was strengthened.

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

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

- **Expenditure controls.** To strengthen expenditure controls, we have fully operationalized the functionality of the Somalia Financial Management Information System (SFMIS) to control commitments within allocations and warrants, which are guided by monthly cash forecasts. Since May 2023, we launched the invoice tracking functionality of SFMIS for electricity and internet service.

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

- **Streamlining of business processes.** Building on the experience of invoice tracking for electricity and internet, a roadmap to expand the coverage of invoice tracking to all goods and services was approved on February 28, 2024 (SB#4, met).

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

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

10. Debt management has continued to improve. The Debt Management Unit (DMU) has successfully upgraded its debt recording management system with the Commonwealth Meridian System. The DMU has been publishing consecutive quarterly public debt reports, so far from 2020Q4 to 2023Q3. A debt reconciliation exercise was carried out in 2023 in preparation for the HIPC Completion Point.

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

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

13. The CBS is strengthening its institutional framework and capacity, including through implementation of IMF safeguards assessment recommendations. The performance criteria on net international reserves (NIR) has been consistently met. The CBS is enhancing its governance and decision-making arrangements. A function-based organizational structure was adopted, and a performance management system was established. Most recommendations from the March 2020 safeguards assessment have been implemented. Financial reporting transparency improved with the implementation of International Financial Reporting Standards, and governance bodies—the Board and the Audit Committee—have been restored and exercise their oversight responsibilities. The 2022 audited financial statements were published in July 2023 with a clean auditor opinion, and the period-end closing procedures were established in January 2023.

14. Some important steps have been taken on AML/CFT. The National AML/CFT Taskforce has been operational since February 2021 to support the National Anti-Money Laundering Committee (NAMLC). The National Risk Assessment (NRA) on ML/FT was finalized and published in 2022. The NRA Action Plan was published in February 2023. The Targeted Financial Sanctions Law (TFSL) was enacted in March 2023 and the related regulations were approved in July 2023. Key infrastructure and IT systems were acquired to support the Financial Reporting Center's capacity to review and assess suspicious transactions. Efforts have been made to improve the integrity of the financial sector through outreach and training. The CBS issued a guidance on Know-Your-Customer and customer due diligence risk-based approach and large cash transactions and suspicious transactions reporting for commercial banks in July 2023. NAMLC issued a guideline on mobile money transaction limits in July 2023. As part of our preparations for the MENA-FATF Mutual Evaluation Assessment, we submitted amendments to the 2016 AML/CFT Law to Parliament on March 30, 2024, in line with IMF staff recommendations (SB#8, met).

15. We continue our governance and anti-corruption efforts. To enhance the transparency in the regulatory process for key industries, the CBS and National Communication Authority (NCA), respectively, have published on their websites the outcomes of licensing applications for Mobile Network Operators and Mobile Money Operators. We acceded to the UN Convention Against Corruption (UNCAC) in August 2021 and Parliament ratified the African Union Convention on Preventing and Combating Corruption and Arab Anti-Corruption Convention. In 2019, we published the National Anti-Corruption Strategy (NACS) and we have conducted outreach to public sector employees for ethics training and to increase awareness of the NACS.

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

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

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

19. We launched the national digital ID in September 2023. As of February 2024, we have enrolled 23 thousand individuals in the National Identification and Registration Agency (NIRA). The digital ID will support the implementation of targeted social protection programs and improve know-your-customer requirements to enhance the AML/CFT efforts.

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

21. We have established a national Unified Social Registry (USR), a necessary building block for a comprehensive shock response safety net system. The USR is a functional platform that supports the registration and determination of potential eligibility for social programs. The registry is undertaking a nationwide survey targeting approximately 1.9 million households. 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.

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

Outlook and Risks

23. **Growth is expected to strengthen in the near term, supported by continued recovery in agriculture, remittances, and investment**. Real GDP growth for 2024 is forecast at 3.7 percent. Livestock and crop exports will continue to recover, following the resumption of rainfall in 2023. Remittance inflows are expected to improve modestly in the context of moderating global inflation and an upgrade of the global growth outlook. Inflation is expected to decline to 4.8 percent (eop) in 2024 reflecting lower commodity prices. Growth is expected to increase to 4.3 percent by 2028, as financial and structural reforms facilitate a gradual scaling up of public spending and foster greater private investment.

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

Economic and Financial Policies

25. **Under the Fund-supported ECF program, we will continue our efforts to further strengthen key economic institutions and promote macroeconomic stability and growth, in line with Somalia's Ninth National Development Plan and the government's long-term vision.** Reform priorities in the ECF-supported program include: (i) increasing domestic revenues; (ii) strengthening PFM (including the legal and regulatory framework, internal and external audit, expenditure controls, cash management, accounting and reporting, debt management, and public investment management); (iii) promoting financial deepening and financial inclusion, including the currency reform; (iv) improving the business environment and governance (including AML/CFT); and (v) enhancing statistics.**.** Quantitative performance criteria and indicative targets consist of a floor for domestic revenue, a ceiling on recurrent operating expenditures, a floor on the cash-based fiscal balance, no new external arrears, no new accumulation of domestic arrears, no new accumulation of non-concessional external debt, a ceiling on new domestic debt, and a floor on the net international reserves of the CBS (see MEFP Table 1 and TMU). We do not intend to impose new, or intensify existing restrictions on the making of payments and transfers for current international transactions, introduce new, or intensify existing trade restrictions for balance of payments purposes, or enter into bilateral payments agreements that are inconsistent with Article VIII of the IMF's Articles of Agreement.

Structural benchmarks (MEFP Table 2) involve key reform objectives in the areas of revenue administration, public financial management, financial stability, and governance and AML/CFT. Additional reforms to meet program objectives, beyond those discussed below, will continue to be introduced on a 12-month rolling basis as information on needs and priorities emerges. By the conclusion of the arrangement, we expect to have improved the efficiency and transparency of fiscal processes, as domestic revenues and expenditures increase; strengthened debt management and public investment management capacity; established some limited capacity for monetary and exchange rate policy as part of the currency reform; and enhanced statistics and governance across all macro-critical sectors.

Fiscal Policy and Reforms

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

27. In 2024, we will continue to improve revenue collection and make room for priority spending, while containing discretionary expenditure pressures. The 2024 budget was approved with an overall fiscal deficit of US$ 38 million (0.3 percent of GDP). Domestic revenues in 2024 are expected to rise to a level that at least matches the cost of compensation of employees. The Budget accommodates expenditure that is supportive of growth, security, and development while limiting other discretionary spending. Any new hires will be incorporated in the payroll system, with wages in line with existing pay scales. To increase revenues, we are committed to

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

implementing a series of measures as delineated below. The budget also included a costing of NDP9 for 2024.

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

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

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

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

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

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

- **Payroll integration.** To strengthen controls on compensation and ensure payroll integrity, we will integrate all compensation of employees into the single payroll included in the SFMIS, following a sequenced approach as set out in the approved roadmap. Building on progress so far, we will reduce the ratio of non-payroll payments to total compensation of employees to less than 1 percent by end-June 2024 (SB#3). In addition, by end-December 2024, we will develop a roadmap to implement the Pay and Grade policies, which would include as elements (i) a plan and timeline for the development of a strategy to align the salaries of temporary workers with the pay scale of permanent workers and (ii) a plan and timeline for conducting a costing exercise to understand the fiscal implications of the proposed shift of permanent and temporary workers to a new pay scale (proposed SB#9).

- **Streamlining of business processes.** We will streamline the budget execution and Treasury management process in order to enhance financial controls and reporting. To improve efficiency and accuracy, we plan to accelerate automation of cash planning and revenue management through the SFMIS by eliminating paper-based parallel processes and utilizing the interfaces with the CAS and ITAS. These reforms will be supported by implementation of recommendations provided by the recent SFMIS Quality Assurance exercise, which has identified room for strengthening Information and Communication Technology governance. Moving towards a paperless environment in PFM systems, we will update the PFM regulations relating to digital signatures for the purchase order to payment process and we will implement the digital signatures in the SFMIS by end-June 2025 (proposed SB#10), including training of MDAs.

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

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

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

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

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

30. We have continued to make good faith efforts to reach agreement with pending creditors to restructure Somalia's HIPC-eligible external public debt. Since reaching HIPC Completion Point in December 2023, we have made significant progress on negotiating with pending multilateral creditors and bilateral creditors. On March 13, 2024, the Paris Club negotiated and agreed upon a HIPC Initiative exit debt treatment for Somalia. In addition to required HIPC Initiative debt relief, Paris Club creditors also agreed to provide beyond-HIPC debt relief to Somalia.

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

Monetary and Financial Sector Reforms

32. We will continue implementing reforms to strengthen CBS institutional capacity and support financial deepening. Bills for the National Payment System and Islamic Insurance have been submitted to Parliament. The Revised Financial Institutions Bill is being finalized for submission to Cabinet. We are developing a National QR code and National SWITCH to support the national payment system. Staffing and capacity of the CBS Licensing and Supervision Department will continue to be strengthened to improve the quality of supervision. By end-July 2024, the CBS will develop an action plan to improve the quality of data submitted by commercial banks and communicate the action plan to commercial banks (SB#7). We will advance in addressing the recommendations of the 2024 IMF safeguards assessment, including in the areas of internal control, cyber security and business continuity, and the CBS Law. By end-March 2025, we will submit amendments to the CBS Law to Parliament, in line with IMF safeguards recommendations (proposed SB#11), including to further strengthen governance and autonomy provisions.

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

34. We will continue advancing reforms of the AML/CFT operational and legal framework to comply with international standards and support the flow of remittances into Somalia. We will implement the recently approved NRA action plan and prepare for the MENA-FATF Mutual Evaluation Assessment in 2024.

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

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

36. We remain committed to advancing a broad-based reform agenda to bolster inclusive growth, improve resilience to climate shocks, and enhance trade integration. To help build resilience to climate change and strengthen food systems over time, the Ministry of Environment and Climate Change launched a Food Security Crisis Plan in December 2023. We have started developing a new National Transformation Plan (NTP)—to succeed the NDP9—that aims to accelerate the development process in key areas, including poverty reduction, inclusive growth, and climate resilience. We will work with development partners to encourage greater channeling of aid flows through country systems to ensure their alignment with the priorities of the NDP9 and NTP, enhance their visibility, and facilitate monitoring and evaluation. *We will make progress towards integration with the East African Community and work towards accession to the World Trade Organization.*

37. We are committed to improving key macroeconomic and financial data, acknowledging the critical role it plays in guiding economic policies. Availability of economic activity and social data will be broadened with the expected finalization of the Business Survey in July 2024. A new census is expected in 2025, the first after 40 years. Work is also ongoing to develop production-based national accounts data in 2025 by using data from the Business Survey.

Program Monitoring and Access

38. Program implementation will be monitored through quantitative performance criteria, continuous performance criteria (including a continuous performance criteria related to

Article VIII commitments), indicative targets (MEFP Table 1) and structural benchmarks (MEFP Table 2). These will be assessed through semi-annual reviews. The second and third reviews of the new ECF arrangement will be based on the QPCs and ITs set for end-June 2024, and end-December 2024, respectively (as described in MEFP Table 1 and the TMU), and the structural conditionality as described in MEFP Table 2. All reviews will be conditioned on quantitative performance criteria outlined in MEFP Table 1.

Table 1. Somalia: Quantitative Performance Criteria and Indicative Targets Under the ECF Arrangement (December 2023–March 2025) 1/

(Millions of U.S. dollars)

	Dec. 2023 4/			Mar. 2024	June. 2024 4/		Sept. 2024		Dec. 2024 4/		Mar. 2025
	Prog.	Prel.	Status	Prog.	Prog.	Proposed	Prog.	Proposed	Prog.	Proposed	Proposed
Quantitative Performance Criteria											
1 FGS domestic revenue, floor 2/	312	329	Met		145	150			345	357	
2A Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/	384	384	Met		236				437		
2B Spending on FGS compensation of employees, goods & services (excl. CBS commission), & contingency, ceiling 2/ 8/						252				468	
3A Net international reserves, floor 7/	0.7 adjusted	13	Met		10				10		
3B Net international reserves (excl. all SDR holdings of MoF), floor 7/ 8/						1.5				1.5	
4 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/	0	0	Met		0	0			0	0	
5 Accumulation of new external arrears, ceiling 3/	0	0	Met		0	0			0	0	
Indicative Targets											
1 FGS domestic revenue, floor 2/				69			231	239			85
2A Spending on FGS compensation of employees, goods & services, & contingency, ceiling 2/				118			349				
2B Spending on FGS compensation of employees, goods & services (excl. CBS commission), & contingency, ceiling 2/ 8/								374			131
3A Net international reserves, floor 7/				10			10				
3B Net international reserves (excl. all SDR holdings of MoF), floor 7/ 8/								1.5			1.5
4 Contracting or guaranteeing any new external, non-concessional debt, ceiling 3/				0			0	0			0
5 Accumulation of new external arrears, ceiling 3/				0			0	0			0
6 Fiscal balance, floor (cash basis) 2/ 5/	-44 adjusted	6	Met	-48	-21	-21	6	6	-38	-38	-47
7 Contracting of new domestic debt, ceiling 3/	0	0	Met	0	0	0	0	0	0	0	0
8 Accumulation of new domestic expenditure arrears, ceiling 3/	0	0	Met	0	0	0	0	0	0	0	0
Memorandum item											
Contracting or guaranteeing of new external concessional debt 5/ 6/				0	0	0	75	0	75	0	133

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

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

2/ Cumulative from the beginning of the fiscal year.

3/ This target is applied on a continuous basis.

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

5/ The fiscal balance floor is in line with the authorities' 2024 budget (US$38 million), which is consistent with the IMF staff forecast (US$60 million). The authorities' budget assumes higher budget grants (by US$27 million) that what is incorporated in the IMF baseline. In addition, in the authorities' 2024 budget, interest payments are estimated based on signed agreements with creditors (US$10 million), while the IMF forecast shows interest payments assuming agreements are reached with all creditors (US$10 million). For 2024, the fiscal balance floor would be adjusted downward by any delays or shortfalls in budget support grants as compared to the 2024 budget estimate, or if interest payments are higher than the budget estimate, as per the TMU.

6/ Excludes IMF disbursements.

7/ The floor on NIR would be adjusted downward if the CBS transfers distributable earnings to the government, and if the CBS provides temporary liquidity advances to the government, as per the TMU.

8/ Revised definition introduced in the 1st review.

Table 2. Somalia: Structural Benchmarks Under the ECF Arrangement (December 2023–March 2025)

	Benchmarks	Target dates	Sector/FGS Agency	Rationale	Monitoring	Status
1	Publish a Tax Policy and Revenue Administration Roadmap approved by the Minister of Finance, in line with IMF staff recommendations	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Publish roadmap approved by the Minister of Finance on the MOF website.	
2	Submit the Income Tax Bill to Parliament	End-June 2024	Domestic revenue / MOF	Support domestic revenue generation and revenue administration	Send to the IMF staff the version of the Bill submitted to Parliament	
3	Ensure full payroll integration of FGS employees in the SFMIS payroll module by reducing the ratio of non-payroll compensation of employee payments to total compensation of employees to less than 1 percent	End-June 2024	PFM / MOF NCSC MOLSA	Strengthen payroll integrity, expenditure controls, and governance	Submit to IMF staff monthly SFMIS reports detailing amount of payroll and non-payroll payments for FGS compensation of employees. A ratio of non-payroll compensation of employee payments to total compensation of employees to be decreased to less than 1 percent on average between April and June 2024 (relative to 10.9 percent in May-July 2023)	
4	Publish a plan approved by the Minister of Finance to expand invoice tracking functionality to all goods and services	End-February 2024	PFM / MOF	Strengthen PFM, expenditure controls, transparency, and accountability	Publish the plan approved by the Minister of Finance on the MOF website.	Met
5	(1) Issue a Prime Ministerial Decree that articulates the key parameters for debt policy and establishes the procedures to be followed for entering into new borrowing and issuing sovereign guarantees, in line with IMF staff recommendations; (2) amend the PFM regulations to include a clear definition of "other financial liabilities" that are considered guarantees as per Article 37 (6) of the PFM Act, in line with IMF staff recommendations.	End-June 2024	Public debt/ MOF	Define debt policy and strengthen debt management framework and capacity, in order to preserve fiscal sustainability.	Publish the approved Prime Ministerial Decree on the MoF website. Publish the amended PFM regulations on the MoF website.	
6	Submit the PPP Bill to Parliament with a framework that adequately manages fiscal risks and establishes a gateway process managed by the Ministry of Finance	End-June 2024	Governance / MOF	Reduce fiscal risks and contingent liabilities/ Strengthen governance and reduce corruption risks	Send to the IMF staff the version of the Bill submitted to Parliament	
7	Develop an action plan to improve the quality of data submitted by commercial banks, in line with IMF recommendations, and communicate the action plan to commercial banks.	End-July 2024	Financial Supervision / CBS	Improve risk-based financial supervision	Provide IMF staff with the action plan approved by the CBS Board and copies of the letters from the CBS Governor to commercial banks with the details of the action plan approved by the CBS Board.	
8	Submit to Parliament amendments to the AML/CFT Law, in line with IMF staff recommendations	End-March 2024	AML-CFT Governance / FRC MOF CBS	Improve the legal framework for AML/CFT	Send to the IMF staff the version of the AML/CFT Act amendments submitted to Parliament	Met
	Proposed SBs					
9	Develop a roadmap to implement the Pay and Grade policy, which would include as elements (i) a plan and timeline for the development of a strategy to align the salaries of temporary workers with the pay scale of permanent workers and (ii) a plan and timeline for conducting a costing exercise to understand the fiscal implications of the proposed shift of permanent and temporary workers to a new pay scale	End-December 2024	PFM / MOF NCSC MOLSA	Strengthen payroll integrity, expenditure controls, and governance	Publish the roadmap approved by the Cabinet on the Ministry of Finance website.	
10	(i) Publish the updated PFM regulations relating to digital signatures for the purchase order to payment process; and (ii) implement the digital signatures in the SFMIS	End-June 2025	PFM / MOF	Strengthen expenditure controls and improve transparency and accountability	Publish the amended PFM regulations on the MoF website. Confirm implementation of digital signatures in SFMIS. Provide a list of users using digital signatures and the number and amount of payment vouchers processed using digital signatures	
11	Submit amendments to the CBS Law to Parliament, in line with IMF safeguards recommendations	End-March 2025	Financial Supervision / CBS	Enhance central bank operations and independence	Send to the IMF staff the version of the Bill submitted to Parliament	

Source: IMF

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

Attachment II. Technical Memorandum of Understanding

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

QUANTITATIVE TARGETS

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

QPCs for June 2024, and December 2024, and related ITs for March 2024, September 2024, and March 2025:

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

ITs for March, June, September, and December 2024, and March 2025:

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

Memorandum item

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

2. **In addition to the specific PCs listed in paragraph 1, as for any Fund arrangement, continuous PCs also include the non-introduction of exchange restrictions and multiple currency practices as per the Article VIII commitments.** Specifically, such continuous performance criteria cover (i) the non-imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) the non-introduction or modification of multiple currency practices; (iii) the non-conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) the non-imposition or intensification of import restrictions for balance of payments reasons. These continuous PCs, given their non-quantitative nature, are not listed in the PC table (Table 1) annexed to the MEFP.

DEFINITIONS AND COMPUTATION

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

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

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

6. **Spending on FGS compensation of employees, goods and services, and contingencies excludes expenditure made under project appropriations specified in the Appropriation Law.** Spending on compensation of employees and goods and services is determined in line with the GFSM 2014. The expenditure ceiling set in the program excludes the commission paid to the CBS

from spending on goods and services. The table on data reporting below requests expenditures by 4-digit level object code for each MDA with a breakdown for those financed by the general government fund, contingency funds, and project support grants specified in the Appropriation Law.

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

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

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

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

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

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

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

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

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

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

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

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

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

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Maximum amount of the fiscal balance adjustor related to delays or shortfalls in budget support grants	**0.0**	**89.0**	**139.6**	**90.2**	**0.0**
Memorandum items					
Budget support grants in the Budget estimate	0.0	89.0	170.0	188.0	0.0
Interest payments in the Budget estimate	9.8	9.8	9.8	9.8	10.7
Possible sources of financing for fiscal deficit	159.6	139.6	139.6	90.2	115.4
Withdrawal of cash buffers 1/	49.1	29.1	29.1	29.1	0.7
MOF SDR holdings 3/	61.1	61.1	61.1	61.1	61.1
Proceeds from CBS temporary advances 2/	49.4	49.4	49.4	0.0	53.6

1/ Includes the Fiscal Buffer (a dedicated account in the Treasury Single Account managed in accordance with the MoF guidelines of July 25, 2019), the SDR transit account (an account held with a correspondent bank in Turkey through which proceeds from SDR holdings distributed to the MOF are channeled), and other accounts with cash balances.
2/ In line with the CBS Law, the total amount outstanding at any time of CBS advances shall not exceed 15 percent of the most recent audited domestic revenue of FGS. For 2023, the most recent audited domestic revenue corresponds to 2022 and the maximum amount of liquidity advances from the CBS is USD39.4 million. For 2024, the most recent audited domestic revenue will correspond to 2023 and the maximum amount of liquidity advances from the CBS is currently estimated at USD42.45 million--this amount will need to be updated in forthcoming program reviews once the audited accounts for 2023 become available. In line with the Appropriation Law, all liquidity advances should be repaid by end-December of the fiscal year. In line with the Short-Term Government Financing Agreement between the CBS and MoF signed on June 21, 2021, the maturity of temporary advances should not exceed 90 days.
3/ MOF SDR holdings include the remaining SDR holdings related to the 2021 SDR allocation not converted into USD, the SDR 7 million windfall from the HIPC debt relief not converted into USD, and IMF ECF disbursements for budget support not converted into USD.

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

12. External arrears of the government are defined as debt obligations to non-residents that are not paid on the contractual due date (plus any applicable grace period). For program purposes, external arrears exclude arrears arising from debt that is being renegotiated with creditors in the context of the HIPC process, including Paris Club creditors; and more specifically, to external arrears in respect of which a creditor has agreed that no payment needs to be made pending negotiations. For the purposes of the performance criterion of the ceiling on new external arrears, nonpayment of external debt service to Russia will not give rise to arrears when the Central Government and the CBS cannot pay or settle based on the contractual terms solely due to factors outside Somalia's control (e.g. the transfer of funds being rejected owing to intermediary financial institutions' compliance policies, sanctions, or inability to identify the counterparty), as long as the debt service payments have been paid in full into a designated account held by a third-party – in this case the CBS – by the contractual due date, taking into account any contractual grace period. The designated account fulfills the following conditions: (i) no third party (including the Ministry of Finance) has access to the funds deposited in the account; (ii) funds deposited in the account can only be used to service the debt to the creditor, according to the repayment schedule agreed upon between the creditor and Somalia; and (iii) funds accumulated in the account can only be transferred back to the Ministry of Finance if there is legal evidence of an agreement to service the debt through other instruments or if funds need to be transferred to another account with the same purpose. Funds in such designated account will be used only to satisfy the related external debt obligations, and their use or withdrawal for other purposes would constitute a breach of the PC.

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

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

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

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

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

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

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

16. QPCs (and related ITs) for external debt are cumulative ceilings on contracting or guaranteeing of new non-concessional borrowing by the general government from the beginning of the fiscal year. A memorandum item is included on the contracting of new concessional borrowing by the general government from the beginning of the fiscal year. For program purposes, external debt is defined by the residency of the creditor and is deemed to have been contracted when an underlying loan agreement is signed. Excluded from this performance criteria are disbursements from the IMF. The government will report any planned external borrowing and its terms to Fund staff before external debt is contracted or guaranteed. In addition, for program purposes, borrowing is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the net present value (NPV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt.[1] The NPV of debt at the time of its signing is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is 5 percent. External borrowing that does not have a grant element of at least 35 percent is deemed non-concessional borrowing. For the purposes of the program, highly concessional financing is defined as borrowing with at least 50 percent grant element.

17. The CBS's net international reserves (NIR) are defined as the difference between gross foreign assets and gross foreign liabilities. All SDRs are valued over the calendar year at the August 31, 2023 exchange rate of US$1.329940 per SDR. IMF representative exchange rates against the U.S. dollar at August 31, 2023 will be used to convert foreign assets and liabilities denominated in currencies other than U.S. dollars. The assets and liabilities related to the designated account held by the CBS into which FGS debt service payments due are deposited as per paragraph 12 are

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

excluded from the definition of NIR for program purposes.

a. Gross foreign assets are defined as

- the sum of (i) gold (valued over the calendar year at the market price of August 31, 2023 (US$ 1,942.9 per ounce)); (ii) total foreign exchange held abroad; and (iii) Somalia's SDR holdings in the IMF SDR Department;
- net of (iv) all SDR holdings that belong to the MoF.[2]

b. Gross foreign liabilities are defined as

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

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

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

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

[2] This includes (i) the unused SDR holdings belonging to the MoF related to the 2021 SDR allocation not converted into USD, (ii) the SDR 7 million windfall from the HIPC debt relief not converted into USD, (iii) the IMF ECF disbursements for budget support not converted into USD, and (iv) any other SDR holdings attributed to the MoF.

Table 2. Somalia: Adjustors to the NIR Floor

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

	Maximum adjustment amounts					
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
Adjustor 1, if the CBS transfers distributable earnings to the government	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Adjustor 2: if the CBS provides temporary liquidity advances to the government 1/	0.0	-49.4	-49.4	-49.4	0.0	-53.6

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

Program Monitoring

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

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

Table 3. Somalia: Data Reporting, December 2023–December 2026				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Central Bank of Somalia	Monetary Survey	Detailed balance sheet data of the CBS submitted in the reporting template.	Monthly	3 weeks after the end of each month.
Central Bank of Somalia	Monetary Survey	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.
Central Bank of Somalia	Financial data not in broad money	Volume and value of mobile money transaction.	Quarterly	4 weeks after the end of each quarter.
Central Bank of Somalia	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.
Central Bank of Somalia	Balance of payments	Trade in goods data by HS code and value for the ports of Mogadishu, Bossaso, Kismayo, starting Sept 2020; petroleum imports to Mogadishu; and travel data from the Immigration Department.	Quarterly	4 weeks after the end of each quarter.
Central Bank of Somalia	Balance of payments	Cross-border current transfers (both inflows and outflows) by MTBs and banks starting from end-March 2021.	Quarterly	4 weeks after the end of each quarter.
Central Bank of Somalia	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.
Central Bank of Somalia	Designated account at CBS into which debt service payments due to Russia are paid into	Provide end-month balances and within month flows of the designated account at the CBS into which debt service payments due to Russia are paid in full by the contractual due date, taking into account any contractual grace periods.	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	Quarterly	4 weeks after the end of each quarter.

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

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
		reports during the period. MMO reporting to be added as oversight and supervision develops, but latest for end-December 2020 data point.		
Ministry of Finance	FGS budget operations	For annual and supplemental budgets: • Revenue by GFS 6-digit revenue classification; • Statement of tax exemption for the previous 12-month period (annual budget only); • Proposed Appropriation by MDA, program/project and 4-digit object code; • Proposed appropriation by MDA and 2- digit object code; • Staffing table by MDA; • Donor assistance tables by COFOG showing on and off-budget spending; • Proposed spending by NDP sector; and spending by FGS, Banaadir, and FMS.	As required	Within a week of submission to Cabinet and to the Parliament; and when signed by the President.
Ministry of Finance	FGS budget operations	Current year SFMIS reports showing budget, virements, and monthly data for: • Revenue at GFS 6-digit revenue classification code; • Expenditure by budget line and GFS classification with MDA lines, disaggregated by program/project and showing data by GFS 6-digit object code; and • For applicable MDAs, details (i.e., sources of funding and purpose) of budget transfers to each FMS and other units. Reports 1A, 1B and special report for FMS transfers.	Monthly	4 weeks after the end of each month.
Ministry of Finance	FGS budget operations	A report that shows details of FGS financing transactions (Report 1C).	Monthly	4 weeks after the end of each month.

Table 3. Somalia: Data Reporting, December 2023–December 2026 (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Ministry of Finance	FGS budget operations	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 each month.
Ministry of Finance	FGS budget operations	The monthly cash plan and at least one-month ahead forward projections supported by SFMIS reports on domestic revenue and donor budget support (report 3A) (excluding funding for donor projects); expenditures (excluding those financed by project support grants) by MDA and 4-digit level object code (report 3B); and expenditures (excluding those financed by project support grants) by object code at 4-digit level (report 3C).	Monthly	4 weeks after the end of each month.
Ministry of Finance	FGS budget operations	A comprehensive table summarizing Government operations including revenue, expenditure (by MDA and Object code), and TSA balances for the month and YTD. These should include the fiscal buffer balances. (Excel and PDF formats of the reports 5A, 5B, 5C and 5D).	Monthly	4 weeks after the end of each month.
Ministry of Finance	FGS budget operations	Payments report showing all payments in number and value made, disaggregated by those paid directly to vendor's bank accounts consistent with commitment controls; cash advances; and other payments.	Monthly	4 weeks after the end of each month.
Ministry of Finance	Payroll	Payroll and non-payroll salary and allowance payments made by MDAs and individual embassies (in Excel).	Monthly	4 weeks after the end of each month.
Ministry of Finance	SDR balances	Table showing SDR balances of the MoF and changes therein from the beginning of a fiscal year, with breakdown of withdrawal and reconstitution of SDR holdings and their credits and deductions for interest.	Monthly	4 weeks after the end of each month.

Table 3. Somalia: Data Reporting, December 2023–December 2026 (continued)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Ministry of Finance	Customs modernization	Report showing number of declarations, manifests processed, and goods inspections report generated from both the Somalia Custom Automated System (SOMCAS) (after the operationalization) and the Somali Single Administrative Document (SOMSAD) system (until being replaced by the SOMCAS).	Quarterly	4 weeks after the end of the quarter (March, June, September, December).
Ministry of Finance	FMS and Banaadir budgets	For annual and supplemental budgets: Budget for each FMS, and aggregated budget (both revenue and expenditure). BRA budget to be provided in due course.	As required	Within a week of approval
Ministry of Finance	FMS and Banaadir final accounts	Final accounts of each FMS and BRA.	Annually	6 months after the end of the year.
Ministry of Finance	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
Ministry of Finance	BRA fiscal operations	Reports of revenue and expenditure of the Banaadir region.	Monthly	6 weeks after the end of each month (from September 2023).
Ministry of Finance	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 each quarter.
Ministry of Finance	Outstanding Invoices	A report that shows amount of outstanding invoices, including those past due and not due yet.	Monthly	4 weeks after the end of the month (from May 2023).
Ministry of Finance	Quarterly debt bulletin	Quarterly debt bulletin prepared by the Debt Management Unit providing an overview of the external debt position with decompositions, alignment with the debt policy objective and debt management strategy when available, and risk assessment	Quarterly	4 weeks after the end of each quarter.

Table 3. Somalia: Data Reporting, December 2023–December 2026 (concluded)				
Reporting Agency	**Type of Data**	**Description of Data**	**Frequency**	**Timing (within period specified)**
Ministry of Finance	Domestic debt	The amount of new domestic debt contracted by Government.	Monthly	4 weeks after the end of the month.
Ministry of Finance	External debt	End of year external debt in U.S. dollars, by creditor, and origination currency. The amount of new external debt contracted or guaranteed by Government.	Annually	6 weeks after the end of the year.
Ministry of Finance	External debt	Disbursements and repayments: (i) scheduled; and (ii) actual interest and principal on debt of the Government and the CBS, by creditor.	Annually	30 days after the end of each year
Ministry of Finance	External debt	Accumulation of any new arrears (principal or interest payments) on external debt.	Monthly	3 weeks after the end of the month.
Ministry of Finance	Structural benchmarks	A table with a description of the status of implementation of the structural benchmarks in the MEFP Table 2	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)
Somalia National Bureau of Statistics	CPI and other economic indicators	GDP by expenditure data (from June 2020).	Annually	6 months after the end of each year.

INTERNATIONAL MONETARY FUND

SOMALIA

April 17, 2024

FIRST REVIEW UNDER THE EXTENDED CREDIT FACILITY ARRANGEMENT, AND REQUESTS FOR MODIFICATION OF PERFORMANCE CRITERIA—DEBT SUSTAINABILITY ANALYSIS

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

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

This Low-Income Countries Debt Sustainability Analysis (LIC-DSA) provides an update of the December 2023 LIC-DSA. The updated LIC-DSA incorporates three new elements: (i) updated borrowing assumptions that incorporate IDA20's moratorium on hardening of financing terms for countries affected by extreme fragility, such as Somalia, which in practice extends the grant status for Somalia until end-June 2025 (previously end-June 2024), (ii) shift in the first year of projections to 2024 (previously 2023), and (iii) updated macroeconomic forecasts. As with the December 2023 LIC-DSA, the baseline assumes full delivery of debt relief under the HIPC Initiative, Multilateral Debt Relief Initiative (MDRI), and beyond-HIPC assistance at the Completion Point reached on December 13, 2023. Total public debt is projected to increase in nominal terms to US$778 million at end-2024 from US$766 million at end-2023, but decline relative to GDP from 6.6 percent of GDP at end-2023 to 6.1 percent of GDP at end-2024. The majority of total public debt is external. Somalia is assessed to be at moderate risk of debt distress, both for external and overall public debt. The present value (PV) of public and publicly guaranteed (PPG) external debt is estimated to be 4.7 percent of GDP in 2024 – below the 30 percent threshold for countries like Somalia with weak debt carrying capacity.[1] However, the forecast indicates sustained breaches of the external debt service to revenue indicative threshold under the stress scenario in the long term as grace periods on initial loans expire. Under the moderate rating for overall risk of debt distress, Somalia is mechanically assessed to have substantial space to absorb shocks. However, the country is vulnerable to security, international commodity price, and climate shocks and remains highly dependent on external concessional financing, underscoring the importance of strengthening domestic revenue mobilization, debt management institutions, and institutional capacity.

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

PUBLIC DEBT COVERAGE

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

2. **The Federal Government of Somalia (FGS) continues to strengthen its debt management capacity with the support of technical assistance from international partners.** The Ministry of Finance established a Debt Management Unit (DMU) in December 2015. The AfDB financed the installation of a debt recording system and provided training to staff in the unit, primarily to support the reconstruction of loan records. The debt recording system has been upgraded to the Commonwealth Meridien System, which is a cloud-based IT system that allows for an in-depth review of the existing debt portfolio. The DMU has been issuing quarterly debt bulletins since the end of 2020 and the quality of these bulletins has been improving with technical assistance from the IMF.[3] The DMU has committed to continue producing debt bulletins in a timely and regular manner, within the month following the end of each quarter. Coordination between the DMU and other line departments is improving. The quarterly publication of the debt bulletin and improved treatment of debt issues in national budget documents were performance and policy actions (PPAs) under the IDA Sustainable Development Finance Policy.[4] An IMF technical assistance mission took place in February 2024, emphasizing the importance of developing debt objectives (policy), a medium-term debt management strategy (MTDS), annual borrowing plans (ABP), and annual reports on public debt management, and establishing a sound legal and institutional framework for debt management and coordination on debt across ministries, agencies, and line departments (MDAs). The mission also followed up on progress on recommendations made during the joint IMF-WB technical assistance mission that took place in 2021. Capacity building for the gradual development of a domestic financial market through technical assistance in the medium- to long-term will be important, as grant financing is expected to tighten over time and Somalia will require new sources of financing.

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

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

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

Text Table 1. Somalia: Public Debt Coverage

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

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

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

Sources: Somali Authorities and IMF staff estimates.

BACKGROUND ON DEBT

3. **The DSA continues to provide debt stock estimates for end-2022 to reflect information provided by the Somali authorities as negotiations to restructure HIPC-eligible debt continue.** The overall level of public debt stock was estimated at end-2022 at US$3.9 billion, or 37.4 percent of GDP (see Text Table 2). This estimate incorporates debt stock levels at end-2022 updated by the HIPC Completion Point debt reconciliation exercise conducted in 2023, as well as for creditors that had already signed a debt relief agreement during 2020–2023.

4. **The estimated total stock of outstanding debt as of end-2023 stands at US$766.3 million, of which, US$698.4 million is external while US$67.8 million represents central government wage arrears.** Of the total PPG external debt, 67 percent is owed to multilateral creditors and 33 percent is owed to bilateral creditors.

Text Table 2. Somalia: Decomposition of Total Public Debt Over the HIPC Initiative

	Before HIPC, end-2018		After arrears clearance, end-2022		Estimated at end-2023 1/	
	(in millions of US$)	(in percent of GDP)	(in millions of US$)	(in percent of GDP)	(in millions of US$)	(in percent of GDP)
Total Public Debt	5,345.1	64.6%	3,894.8	37.4%	766.3	6.6%
Total External Debt	5,268.1	63.6%	3,827.0	36.7%	698.4	6.0%
Multilateral 2/	1,535.7	18.6%	1,074.9	10.3%	467.7	4.0%
Bilateral	3,730.1	45.1%	2,749.5	26.4%	230.3	2.0%
Paris club	3,037.6	36.7%	2,004.5	19.2%		
non-Paris club	692.6	8.4%	745.0	7.2%		
Commercial	2.3	0.0%	2.5	0.0%	0.5	0.0%
Government wage arrears	77.0	0.9%	67.8	0.7%	67.8	0.6%

Sources: Somali authorities and IMF staff calculations

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

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

5. **The authorities have continued to make good faith efforts to reach agreement with individual creditors to restructure Somalia's external public debt.** Since reaching HIPC Completion Point in December 2023, Somalia has made significant progress on negotiating with pending multilateral creditors (Arab Fund for Economic and Social Development, Arab Monetary Fund, Islamic Development Bank, and OPEC Fund for International Development), and bilateral creditors (Algeria, Bulgaria, Iraq, Romania, and the United Arab Emirates), as detailed in Table 7. The authorities have also continued good faith efforts to negotiate with other pending bilateral (Libya) and commercial (Serbia) creditors. On March 13, 2024, the Paris Club negotiated and agreed upon a HIPC Initiative exit treatment for Somalia. In addition to required HIPC Initiative debt relief, a number of Paris Club creditors also agreed to provide beyond-HIPC debt relief to Somalia. [5] Creditors including the World Bank, IMF, AfDB, IFAD, Kuwait, and Saudi Arabia have already completed relevant debt relief and restructuring under the Enhanced HIPC Initiative.

BACKGROUND ON MACROECONOMIC FORECASTS

6. **Growth in 2023 improved modestly to 2.8 percent compared to 2.4 percent in 2022, supported by a rebound in agriculture production and exports as rains resumed.** However, remittances growth slowed in 2023 relative to 2022, partly due to the impact of global inflation on the purchasing power of the diaspora community. Food and fuel prices have been moderating, but inflation remains sticky, with December 2023 inflation at 6.6 percent compared to 6.1 percent at end-December 2022.

7. **In 2023, domestic revenues performed strongly, and expenditures were within the 2023 Supplementary Budget.** Collection of domestic revenues strengthened in the second half of 2023, supported by higher customs collections following implementation of the Somalia Customs Automated System (SOMCAS), as well as better inland revenue collection due to improvements in tax administration. In January 2024, delays in shipments due to the heightened security situation in the Red Sea had a modest impact on customs collections in Mogadishu, though the shortfall was temporary and revenues recovered in February as traders found alternative routes.[6] The expenditure path in 2023 followed the supplementary budget and a small budget surplus of US$6 million was achieved for the year. The IMF disbursement at ECF approval in December 2023 and budget grant disbursements (including US$75 million from the World Bank and US$7.5 million from Türkiye) contributed to total cash balances that will partially address liquidity needs in 2024. Increase in total

[5] All Paris Club creditors endorsed the agreed minutes to provide Somalia HIPC and beyond-HIPC nominal debt relief amounting to more than US$2 billion, reducing Paris Club HIPC-eligible claims on Somalia from US$2043.5 million at Completion Point before implementation of HIPC debt relief and beyond-HIPC debt relief —but after application of traditional debt relief mechanisms (TDRM) – to US$0.70 million in nominal terms, owed to the Russian Federation.

[6] Based on IMF PortWatch data, more than 90 percent of imports in metric tons into Somalia (excluding Berbera port in Somaliland) went through Mogadishu port in 2023. For Mogadishu, the top five upstream port connections are Mina Raysut, Oman (29 percent), Mombasa, Kenya (23 percent), Mina Jabal Ali, UAE (11 percent), Fujayrah Harbor, UAE (5 percent), and Karachi, Pakistan (5 percent). Most imports do not travel through Bab El-Mandeb Strait.

public debt from US$766 at end-2023 to US$778 at end-2024 includes projected purchases under the ECF worth US$19.9 million[7] and amortization on existing debt.

8. **In February 2024, the WB Executive Board approved a moratorium on hardening of IDA20 financing terms for IDA countries in good standing with the SDFP until a revision of IDA's grant allocation framework can take place early in IDA21 replenishment discussions.** As of HIPC CP in December 2023, Somalia was assessed as being at moderate risk of debt distress. Therefore, under conventional IDA20 financing terms, Somalia would have experienced a change in financing terms from grants to concessional loans starting in July 2024. However, due to the moratorium, Somalia's access to grants under IDA20 will remain applicable until end-June 2025.

9. **In 2024, growth is expected to pick up, supported by a continued recovery in agriculture, remittances, and investment.** Growth is expected to rise to 3.7 percent as crops and livestock recover more fully during the year. Foreign direct investment is expected to trend upwards in 2024, following Somalia's achievement of the HIPC CP in December 2023. Remittances are projected to increase, bolstered by the moderation of global inflation and the upgrade of the growth outlook in several host countries. Inflation is expected to continue on a downward trend as fuel and food prices decline, falling to 4.8 percent at end-2024, although at a slower pace than anticipated earlier.

10. **The medium-term outlook remains broadly unchanged from the forecasts that underpinned the December 2023 LIC-DSA, and growth is expected to accelerate as structural reforms pay off and access to financing improves after HIPC CP.** Growth is projected to gradually accelerate to 4.5 percent by 2029, as public and private investment scale up, supported by structural reforms and greater access to financing. The current account deficit will widen as Somalia gradually losses access to grants, financed by foreign direct investment and a modest increase in concessional borrowing. The baseline macroeconomic projections do not incorporate the impact of joining the EAC, as further clarity is needed on the roadmap for Somalia's integration and its timeline, which can span several years. The average growth projection for 2024–28 is 4 percent. Growth over the medium- and long-term would be driven by: (i) confidence effects related to reaching the HIPC Completion Point and enhanced access to international finance; (ii) continued political stability and reduced security risks; (iii) a gradual scaling up of public spending (in sectors such as energy, transport, education, health)—financed with domestic revenues and concessional borrowing—to support implementation of the national development plan and progress toward the sustainable development goals; (iv) financial deepening and financial inclusion as financial sector reforms pay off; and (v) greater FDI and private investment supported by improvements in the business environment, including security and governance. COVID-19 and climate shocks are expected to have a 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. While Somalia currently has limited monetary

[7] Based on end-February 2024 SDR to USD exchange rates

and fiscal policy response options to address multiple shocks,[8] policies and institutions are gradually being built, which can be further supported by access to new sources of financing now that the country has reached HIPC CP. Inflation in the long term is expected to average 2.2 percent. However, inflation forecasts are vulnerable to climate change (Kotz et al. 2023, Faccia et al. 2021, IMF Staff Climate Note 2023/001).

11. Near-term uncertainty remains high, and risks are tilted to the downside. Food insecurity can aggravate if rainy seasons fail, or new natural disasters hit Somalia. Additional risks stem from a deterioration of the global and/or regional security situation (including the security situation in the Red Sea), risks related to the ATMIS transition, political risks linked to federalism, and lower global growth. If any of these adverse risks materialize, economic growth and domestic revenue including revenues collected at the ports would be lower, increasing financing needs. While existing cash buffers, expenditure rationalization, and current financing commitments help mitigate some risks, the authorities would need additional support from the international community to address a significant adverse scenario.

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

13. Over the medium- and long-term, higher domestic revenues would make room for greater public investment and social spending. Domestic revenue to GDP is projected to increase by around 0.3 percentage points of GDP, on average, per year over 2024–2028, on the back of broad-based revenue-enhancing reforms.[9] Over the medium-term, trade-related revenues (customs duties, sales tax on imports, and port fees) are expected to increase due to efficiency gains from customs modernization, which includes implementation of SOMCAS, improved data collection, and enhanced customs processes supported by the IMF and World Bank technical assistance and

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

[9] These forecasts are supported by the authorities' strong track record in building tax capacity, which has increased from about 1 percent of GDP in 2013, to 2.5 percent of GDP in 2022. The projected medium- and long-term path for revenues is comparable to the experience of other HIPC fragile countries.

SDFP.[10] The approval of the new Income Tax Law, which clarifies and streamlines deductions, and the introduction of excise taxes on money transfer businesses, airtime, and telecommunications are projected to lead to an increase in income and sales tax revenues.[11] The revenue administration is also expected to continue adding new taxpayers to the tax net, e.g. large firms in banking and hospitality, expand its use of digital tools, and enhance its enforcement capacity. Over time, higher domestic revenues would make room for greater spending on public investment and social services. Achieving HIPC CP provides Somalia new access to concessional borrowing, and grants are expected to gradually decline and be replaced by concessional loans. An overall deficit of about 2 percent of GDP is expected by 2028. Sustained improvements over time in expenditure execution and public investment management will facilitate greater absorption of additional resources to expand public spending on human development and public infrastructure. While relevant external and public debt burden indicators remain below their respective thresholds and benchmarks in the long run, the upward trajectory of measures of debt-to-GDP and debt service underline the need for Somalia to continue seeking grant-financing and highly concessional borrowing to finance deficits even beyond the medium-term.

Text Table 3. Somalia: Macroeconomic Projections

(Percent of GDP, unless otherwise indicated)

	December 2023 LIC-DSA 1/							Current LIC-DSA 2/						
	2023	2024	2025	2026	2027	2028	2029-43	2023	2024	2025	2026	2027	2028	2029-43
Real GDP growth	2.8	3.7	3.9	4.0	4.1	4.3	4.5	2.8	3.7	3.9	4.0	4.1	4.3	4.5
Consumer Price Inflation (eop)	4.6	3.9	3.7	3.5	3.3	3.1	2.1	6.6	4.3	3.7	3.5	3.3	3.1	2.1
Non-interest current account deficit	9.4	8.9	10.1	10.6	10.8	10.9	11.3	9.6	8.6	8.7	10.4	10.7	10.3	10.8
Exports	18.1	19.2	20.3	21.1	21.8	22.2	22.2	17.9	18.9	20.1	20.9	21.6	22.0	22.0
Primary fiscal deficit	0.1	1.0	1.2	1.6	2.0	1.9	2.2	-0.1	0.4	1.2	1.8	1.9	1.9	2.2
Revenues and grants	6.4	6.9	5.2	4.7	4.2	4.1	5.7	6.3	7.1	5.9	4.8	4.4	4.4	6.0
of which: domestic revenues	2.7	2.8	3.0	3.3	3.6	3.9	5.7	2.8	2.8	3.0	3.3	3.7	4.0	6.0
of which: grants	3.7	4.1	2.1	1.4	0.6	0.3	0.0	3.5	4.3	2.8	1.5	0.7	0.4	0.0

Sources: Somali authorities and IMF staff calculations

1/ Somalia 6th Review for the ECF arrangement that concluded in December 2023

2/ The macroeconomic framework for the current DSA incorporates HIPC Completion Point reached in December 2023

14. Data weaknesses constrain the scope of macroeconomic analysis, complicating the implementation of standardized stress tests in the LIC-DSA. Although data quality is gradually improving, there are limitations in 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.

15. The available realism tools are oftentimes challenging to apply. Given that the path of Somalia's public debt stock in recent years has largely been determined by the country's progress

[10] Both FY23 and FY24 PPAs include domestic revenue mobilization measures.

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

under the HIPC Initiative, the forecast error realism tool comparing debt stocks and flows across LIC-DSA vintages shows a significant decline in debt in the 5-year historical period versus the 5-year projection period due to debt relief and restructuring under the HIPC Initiative. The tool assessing the realism of the public investment-growth nexus is inoperable due to gaps in Somalia's investment data. The fiscal adjustment realism tool suggests a fiscal expansion post-HIPC Completion Point. However, this reflects a decline in above-the-line grants after reaching HIPC CP, even as expenditures gradually also decline as a percentage of GDP. The fiscal adjustment and growth realism tool shows that the projected growth path is broadly in line with a range of possible fiscal multipliers (Figure 3).

16. The DSA assumes full impact of multilateral arrears clearance, debt relief under the Enhanced HIPC Initiative, MDRI and beyond-HIPC assistance at the Completion Point reached in December 2023, consistent with guidance under the LIC-DSA.[12] The baseline assumes that new financing in 2025–2028 would shift from grants to highly concessional loans, similar to those under IDA20.[13] The December 2023 LIC-DSA assumed the shift to highly concessional loans under IDA20 from July 2024. However, as discussed, the World Bank Executive Board approved the moratorium on hardening of IDA's financing terms for countries affected by extreme fragility, which resulted in extension of grant status for Somalia under IDA20 by one year, until end-June 2025. The current IMF ECF arrangement approved in December 2023 envisions total disbursements worth SDR 45 million (approximately US$60 million), distributed equally across 2024, 2025, and 2026.The baseline also assumes that in 2030, the mix of new borrowing will begin to shift from highly concessional to concessional borrowing and, from 2031, new borrowing would only be on concessional terms similar to IDA regular credits.[14] In the medium-term, Somalia would continue to receive grant disbursements for project commitments approved before end-June 2025, but these would decline over time. The baseline also assumes that the authorities will continue to work with multilateral and bilateral partners to secure additional grants. As both budget support and project grant disbursements decline, Somalia would have to resort to borrowing to sustain overall expenditures, resulting in overall deficits of 2 to 3.5 percent of GDP over the medium-to long-term. Robust access to budget support financing from development partners will continue to be needed to support essential recurrent spending, especially in the near-term.

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

[13] Based on current IDA financing terms, continued assessment of moderate risk of debt distress will preclude Somalia's access to new grant commitments but only to highly concessional loans – in particular, to 50-year credits and shorter maturity loans – once the extension of grant terms expires at end-June 2025.

[14] With Somalia reaching HIPC completion point in December 2023, the baseline incorporates reestablishment of relations between Somalia and external creditors and the full resumption of development financing.

COUNTRY CLASSIFICATION AND DETERMINATION OF SCENARIO STRESS TESTS

17. **Somalia's debt-carrying capacity is classified as weak.** This classification is guided by the composite indicator score, as determined by the World Bank's CPIA, the country's real GDP growth, import coverage of foreign exchange reserves, remittances as percent of GDP, and growth of the world economy. This LIC-DSA uses the October 2023 vintage of the WEO and the 2022 CPIA. The latest available composite indicator score for Somalia is 1.57 (Text Table 4).

Text Table 4. Somalia: Composite Indicator and Threshold Tables

Debt Carrying Capacity	Weak

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

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

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

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

EXTERNAL DEBT SUSTAINABILITY

18. **Somalia's external debt profile is projected to improve significantly, in the context of post-HIPC Completion Point.** The extension of IDA20 grant status by a year induces a downward level shift in the external debt profile, with external debt to GDP projected at 10.3 percent by 2028 in the current LIC-DSA relative to 11 percent of GDP in the December 2023 LIC-DSA. It also results in lower levels for the ratios of PV of external debt to GDP in the current LIC-DSA, compared to the December 2023 LIC-DSA. The extension of grant status by a year also leads to a commensurate improvement in the primary fiscal deficit and the non-interest current account deficit in 2024. The PV of PPG external debt to GDP is forecasted to gradually rise from 4.7 percent of GDP to 6.7 percent of GDP in the medium-term baseline, and to 9.6 percent in the long term – well below the indicative

threshold of 30 percent. The PV of PPG external debt to exports, external debt service to exports, and external debt service to revenue all remain below the indicative thresholds over the projection horizon in the baseline. Debt service ratios are expected to increase towards the end of the projection period due to the resumption of payments on restructured debt and debt service payments due to the IMF starting in 2026. From 2025 to 2029, the baseline assumes that the borrowing mix will be highly concessional with an estimated average grant element of 58.2 percent, which is projected to decline to around 48 percent by 2034 (Table 1).

19. Standard stress tests to the baseline scenario confirm the PPG external debt position's vulnerability to unexpected shocks. While the application of the standard LIC-DSA stress test to Somalia is complicated by structural breaks,[15] there is deterioration of some indicators under temporary shock scenarios.[16] Combined shocks to key macroeconomic variables produce the most extreme stress environment, resulting in external debt service to revenue breaching the indicative threshold when payments on new borrowing to meet higher financing needs under this more pessimistic scenario are expected to accelerate. Uncertainty around real GDP growth, exports, and the non-debt flow shock is the largest contributor to the combined shock. The stress scenario highlights the high vulnerability of Somalia to shocks and the risks that debt vulnerabilities could increase again. A shock in current official transfers is a significant vulnerability, highlighting Somalia's high dependence on official development assistance. Breaches related to the external debt service to revenue ratio are sustained in the long-term.

PUBLIC DEBT SUSTAINABILITY

20. Total public debt is contained in the baseline. PV of total public debt to GDP also remains contained in the stress scenario. PV of total public debt to revenue rises through the medium-term, peaking in 2030. Like PPG external debt, pressures are likely to be felt on public debt service to revenue with the ratio remaining elevated in the long-term. In general, the conclusions with regards to PPG external debt sustainability are relevant also for public debt sustainability, given that there is currently no market for domestic debt and the existing stock of domestic debt is limited to a small stock of government wage arrears. The baseline assumes that the nominal stock of domestic debt will significantly decline as a percentage of total debt over the medium-term.

RISK RATING AND VULNERABILITIES

21. Somalia is assessed to be at moderate overall risk of public debt distress. While key indicators are contained in the baseline, the sustained breaches of the indicative threshold for the external debt service to revenue ratio under standardized stress tests suggest that Somalia is at

[15] The LIC-DSA stress test is not adjusted for the structural break, given severe persisting vulnerabilities that can materialize in the projection period, allowing past volatility to inform stress testing in the projection horizon.

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

moderate risk of external debt distress and at moderate overall risk of public debt distress. The total public debt indicator remains under the benchmark across the baseline and stress scenarios. However, the trajectory of public debt service to GDP under standardized stress tests highlights the need for vigilant debt management. The moderate risk rating tool mechanically indicates that Somalia has substantial space to absorb shocks. However, Somalia is vulnerable to significant shocks discussed below and remains highly dependent on external, concessional financing.

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

AUTHORITIES' VIEWS

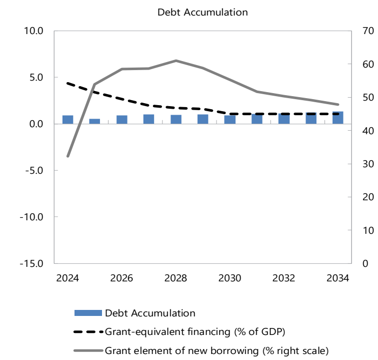
23. The assumptions and conclusions of the LIC-DSA were discussed with the authorities, who broadly concurred with staffs' assessment. The authorities recognize the importance of relying on concessional financing post-HIPC to contain debt sustainability risks and to monitor the external debt service-to-revenue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

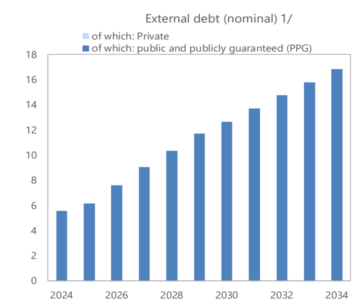
Table 1. Somalia: External Debt Sustainability Framework, Baseline Scenario, 2021–2044

(In percent of GDP, unless otherwise indicated)

	Actual			Projections 9/								Average 8/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections
External debt (nominal) 1/	39.9	36.7	6.0	5.5	6.1	7.6	9.0	10.3	11.7	16.8	31.0	41.8	11.3
of which: public and publicly guaranteed (PPG)	39.9	36.7	6.0	5.5	6.1	7.6	9.0	10.3	11.7	16.8	31.0	41.8	11.3
Change in external debt	-8.1	-3.1	-30.7	-0.4	0.6	1.5	1.5	1.3	1.3	1.1	1.8		
Identified net debt-creating flows	-1.5	0.6	0.4	3.1	3.2	4.9	5.1	4.6	4.6	6.6	3.1	-0.7	5.2
Non-interest current account deficit	6.8	8.0	9.6	8.6	8.7	10.4	10.7	10.3	10.4	12.6	9.4	4.6	10.9
Deficit in balance of goods and services	50.9	61.2	58.8	58.2	57.2	56.4	56.1	55.8	55.6	56.0	52.5	49.0	56.2
Exports	15.6	17.3	17.9	18.9	20.1	20.9	21.6	22.0	22.0	22.0	22.0		
Imports	66.5	78.5	76.7	77.1	77.2	77.3	77.7	77.8	77.6	78.0	74.5		
Net current transfers (negative = inflow)	-44.6	-53.6	-49.6	-49.8	-48.7	-46.3	-45.7	-45.8	-45.5	-43.6	-43.0	-44.8	-45.5
of which: official	-23.0	-33.0	-30.8	-31.0	-29.8	-27.2	-26.4	-26.2	-25.9	-23.6	-23.0		
Other current account flows (negative = net inflow)	0.4	0.4	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	-0.1	0.4	0.2
Net FDI (negative = inflow)	-5.2	-5.2	-5.2	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4	-5.4	-4.8	-5.4
Endogenous debt dynamics 2/	-3.1	-2.2	-4.0	-0.1	-0.1	-0.1	-0.2	-0.3	-0.3	-0.5	-0.9		
Contribution from nominal interest rate	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.4		
Contribution from real GDP growth	-1.5	-0.9	-0.9	-0.2	-0.2	-0.2	-0.3	-0.4	-0.4	-0.7	-1.2		
Contribution from price and exchange rate changes	-1.6	-1.3	-3.0	...	...	...	...	...	...	...	...		
Residual 3/	-6.6	-3.8	-31.2	-3.5	-2.7	-3.4	-3.6	-3.3	-3.3	-5.6	-1.3	-10.9	-4.2
of which: exceptional financing	-0.2	0.0	-26.8	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	...	...	4.2	4.7	4.8	5.3	5.8	6.3	6.7	9.6	19.9		
PV of PPG external debt-to-exports ratio	...	...	23.5	24.7	24.1	25.5	27.0	28.4	30.6	43.4	90.2		
PPG debt service-to-exports ratio	1.1	0.9	0.7	0.9	0.9	0.9	0.9	0.9	1.3	1.6	4.0		
PPG debt service-to-revenue ratio	7.4	6.2	4.7	6.0	6.0	5.5	5.1	4.7	6.5	6.2	10.9		
Gross external financing need (Million of U.S. dollars)	174.8	311.6	525.6	425.8	489.6	782.4	891.9	891.9	994.6	1979.5	2430.2		
Key macroeconomic assumptions													
Real GDP growth (in percent)	3.3	2.4	2.8	3.7	3.9	4.0	4.1	4.3	4.5	4.5	4.5	2.8	4.3
GDP deflator in US dollar terms (change in percent)	3.5	3.4	9.0	5.7	4.4	4.2	4.0	3.7	3.0	2.1	2.1	4.3	3.3
Effective interest rate (percent) 4/	0.0	0.0	0.0	1.8	1.9	1.7	1.3	1.2	1.0	1.0	1.3	0.0	1.2
Growth of exports of G&S (US dollar terms, in percent)	30.0	17.7	15.8	16.0	15.0	12.7	12.0	10.4	7.6	6.7	6.7	8.7	9.8
Growth of imports of G&S (US dollar terms, in percent)	12.5	25.0	9.5	10.2	8.7	8.5	8.9	8.3	7.4	6.6	6.8	8.7	7.8
Grant element of new public sector borrowing (in percent)	...	...	...	32.2	53.9	58.5	58.6	61.0	58.8	47.9	39.2	...	52.5
Government revenues (excluding grants, in percent of GDP)	2.3	2.5	2.8	2.8	3.0	3.3	3.7	4.0	4.3	5.5	8.0	2.1	4.2
Aid flows (in Million of US dollars) 5/	64.4	462.7	418.5	547.0	524.3	505.1	468.6	441.8	478.4	591.2	2076.8		
Grant-equivalent financing (in percent of GDP) 6/	...	...	...	4.3	3.4	2.6	2.0	1.7	1.6	1.1	1.6	...	1.9
Grant-equivalent financing (in percent of external financing) 6/	...	...	...	97.6	87.0	75.9	69.2	67.8	63.1	47.9	39.2	...	65.0
Nominal GDP (Million of US dollars)	9,839	10,420	11,680	12,804	13,891	15,059	16,310	17,638	18,985	26,352	50,377		
Nominal dollar GDP growth	6.9	5.9	12.1	9.6	8.5	8.4	8.3	8.1	7.6	6.7	6.7	7.2	7.7
Memorandum items:													
PV of external debt 7/	...	...	4.2	4.7	4.8	5.3	5.8	6.3	6.7	9.6	19.9		
In percent of exports	...	...	23.5	24.7	24.1	25.5	27.0	28.4	30.6	43.4	90.2		
Total external debt service-to-exports ratio	1.1	0.9	0.7	0.9	0.9	0.9	0.9	0.9	1.3	1.6	4.0		
PV of PPG external debt (in Million of US dollars)			490.4	598.8	670.6	799.9	950.3	1103.5	1278.8	2518.5	10009.9		
(PVt-PVt-1)/GDPt-1 (in percent)				0.9	0.6	0.9	1.0	0.9	1.0	1.3	2.7		
Non-interest current account deficit that stabilizes debt ratio	14.9	11.2	40.3	9.0	8.2	8.9	9.2	9.0	9.0	11.5	7.6		

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) + Εα (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, Ε=nominal appreciation of the local currency, and α= share of local currency-denominated external debt in total external debt.

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

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

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

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

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

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

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

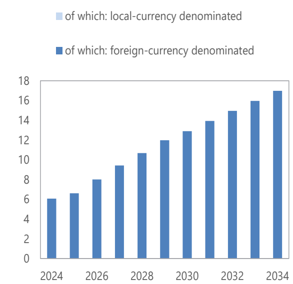
Table 2. Somalia: Public Sector Debt Sustainability Framework, Baseline Scenario, 2021–2044

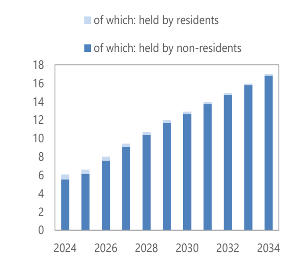
(In percent of GDP, unless otherwise indicated)

	Actual			Projections 7/								Average 6/	
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2034	2044	Historical	Projections 7/
Public sector debt 1/	**40.6**	**37.4**	**6.6**	**6.1**	**6.6**	**8.0**	**9.4**	**10.7**	**12.0**	**17.0**	**31.0**	**42.5**	**11.6**
of which: external debt	**39.9**	**36.7**	**6.0**	**5.5**	**6.1**	**7.6**	**9.0**	**10.3**	**11.7**	**16.8**	**31.0**	**41.8**	**11.3**
Change in public sector debt	-8.2	-3.2	-30.8	-0.5	0.5	1.4	1.4	1.3	1.3	1.0	1.8		
Identified debt-creating flows	**-2.5**	**-2.3**	**-30.9**	**-0.1**	**0.8**	**1.4**	**1.4**	**1.3**	**1.3**	**1.0**	**1.8**	**-11.5**	**1.0**
Primary deficit	**0.8**	**0.0**	**-0.1**	**0.4**	**1.2**	**1.8**	**1.9**	**1.9**	**2.0**	**1.9**	**3.2**	**-0.1**	**1.6**
Revenue and grants	3.8	6.9	6.3	7.1	5.9	4.8	4.4	4.4	4.5	5.5	8.0	**3.9**	**5.1**
of which: grants	1.5	4.4	3.5	4.3	2.8	1.5	0.7	0.4	0.3	0.0	0.0		
Primary (noninterest) expenditure	4.7	6.9	6.3	7.4	7.1	6.6	6.4	6.3	6.5	7.4	11.2	**3.8**	**6.7**
Automatic debt dynamics	**-3.1**	**-2.3**	**-4.0**	**-0.5**	**-0.4**	**-0.4**	**-0.5**	**-0.6**	**-0.7**	**-0.9**	**-1.5**		
Contribution from interest rate/growth differential	-3.1	-2.3	-4.0	-0.5	-0.4	-0.4	-0.5	-0.6	-0.7	-0.9	-1.5		
of which: contribution from average real interest rate	-1.6	-1.3	-3.0	-0.2	-0.1	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2		
of which: contribution from real GDP growth	-1.6	-1.0	-1.0	-0.2	-0.2	-0.3	-0.3	-0.4	-0.5	-0.7	-1.3		
Contribution from real exchange rate depreciation	0.0	0.0	0.0	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**-0.2**	**0.0**	**-26.8**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-8.4**	**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)	-0.2	0.0	-26.8	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	**-5.7**	**-0.9**	**0.0**	**-0.4**	**-0.3**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.1**	**-0.1**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**4.8**	**5.2**	**5.3**	**5.7**	**6.2**	**6.6**	**7.0**	**9.7**	**19.9**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**75.3**	**73.7**	**90.7**	**119.4**	**140.3**	**148.8**	**155.0**	**176.5**	**249.2**		
Debt service-to-revenue and grants ratio 3/	**4.5**	**2.3**	**2.1**	**2.4**	**3.1**	**4.3**	**4.7**	**4.7**	**6.5**	**6.5**	**11.0**		
Gross financing need 4/	0.9	0.1	-26.7	0.2	1.1	2.0	2.1	2.1	2.3	2.2	4.1		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.3	2.4	2.8	3.7	3.9	4.0	4.1	4.3	4.5	4.5	4.5	**2.8**	**4.3**
Average nominal interest rate on external debt (in percent)	0.0	0.0	0.0	1.8	1.9	1.7	1.3	1.2	1.0	1.0	1.3	**0.0**	**1.2**
Average real interest rate on domestic debt (in percent)	-3.4	-3.3	-8.3	-5.4	-4.2	-4.1	-3.9	-3.6	-2.9	-2.1	-2.1	**-4.0**	**-3.2**
Real exchange rate depreciation (in percent, + indicates depreciation)	0.0	0.0	0.0	...	...	...	...	...	...	...	...	**0.0**	**...**
Inflation rate (GDP deflator, in percent)	3.5	3.4	9.0	5.7	4.4	4.2	4.0	3.7	3.0	2.1	2.1	**4.3**	**3.3**
Growth of real primary spending (deflated by GDP deflator, in percent)	-5.8	51.4	-6.2	22.5	-1.0	-2.5	-0.3	3.3	7.9	9.2	9.3	**18.3**	**6.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	9.0	3.1	30.8	0.9	0.7	0.4	0.5	0.6	0.7	0.9	1.5	**14.3**	**0.7**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/





Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank, government-guaranteed debt, non-guaranteed SOE debt . Definition of external debt is Residency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

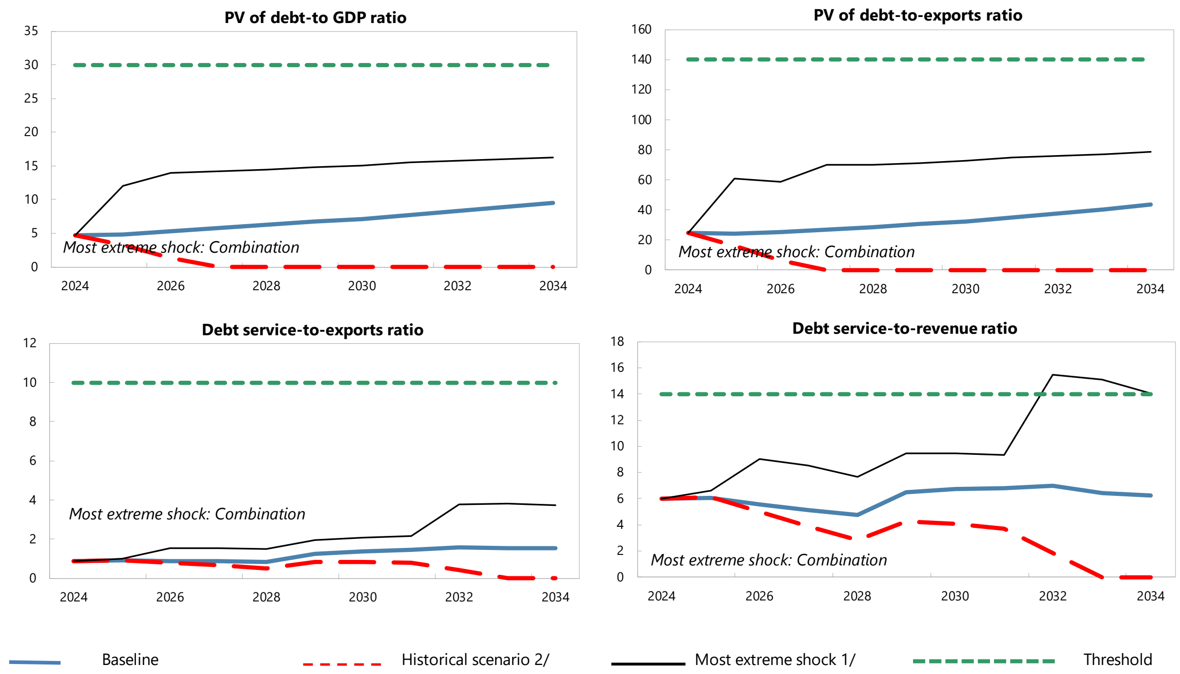
4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

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

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

Figure 1. Somalia: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2024–2034



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

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

Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	0.7%	0.7%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	6	6

* 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.

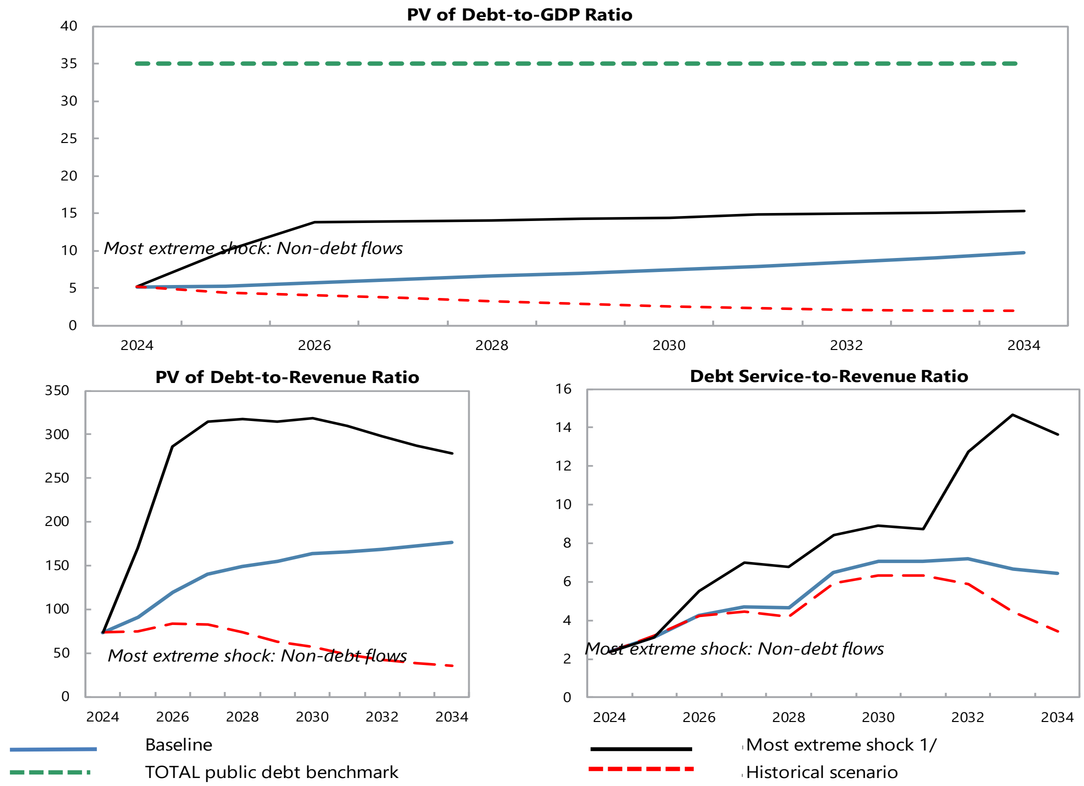
Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ Historical series truncated at zero.

3/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Somalia: Indicators of Public Debt Under Alternative Scenarios, 2024–2034



Borrowing assumptions on additional financing needs resulting from the stress tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	100%	100%
Domestic medium and long-term	0%	0%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	0.7%	0.7%
Avg. maturity (incl. grace period)	35	35
Avg. grace period	6	6
Domestic MLT debt		
Avg. real interest rate on new borrowing	0.0%	0.0%
Avg. maturity (incl. grace period)	1	1
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	0.0%	0.0%

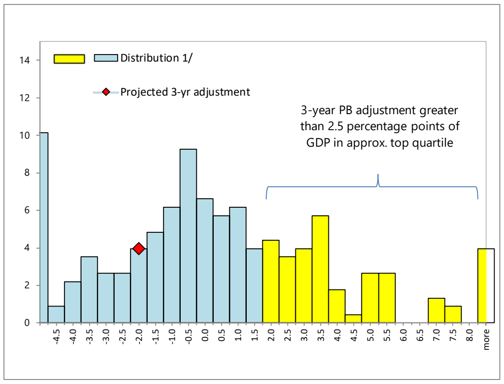
* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2034. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

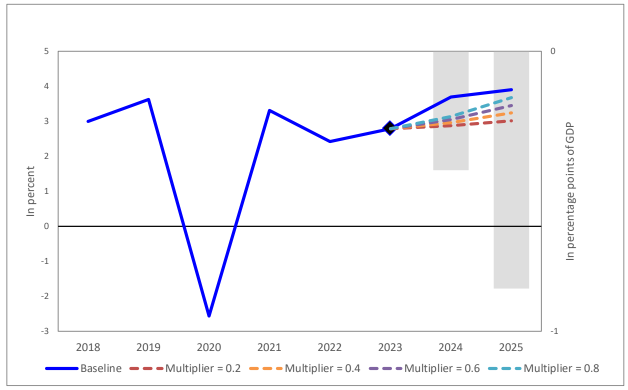
Figure 3. Somalia: Realism Tools

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



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

Fiscal Adjustment and Possible Growth Paths 1/



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

Figure 4. Somalia: Qualification of the Moderate Category, 2024–2034 1/

Sources: Country authorities; and staff estimates and projections.

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

Table 3. Somalia: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2024–2034

(In percent)

	Projections 1/ 4/										
	2024	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**2033**	**2034**
PV of debt-to GDP ratio											
Baseline	5	5	5	6	6	7	7	8	8	9	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	5	3	1	-1	-2	-4	-6	-8	-11	-13	-15
B. Bound Tests											
B1. Real GDP growth	5	5	6	7	7	8	8	9	9	10	11
B2. Primary balance	5	5	6	6	7	7	8	8	9	9	10
B3. Exports	5	6	9	10	10	10	11	11	12	12	12
B4. Other flows 3/	5	9	13	14	14	14	14	15	15	15	15
B5. Depreciation	5	6	-1	0	0	1	2	3	4	5	6
B6. Combination of B1-B5	5	12	14	14	14	15	15	16	16	16	16
C. Tailored Tests											
C1. Combined contingent liabilities	5	7	8	8	9	9	9	10	10	11	12
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	5	5	6	6	7	7	8	8	9	10
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	25	24	25	27	28	31	32	35	38	40	43
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	25	16	7	-2	-10	-18	-27	-38	-49	-59	-68
B. Bound Tests											
B1. Real GDP growth	25	24	25	27	28	31	32	35	38	40	43
B2. Primary balance	25	26	28	30	31	33	35	37	40	43	46
B3. Exports	25	36	59	60	60	63	65	67	70	72	75
B4. Other flows 3/	25	47	64	63	62	63	64	66	67	68	69
B5. Depreciation	25	24	-5	-2	1	4	7	10	13	18	22
B6. Combination of B1-B5	25	61	59	70	70	71	73	75	76	77	79
C. Tailored Tests											
C1. Combined contingent liabilities	25	37	38	38	39	41	43	45	47	50	53
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	25	24	25	27	28	31	32	35	38	40	43
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	0.9	0.9	0.9	0.9	0.9	1.3	1.4	1.5	1.6	1.5	1.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	0.9	0.9	0.8	0.7	0.5	0.8	0.8	0.8	0.4	-0.3	-0.9
B. Bound Tests											
B1. Real GDP growth	0.9	0.9	0.9	0.9	0.9	1.3	1.4	1.5	1.6	1.5	1.6
B2. Primary balance	0.9	0.9	0.9	0.9	0.9	1.3	1.4	1.5	1.7	1.7	1.7
B3. Exports	0.9	1.1	1.3	1.5	1.4	2.0	2.1	2.2	2.7	3.3	3.3
B4. Other flows 3/	0.9	0.9	1.2	1.4	1.3	1.7	1.8	1.8	2.9	3.5	3.4
B5. Depreciation	0.9	0.9	0.9	0.5	0.5	0.9	1.1	1.2	1.3	0.0	0.1
B6. Combination of B1-B5	0.9	1.0	1.5	1.6	1.5	1.9	2.1	2.2	3.8	3.8	3.7
C. Tailored Tests											
C1. Combined contingent liabilities	1	1	1	1	1	1	2	2	2	2	2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	1	1	1	1	1	1	1	1	2	2	2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	10	10	10	10	10	10	10	10	10	10	10
Debt service-to-revenue ratio											
Baseline	6	6	6	5	5	7	7	7	7	6	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	6	6	5	4	3	4	4	4	2	-1	-3
B. Bound Tests											
B1. Real GDP growth	6	6	6	6	5	7	8	8	8	7	7
B2. Primary balance	6	6	6	5	5	7	7	7	7	7	7
B3. Exports	6	6	6	7	6	8	8	8	9	10	10
B4. Other flows 3/	6	6	7	8	7	9	9	8	13	**14**	13
B5. Depreciation	6	8	7	4	4	6	7	7	7	0	0
B6. Combination of B1-B5	6	7	9	9	8	9	9	9	**16**	**15**	**14**
C. Tailored Tests											
C1. Combined contingent liabilities	6	6	7	6	5	7	7	7	7	7	7
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	6	6	6	5	5	7	7	7	7	6	6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	14	14	14	14	14	14	14	14	14	14	14

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

4/ Structural breaks in Somalia's historical series affect the DSA's sensitivity analysis. Negative values should be considered bounded at zero.

Table 4. Somalia: Sensitivity Analysis for Key Indicators of Public Debt, 2024–2034
(In percent)

	Projections 1/ 4/										
	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
	PV of Debt-to-GDP Ratio										
Baseline	5	5	6	6	7	7	7	8	8	9	10
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	5	4	4	4	3	3	3	2	2	2	2
B. Bound Tests											
B1. Real GDP growth	5	5	7	7	8	9	10	11	12	13	14
B2. Primary balance	5	5	6	6	7	7	7	8	9	9	10
B3. Exports	5	7	10	10	10	11	11	11	12	12	12
B4. Other flows 3/	5	10	14	14	14	14	14	15	15	15	15
B5. Depreciation	5	6	6	6	5	5	5	5	5	6	6
B6. Combination of B1-B5	5	5	5	6	6	7	7	8	8	9	10
C. Tailored Tests											
C1. Combined contingent liabilities	5	7	8	8	8	9	9	10	10	11	11
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	5	5	6	7	8	9	9	10	11	12	13
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	74	91	119	140	149	155	163	166	168	172	176
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	74	75	83	83	74	63	57	49	43	38	35
B. Bound Tests											
B1. Real GDP growth	74	90	131	163	180	195	213	221	229	238	247
B2. Primary balance	74	88	120	141	150	157	165	168	170	174	178
B3. Exports	74	114	200	224	230	232	238	235	232	228	226
B4. Other flows 3/	74	170	286	315	317	314	319	309	298	287	278
B5. Depreciation	74	105	122	128	123	117	115	110	107	106	106
B6. Combination of B1-B5	74	87	111	130	139	147	156	159	163	168	173
C. Tailored Tests											
C1. Combined contingent liabilities	74	125	160	183	190	195	203	202	203	205	207
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	74	89	127	158	176	191	208	217	225	235	244
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	2	3	4	5	5	6	7	7	7	7	6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2024-2034 2/	2	3	4	4	4	6	6	6	6	4	3
B. Bound Tests											
B1. Real GDP growth	2	3	5	5	6	8	8	9	9	9	9
B2. Primary balance	2	3	4	5	5	7	7	7	8	7	7
B3. Exports	2	3	5	6	6	7	8	8	9	11	10
B4. Other flows 3/	2	3	6	7	7	8	9	9	13	15	14
B5. Depreciation	2	4	6	6	6	8	9	9	9	9	8
B6. Combination of B1-B5	2	3	4	5	5	7	7	7	7	7	7
C. Tailored Tests											
C1. Combined contingent liabilities	2	3	5	5	5	7	8	8	8	7	7
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	2	3	4	5	5	7	8	8	8	8	8
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

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

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

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

	Debt Stock (end of period) 2022			Debt Service					
				2022	2023	2024	2022	2023	2024
	(In millions of US$)	(Percent total debt)	(Percent GDP)	(In millions of US$)			(Percent GDP)		
Total [1/]	3894.8	100.0	33.3	16.4	17.7	12.9	0.2	0.2	0.2
External	3827.0	98.3	32.8	16.4	17.7	12.9	0.2	0.2	0.2
Multilateral creditors	1074.9	27.6	9.2	16.4	17.7	10.0	0.2	0.2	0.1
IMF [2/]	370.5	9.5	3.2	0.0	2.3	2.3	0.0	0.0	0.0
World Bank [3/]	104.6	2.7	0.9	13.4	12.5	0.0	0.2	0.2	0.0
AfDB	20.1	0.5	0.2	2.5	2.3	0.0	0.0	0.0	0.0
Other Multilaterals	579.6	14.9	5.0	0.5	0.5	7.6	0.0	0.0	0.1
Arab Monetary Fund	298.6	7.7	2.6	0.0	0.0	1.8	0.0	0.0	0.0
Arab Fund for Economic and Social Development	191.5	4.9	1.6	0.0	0.0	4.3	0.0	0.0	0.1
International Fund for Agricultural Development	26.2	0.7	0.2	0.5	0.5	0.5	0.0	0.0	0.0
Islamic Development Bank	27.2	0.7	0.2	0.0	0.0	0.4	0.0	0.0	0.0
OPEC Fund for International Development	36.1	0.9	0.3	0.0	0.0	0.6	0.0	0.0	0.0
Bilateral Creditors	2752.1	70.7	23.6	0.0	0.0	2.9	0.0	0.0	0.0
Paris Club [4/]	2004.5	51.5	17.2	0.0	0.0	0.2	0.0	0.0	0.0
Denmark	2.8	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
France	109.7	2.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Italy [5/]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Japan [6/]	109.0	2.8	0.9	0.0	0.0	0.0	0.0	0.0	0.0
Netherlands	2.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Norway	0.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Russia [7/]	711.1	18.3	6.1	0.0	0.0	0.2	0.0	0.0	0.0
Spain	40.9	1.1	0.4	0.0	0.0	0.0	0.0	0.0	0.0
United Kingdom	28.6	0.7	0.2	0.0	0.0	0.0	0.0	0.0	0.0
United States	998.4	25.6	8.5	0.0	0.0	0.0	0.0	0.0	0.0
EEC IDA Administered Loans	1.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial creditors	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Serbia	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other international creditors [8/]	745.0	19.1	6.4	0.0	0.0	2.7	0.0	0.0	0.0
Algeria	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Bulgaria	11.0	0.3	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Iraq	201.9	5.2	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Kuwait Fund and Central Bank	125.3	3.2	1.1	0.0	0.0	2.7	0.0	0.0	0.0
Libya	30.4	0.8	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Romania	2.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Saudi Arabia	118.9	3.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0
United Arab Emirates	253.5	6.5	2.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	67.8	1.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Of which: in arrears	67.8	1.7	0.6	0.0	0.0	0.0	0.0	0.0	0.0
Nominal GDP	11680								

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

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

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

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

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

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

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

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

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

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

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

PPG external debt contracted or guaranteed	Volume of new debt, USD million	Percent
Sources of debt financing	**19.9**	**100**
***Concessional debt,* 1/**	**19.9**	**100**
o/w IMF prospective	19.9	
o/w Other 2/	0.0	0
Non-concessional debt	**0.0**	**0**
o/w Semi-concessional 3/	0.0	0
o/w Commercial terms 4/	0.0	0
Uses of debt financing	**19.9**	**100**
Project Financing	0.0	0
Budget Financing	19.9	100
Type of interest rate	**19.9**	**100**
Fixed Interest Rate	19.9	100
Variable Interest Rate	0.0	0
Currency denomination	**19.9**	**100**
USD denominated loans	19.9	100
Loans denominated in other currency	0.0	0
Memorandum items 5/		
Indicative projection FY2025	**153.3**	
Indicative projection FY2026	**305.2**	

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

2/ Can include multilateral lenders such as the World Bank and the AfDB.

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

4/ Debt without a positive grant element.

5/ HIPC Completion Point reached in December 2023.

Table 7. Somalia: Progress on Negotiations with Creditors for Restructuring Outstanding HIPC-Eligible Debt (as of March 3, 2024)

	Enhanced HIPC Debt Relief in PV Terms (in US$ million) 1/	Percentage of Total Assistance under HIPC	Status of Negotiations
AFESD	99.1	5.2	Authorities are continuing to negotiate with the AFESD to agree on debt servicing terms.
AMF	155.6	8.2	Set aside an amount of 26,119 thousand AAD, from which the Republic of Somalia is exempted once a debt settlement agreement is signed. The remaining of the exemption plus the interest calculated from August 1, 2024 to March 31, 2024, has been agreed to be rescheduled. The authorities met the AMF leadership to discuss outstanding arrears. Authorities are seeking a further softening of debt servicing terms for the first fiew years (grace period for a minimum of three years), and have proposed to find a potential donor to service debt during the first five years, and sought AMF cooperation on the matter. Awaiting AMF's decision.
IsDB	15.5	0.8	Draft agreement has been forwarded to the IsDB Board of Directors for approval.
OFID	19.3	1.0	A bridge loan has been agreed in principle with KSA, targeting clearance of outstanding arrears, with a specific focus on certain OPEC fund member countries. Modalities of the bridge loan are being finalized with KSA authorities.
Total Multilateral	**822.5**	**43.2**	
o/w Pending	**289.5**	**15.2**	
Paris Club Creditors	806.6	42.4	The Paris Club completed debt treatment for Somalia under the HIPC process during the March 13 HIPC exit debt treatment for Somalia. In addition to HIPC debt relief, various bilateral PC creditors also agreed to provide beyond-HIPC debt relief.
Non-Paris Club Creditors			
Algeria	0.3	0.0	Informal agreement on writing off debt, but this has not officially been received. Authorities are continuing to negotiatiate with the Algerian authorities.
Bulgaria	1.9	0.1	Bulgaria had indicated its willingness to provide debt relief after Somalia's HIPC exit debt treatment by the Paris Club. With the exit debt treatment having been completed on March 13, 2024, the authorities are reaching out to their Bulgarian counterparts to follow up.
Iraq	32.3	1.7	Authorities are negotiating with their Iraqi counterparts for softening the terms of debt relief offered.
Libya	14.0	0.7	The creditor is yet to respond.
Romania	0.5	0.0	Romania had indicated its willingness to provide debt relief after Somalia's HIPC exit debt treatment by the Paris Club. With the exit debt treatment having been completed on March 13, 2024, the authorities are reaching out to their Romanian counterparts to follow up.
United Arab Emirates	131.0	6.9	Under negotiation - United Arab Emirates participated in March 2020 Paris Club meeting as an observer country. Negotiations on debt relief in Paris Club comparable terms with the Abu Dhabi Fund for Development are ongoing, especially on softening the debt servicing terms further.
Commercial			
Serbia 2/	0.4	0.0	Since the Serbia debt was identified as commercial debt owed to a private creditor (Invest-Import, a.d. Belgrade), authorities are in the process of identifying their counterparts to offer comparable terms for debt restructuring. The authorities had previously been negotiating with the Government of Serbia, had offered comparable terms (as PC), and requested input on the terms and conditions.
Total Bilateral and Commercial	**1,081.0**	**56.8**	
o/w Pending	**180.4**	**9.5**	
TOTAL	**1,903.5**	**100.0**	
o/w Total Pending	**469.9**	**24.7**	

Sources: Somali authorities; and IMF and World Bank staff estimates.

1/ The data are in December 31, 2018 PV terms as revised at completion point.

2/ Serbia's loan was classified as other official bilateral debt at the decision point; then it was reclassified as commercial debt at completion point based on updated information provided by the creditor to the authorities.

Statement by the Staff Representative on Somalia
May 29, 2024

This statement provides a factual update on developments since the Staff Report was finalized. The additional information does not change the thrust of the staff appraisal.

Data for end-March 2024 shows that outturns were in line with indicative targets (ITs).

- **Fiscal.** Cumulative domestic revenue through end-March stood at US$ 91.7 million, exceeding the program floor of US$ 69 million. Cumulative spending through end-March on compensation of employees, goods and services, and contingency was limited to US$ 98.5 million, below the program ceiling of US$ 118 million. As a result, the cumulative fiscal balance was comfortably above the program floor for end- March. Based on information on the stock of remaining cash balances for March 2024, it is expected that no new domestic expenditure arrears have been incurred.
- **Net international reserves (NIR).** NIR were at US$ 12.1 million, above the adjusted program floor of US$ 0.7 million.
- **Debt.** As of end-April 2024, no new external non-concessional debt was contracted, no new external arrears were accumulated, and no new domestic debt was contracted.
- **Article VIII commitments.** As of end-April 2024, the continuous conditionality related to Article VIII commitments has been met.

In May 2024, the President signed into law a new pension scheme for civil servants. The law was designed with the support of the World Bank. The tentative time frame for launching the new pension fund is mid-2025. Implementation will require setting up the institutional framework and developing regulations and procedures. The authorities have requested FAD technical assistance to support its implementation. A fuller assessment of the new pension law will be provided at the time of the next program review.

Statement by Mr. Mahmoud Mohieldin, Mr. Ali Alhosani, and Mr. Abdulqafar Abdullahi on Somalia
May 29, 2024

Introduction and Context

1. **Our Somali authorities thank the staff for their consistent support and constructive engagement during the first review under the Extended Credit Facility (ECF) arrangement.** They consider the Fund's support under the ECF instrumental in rebuilding economic institutions and fostering sustained, and inclusive high economic growth. They broadly share the staff's assessment of economic developments and key policy priorities.

2. **Despite improvements after a prolonged drought spanning from 2021 to 2023 and following heavy El-Nino rains that caused floods late last year, the humanitarian situation remains precarious.** Still, some 6.9 million people, including nearly 3.8 million internally displaced individuals, require some form of humanitarian assistances in 2024. The onset of the April-June rainy season could also bring more floods. However, the humanitarian situation is expected to gradually improve as agriculture and livestock productions recover.

3. **Security conditions in the country also continue to improve as the influence and the reach of Al-Shabaab are being diminished.** Somali authorities have waged a multi-pronged campaign to uproot the terrorist group through military pressure, ideological, and financial war to cut off their sources of funds. Consequently, Al-Shabaab has lost control of large territories in the central regions of Somalia, but they are still capable of mounting sporadic terrorist attacks resulting in economic and human losses. Somali authorities are also gearing up to take full responsibility for the country's security following the planned withdrawal of the African Union Transition Mission in Somalia (ATMIS) forces in December 2024. This transition process will be guided by the Somalia Security Sector Development Plan and will require continued support from its partners, with fiscal implications for the 2025 budgets and beyond.

4. **The Somali authorities are in the process of developing a long-term economic development vision, Centennial Vision 2060, which will guide the country's development strategy.** To support the vision objective, a new National Transformation Plan, which is currently under development, to replace the current 9th National Development Plan when it expires, aiming to advance and accelerate poverty reduction and promote inclusive growth. The Food Security Crisis Plan launched in December 2023 is expected to make a positive contribution to reducing food insecurity and bolstering climate change resilience. Similarly, Somalia's formal accession to the East African community in March 2024 holds great promise to accelerate economic growth through trade and regional integration. However, to realize substantial benefits and successfully integrate with the more advanced regional economies, significant structural and regulatory reforms are required.

Program Performance

5. **The Somalia authorities continue to be committed to pursuing ambitious and challenging reforms, building on their successes under the previous ECF and under HIPC initiative Completion Point requirements.** Program performance is solid, the authorities have met all Quantitative Performance Criteria (QPC), and Indicative Targets (IT) for end-December. They have also successfully implemented all structural benchmarks due before end-March, and end-June SBs are on track. As such, the Somali authorities request the Executive Board's approval of the completion of the First Review under the ECF program and associated disbursement. Furthermore, as a result of higher-than-expected revenue collection for 2023, Somali authorities also request a modification to increase the revenue floor for end-June and end-December 2024 QPCs to incorporate the higher-than-expected revenue collection and accommodate anticipated higher spending needs to support security operations. They also request a technical modification to the floor of the net international reserves to account.

Recent Economic Developments

6. **Despite multiple challenges, Somalia's economy has proven to be resilient, growing steadily over the years.** However, since 2020, climate related shocks, political uncertainty, a global pandemic, and spillovers from the current global geopolitical tensions have taken a toll on the economy. In 2023, economic growth is estimated at 2.8 percent up from 2.4 percent in 2022. The economy is expected to pick up steam and grow at 3.7 percent in 2024, supported by the recovery in crop and livestock production, growth in foreign direct investment, and a rebound in remittances inflows. As structural and institutional reforms take hold, growth is expected to accelerate to 4.5 percent by 2029, bolstered by the anticipated expansion of both public and private investments. Nevertheless, authorities agree with staff's assessment that near-term risks are tilted to the downside owing to a possible less than ideal rainy season, regional and global uncertain security developments including spillovers from the war in Gaza on the Red Sea trade routes, as well as the possible deterioration of internal security and political dynamics. End-December inflation increased slightly to 6.6 percent up from 6.1 percent at End December 2022, but is expected to fall through 2024 to 4.8 percent by the end of the year.

Program and Policy Discussion

Fiscal Policy

7. **Somali authorities continue to exercise prudent fiscal policy driven by revenue mobilization and expenditure restraint.** The 2023 fiscal year ended with a small surplus due to higher domestic revenue mobilization and prudent expenditure management. Domestic revenue outperformed both the budget and the program targets. Past and ongoing reforms and revenue measures including streamlining tax exemptions and making them more transparent,

a new turnover tax, digitalizing of rental income, and extending of sales tax to the service sector, among other actions, have resulted in better-than-expected revenue collection. Despite substantial spending pressure for security and the demand for social service delivery in recently liberated areas, the authorities maintained strong expenditure controls ensuring that spending remained within the budget.

8. **Domestic revenue mobilization remains at the heart of the Somali authorities' fiscal strategy.** Towards this goal, they are in the process of finalizing a comprehensive medium-term tax policy and administration roadmap with support from the Fund. This roadmap aims to raise annual revenue to GDP by 0.3 percentage point until 2027, at which point domestic revenues are expected to cover all basic government operations. Further, customs modernization will be prioritized including operationalization of the Somali Customs Administration System (SOMCAS) in all major ports in Federal Member States to ensure timely and successful implementation of ad valorem tariff structure. Moreover, the income tax law will be modernized and revenue collection from large businesses, particularly the telecom sector, will be prioritized by raising effective tax rates to levels comparable to neighboring countries. On tax administration, regulations of the Revenue Administration law will be finalized and to harness the power of technology a new integrated tax administration system (ITAS) will be developed and operationalized. The ITAS will improve tax audits, automate collection processes, enhance the effectiveness of inland tax administration as well as facilitate the collection of third-party data.

9. **The Somali authorities will continue to prioritize building on public finance management reforms and expenditure rationalization to create fiscal space for social spending.** To limit the wage bill growth, they will integrate compensation of all employees into a single payroll, thereby reducing the ratio of non-payroll payments to less than one percentage on average compared to 10.9 percent on average in mid-2023. Furthermore, they intend to strengthen the already strong Somalia Financial Management Information System (SFMIS) by streamlining the budget execution and treasury management and improving efficiency and accuracy of budget execution by accelerating the automation of cash management and revenue management by eliminating parallel paper-based process. To enhance the efficiency of business processes, the authorities intend to ensure that SFMIS is well integrated with the SOMCAS and ITAS.

10. **Since Somalia reached the HIPC completion point, improving debt management is of paramount importance.** In this regard, a planned Cabinet decree will help to further strengthen public debt management by clarifying and disseminating procedures for initiating loan negotiations and entering into loan agreements and debt guarantees. The PFM regulation will also be amended to remove ambiguity regarding financial liabilities. To better manage fiscal risks associated with Public Private partnership while promoting priority investments, the authorities will develop the required legal and regulatory framework. To ensure efficiency

in public investments, the authorities have requested Public Investment Management Assessment which they expect to bring forth area of improvements.

Monetary and Financial Sector

11. **Somalia authorities are determined to transform the Central Bank of Somalia (CBS) into a modern monetary institution.** In the past six months, the revised Financial Institutions Law, the revised Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Law, the National Payment Bill, and Insurance bill (Takaful) have all been approved by the Cabinet and are awaiting parliamentary approvals. To support a robust payment system, which will facilitate domestic retail payments and the interconnectivity of the various payment platforms (Banks, Mobile Payments, Wallets) into a single platform, the development of a National QR Code and a National Switch are underway. The medium-term reform agenda includes integration of the national payment system with regional payment infrastructures including the East African Community, COMESA, and the Arab Monetary Fund's BUNA. Substantial progress was made in building the management structure and regulatory framework in line with the Fund's 2020 safeguards assessment recommendations and support, however, the CBS recognizes that more needs to be done as identified in the 2024 safeguards assessment. To that end, Somali authorities are committed to the systematic and timely implementation of all the 2024 safeguards assessment recommendations, particularly in improving internal control, cyber security, business continuity, as well as approving the amended CBS Act.

12. **Somali authorities are actively considering the staff's recommendation to adopt a Currency Board as their monetary and foreign exchange rate policy regime.** They see merit in this recommendation and internal consultations with all relevant stakeholders, are currently underway to build broad public support. In this regard, communication around the issue would be carefully managed to maximize public support and confidence. Once a decision is made, Somali authorities intend to swiftly put in place the required legal and regulatory framework and to build the necessary macroeconomic data and institutional and human capacity to ensure successful implementation and maintenance of the new FX regime. Nevertheless, they recognize their capacity limitations and appreciate the staff's commitment to provide technical and capacity development support. Furthermore, despite delays and challenges, Somali authorities are determined to implement limited currency reform to facilitate economic transactions for the poor by replacing old and debilitated counterfeit currency in circulation as soon as practical. However, they are very deliberate in this process and will only move forward when all the necessary safeguards, financial, and logistical requirements are in place. Regardless, any monetary and foreign exchange rate policy ultimately adopted will not alter the fact that Somalia will remain a de facto dollarized economy in the near future.

Structural Reforms

13. **Somali authorities recognize that broad based structural reforms that address governance weaknesses are necessary to achieve sustained, high, and inclusive growth.** In this regard, after having ascended UN, African Union, and Arab Anti-Corruption conventions, they are in the process of systematically implementing requirements under these conventions by aligning existing national laws to comply with their requirements. The authorities remain committed to developing a new anti-corruption strategy and increasing capacity of the Anti-Corruption Commission. To build on the substantial progress made in creating a robust regulatory framework for the extractive industry, including a modern Extractive Fiscal Regime law, Petroleum Law, strong model Production Sharing Agreement (PSA), consistent, and mutually supportive regulations for these laws are being created with support from the Fund. The Somali authorities maintain their commitment to complete the development of such necessary legal framework before issuing new production sharing agreements. Further, to ensure consistency with all existing laws and regulations including the approved model PSA, in March 2023 the Prime Minister issued a decree mandating that any newly signed PSA will not be valid until it has been reviewed and approved by the Inter-Ministerial Concessions Committee, chaired by the Minister of Finance.

14. **Somali authorities consider improving their AML/CFT framework a necessary condition for reintegrating in the international financial system**. Since the publication of the National Risk Assessment in 2022, guided by the National Anti-Money Laundering committee (NAMLC), the Somali authorities have systematically implemented important reforms to address identified deficiencies. In 2023, they enacted targeted Financial Sanctions Act and completed its regulations. In fact, the first sanction list under the law was issued in April 2024. Similarly, they enacted the Counter Terrorism Act, issued important AML/CFT guidance and directives to financial institutions, took concrete steps to build the capacity of the NAMLC member institutions and financial institutions. The amended AML/CFT act has been approved by the Cabinet and is expected to be approved by the Parliament ahead of the MENAFATF mutual evaluation scheduled in August 2024. The rollout of the Somali National Digital ID in September 2023 will enhance efforts to improve the AML/CFT framework and aid financial institution in implementing Know Your Customers framework as well as strengthen targeting of social protection programs.

Conclusion

15. **Somalia authorities are committed to implementing ambitious economic and institutional reforms to support sustained and high economic growth and reduce poverty.** In this regard, they greatly appreciate the support both financial and capacity development from partners including the IMF. They greatly value their engagements with the IMF staff and extensive and timely CD delivery, which have been instrumental in the successful implementing of many of the challenging reforms.