FOR AGENDA

EBS/83/154

CONFIDENTIAL

July 27, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Somalia - Review of Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a review of the stand-by arrangement for Somalia. A draft decision appears on pages 28 and 29.

It is proposed to bring this subject to the agenda for discussion on Wednesday, August 24, 1983.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Nsouli (ext. 74380) or Ms. Calika (ext. 72936).

Att: (1)

CONFIDENTIAL

INTERNATIONAL MONETARY FUND

SOMALIA

Review of Stand-By Arrangement

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Oumar B. Makalou and W.A. Beveridge

July 27, 1983

I. Introduction

On July 12, 1982 the Executive Board approved Somalia's request for an 18-month stand-by arrangement, in an amount equivalent to SDR 60.0 million, or 173.9 per cent of Somalia's quota of SDR 34.5 million (EBS/82/105, Supplement 1). Under this arrangement Somalia has so far made four purchases amounting to SDR 42.5 million. In accordance with the terms of the stand-by arrangement, the first semiannual review of the performance under the financial program was considered by the Executive Board on February 22, 1983 (EBS/83/15). A second semiannual review of the financial program was required under the stand-by arrangement before June 30, 1983. Accordingly, a Fund mission 1/ visited Mogadiscio during May 19-June 7, 1983 to review with the authorities the performance under the financial program during the first half of 1983 as well as to reach understandings regarding economic and financial policies and on ceilings for the quantitative performance criteria for the second half of 1983. In the annexed letter, dated June 6, 1983, the Minister of Finance and the Governor of the Central Bank of Somalia outline the progress made in implementing the financial program and the financial policies for the remainder of the program period. Quarterly quantitative performance criteria for the period July 1-December 31, 1983 are also included.

Somalia's use of Fund resources under the existing stand-by arrangement is summarized in Table 1. Summaries of Somalia's relations with the Fund and the World Bank Group are provided in Appendices II and III.

1/ The staff mission consisted of Mr. S.M. Nsouli (head-AFR), Mr. R.K. Basanti (FAD), Ms. N. Calika (AFR), Mr. R. Franco (AFR), Mr. E.J. Zervoudakis (ETR), and Ms. L. Cheng (secretary-ETR).

Table 1. Somalia: Use of Fund Credit During Stand-By Arrangement, July 1, 1982-December 31, 1983

(In millions of SDRs)

	1982		1983				
	July	Nov.	Jan.	March	May	Aug.	Nov.
Purchases							
Reserve tranche	--	4.75	--	--	--	--	--
Credit tranche							
Ordinary resources	6.83	--	3.79	--	--	--	--
Borrowed resources	8.17	--	6.21	8.75	8.75	8.75	8.75
Total	15.00	4.75	10.00	8.75	8.75	8.75	8.75
Scheduled repurchases	4.75	--	--	--	--	--	--
Net purchases	10.25	4.75	10.00	8.75	8.75	8.75	8.75
Total Fund holdings (cumulative)	91.29	96.04	106.04	114.79	123.54	132.29	141.04
Total holdings as per cent of quota	264.61	278.38	307.36	332.72	358.09	383.45	408.81

Sources: Treasurer's Department; and staff estimates.

II. Background

During the second half of the 1970s a series of events, including a severe drought in 1974-75, the outbreak of regional hostilities in 1977-78, the ensuing inflow of refugees, and the severance in 1978 of relations with the Soviet Union, which up to then had been the major source of financial and technical assistance, adversely affected the growth of the Somali economy and contributed to an exacerbation of domestic and external financial imbalances. Faced with virtual stagnation in economic activity and mounting financial imbalances, the Somali authorities launched in mid-1981, and continued in 1982, a major adjustment effort supported by two consecutive stand-by arrangements with the Fund: (1) a one-year stand-by arrangement approved on July 15, 1981 (EBS/81/146), in an amount equivalent to SDR 43.13 million (125 per cent of quota), and (2) an 18-month stand-by arrangement that came into effect on July 15, 1982, in an amount equivalent to SDR 60.0 million (173.9 per cent of quota). Performance under these arrangements during calendar years 1981 and 1982 has already been described in detail in EBS/83/15 and is, therefore, only briefly reviewed in this section.

1. The 1981 Financial Program

The stabilization program adopted by the Somali authorities in mid-1981 aimed at stimulating domestic production, slowing down the rate of inflation, and attaining a sustainable external sector position over the medium term. The program included substantial measures on both the supply and demand sides. On the supply side, the key measures included the devaluation of the Somali shilling by 50 per cent in foreign currency terms for most foreign exchange transactions with the exception of imports of specified essential goods 1/, the discontinuation of issuance of licenses for own-foreign-exchange (franco valuta) imports, liberalization of private sector imports through official channels, increases in the producer prices of most agricultural products, closure of three public enterprises, the reassessment of the position of other public enterprises, and the strengthening of the development planning process. On the demand side, fiscal and monetary policies were significantly tightened, with the interest rate structure raised. The Somali authorities introduced a number of tax measures, improved tax collection

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1/ Imports of specified essential goods (basic foodstuffs, medicines, chemicals, manufacturing raw materials, spare parts, and agricultural inputs) and, until February 27, 1982, certain items for foreign embassies and foreign companies and transactions through nonresident accounts were transacted at the original rate of So. Sh. 6.295 = US$1, compared to the rate of So. Sh. 12.59 = US$1 established after the devaluation. Somalia's import-weighted effective exchange rate is shown in Chart 1.

procedures, and contained the growth in expenditures by strengthening expenditure control, instituting austerity measures, granting only a minor cost-of-living adjustment, and severely limiting government recruitment. Consequently, the overall government deficit narrowed to 30 per cent of expenditure from 39 per cent in 1980 (Appendix Table I). 1/ The improved budgetary position and the increased external financing of the budget allowed for a reduction in the growth of net credit to the Government to 18 per cent in 1981 compared with 55 per cent in 1980 (Appendix Table II). Consequently, even though credit to the nongovernment sector was allowed to expand at a faster rate than in the previous year, overall domestic credit expansion was reduced to 17 per cent in 1981, almost half the rate of its expansion in 1980. Domestic liquidity, however, grew by about 31 per cent, due partly to the reduced contractionary impact of net foreign assets and the expansionary impact of other items (net), resulting in part from the effect of the devaluation. All the quatitative performance criteria under the program were observed, and Somalia purchased the entire amount available under the stand-by arrangement.

As a result of the measures taken and favorable weather conditions, the performance of the Somali economy improved markedly during 1981. Led by the growth in the agricultural and livestock sectors, economic activity accelerated. Although there are no official national income accounts, preliminary estimates indicate that the rate of growth rose from about two per cent in 1980 to five per cent in 1981. 2/ Concomitantly, the rate of inflation fell to 44 per cent from 59 per cent in 1980 (Chart 2 and Table 2), and the external sector position improved significantly. The overall balance of payments deficit of US$13 million was nearly half that recorded in 1980 and almost one tenth of that projected. This reflected primarily the impact of the record agricultural harvest and the sharp curtailment of government capital outlays on imports, which led to the elimination of the current account deficit. The Central Bank's official reserves increased to more than two months of cash imports at the end of 1981, and Somalia's external debt arrears were reduced to about one third of their end-1980 level through rescheduling and cash payments.

2. The 1982 Financial Program

In order to consolidate and build upon the progress made in 1981, the Somali authorities continued with their adjustment efforts during

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1/ The operative paper excluded expenditures financed by loans in kind. The deficit thus defined was reduced from 30 per cent of expenditure in 1980 to 12 per cent of expenditure in 1981.

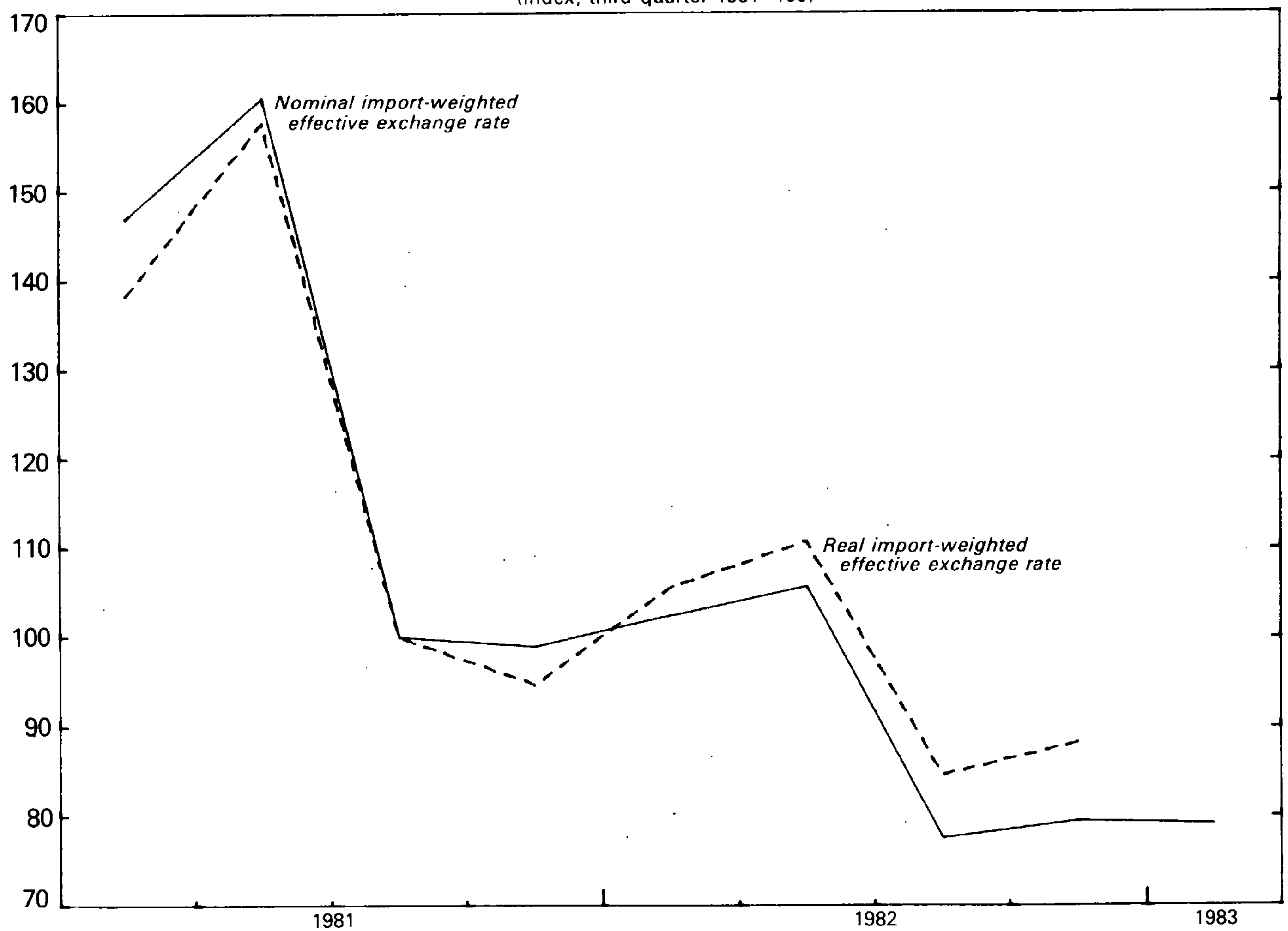
2/ For details, see SM/83/27.

CHART 1

SOMALIA

MOVEMENTS IN EFFECTIVE EXCHANGE RATES, 1981-MARCH 1983

(Index, third quarter 1981 = 100)



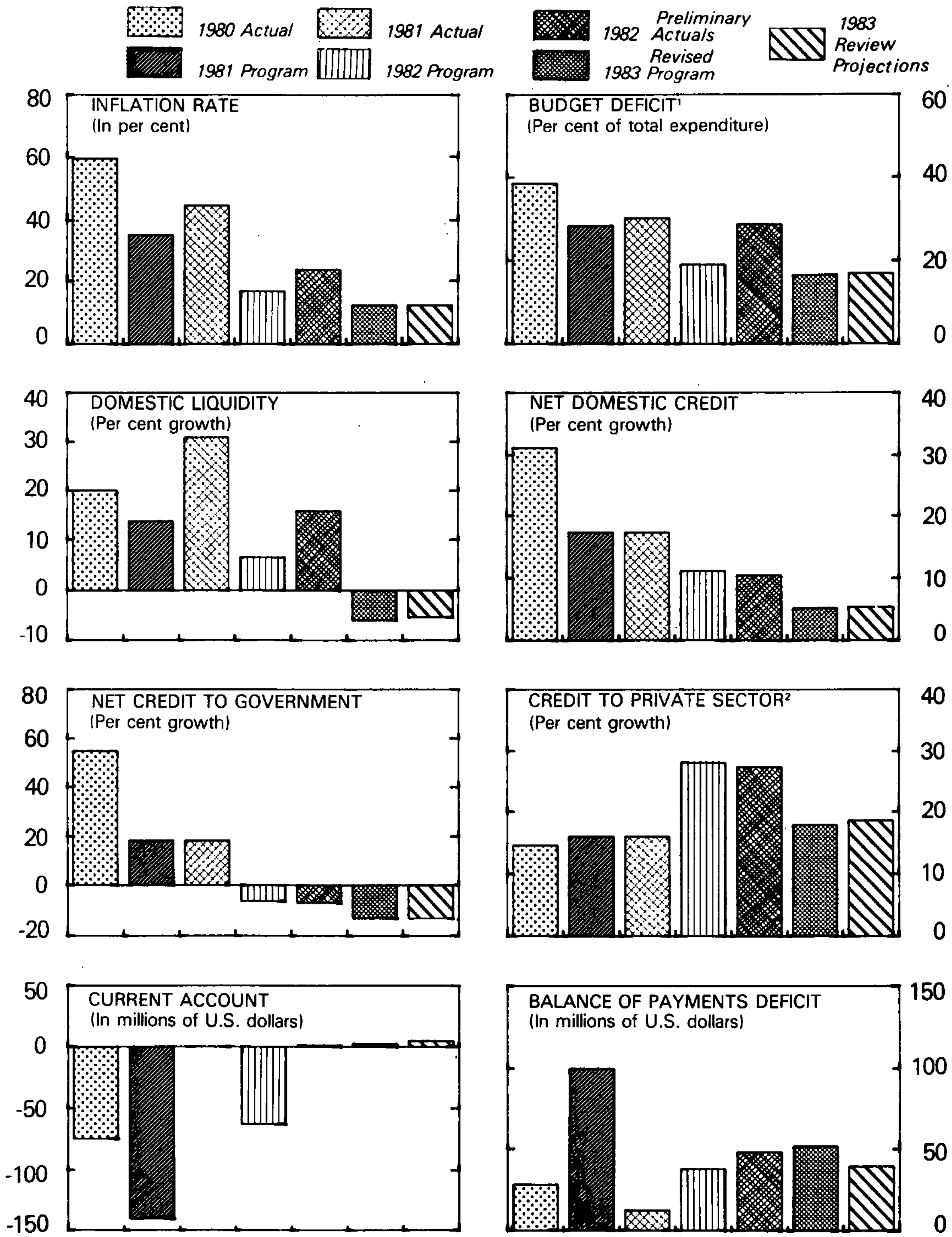
Source. Staff calculations.

[1] Import-weighted. Increase indicates appreciation, decrease indicates depreciation.

CHART 2

SOMALIA

FINANCIAL INDICATORS, 1980-83



Sources: Data provided by the Somali authorities; and staff estimates.
[1] Including loans in kind.
[2] Including public enterprises.

Table 2. Somalia: Selected Economic and Financial Indicators, 1980-83

	1980	1981		1982			1983		
	Actual	Program	Actual	Program	Review est.	Prelim. actuals	Program	Revised program	Review proj.
	(Growth rate in per cent unless otherwise specified)								
Consumer price index	59.4	35.0	44.3	17.0	24.1	23.7	12.0	12.0	12.0
Trends in central government finance									
Total revenue and grants	4.8	61.6	25.2	60.6	55.9	42.7	16.8	19.4	29.2
Total expenditure	-5.3	33.2	10.1	44.9	47.3	40.0	13.7	5.6	10.2
Overall deficit/Total expenditure	38.7	28.4	30.2	19.0	26.1	28.9	16.8	16.5	16.7
Deficit/Total expenditures excluding those financed by loans in kind	29.9	19.3	11.5	4.8	-4.5	-4.4	3.0	-17.5	-14.0
Trends in monetary aggregates									
Money and quasi-money	20.2	14.0	30.8	6.7	10.6	15.9	1.5	-5.9	-5.4
Net domestic credit	31.2	17.3	17.2	11.2	11.2	10.5	7.2	5.0	5.4
Government (net)	54.5	18.6	18.3	-6.0	-6.0	-6.7	-10.6	-13.0	-13.1
Private	14.6	16.0	16.1	28.0	28.0	27.3	20.0	18.0	18.6
Net domestic assets	29.7	49.0	32.7	19.7	23.4	33.0	9.0	9.5	5.8
Interest rates									
Commercial bank lending rate (public enterprises)	7.5	10.0	10.0	12.0	12.0	12.0	12.0	12.0	12.0
Commercial bank lending rate (private enterprises)	9.5	10.0	10.0	12.0	12.0	12.0	12.0	12.0	12.0
Commercial bank maximum deposit rate	7.0	9.0	9.0	11.0	11.0	11.0	11.0	11.0	11.0
Development bank maximum lending rate	7.5	14.0	14.0	14.0	14.0	14.0	14.0	14.0	14.0
Trends in external sector									
Exports, f.o.b.	25.8	29.2	-14.3	42.3	38.0	14.9	16.3	9.6	10.7
Imports, c.i.f.	2.4	21.1	-38.1	11.5	-3.8	-3.4	6.9	18.9	16.2
Non-oil imports, c.i.f.	-4.7	21.8	-43.3	26.2	-12.1	-19.3	7.6	37.5	39.3
Oil imports, c.i.f.	44.4	20.0	-17.0	-44.0	24.1	40.7	--	-25.0	-21.1
Nominal effective exchange rate (depreciation -)	-0.3	...	-5.0	...	...	-28.0	...	...	...
Real effective exchange rate (depreciation -)	36.7	...	21.0	...	...	-20.7	...	...	...
	(In millions of U.S. dollars unless otherwise specified)								
Current account balance	-75.0	-140.0	--	-63.0	10.0	2.0	-51.0	3.0	5.0
Current account, excluding grants	-149.0	-190.0	-8.0	-78.0	10.0	2.0	-66.0	-12.0	-10.0
Overall balance of payments	-28.0	-100.0	-13.0	-38.0	-37.0	-49.0	-26.0	-52.0	-40.0
Gross official reserves	25.0	...	42.0	56.0	43.0	14.3	81.0	47.0	30.3
(in weeks of imports)	(3.9)	...	(10.7)	(10.0)	(10.0)	(3.8)	(13.6)	(9.1)	(6.8)
External debt, including IMF	720.0	...	902.0	973.0	1,040.0	1,050.0	1,052.0	1,171.0	1,180.0
Debt service ratio	4.4	...	14.0	21.0	8.9	11.8	26.0	31.4	17.9
External payments arrears	44.6	37.0	15.5	--	--	--	--	--	--

Source: Appendix I.

1982 (Table 3). The main elements of the financial program implemented included, effective July 1, 1982, a further devaluation of the Somali shilling (17 per cent on the export side and 34 per cent on the import side in foreign currency terms), the unification of the dual exchange rate system that had been in effect since June 30, 1981, and the pegging of the Somali shilling to the SDR. In addition, the program involved an easing of controls on private sector imports, a liberalization of marketing and pricing policies, and a review of the position of public enterprises. These supply-oriented policies were to be reinforced with tight fiscal and monetary policies, including a further increase in interest rates. These policies were expected to contribute to maintaining the growth momentum of the economy, reducing the rate of inflation to 17 per cent, and containing the current account deficit of the balance of payments to US$63 million and the overall balance of payments deficit to US$38 million in 1982.

During 1982 the Somali authorities effectively pursued the policies in the financial program and met all the quantitative performance criteria through end-December 1982 (Table 4). 1/ Despite the budgetary pressures of the recurrence of the border conflict with Ethiopia during the second half of 1982, the Somali authorities succeeded to a large extent in keeping budgetary operations under strict control. Total expenditures were kept below original projections due in part to a virtual freeze in wages, a containment of new government employment, and a further strengthening of expenditure controls. While total receipts grew at a faster rate than expenditures, partly due to the oil grant of So. Sh. 600 million from Saudi Arabia, they remained lower than initially projected due primarily to lower-than-projected receipts from import duties, reflecting the decline in imports, and to a shortfall in receipts from public enterprises, reflecting an accumulation of arrears. The budgetary deficit was kept to about 29 per cent of total expenditure, about the same ratio as in 1981. 2/ With the more than doubling of the foreign financing of the deficit in domestic currency terms, the Government was able to reduce its net indebtedness to the banking system by 7 per cent, compared with a programed reduction of 6 per cent. Domestic credit expansion was, therefore, reduced to 11 per cent in 1982, even though credit to the nongovernment sector was allowed to grow at almost double the 1981 rate. Credit to the private sector (excluding public enterprises) almost tripled

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1/ A waiver of the performance criterion pertaining to the intensification of exchange restrictions due to the incurrence of external payments arrears was granted on December 27, 1982 (EBS/82/236).

2/ However, there was a shift of expenditures in favor of investment financed by loans in kind. Accordingly, excluding expenditures financed by loans in kind, the budget recorded a surplus of 4 per cent of total expenditure in contrast to a target deficit of 5 per cent in 1982.

Table 3. Somalia: Implementation Status of the 1982 and 1983 Financial Programs

Program	Current Status of Implementation
1. Fiscal measures	
a. Reduce budgetary deficit, including expenditures financed by loans in kind, to 19 per cent of expenditure in 1982 and 17 per cent of expenditure in 1983. Excluding expenditures financed by loans in kind, reduce the deficit to 5 per cent in 1982 and record a surplus of 14 per cent in 1983.	Budgetary deficit, including expenditures financed by loans in kind, reduced to 29 per cent of expenditure in 1982. Excluding expenditures financed by loans in kind, a budgetary surplus of 4 per cent of expenditure was recorded in 1982.
b. Reduce net domestic credit to the Government by 6 per cent in 1982 and 13 per cent in 1983.	Net credit to the Government reduced by 7 per cent in 1982.
c. Improve collection rates by enactment of more stringent penalties for tax evasion and failure to file a return. Abolish the exemptions on import duties some public and private enterprises enjoy. Convert specific to ad valorem import and export duties. Levy import ad valorem taxes on the basis of letters of credit. Levy the ad valorem import duties on nonessential dutiable items on the basis of a price 20 per cent higher than that declared in the letter of credit.	All enacted. Exemptions of import duties were limited to infant industries.
d. Implement long-term improvements in the tax system recommended in the 1980 IMF Tax Survey, i.e., simplification of import tax structure, rationalization of income tax structure for individuals, conversion of specific domestic excise taxes into ad valorem taxes, restructuring the tax system for public enterprises, and development of a domestic sales tax.	Specific excises converted to ad valorem basis January 1, 1983. General sales tax introduced July 1, 1983. Revision of tax system of public enterprises to be implemented second half of 1983. Technical assistance requested from the Fund for improving income tax assessment and collection procedures.
e. Grant no cost of living increase in the public sector in 1982 and grant an increase of only 10 per cent in 1983.	In 1982 no cost of living increase granted but the development levy on the wages of government employees abolished. In 1983 no cost of living increase to be granted.
f. Limit the wage bill by limiting government hiring.	Implemented.
g. Take steps to eliminate the practice of providing automatic employment for all high school graduates.	Progress made by actively persuading high school graduates to seek employment elsewhere.
h. Station Ministry of Finance representatives at each ministry to review all expenditures before their authorization and to limit all deferrable expenditures strictly.	Implemented.
2. Monetary measures	
a. Increase interest rates of the Central Bank and the commercial bank by two percentage points in mid-1982.	Implemented.
b. Increase and rationalize the interest rate structure on external accounts denominated in U.S. dollars on January 1, 1983.	Implemented.
c. Allow branches of foreign banks to operate in Somalia beginning on July 1, 1983.	Implemented.
d. Strengthen and streamline the operations of the Commercial and Savings Bank of Somalia.	To be implemented during the second half of 1983.
e. Reduce the rate of growth of domestic credit to 11 per cent in 1982 and 5 per cent in 1983, while providing more adequately for the credit needs of the private sector.	Net domestic credit expanded by 11 per cent in 1982, with outstanding credit to the private sector almost tripled.

Table 3 (continued). Somalia: Implementation Status of the 1982 and 1983 Financial Programs

Program	Current Status of Implementation
3. Pricing measures	
a. Increase producer prices for bananas 10-27 per cent in July 1982. Review producer prices guaranteed by the Agricultural Development Corporation at the beginning of each growing season.	Implemented.
b. Allow agricultural producers to sell their produce at market-determined prices and maintain producer prices as minimum guaranteed prices.	Implemented. The Agricultural Development Corporation is operating as a price stabilization board.
c. Move petroleum product prices to reflect exchange rate changes and changes in international petroleum prices.	Implemented. The prices of diesel fuel and kerosene were raised by 125 per cent and 114 per cent, respectively, in January 1982.
d. Increase electricity tariffs to reflect the cost of electricity generation.	Implemented.
4. Public enterprises	
a. Set up a Public Investment Evaluation Unit to study the position of public enterprises and the role of the public sector in general.	The Public Investment Evaluation Unit set up.
b. Set up an Inter-Ministerial Commission to evaluate the position of public enterprises.	Implemented. The report of the commission expected at the end of July 1983.
c. Allow industrial public enterprises to set prices to include cost plus a profit margin.	Implemented.
d. Establish Board of Directors for each industrial public enterprise with autonomy in decision making.	Implemented.
e. Establish the National Banana Board as a joint venture with a private firm.	Implemented.
5. Development planning	
a. Prepare a Five-Year Development Plan (1982-86).	Implemented.
b. Prepare, with the assistance of the World Bank and the Fund, medium-term recovery program for the rehabilitation and consolidation of the economy. Include in the program a three year public investment program (1984-86) to manage and monitor the development effort.	Preparations under way to have the draft of the recovery program ready by August 1983.
c. Organize with the assistance of the World Bank a Consultative Group Meeting of donor countries for Somalia.	Agreement reached with the World Bank to hold the Consultative Group Meeting in the fall of 1983 (most probably in October).

Table 3 (concluded). Somalia: Implementation Status of the 1982 and 1983 Financial Programs

Program	Current Status of Implementation
6. External sector measures	
a. On July 1, 1982 unify the dual exchange rate system and devalue the Somali shilling 17 per cent on the export side and 34 per cent on the import side in foreign currency terms.	Implemented.
b. Change the peg of the Somali shilling from the U.S. dollar to the SDR on July 1, 1982. Peg the Somali shilling to the real SDR on July 1, 1983.	Implemented.
c. Define the use of external accounts denominated in U.S. dollars by livestock exporters for import payments in February 1982. Widen the scope of external accounts denominated in U.S. dollars with respect to amounts deposited and participants in early 1983.	Implemented.
d. Liberalize import licensing system and administer restrictions on foreign exchange more flexibly.	System introduced. The government monopoly on imports has been discontinued.
e. Institute a bonus scheme, providing a 33 per cent premium above the official exchange rate, for workers' remittances and capital inflows effected by Somali nationals on January 1, 1983. Grant priority in import licenses to those remitting foreign exchange under the bonus scheme.	Implemented.
f. Undertake a study of the marketing process of livestock exports in order to eliminate underinvoicing and improve the marketing process.	Implemented.
g. Increase the minimum export prices of livestock by about 5-10 per cent in order to reduce underinvoicing.	To be implemented November 1, 1983.
h. Set up a debt unit within the Ministry of Finance to improve debt monitoring procedures.	Implemented.
i. Eliminate external debt arrears through renegotiations or payments by June 30, 1982.	Implemented. During the second half of 1982, some external debt arrears were incurred. These were eliminated by the end of the year.
j. Limit new commitments on public and publicly guaranteed nonconcessional external debt with a maturity of 1-12 years to US$25 million.	Through March 1983 no such debt incurred.

Sources: EBS/83/15 and Appendix IV.

Table 4. Somalia: Quantitative Performance Criteria, June 1982-December 1983

(End of period)

	1982			1983			
	June	Sept.	Dec.	March	June	Sept.	Dec.
				(In millions of Somali shillings)			
Net domestic credit 1/							
Ceiling		5,086.0	5,054.0	5,118.0	5,168.0	5,223.0	5,293.0
Actual	5,088.0	5,070.4	5,023.8	5,107.7	...	...	...
Net credit to Government 2/							
Ceiling		2,285.0	2,115.0	2,065.0	1,990.0	1,910.0	1,825.0
Actual	2,390.9	2,270.3	2,100.0	2,058.2	...	...	...
				(In millions of U.S. dollars)			
External debt 3/							
Ceiling		25.0	25.0	25.0	25.0	25.0	25.0
Actual	--	--	--	--	...	...	...

Sources: EBS/83/15; and data provided by the Somali authorities.

1/ Credit to Government, public enterprises, and private sector less government deposits with the banking system.
2/ The banking system's claims on the Government, less government deposits, plus any budgetary use of local currency counterpart in respect of purchases from the Fund.
3/ New commitments on public and publicly guaranteed external debt with a maturity of between 1 and 12 years, excluding any refinancing loans obtained through negotiations.

in 1982, with the privatization of a large segment of import activities, while credit to public enterprises declined by 24 per cent. The expansion in domestic liquidity was reduced to 16 per cent, almost half the 1981 rate. 1/

Reflecting the policies implemented and continued favorable weather conditions, economic growth reached an estimated 10 per cent. Agricultural production, in particular, benefited from the effects of the devaluation and the discontinuation of the monopsony that the Agricultural Development Corporation used to have in the purchase of agricultural products; agricultural producers were able to sell their production at market-determined prices. The rate of inflation was nearly halved, falling to 24 per cent, but was higher than the projected rate of 17 per cent, primarily due to higher rent and energy costs in the Mogadiscio area. The current account of the balance of payments recorded a small surplus in 1982 as compared with the projected deficit (Appendix Table III). 2/ This outcome was mainly due to the lower-than-expected level of imports, which reflected the favorable domestic agricultural output, a higher-than-projected aid-in-kind, and an overstocking of goods brought in before the termination of the franco valuta import system. The capital account, however, recorded a deficit of US$38 million instead of the projected surplus of US$25 million. A shortfall in cash loan disbursements and an unexpected private capital outflow were mainly responsible for this outcome. The private capital outflow, financed by private remittances outside the banking system, was generated mainly by uncertainties associated with the border conflict. Because of the unexpected favorable current account position, however, the overall balance of payments deficit in 1982 was limited to US$49 million, close to the US$38 million program projection. At the end of 1982 Somalia's

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1/ During the first three quarters of 1982, movements in other monetary items (net) exerted an expansionary impact on domestic liquidity. The movements in other items (net) reflected an increase in the intra-bank float, resulting from communication and management problems between the head office of the commercial bank and its branches, the recording of letters of credit of livestock exports under other items (net) rather than under foreign assets, and the effect of the devaluation on the magnitude of a number of items. There were no new entries that could be determined to constitute credit proper under other items (net). The effect of other items (net) was contractionary during the last quarter of 1982 and the first quarter of 1983, primarily as some letters of credit were reclassified.

2/ To allow comparison with program targets, the discussion is based on the balance of payments presentation on a cash basis. This excludes grants and loans in kind. A balance of payments including grants and loans in kind is presented in Appendix Table IV.

gross official reserves were equivalent to about four weeks of cash imports. During 1982 Somalia did not contract any new nonconcessional public or publicly guaranteed debt and at the end of 1982 had no external payments arrears outstanding. Due to rescheduling of debt service payments, Somalia's debt service payments in 1982 amounted to 11.8 per cent of goods and services, compared with 14.0 per cent in 1981 (Appendix Table V).

III. The Financial Program for 1983

1. Recent developments and policies

At the beginning of 1983, in continuing pursuit of the objectives of their stabilization program to promote economic growth, reduce inflationary pressures, and strengthen the external sector position, the Somali authorities implemented additional major measures and set out to tighten their financial policies further (Table 5). The new measures introduced included those aiming at containing the private sector capital outflow that arose in the second half of 1982 and encouraging the inflow of remittances and capital flows through the banking system. In particular, on January 1, 1983 a bonus scheme was instituted, providing a So. Sh. 5 per U.S. dollar premium (25 per cent in foreign currency terms) above the official exchange rate, for workers' remittances and capital inflows effected by Somali nationals. 1/ Simultaneously, priority in the granting of import licenses was accorded to participants in the bonus scheme, and the interest rate structure on external accounts denominated in U.S. dollars was rationalized and set at an internationally competitive level. Furthermore, the scope of external accounts denominated in U.S. dollars that could be used for import payments was widened. Early in 1983 all licensed import/export traders were allowed to open such accounts, without any restrictions on amounts deposited. 2/ These measures were

1/ The multiple currency practice arising from the bonus scheme was approved by the Executive Board through December 31, 1983 (EBS/83/15, Supplement 1, February 22, 1983).

2/ External accounts denominated in U.S. dollars for import payments had been introduced early in 1982. Due to restrictions on their operation--they could be opened only by livestock traders and credited with estimated amounts of underinvoicing--they had failed to attract significant amounts of deposits. Under the present system, such accounts can be credited without any limitation with foreign exchange transfers from abroad and can be freely used for import payments, provided an import license has been obtained. It is presumed that the amounts transferred to such deposits are financed by nonsurrendered livestock export proceeds and workers' remittances.

Table 5. Somalia: Summary of the 1983 Financial Program

1. Principal objectives

   a. Promote domestic production.
   b. Reduce the rate of inflation. Target: 12 per cent in 1983.
   c. Attain a current account surplus of US$5 million and limit the balance of payments deficit to US$40 million in 1983.

2. Principal measures

a. Pricing policy: continue to pursue liberal marketing and pricing policies.

b. Wage policy: grant no cost-of-living increases to government employees in 1983.

c. Development policy: (i) concentrate on quick-yielding investment projects and completion of existing projects in agriculture, livestock, and infrastructure; (ii) contain the level of investment in line with the available foreign financing; (iii) elaborate the yearly investment plans within the context of the annual government budget exercise, taking into account the adjustment objectives; (iv) prepare, in consultation with the World Bank and the Fund, a medium-term recovery program which would include a three-year public investment program (1984-86); (v) organize, with the assistance of the World Bank, a Consultative Group Meeting of donor countries for Somalia for the fall of 1983.

d. Public enterprises: (i) set up an Inter-Ministerial Commission to evaluate the position of public enterprises; (ii) allow public enterprises to set prices to include cost plus a profit margin; (iii) establish the National Banana Board as a joint venture with a private firm.

e. Fiscal policy: (i) reduce the budgetary deficit to 17 per cent of expenditure in 1983; (ii) reduce net domestic credit to Government by 13 per cent in 1983; (iii) levy the ad valorem import duties on nonessential dutiable items on the basis of a price 20 per cent higher than that declared in the letter of credit (January 1, 1983); (iv) limit new recruitment to government services and encourage high school graduates to seek employment in other areas; (v) effect structural changes in the tax system in accordance with the recommendations of the 1980 IMF Tax Survey, i.e., introduce a general sales tax on all domestic transactions, except certain basic or essential products, convert specific excises to an ad valorem basis, restructure the tax system of public enterprises, improve tax assessments, and strengthen collections.

f. Monetary policy: (i) reduce the rate of growth of domestic credit to 5 per cent in 1983, while continuing to redirect credit to meet the needs of the private sector; (ii) allocate credit to the productive sectors of the economy; (iii) increase and rationalize the interest rate structure on external accounts denominated in U.S. dollars (January 1, 1983); (iv) allow branches of foreign banks to operate in Somalia (July 1, 1983); (v) strengthen and streamline the operations of the Commercial and Savings Bank of Somalia by the end of 1983.

g. External sector policy: (i) institute a bonus scheme, providing a 33 per cent premium above the official exchange rate, for workers' remittances and capital inflows effected by Somali nationals (January 1, 1983); (ii) grant priority in import licenses to those remitting foreign exchange under the bonus scheme (January 1, 1983); (iii) increase the scope of external accounts denominated in U.S. dollars with respect to both the amounts deposited and participants; (iv) peg the Somali shilling to the real SDR (July 1, 1983); (v) limit new commitments on public and publicly guaranteed nonconcessional external debt with a maturity of 1-12 years to US$25 million during 1983; (vi) undertake a study of the marketing process of livestock exports in order to eliminate underinvoicing and improve the marketing process; (vii) increase the minimum export prices of livestock by about 5-10 per cent in order to reduce underinvoicing (November 1, 1983); (viii) set up a debt unit within the Ministry of Finance to improve debt monitoring procedures; (ix) negotiate the terms of outstanding debt with a view to obtaining debt relief.

reinforced with tight financial policies. In addition, on January 1, 1983, all specific excises were converted to an ad valorem basis, and, to finance the bonus scheme, the effective import duty rate on nonessential dutiable items was raised by levying the tax on a price 20 per cent higher than that declared in the letter of credit. The Somali authorities also set up an Inter-Ministerial Commission to evaluate and recommend the closure of inefficient public enterprises, continued with their liberal pricing and marketing policies, liberalized the import licensing system, eliminated the government monopoly on imports, and made preparations, with the assistance of the World Bank, to have a Consultative Group Meeting of donor countries for Somalia in 1983. The policies pursued and measures implemented were expected to maintain economic activity in 1983 at a high level, reduce the rate of inflation to 12 per cent, achieve a current account surplus of US$3 million, and contain the overall balance of payments deficit to US$52 million.

During the first half of 1983 the authorities effectively pursued the policies in the financial program and met all the quantitative performance criteria through end-March 1983. Based on preliminary data for the first quarter of 1983, the program appears to be generally on track. The policies pursued, combined with relatively good weather conditions, are reported to have continued to allow economic activity to expand. The consumer price index in the first quarter of 1983 rose by only 4.7 per cent over the last quarter of 1982, compared with an 11.0 per cent increase in the first quarter of the previous year. The balance of payments, which, usually due to seasonal factors, records a large deficit in the first half of the year, is estimated to have registered a US$3 million surplus during the first quarter of 1983. Inflows of workers' remittances through the banking system, however, appear not to have responded favorably to the bonus scheme. This development reflected mainly the widened scope of external accounts for import purposes, the administrative limitations of the commercial bank, the communication difficulties within the country, and the continuing uncertainty due to the border conflict. Inflows into external accounts to finance imports were estimated to have amounted to US$8 million during the first quarter of 1983. At the end of March 1983 Somalia had no external payments arrears outstanding, and during the first quarter of 1983 Somalia did not contract any new nonconcessional external debt with a maturity of between 1 and 12 years.

Fiscal and monetary developments during the first quarter of 1983 were generally in line with program targets. During the first quarter of 1983 the Government's net indebtedness to the banking system was reduced by 2 per cent, as programed. Credit to the nongovernment sector (public enterprises and the private sector) grew by 4 per cent, so that the expansion in net domestic credit was about 2 per cent, compared with about 7 per cent during the first quarter of 1982. Moreover, reflecting the Government's policy of encouraging private sector economic activity, particularly the privatization of marketing networks, at the end of March 1983 the private sector accounted for 54 per cent of nongovernment credit outstanding compared with only 24 per cent at the end of March 1982. Given the balance of payments surplus during the first quarter of 1983 and the observance of credit ceilings, domestic liquidity expanded by 1 per cent during the first quarter of 1983. Reflecting to some extent the higher interest rate structure adopted in mid-1982 and the slowdown in the rate of inflation, the shift in domestic liquidity into quasi-money continued during the first quarter of 1983.

During the remainder of 1983 the Somali authorities plan to introduce additional policy measures, not only to attain the program targets but also to lay the foundation for an acceleration in the adjustment process. For the rest of 1983 the policies will continue to emphasize the promotion of economic growth and the reduction of the rate of inflation to 12 per cent, as originally programed. In the external sector, the program will aim at achieving a current account surplus of about US$5 million, close to the revised program target 1/, and an overall balance of payments deficit of about US$40 million, compared with a revised program target of US$52 million. The envisaged improvement in the overall balance of payments target is due primarily to more up-to-date information on loan disbursements and to rescheduling of debt service payments.

With regard to financial management, the budgetary deficit in 1983 is expected to be contained to 17 per cent of expenditure and domestic liquidity to be reduced by 5 per cent, as programed. Furthermore, a number of structural measures are being introduced. To avoid a gradual overvaluation of the Somali shilling, the Somali authorities have adopted, effective July 1, 1983, a managed float, under which the Somali shilling is pegged to the real SDR basket (EBD/83/184). The authorities will also begin, during the year, increasing the minimum export prices of livestock exports in order to reduce underinvoicing. Moreover, to improve the efficiency of the banking system, the Somali authorities have decided to authorize, effective July 1, 1983, interested foreign banks to set up branches, either independently or as a joint venture with the Somali Government, and are planning to introduce, during 1983, reforms aimed at improving the efficiency of the operations of the Commercial and Savings Bank of Somalia. Liberalized pricing and marketing policies will remain in effect. In addition, the report of the Inter-Ministerial Commission on public enterprises is expected to be issued by end-July 1983. On the basis of the recommendations of the commission, it is expected that

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1/ The "revised program target" refers to the target established during the first semiannual review (EBS/83/15).

those enterprises deemed to be not viable will be closed down and that measures will be taken to improve the efficiency and profitability of those deemed to be viable. Furthermore, the Somali authorities have started to prepare, in consultation with the World Bank and the Fund, a medium-term recovery program for the rehabilitation and consolidation of the economy. The program, which will include a three-year public investment program (1984-86), will be presented at the Consultative Group Meeting of donor countries for Somalia scheduled for the fall of 1983.

2. External sector policies

In view of the importance of an appropriate exchange rate policy for their adjustment efforts, the Somali authorities have adopted a more flexible exchange rate policy by implementing a new exchange arrangement effective July 1, 1983, designed to avoid the gradual overvaluation of the Somali shilling and the need for large exchange rate changes. Under the new arrangement, the Somali shilling will be pegged to the SDR adjusted for relative price developments in Somalia vis-à-vis the five countries included in the SDR basket 1/. The posted exchange rate will be maintained within margins of 7.5 per cent around the fixed real SDR relationship. Consumer price indices will be employed as indicators of price and cost developments in Somalia and the five countries included in the SDR basket. Due to the time lag with which price data, particularly for Somalia, are expected to become available, the calculations of the central So. Sh./SDR rate will be based on price data with a three-month lag. The central So. Sh./SDR rate for the base month of July 1983 will be So. Sh. 16.5 = SDR 1. In addition to the 7.5 per cent margins, there will be indicative bands of 2.25 per cent. Whenever these bands are exceeded, the appropriateness of the posted exchange rates will be evaluated by the Central Bank, taking into account recent and prospective developments in the balance of payments and the level of reserves, as well as other relevant indicators, with a view to determining whether to change the posted rates. The real SDR was selected as the peg because of its close approximation to the trade-weighted index of the real effective exchange rate and of the administrative ease of its application. Simulations for the period July 1981 to September 1982 showed that the peg to the real SDR stabilized the trade-weighted real effective exchange rate with a standard deviation of less than 1 per cent. While, in principle, the Somali authorities intend to maintain the posted rate within the 2.25 per cent bands, the 7.5 per cent margins provide the authorities with the flexibility of taking into account other factors as well as

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1/ According to the previous exchange rate system, in effect since July 1, 1982, the Somali shilling had been pegged to the SDR at the rate of So. Sh. 16.5 = SDR 1 with exchange margins of 2.25 per cent.

avoiding frequent changes in the exchange rate resulting from seasonal or transient factors.

In accordance with understandings reached with the Fund in the context of the previous semiannual review of the current stand-by arrangement, the Government of Somalia has studied the issue of underinvoicing of livestock exports and concluded that an increase in the minimum export prices for livestock of about 5-10 percent could be introduced without impairing the livestock marketing process. 1/ In order to avoid a disruption in livestock exports during the peak of the 1983 export season, the Government intends to introduce the aforementioned adjustment in minimum export prices on November 1, 1983, immediately following the peak of the season. As a result of this adjustment, surrendered livestock export receipts are expected to rise by US$6-12 million on a yearly basis. A study on the livestock sector is currently under way with assistance from the USAID, and, in light of the recommendations of the study, the Government will consider further action in this area.

Reflecting the measures taken by the authorities in pursuit of their adjustment effort, the current account in 1983 is expected to register a small surplus (Appendix Table III) 2/. Exports are projected to rise by about 11 per cent in U.S. dollar terms, following an increase by 15 per cent in 1982. After a significant recovery in 1982, livestock export receipts are expected to rise further by about 3 per cent in 1983, due mainly to a volume increase; the export unit value, which largely reflects the government-set minimum export prices, is expected to remain virtually unchanged, since the scheduled increase in minimum export prices will take place toward the end of the year. 3/ The banana sector, aided by

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1/ The problem of underinvoicing arises because livestock exporters use in their letters of credit the government-set minimum export prices, which have not been adjusted in U.S. dollar terms since 1979, instead of the actual selling prices. In the view of the authorities, a certain amount of underinvoicing has to be tolerated due to the prevailing trading practices in the region. In particular, the difference between the selling price and that listed in the letter of credit (usually the government-set minimum export price) provides the foreign importers with a guarantee against shipping losses and variations in quality in terms of weight and health of the exported animals. The existence of this guarantee is considered essential by both the Saudi importers and the Somali exporters, particularly in view of the lack of shipping insurance facilities for livestock.

2/ Principal balance or payments assumptions are presented in Appendix Table VI.

3/ The reduction in the projected level of livestock export receipts is mainly due to a downward revision of export data for earlier years, which had formed the basis for these projections, and to the continuation of underinvoicing.

the recent devaluations and the attendant increases in producer prices, has continued its rapid recovery. The volume of banana exports is expected to rise by 50 per cent to 75,000 metric tons in 1983, primarily due to an expansion in the area under cultivation. Imports are expected to rise by 16 per cent, mainly due to a significant increase in non-oil imports, reflecting a return to more normal weather conditions and a continued expansion in economic activity; commercial oil imports, on the other hand, are projected to be substantially lower than in 1982 because of an overstocking of oil due to substantial commercial oil imports in 1982 and the Saudi oil grant. A significant portion of imports, about US$30 million, is expected to be financed through external accounts.

The capital account is projected to register a deficit of about US$45 million. Reflecting the attraction of a considerable portion of private remittances and nonsurrendered export earnings into external import accounts, the private capital outflow is expected to amount to less than US$30 million, compared with about US$40 million in 1982. Scheduled amortization payments have been revised downward reflecting agreements between Somalia and some of its foreign government creditors to freeze or reschedule a substantial portion of payments due on Somalia's external debt; however, this has been partly offset by a downward adjustment, on the basis of more up-to-date information, of cash loan disbursements. As a result, the overall balance of payments is projected to register a deficit of US$40 million, compared with a revised program projection of a US$52 million deficit. In view of scheduled net purchases from the Fund (US$50 million) and loans from the Arab Monetary Fund (US$6 million), the projected deficit will allow an increase in official reserves to the equivalent of seven weeks of imports.

Somalia's disbursed public and publicly guaranteed external debt (including use of Fund credit) is estimated to have reached US$1.05 billion at end-1982. Although most of Somalia's external debt is on concessional terms, a concentration of maturities and Somalia's narrow export base have resulted in a sharp increase in scheduled debt service payments. The authorities have recognized this problem and have sought debt relief from foreign creditors in order to contain the projected sharp increase in the debt service ratio. The authorities indicated that (a) debt service payments due to the Governments of Abu Dhabi, Iraq, Saudi Arabia, and the People's Republic of China have been frozen on the basis of verbal agreements with those governments, (b) debt service payments due to Yugoslavia and the Saudi Fund during 1983 have been rescheduled to 1984, and (c) agreement has been reached with the Islamic Development Bank to further reschedule a large part of payments due in 1983 to subsequent years. As a result, service payments on external debt in 1983 are projected to be contained to US$39 million, or about 18 per cent of projected exports of goods and services; in the absence of this debt relief, debt service payments in 1983 would have amounted to about US$80 million (Appendix Table V). The Government also intends to seek further debt relief from other creditors during the remainder of the program period and has undertaken to limit new commitments on public and publicly guaranteed nonconcessional debt with a maturity of 1-12 years to no more than US$25 million through the end of the program period, excluding any refinancing obtained through negotiations.

3. Fiscal policy

During the remainder of 1983 the authorities intend to continue with a tight fiscal stance, primarily through an austere expenditure policy supported by further efforts to increase government revenue. It is expected that for 1983 the overall deficit of the Central Government will be sharply reduced to about 16.7 per cent of total expenditure, about the level of the revised program target and considerably lower than the 28.9 per cent recorded in 1982 (Appendix Table I). 1/ Net foreign financing is expected to exceed the overall deficit, with the result that outstanding net bank credit to the Government is projected to contract by So. Sh. 275 million, equivalent to a 13 per cent reduction.

During 1983 total revenue and grants are projected to increase by 29 per cent, compared with a revised program projection of 19 per cent. This is due to an increase in grants, which are expected to rise from 27 per cent of total revenue in 1982 to 37 per cent in 1983. Since the oil grant from Saudi Arabia is expected to remain at the same level as in the past year, most of the projected increase in grants is due to an increased utilization of the U.S. commodity import program and an increase in the inflow of other grants. In addition, total revenue is projected to increase by 21 per cent in 1983, reflecting the full-year effect of the devaluation and of revenue measures introduced over 1981-83. Starting January 1, 1983, effective ad valorem import duties on nonessential dutiable items have been increased by being levied on the basis of a price 20 per cent above that stated in the letter of credit. 2/ In an effort to improve revenue collections, a vigorous attempt is being made to move tax payments progressively onto a current basis. Collection of arrears of public enterprises and other revenues will be stepped up;

1/ The principal assumptions on which the fiscal projections are based are given in Appendix Table VII.

2/ While this measure was originally intended to finance the foreign exchange premium, the total budgetary cost of the premium for 1983 is now expected to be negligible. The increase in effective ad valorem import duties is now expected to offset the budgetary effect of the loss in revenue of about So. Sh. 300 million arising from the banning of imports of 'kat.'

about So. Sh. 200 million of arrears due to the operations of the refinery in 1982 will be collected in 1983. A similar amount is also expected for 1983. In accordance with the recommendations of the 1980 IMF Tax Survey, all specific excises, such as those levied on soft drinks and spirits, have been converted to an ad valorem basis as of January 1983. Furthermore, the introduction of a general sales tax at a rate of 5 per cent, which was postponed to the second half of 1983 due to the delay in the completion of the study on the method of its implementation, is expected to contribute only a limited amount to the increase in revenues in 1983. The tax will be levied on the value of most wholesale and import transactions as well as retail sales of public enterprises, with the exception of certain essential commodities. To simplify its implementation, the tax will be administered through the sale of stamps to be applied on sales receipts. While the restructuring of the tax system of public enterprises was deferred pending the outcome of the studies being undertaken by the Inter-Ministerial Commission on public enterprises, this has not caused any loss of revenue insofar as the restructuring was intended to reduce the tax burden on public enterprises. However, the projected increase in revenue for 1983 is lower than the revised projection due to a lower-than-projected revenue outturn in 1982, a lower projected import level for 1983, and the banning of 'kat' (a stimulant herb) imports for social reasons.

During 1983 the growth of total expenditure is expected to be limited to 10 per cent compared with a 40 per cent increase recorded in 1982. Through a strict expenditure control, total expenditures are expected to be held below the 1982 level in real terms. The representatives of the Ministry of Finance assigned to each Ministry will be instructed to limit deferrable expenditures strictly in order to achieve better expenditure control, particularly as regards the seasonal increase in the last quarter of the fiscal year. With regard to wages, even though a 10 per cent increase in government wages was provided for in the revised program, the authorities have decided not to grant a cost-of-living salary adjustment to civil servants during 1983. Moreover, they will continue to discourage government employment and induce high school graduates to seek alternative opportunities in the private sector. Extrabudgetary expenditures are expected to decline by about 9.5 per cent, in part due to improved expenditure control procedures.

4. Monetary policy

During the remainder of 1983 the major objective of monetary policy will continue to be to curtail excess demand pressures by reducing real monetary balances while providing adequately for the credit needs of the economy. The rate of growth in domestic credit for 1983 will be reduced to 5 per cent, as projected during the first semiannual review, with outstanding net credit to Government being curtailed by 13 per cent and credit to the nongovernment sector allowed to grow by 19 per cent (Appendix Table II). Given the projected change in net foreign assets, the expansion in domestic credit will imply a decline in domestic liquidity during 1983 of 5 per cent.

Since the Somali authorities are of the view that a reform of the banking system is essential to improving financial intermediation domestically, as well as encouraging the inflow of remittances through official channels, they have decided, effective July 1, 1983, to allow branches of interested foreign banks to operate in Somalia. These banks will be subject to the same laws and regulations as the country's sole commercial bank--the Commercial and Savings Bank of Somalia. Furthermore, in order to enhance the efficiency of the Commercial and Savings Bank of Somalia, which has faced considerable strain over the last two years given the rapid economic and financial expansion, the authorities have decided to contract a management consulting firm to prepare a study on the measures that need to be taken to strengthen and streamline the operations of the commercial bank. The authorities plan to consider and start implementing those recommendations deemed appropriate before the end of 1983.

In view of the substantial decline in the inflation rate during 1982 and the further decline expected in 1983, the authorities regard the current interest rate structure, which was revised upward in mid-1982, as appropriate at this time. They plan, however, to keep the interest rate structure, including the rates on external accounts, under review. They have indicated that interest rates may be revised depending on the changing economic conditions in Somalia and abroad.

5. Public enterprises

The Government of Somalia remains firmly committed to its policy of closing down public enterprises that were deemed financially unviable and rehabilitating the remaining enterprises. 1/ In 1981 three public enterprises that were deemed financially unviable were phased out of operation. 2/ The Government, moreover, in order not to subsidize the

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1/ Several problems have plagued the public enterprise sector in Somalia, of which inadequate management, accounting procedures, labor performance, lack of spare parts, rigid pricing policies, and excessive taxation have been the most important. These problems have given rise to low levels of profitability and shortages of liquidity, which have forced enterprises to accumulate arrears to each other and to the Government and to rely heavily on bank credit.

2/ These were the Livestock Development Agency, the National Agency for Building Materials, and the Agency for Textiles and Household Appliances.

operations of public enterprises, increased the retail price of sugar and electricity charges in 1982. The Government's recent rehabilitation efforts have concentrated on improving the flow of raw materials and strengthening managerial capabilities. In this regard, a Board of Directors has been appointed for each industrial public enterprise, with autonomy in decision making. In addition, management and accounting courses are being offered by various ministries to enhance the skills of the staff of the enterprises that fall under their tutelage. While capacity utilization in many of the industrial public enterprises remains low, the problem of input shortages has been reduced in the second half of 1982 through a grant from the USAID's commodity import program, which is being continued in 1983. Foreign competition, which has been a serious problem for several industries (especially textiles) has eased somewhat following the Government's recent exchange rate actions, which have improved price-cost competitiveness. The problem of controlled input and output prices, which in the past has affected the profitability of several enterprises, has also diminished following the Government's decision, taken in early 1983, to allow enterprises to sell at prices that reflect fully costs of production plus an adequate profit margin. Another source of difficulty for public enterprises in recent years has been the tax system, under which enterprises are required to pay the turnover and the depreciation taxes regardless of whether they make a profit or not. This tax system has led some public enterprises to be perennially short of funds for both working capital and replacement of fixed assets and thus to accumulate arrears to the Government or to rely heavily on financing from the banking system. A revision of the tax system of public enterprises is expected to be adopted in the second half of 1983 in an effort to rationalize existing taxes and ease the overall fiscal burden.

The efforts at rehabilitation of the public enterprise sector are being undertaken under the auspices of an Inter-Ministerial Commission established in the second half of 1982 and comprising representatives from the Central Bank, the Ministry of Finance, and several other ministries concerned with economic and financial matters. The commission has been entrusted to perform a financial audit of the country's public enterprises, to determine which enterprises are viable and which should be phased out of operation, to recommend measures to improve the operations of viable public enterprises, and to introduce unified accounting procedures. The commission's report on public enterprises is expected to be ready during the second half of 1983. The commission has already determined, on the basis of its preliminary audit, that public enterprises' total arrears (to the Government and to each other) amounted to So. Sh. 2.5 billion at end-March 1983. About 65 per cent of these arrears are in the process of being settled. The remaining arrears are being examined with a view to liquidating all the arrears by the end of the year. The commission is recommending that in the future enterprises settle all their debts within 45 days of due date. The commission is also studying ways whereby the equity capital of the viable enterprises could be expanded through private sector participation (both domestic and/or foreign). In line with this policy, the Government has recently sold a 60 per cent interest in the state-owned National Banana Board to a private firm; the new company will operate as a joint venture.

6. Performance criteria

The program includes as quantitative performance criteria: (1) quarterly ceilings on net domestic credit, with quarterly subceilings on net credit to the Government, through end-December 1983, and (2) a ceiling on external nonconcessional debt contracted or guaranteed by the Government with maturities of 1-12 years through end-December 1983 (Table 4). The performance criteria further include the standard provisions relating to multiple currency practices, bilateral payments arrangements, and restrictions on payments and transfers for current international transactions or import restrictions for balance of payments purposes.

IV. Medium-Term Recovery Program

The medium-term prospects of the Somali economy will depend critically on the continued pursuit of appropriate economic and financial measures, on the public investment program being prepared for 1984-86, and on the availability of foreign assistance. While there will be a need to achieve significant improvements in resource allocation and mobilize additional domestic resources, investment expenditures financed by grants and concessional loans would have to be raised considerably above current levels in order to achieve a substantial increase in real growth and the standard of living in Somalia. In the absence of such an increase in foreign assistance, even taking into account an expected sustained improvement in Somalia's external position, the sustainability of the balance of payments would imply a stagnating or declining per capita income over time. The Somali authorities, therefore, place considerable importance on the outcome of the forthcoming Consultative Group Meeting scheduled for the fall of 1983.

The Somali authorities are collaborating closely with the World Bank and the Fund in preparation for the Consultative Group Meeting of donor countries for Somalia. In consultation with the World Bank and the Fund, the Somali authorities are preparing a medium-term recovery program for the rehabilitation and consolidation of the economy, which will include a phased program of measures (policy action program) to improve resource mobilization, allocation, and utilization; a macroeconomic framework (a financial plan) in line with the policy action program; and a public investment program for 1984-86 that would be consistent with the policy program and the financial plan. The three-year public investment program will attempt to direct available resources to the development activities with the greatest promise of augmenting domestic commodity production, increasing exports, and replacing imports. Emphasis will be placed on concentrating on quick-yielding projects, particularly in the agricultural sector, that can contribute to foreign exchange earnings. Investment will be set at a level consonant with the absorptive capacity of the country and with available domestic and external resources.

The Somali authorities have already made some progress in preparing the public investment program. They have formed an Inter-Ministerial Working Committee under the leadership of the Director General of the Ministry of National Planning for the preparation of the medium-term recovery program. This committee is examining the projects to be included in the public investment program and is preparing balance of payments and budget projections for 1984-86 for the macroeconomic framework of the program. With the assistance of World Bank and Fund missions that visited Mogadiscio simultaneously, the committee held meetings with representatives from various sectoral ministries to review projects to be included in the public investment program. Each ministry was requested to examine the list of projects (derived primarily from the Five-Year Development Plan) in its sector to ensure that the estimated cost of each project separated into foreign exchange and local currency was correct, that the phasing of expenditures of each project was accurate and realistic, and that estimates were available of project disbursements between foreign exchange and local currency components as well as of the extent to which donor commitments covered local currency and foreign exchange requirements. As a result of this review, a draft summary of the projects to be included in the resource-unconstrained public investment program was obtained. Although domestic financing of these projects was not yet confirmed by the Ministry of Finance, the size of the investment program (excluding technical assistance) on the basis of this review was estimated to be US$1,529 million. 1/ The Working Committee has sent to the sectoral ministries this first-round review of the public investment program for their examination and comments. It is expected that, in light of the response of the sectoral ministries and in line with the Government's priorities, a core investment program consistent with resource availability will be prepared. The Somali authorities plan to discuss with the World Bank and the Fund the size and composition of the public investment program and other elements of the medium-term recovery program in August 1983.

1/ The total cost of the technical assistance projects was not available at the time of the Fund mission's departure.

V. Staff Appraisal

Against a backdrop of virtual stagnation in economic activity and mounting domestic and external financial imbalances, in mid-1981 the Somali authorities embarked on a major adjustment effort that has succeeded in stimulating economic growth, reducing the rate of inflation, and considerably improving the current account position of the balance of payments during 1981 and 1982. During these two years major supply- and demand-oriented measures were effectively implemented. On the supply side, the key measures included two large devaluations aimed at restoring cost-price competitiveness to the export and import-competing sectors; increases in producer prices; a discontinuation of the government monopoly on imports, thereby expanding the scope of private sector imports; and the liberalization of pricing and marketing policies. Furthermore, the interest rate structure was revised upward twice, with a view to mobilizing domestic savings, enhancing financial intermediation, and improving resource allocation. In addition to closing three public enterprises, the authorities instituted an Inter-Ministerial Commission to start reviewing the position of public enterprises. On the demand side, the authorities considerably tightened fiscal and monetary policies. A number of tax measures were introduced and revenue collection procedures strengthened, while expenditures were contained through a number of austerity measures, including a significant reduction in the real salaries of the civil service, limitations on new government employment, and improvements in expenditure control. The reduced recourse of the Government to domestic bank borrowing allowed the authorities greater flexibility in permitting a higher rate of growth of credit to the non-government sector, primarily the private sector, to meet the requirements of the resurgence in economic activity, while maintaining an overall rate of credit expansion consonant with the objective of re-establishing domestic and external financial stability.

During the first semiannual review mission, the authorities reaffirmed their determination to continue with their adjustment efforts in 1983 in line with the policies outlined in their letter of intent for the stand-by arrangement. Reflecting in part the uncertainties associated with the border conflict, a major problem that arose during 1982 was a private sector capital outflow, financed by private remittances outside the banking system. To tackle this problem directly, the authorities took a number of measures, including the institution of a 25 per cent premium over the official exchange rate for cash remittances, the increase and rationalization of the interest rate structure on external accounts, and the widening of the scope of external accounts for import purposes. Partly because of the attractiveness of using the external accounts to import, in the first half of 1983 there has been a substantial inflow of resources into the external accounts, while the impact of the exchange rate premium has been very limited. In addition, administrative limitations at the state-owned commercial bank have constituted a bottleneck in channeling remittances through the banking system.

The adjustment program appears to have been generally on track during the first half of 1983. The high level of economic activity, aided by a continuation of good weather conditions, has been sustained; the rate of inflation has declined significantly; and the external payments position has strengthened. Fiscal and monetary developments appear to be in line with program targets, with all the quantitative performance criteria through end-March 1983 having been observed.

A number of additional policy measures, however, were taken at midyear with a view to laying the foundation for an acceleration in the adjustment of the economy. In the external sector, the adoption of a managed float based on the peg to the SDR adjusted for relative price developments in Somalia vis-à-vis the five countries included in the SDR basket is expected to aid in stabilizing the real effective exchange rate, thereby avoiding both the detrimental effects of a gradual overvaluation of the currency and disruptions associated with large devaluations. This measure can be expected to help maintain the competitiveness of export and import-competing activities and strengthen, over the medium term, the overall external position of the country. Furthermore, the decision of the authorities to start increasing the minimum export prices of livestock exports will have a direct positive impact on export proceeds due to the gradual reduction of underinvoicing. The reform of the commercial banking system, including improvements in the operations of the state-owned commercial bank and the authorization of the establishment of branches of foreign banks, is a positive development that can be expected to promote domestic and external financial intermediation, including the flow of remittances through the banking system.

The tight financial policies that the authorities intend to maintain through 1983 should contribute to further dampening the growth in aggregate demand. On the fiscal front, the strengthening in expenditure control, the limitations in government hiring, and the decision to defer the granting of the cost-of-living adjustment are essential steps in containing expenditure growth, while the attempts to improve tax collection procedures and the tax measures taken should be conducive to expanding the revenue base and improving the income elasticity of the tax system. The improved fiscal position will be reflected in a further reduction in the net indebtedness of the Government to the banking system. The monetary authorities will continue to direct credit toward the nongovernment sector, in line with their objective of maintaining the growth momentum. The envisaged overall reduction in domestic liquidity should promote price stability while, concomitantly, reducing monetary balances financing the capital outflows. In this context, the staff shares the views of the authorities that, while the interest rate structure appears appropriate in light of the expected inflation rate, a degree of flexibility should be maintained should the economic conditions change.

The staff welcomes the progress that is being achieved in addressing the problems of public enterprises and determining their viability. While the role of public enterprises is relatively limited in Somalia, the administrative measures, the modification in pricing policies, the increased availability of spare parts, and the effects of the exchange rate actions can be anticipated to improve the position of a number of them. Furthermore, it is expected that the report of the Inter-Ministerial Commission on public enterprises will contain recommendations on the phasing out of operation of those enterprises deemed not to be viable and on measures to improve the operations of others, including entering into joint ventures with the private sector. The recent sale of a majority share of the National Banana Board to the private sector is a move in that direction. In addition, the discontinuation of the monopsonist role of the Agricultural Development Corporation and the monopoly role of the government import agency are indicative of the government policy to reduce the role of public enterprises in economic activity.

The Somali authorities are fully cognizant of the importance of pursuing a medium-term recovery program for achieving a sustainable rate of economic growth under conditions of domestic and external financial stability. The success of such a program will depend on the pursuit of appropriate economic and financial policies, the adoption of a realistic and sound public investment program, and the availability of concessional foreign assistance. In this connection, the authorities are working closely with the World Bank and the Fund in preparing a medium-term recovery program that is expected to be presented at the forthcoming Consultative Group Meeting for Somalia. The authorities have initiated discussions with the staff on a possible extended arrangement in support of their adjustment policies, to be undertaken within the context of the medium-term recovery program.

The staff continues to be impressed by the seriousness and determination with which the Somali authorities have carried out their adjustment efforts and considers the policies and measures outlined by the authorities for 1983 in the attached letter as being appropriate for the attainment of their adjustment objectives. It, therefore, proposes the following draft decision for approval by the Executive Board.

VI. Proposed Decision

1. Somalia has consulted the Fund in accordance with paragraph 4(c) of the stand-by arrangement for Somalia (EBS/82/105, Supplement 1, December 20, 1982) in order to establish performance criteria subject to which purchases may be made by Somalia under the stand-by arrangement during July 1-January 13, 1984.

2. The letter from the Minister of Finance and the Governor, Central Bank of Somalia, of June 6, 1983 shall be annexed to the stand-by arrangement for Somalia, and the letters of April 15, 1982 and December 8, 1982, attached to the stand-by arrangement, shall be read as modified and supplemented by the annexed letter.

3. Accordingly, paragraphs 4(a) and (b) of the stand-by arrangement shall be amended to read:

"(a) during any period until December 31, 1983, in which the data at the end of the immediately preceding performance period indicate that

(i) the limit on total net domestic credit of the banking system described in paragraph 12 of the annexed June 6, 1983 letter is not observed; or

(ii) the limit on net bank credit to the Government described in paragraph 12 of the annexed June 6, 1983 letter is not observed; or

(b) (i) if Somalia fails to observe the limits on contracting of new public and publicly guaranteed external debt described in paragraph 18 of the annexed June 6, 1983 letter; or"

Table I. Somalia: Central Government Operations, 1980–83

(In millions of Somali shillings)

	1980 Actual	1981 Actual	1982 Program	1982 Review est.	1982 Prelim. actual	1983 Program	1983 Revised program	1983 Review proj.
Total revenue and grants	1,884	2,360	4,130	3,679	3,367	4,825	4,392	4,349
Revenue	1,421	2,251	3,325	2,999	2,558	4,000	3,557	3,084
Tax	(1,192)	(2,002)	(...)	(...)	(2,222)	(...)	(...)	(...)
Nontax	(229)	(249)	(...)	(...)	(336)	(...)	(...)	(...)
Transfers from local authorities	--	12	--	17	129	--	10	130
Grants 1/	463	97	205	63	80	225	225	535
Oil grant	--	--	600	600	600	600	600	600
Total expenditure	3,072	3,382	5,100	4,980	4,734	5,800	5,258	5,218
Budgetary expenditure	1,832	3,081	3,765	3,666	3,981	4,350	4,158	4,515
Ordinary	(1,670)	(2,795)	(...)	(...)	(3,635)	(...)	(...)	(...)
Development	(162)	(286)	(...)	(...)	(346)	(...)	(...)	(...)
Other expenditure 2/	1,108	301	1,310	1,314	641	1,425	1,100	580
Transfers to local authorities	132	--	25	--	112	25	--	123
Overall deficit (-)	-1,188	-1,022	-970	-1,301	-1,367	-975	-866	-869
Financing	1,188	1,022	970	1,301	1,367	975	866	869
Foreign (net) 3/	504	681	1,105	1,431	1,529	1,200	1,141	1,144
Domestic	684	341	-135	-130	-162	-225	-275	-275
Banking system	(671)	(347)	(-135)	(-135)	(-150)	(-225)	(-275)	(-275)
Cash balances 4/	(13)	(-6)	(--)	(5)	(-12)	(--)	(--)	(--)
Memorandum items: 5/								
Overall deficit/Total expenditure	38.7	30.2	19.0	26.1	28.9	16.8	16.5	16.7
Overall deficit/Total revenue and grants	63.0	43.3	23.5	35.4	40.6	20.2	19.7	20.0
Foreign financing/Overall deficit	42.4	66.6	113.9	110.0	111.9	123.1	131.8	131.6
Bank financing/Overall deficit	56.5	34.0	-13.9	-10.4	-11.0	-23.1	-31.8	-31.6
Surplus or deficit (excluding expenditure financed by loans in kind) 6/	-802	-307	-210	158	141	-150	655	534
Deficit/Total expenditures (excluding expenditures financed by loans in kind)	29.9	11.5	4.8	-4.5	-4.4	3.0	-17.5	-14.0

Sources: Data provided by the Somali authorities; and staff estimates.

1/ Excludes grants in kind; including USAID commodity import program.
2/ Obtained as a residual; includes errors and omissions.
3/ Includes loans in kind.
4/ Includes net deposits, advances, and remittances.
5/ All ratios expressed in per cent. Surplus denoted with negative sign unless otherwise indicated.
6/ In millions of Somali shillings. Deficit denoted with negative sign.

Table II. Somalia: Monetary Survey, 1980-83

(In millions of Somali shillings and in per cent; end of period)

	1980	1981	1982				1983 1/			
	Dec.	Dec.	March	June	Sept.	Dec.	March	June	Sept.	Dec.
			(In millions of Somali shillings)							
Net foreign assets 2/	144.8	126.4	-292.2	-640.8	-768.7	-588.5	-546.0	-790.0	-1,004.0	-1,199.0
Central Bank	-194.6	-804.0	-1,050.4	-1,345.2	-1,740.8	-1,947.2	-2,067.0	...	...	...
Commercial bank	339.4	930.4	758.2	704.4	972.1	1,358.7	1,521.0	...	...	...
Domestic credit	3,879.5	4,545.7	4,841.2	5,088.0	5,070.4	5,023.8	5,107.7	5,168.0	5,223.0	5,293.0
Government (net)	1,902.4	2,249.6	2,329.4	2,390.9	2,270.3	2,100.0	2,058.2	1,990.0	1,910.0	1,825.0
Other	1,977.2	2,296.0	2,511.8	2,697.1	2,800.1	2,923.8	3,049.5	3,178.0	3,313.0	3,468.0
Public enterprises	1,551.1	1,721.4	1,896.5	1,727.7	1,921.6	1,300.0	1,415.1	...	...	...
Private sector	426.1	574.6	615.3	969.4	878.5	1,623.8	1,634.4	...	...	...
Broad money	3,381.1	4,421.2	4,153.7	4,480.6	5,047.6	5,122.6	5,182.3	5,078.0	4,969.0	4,844.0
Money	2,783.2	3,674.1	3,379.1	3,685.5	4,154.1	4,108.4	3,850.8	...	...	...
Quasi-money	597.9	747.1	774.6	795.1	893.5	1,014.2	1,331.5	...	...	...
Other items (net) 2/	643.2	250.9	395.3	-33.4	-745.9	-687.3	-620.6	-700.0	-750.0	-750.0
			(Percentage changes from end of previous year)							
Domestic credit	31.2	17.2	6.5	11.9	11.5	10.5	1.7	2.9	4.0	5.4
Government (net)	54.5	18.3	3.5	6.3	0.9	-6.7	-2.0	-5.2	-9.0	-13.1
Other	14.6	16.1	9.4	17.5	22.0	27.3	4.3	8.7	13.3	18.6
Broad money	20.2	30.8	-6.1	1.3	14.2	15.9	1.2	-0.9	-3.0	-5.4
Other items (net)	39.1	-61.0	57.6	-113.3	-397.3	-373.9	9.7	-1.8	-9.1	-9.1

Sources: IMF, International Financial Statistics; data provided by the Central Bank of Somalia; and staff estimates.

1/ The figures for March are actual, while those for June-December are program targets.
2/ Includes valuation adjustments for the period September 1982-December 1983.

Table III. Somalia: Balance of Payments (Excluding Grants and Loans in Kind), 1980-83

(In millions of U.S. dollars)

	1980	1981		1982			1983		
		Prel. actuals	Rev. actuals	Pro-gram	Review estimates	Prel. actuals	Pro-gram	Revised program	Review proj.
Goods and services (net)	-206	-97	-72	-128	-40	-48	-122	-72	-70
Exports, f.o.b.	133	121	114	172	167	131	200	183	145
Livestock	102	105	98	127	125	106	142	135	109
Bananas	8	6	6	15	12	10	26	18	15
Other	24	10	10	30	30	15	32	30	21
Imports, c.i.f.	-331	-236	-205	-290	-227	-198	-310	-270	-230
Foreign exchange	-276	-176	-145	-290	-227	-193	-310	-270	-200
Franco valuta	-55	-60	-60	--	--	-5	--	--	--
External accounts	--	--	--	--	--	--	--	--	-30
Trade balance	-198	-115	-91	-118	-60	-67	-110	-87	-85
Services (net)	-8	19	19	-10	20	19	-12	15	15
Transfers (net)	131	72	72	65	50	50	71	75	75
Private	57	64	64	50	50	50	56	60	60
Official	74	8	8	15	--	--	15	15	15
Current account	-75	-25	--	-63	10	2	-51	3	5
Capital account	26	-4	-4	25	-47	-38	25	-55	-45
Private	--	--	--	--	-45	-39	--	-30	-28
Official (net)	26	-4	-4	25	-2	1	25	-25	-17
Receipts	(36)	(16)	(16)	(40)	(8)	(9)	(...)	(30)	(3)
Payments	(-10)	(-20)	(-20)	(-15)	(-10)	(-8)	(...)	(-55)	(-20)
Errors and omissions	21	16	-9	--	--	-13	--	--	--
Overall balance	-28	-13	-13	-38	-37	-49	-26	-52	-40
Financing	28	13	13	38	37	49	26	52	40
Central Bank (net)	44	33	33	38	37	64	26	52	40
Assets	26	-17	-17	-14	-1	28	-25	-4	-16
Liabilities	17	50	50	52	38	36	51	56	56
Use of Fund credit	(4)	(30)	(30)	(49)	(38)	(39)	(40)	(50)	(50)
Commercial bank (net)	-16	-20	-20	--	--	-15	--	--	--
Memorandum item:									
Gross official reserves	25	42	42	56	43	14	81	47	30
(in weeks of imports)	(3.9)	(9.3)	(10.7)	(10.0)	(10.0)	(3.8)	(13.6)	(9.1)	(6.8)

Sources: Data provided by the Somali authorities; and staff estimates.

Table IV. Somalia: Balance of Payments (Including Grants and Loans in Kind), 1980-83

(In millions of U.S. dollars)

	1980	1981		1982			1983		
		Prel. actuals	Rev. actuals	Program	Review estimates	Prel. actuals	Program	Revised program	Review proj.
Goods and services (net)	-336	-313	-289	-248	-323	-311	-199	-305	-294
Exports, f.o.b.	133	121	114	172	167	131	200	183	145
Livestock	102	105	98	127	125	106	142	135	109
Bananas	8	6	6	15	12	10	26	18	15
Other	24	10	10	30	30	15	32	30	21
Imports, c.i.f.	-461	-453	-422	-410	-510	-461	-387	-503	-454
Foreign exchange	-276	-176	-145	-290	-227	-193	-310	-270	-200
Franco valuta	-55	-60	-60	--	--	-5	--	--	--
External accounts	--	--	--	--	--	--	--	--	-30
Grants in kind	-69	-140	-140	-65	-178	-155	-22	-133	-132
Loans in kind	-61	-77	-77	-55	-105	-108	-55	-100	-92
Trade balance	-328	-332	-308	-238	-343	-330	-187	-320	-309
Services (net)	-8	19	19	-10	20	19	-12	15	15
Transfers (net)	200	212	212	130	228	205	93	208	207
Private	57	64	64	50	50	50	56	60	60
Official	143	148	148	80	178	155	37	148	147
Current account	-136	-101	-77	-118	-95	-106	-106	-97	-87
Capital account	87	73	73	80	58	70	80	45	47
Private	--	--	--	--	-45	-39	--	-30	-28
Official (net)	87	73	73	80	103	109	80	75	75
Receipts	(97)	(93)	(93)	(95)	(113)	(117)	(...)	(130)	(95)
Payments	(-10)	(-20)	(-20)	(-15)	(-10)	(-8)	(...)	(-55)	(-20)
Errors and omissions	21	16	-9	--	--	-13	--	--	--
Overall balance	-28	-13	-13	-38	-37	-49	-26	-52	-40

Sources: Data provided by the Somali authorities; and staff estimates.

Table V. Somalia: Debt Service Payments, 1/ 1980-87

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

				Projections				
	1980	1981	1982	1983	1984	1985	1986	1987
Amortization, excluding Fund	6.9	18.3	10.0	23.8	32.0	28.7	42.0	68.4
Fund repurchases	--	--	--	--	4.0	16.4	28.6	26.2
Total	6.9	18.3	10.0	23.8	36.0	45.1	70.6	94.6
Interest payments, excluding Fund	1.9	8.9	10.5	10.0	13.9	17.9	23.7	28.6
Fund charges	--	0.4	3.3	4.9	4.8	4.2	2.7	1.4
Total	1.9	9.3	13.8	14.9	18.7	22.1	26.4	30.0
Total debt service	8.8	27.6	23.8	38.7	54.7	67.2	97.0	124.6
Exports of goods and services	204	196	201	216	244	276	312	353
Debt service ratio	4.4	14.0	11.8	17.9	22.4	24.3	31.1	35.3

Sources: IBRD; and data provided by the Somali authorities.

1/ On public and publicly guaranteed medium- and long-term loans. In the case of the Fund, projections for the period 1983-87 are based on the assumption that all purchases under the current stand-by arrangement will be made on schedule. In the case of creditors other than the Fund, the projections are based on commitments as of end-1982 and on additional disbursements, based on new commitments, of US$50 million in 1984, US$100 million in 1985, US$150 million in 1986, and US$200 million in 1987 at an average interest rate of 4 per cent, a grace period of 5 years, and a maturity of 15 years. Exports of goods and services during 1984-87 are assumed to rise at an annual rate of 13 per cent.

Table VI. Somalia: Principal Balance of Payments Assumptions, 1/ 1980-83

(Annual percentage changes in U.S. dollar terms, unless otherwise noted)

	1980	1981		1982			1983		
		Prel. actual	Revised actual	Program	Review estimates	Prel. actuals	Program	Revised program	Review proj.
Exports, f.o.b.									
Livestock									
Value (in US$ millions)	102	105	98	127	125	106	142	135	109
Volume	9.2	-4.4	-8.9	2.0	13.3	8.5	2.0	2.9	2.8
Price	23.5	8.1	5.6	18.6	5.0	-0.4	9.6	5.0	--
Value	34.9	2.9	-4.0	21.0	19.0	8.1	11.8	8.0	2.8
Bananas									
Value (in US$ millions)	8	6	6	15	12	10	26	18	15
Volume	-36.6	-7.6	-7.6	83.4	65.0	66.6	66.6	48.1	50.0
Price	9.4	-19.8	-19.8	36.3	21.2	--	4.0	1.3	--
Value	-30.2	-25.9	-25.9	150.0	100.0	66.6	73.3	50.0	50.0
Imports, c.i.f. 2/									
Non-oil									
Value (in US$ millions)	266	182	151	260	160	122	280	220	170
Volume	-17.0	-28.2	-40.5	21.8	-10.2	-17.7	2.4	31.0	32.6
Price	14.8	-4.8	-4.8	3.6	-2.1	-2.0	5.2	5.0	5.0
Value	-4.7	-31.6	-43.3	26.2	-12.1	-19.3	7.6	37.5	39.3
Oil									
Value (in US$ millions)	65	54	54	30	67	76	30	50	60
Volume	-14.5	-26.7	-26.7	-44.4	24.1	40.7	--	-25.0	-21.1
Price	68.9	13.4	13.4	--	--	--	--	--	--
Value	44.4	-17.0	-17.0	-44.4	24.1	40.7	--	-25.0	-21.1

Sources: Data provided by the Somali authorities; and staff estimates.

1/ The percentage changes in the case of program projections are as initially stated in the program.
2/ Excludes grants and loans in kind.

Table VII. Somalia: Principal Assumptions for Fiscal Projections, 1983

A. Revenue 1/

Taxes on income and profits (3.3 per cent)
Receipts are projected to increase by 15 per cent in 1983. This reflects the progressive nature of the tax system.

Property taxes (3.3 per cent)
Revenue from these taxes is assumed to increase by 10 per cent.

Taxes on goods and services (21.6 per cent)
Revenue from these taxes is projected to increase by 5 per cent. This reflects the implementation of a 5 per cent general sales tax during August-December 1983 and an assumed 3 per cent increase in domestic production.

Import taxes (46.5 per cent)
Based on the projected import level of which one half would constitute nonessential dutiable imports taxable at an average ad valorem rate of 80 per cent applied (as of beginning 1983) on 20 per cent above the value of imports shown in the letter of credit. An estimated loss of So. Sh. 295 million is assumed due to the banning of 'kat' imports at the beginning of 1983.

Export taxes (4.8 per cent)
A projected 3 per cent increase in tax receipts is assumed. This would reflect export growth in volume terms as well as in value, because the export valuation price lists were not revised in 1983.

Stamp tax (7.3 per cent)
Revenue from this tax is projected to rise by 10 per cent.

Nontax revenue

Property income from public enterprises (9.9 per cent)

a. Actual collection during 1982 was So. Sh. 53.7 million. An additional So. Sh. 200 million of arrears were collected at the end of 1982. For 1983 tax collection from public enterprises is assumed to increase by 12 per cent, thus reaching the budgeted level of So. Sh. 60.1 million. In addition, it is assumed that So. Sh. 50 million in past arrears will be collected in 1983.

b. So. Sh. 200 million arising from the Saudi oil grant has been treated as public enterprise profits for 1982. Collection of this, however, has been delayed and will be collected in 1983. An additional So. Sh. 200 million for 1983 public enterprise profits is assumed.

Other nontax revenue (3.2 per cent)
Revenue from all other nontax sources is projected to increase by 12 per cent, in line with the increase in prices.

Other receipts

Transfers from local authorities
Transfers were assumed at So. Sh. 130 million, which is about the same level as 1982.

Grants
A level of about US$25 million of the USAID commodity import program is expected to be utilized in 1983. An additional US$15 million in cash grants (for balance of payments support) is assumed for 1983.

Oil grant
This is projected at the 1982 level of So. Sh. 600 million.

Table VII (concluded). Somalia: Principal Assumptions for Fiscal Projections, 1983

B. Expenditure

Wages
These are calculated on the basis of 35 per cent of ordinary expenditure for 1982. The wage bill is projected to increase by 10 per cent in 1983.

Nonwage expenditure
It is assumed that these expenditures would grow by an average of 15 per cent in 1983.

Other expenditure
These are projected at So. Sh. 580 million in 1983 (about 10 per cent below the 1982 level).

Transfers to local authorities
These are projected at So. Sh. 123 million in 1983 (about 10 per cent above the 1982 level).

C. Financing

Foreign financing
These are assumed at levels consistent with balance of payments data.

Cash balances
Assumed to be nil in 1983.

Bank financing
This is derived as a residual item.

1/ Based mainly on 1982 Preliminary Actuals. Percentages in parentheses refer to share in total revenue in 1982.

SOMALIA - Relations with the Fund
(As of May 31, 1983)

Date of membership:	August 31, 1962
Quota:	SDR 34.5 million
Fund holdings of currency as per cent of quota:	SDR 123.5 million, or 358.1 per cent of quota
Credit tranches	SDR 34.5 million, or 100.0 per cent of quota
Enlarged access	SDR 54.5 million, or 158.1 per cent of quota
SDR position:	SDR 0.3 million, equivalent to 1.9 per cent of net cumulative allocation of SDR 13.7 million
Trust Fund loans outstanding:	
Total	SDR 10.7 million
First period	Nil
Second period	SDR 10.7 million
Direct distribution of profits from gold sales:	US$3.02 million
Gold distribution:	16,261 fine ounces
Intervention currency and the rate:	U.S. dollar; pegged to the SDR at So. Sh. 16.5=SDR 1 with exchange margins of 2.25 per cent around this fixed relationship

Staff visits and other contacts:

Technical assistance	
Exchange rate study mission	January 1980
Fiscal Affairs--revenue study mission	March 1980
Bureau of Statistics--compilation of government finance statistics mission	September 1980
Bureau of Statistics--compilation of monetary statistics mission	February 1982
African and Exchange and Trade Relations--implementation of new exchange rate system mission	June 1982

SOMALIA - Relations with the Fund (concluded)

Stand-by arrangements	On February 27, 1980 the Board approved Somalia's request for a one-year stand-by arrangement (EBS/80/24) for SDR 11.5 million. Under this arrangement Somalia made drawings amounting to SDR 6.0 million. On July 15, 1981 a one-year stand-by arrangement (EBS/81/146) for SDR 43.13 million was approved by the Board. On March 26, 1982 the Board approved the review and program for January-June 1982 of the stand-by arrangement (EBS/82/42). Somalia's current 18-month, SDR 60.0 million stand-by arrangement (EBS/82/105) was approved by the Board on July 12, 1982, and the first semiannual review of the stand-by arrangement was approved on February 22, 1983 (EBS/83/15).
Last Article IV consultation	November-December 1982; Board discussion of staff report (EBS/83/15 and SM/83/27) took place on February 22, 1983.

Other technical assistance

Since August 1982, under the CBD technical assistance program, an advisor has been serving at the Central Bank as advisor on overall economic policies and on monitoring Somalia's economic program.

Financial Relations of the World Bank Group with Somalia

Date of membership, IBRD: August 31, 1962

Capital subscription, IBRD: SDR 18.9 million

IDA credits 1/	Committed	Disbursed
	(In millions of U.S. dollars)	
Agriculture, livestock, and rural development	57.7	30.6
Education	22.2	17.3
Energy	6.0	3.9
Industry	5.0	4.5
Transportation	50.7	47.0
Utilities	6.0	6.0
Total	147.6	109.3
Repayments	1.1	...
Debt outstanding (including undisbursed)	146.5	...
IFC operations	0.4	0.4

Promotion missions (mainly for banana rehabilitation, gypsum development, fishing project) in November 1980, April 1981, and March 1982; appraisal mission in July 1980 for Somali Molasses Company.

Source: World Bank.

1/ Through April 30, 1983.

CONFIDENTIAL

June 6, 1983

Mr. J. de Larosière
Managing Director
International Monetary Fund
700 19th Street, N.W.
Washington, D.C. 20431

Dear Mr. de Larosière:

1. After the successful completion of Somalia's one-year stand-by arrangement with the Fund in mid-1982, we decided to consolidate and build upon the progress made in the previous year and to continue with our adjustment program to stimulate domestic production, slow down the rate of inflation, and attain a sustainable external sector position over the medium term. In support of the program, the Executive Board approved on July 12, 1982 an 18-month stand-by arrangement equivalent to SDR 60.0 million (173.9 per cent of Somalia's quota). Despite the recurrence of the border conflict, we have been able, through an adaptation of our policies, to keep the program on track. On February 22, 1983 the Executive Board reviewed the performance of the Somali economy during the first six months of the stand-by arrangement and approved the economic and financial policies for the remainder of the program period. We have observed all of the program's quantitative performance criteria through end-March 1983.

Review of Developments in 1982

2. The financial program supported by the Fund included policies to contain the growth in aggregate demand as well as substantial measures on the supply side. In order to enhance the profitability of the export sector and attract remittances through official channels, the dual exchange rate system that had been in effect since June 30, 1981 was unified on July 1, 1982, the Somali shilling was devalued 17 per cent on the export side and 34 per cent on the import side in foreign currency terms, the peg of the Somali shilling was changed from the U.S. dollar to the SDR, and the interest rates of the banking system were raised. During the program period we have also undertaken to ease import restrictions, implement a liberal pricing policy, review the position of public enterprises, and continue to follow tight fiscal and monetary policies.

3. As a result of measures taken and favorable weather conditions, the performance of the Somali economy continued to improve during the program period, notwithstanding a recurrence of the border conflict. Led by rapid growth in the agricultural and livestock sectors, economic activity picked up sharply. Reflecting partly the impact of the exchange rate changes, as well as an expanded availability of agricultural inputs, export receipts from livestock and bananas rose considerably in 1982. Overall export receipts remained lower than projected due to the fact that underinvoicing was not reduced, as had been expected, while heavy fuel exports did not reach the anticipated level due to operational difficulties in the refinery and marketing problems. Import payments declined by 3 per cent in 1982, rather than increasing by the projected 12 per cent, due to reduced demand reflecting the rise in domestic agricultural production, a larger than projected increase in loans and grants in kind, and an overstocking of goods brought in before the franco valuta import system was discontinued. Taking into account the inflow of remittances through unofficial channels, Somalia recorded a current account surplus of US$2 million in 1982, compared to a program projection of a deficit of US$63 million. The capital account, however, recorded a deficit of US$38 million instead of the projected surplus of US$25 million due to a shortfall in cash loan disbursements and an unexpected capital outflow. Exogenous factors, such as the border conflict, were mainly responsible for this capital outflow, which took the form of the nonrepatriation of remittances through official channels. The developments in the capital account, though partly offset by the more favorable current account outcome, resulted in an overall balance of payments deficit in 1982 of US$49 million, close to the program projection of US$38 million. During 1982 the Somali Government did not contract any new nonconcessional external debt with a maturity of between 1 and 12 years.

4. Despite the recurrence of the border conflict and the consequent increase in defense expenditures, budgetary operations were kept generally under strict control in 1982. Total expenditure was contained to a level 7 per cent lower that originally projected, through the containment of extrabudgetary expenditures to about 50 per cent below program projections. While total receipts increased appreciably, due in the main to the Saudi Arabian oil grant, revenue did not increase by as much as had been originally projected. In large part, this was due to lower than projected receipts from import duties, resulting in part from the decline in imports, and to a shortfall in receipts from public enterprises. Tax payments of So. Sh. 200 million by the oil refinery were delayed and will be received in 1983, while other enterprises incurred arrears, mostly due to accounting problems. Nonetheless, because of the increase in foreign financing, the Government was able to reduce its net indebtedness to the banking system by 7 per cent, rather than the 6 per cent

projected, in contrast to an increase in its net indebtedness by 18 per cent in 1981. The improved budgetary situation is reflected in the fact that, excluding loans in kind, the budget recorded a surplus of So. Sh. 141 million as compared with a program target of a deficit of So. Sh. 210 million.

5. The Central Bank pursued a tight credit policy during 1982. Domestic credit expanded as programed by 11 per cent in 1982, compared with 17 per cent in 1981. This was mainly due to the aforementioned decline in net credit to the Government. Credit to the nongovernment sector (private sector and public enterprises) was allowed to grow by 27 per cent in 1982, close to double the 1981 rate. Credit to the private sector almost tripled in 1982, reflecting the privatization of a large segment of import activities; the private sector, accordingly, accounted for over half of the nongovernment credit outstanding at end-1982 compared to only about 25 per cent at end-1981, while credit to public enterprises was curtailed by 24 per cent in 1982, compared to an expansion of 11 per cent in 1981. Due, however, to the larger than projected expansion in net domestic assets, reflecting primarily an expansion in the intrabank float, domestic liquidity expanded by 16 per cent in 1982, compared to the 7 per cent originally projected, but was nearly half the 1981 expansion of 31 per cent. Excess demand pressures were curtailed by the reduction in real cash balances. Reflecting these restrained financial policies and favorable supply conditions, the rate of inflation declined to 24 per cent in 1982 from 44 per cent in 1981.

Policies and Prospects for 1983

6. At the beginning of 1983, in continuing pursuit of the objectives of our stabilization program, we implemented additional major measures and set out further to tighten our financial policies. To contain the problem of a private sector capital outflow that emerged in 1982 and encourage the inflow of remittances and capital flows through the banking system, we introduced on January 1, 1983, as outlined in our letter of intent of December 8, 1982, a bonus scheme, providing an exchange premium of 25 per cent in foreign currency terms for inward remittances and capital inflows effected by Somali nationals, provided priority in the granting of import licenses to participants in the bonus scheme, widened the scope of external bank accounts for import purposes, and increased and rationalized interest rates on external accounts denominated in U.S. dollars. Simultaneously, in order to finance the bonus scheme, the ad valorem import duty rate on nonessential dutiable items was effectively raised by levying it on a price 20 per cent higher than that declared in the letter of credit. These measures are being reinforced with a further reduction of the budgetary deficit and the Government's net indebtedness

to the banking system as well as an appropriate rate of expansion in credit to the nongovernment sector. As indicated in our letter of intent of December 8, 1982, the main quantitative objectives of the program for 1983 were to reduce the rate of inflation to 12 per cent and to contain the overall balance of payments deficit to US$52 million.

7. Based on preliminary data available for the first quarter of 1983, the program appears to be generally on track. The consumer price index in the first quarter of 1983 rose by only 4.7 per cent over the last quarter of 1982 compared with an 11.0 per cent increase in the first quarter of the previous year. The balance of payments, which due to seasonal factors usually incurs a large deficit in the first half of the year, recorded a surplus of about US$3 million in the first quarter of 1983. Inflows of workers' remittances through the banking system have not responded favorably to the introduction of the bonus scheme. This may have reflected, however, the widened scope of external accounts for import purposes. Although the system was instituted in February 1982, the level of imports financed through external accounts remained insignificant during 1982. Early in 1983, however, the scope of these accounts, which were originally confined to livestock exporters and limited to the estimated amounts of underinvoicing, was widened to include other traders, and the limitations on the amounts deposited were removed. As a result, external accounts can be credited by workers' remittances as well as nonsurrendered livestock export proceeds. During the first quarter of 1983 inflows into such accounts to finance imports rose to an estimated US$8 million. Fiscal and monetary developments have generally been in line with program targets; during the first quarter of 1983 the Government's net indebtedness to the banking system was reduced by 2 per cent, while credit to the nongovernment sector grew by 4 per cent, as programed. In light of the revised data for 1982 and the performance in the first quarter of 1983, the projections for 1983 in our letter of December 8, 1982, have been modified but remain consistent with the program objectives. During the remainder of 1983, we intend to continue to pursue with determination our adjustment policies, introducing the additional policy measures outlined below, to ensure the attainment of the program targets.

8. Fiscal policy: During 1983, we intend to reduce the budgetary deficit, including loans in kind, to about 16.7 per cent of total expenditure from 29.3 per cent in 1982. We will continue with strict expenditure controls and implementation of various measures to increase government revenue. Net credit to the Government from the banking system will be reduced further by So. Sh. 275 million, 13 per cent from the level prevailing at the end of 1982.

9. We intend to limit the growth of government expenditures in 1983 to So. Sh. 5,210 million or 10 per cent below the level originally programed.

We will continue to implement strict expenditure controls and limit defense expenditures to the minimum necessary. The representatives of the Ministry of Finance assigned to each Ministry will be instructed to limit deferrable expenditures strictly, taking into account the necessity of achieving our budgetary objective. The Ministry of Finance will take measures to avoid the seasonal increase in the last quarter of the fiscal year. We will not grant a cost-of-living salary adjustment to civil servants during the second half of 1983. We will, moreover, continue to discourage government employment and induce high school graduates to seek employment in the private sector.

10. On the revenue side, we have continued to strengthen our collection procedures during 1983. A vigorous attempt is being made to move the tax payments progressively onto a current basis. Collection of revenues and arrears of public enterprises will be stepped up; during the first half of 1983 about So. Sh. 200 million in arrears from 1982 have been collected. We have requested technical assistance from the Fund for improving income tax assessment and collection procedure as well as for the effective implementation of the sales tax. The introduction of a general sales tax has been deferred to July 1, 1983, as a study on the method of implementation was completed early in 1983. The sales tax, which will be set at a rate of 5 per cent, will be levied on the value of most wholesale and import transactions as well as retail sales of public enterprises; only certain essential commodities will be exempted. It will be administered through the sales of stamps to be applied on sales receipts. The revision of the tax system of public enterprises has been deferred to the second half of 1983, pending the outcome of the studies being undertaken by the Inter-Ministerial Commission on public enterprises as explained in paragraph 20. As indicated in our last letter of intent, effective January 1, 1983, specific excises, such as those levied on soft drinks and spirits, have been converted to an ad valorem basis, and effective ad valorem import duties on nonessential dutiable items have been increased by being levied on the basis of a price 20 per cent above that stated in the letter of credit. The latter is expected to offset a loss in revenue of about So. Sh. 300 million arising from the banning, for social considerations, of imports of "qat." In light of the revised budgetary outcome in 1982 and the revised lower projection for imports in 1983, we now expect revenue and grants in 1983 to increase by 29 per cent to So. Sh. 4,349 million, but to remain below the level of So. Sh. 4,825 million originally projected.

11. Monetary policy: During the remainder of the program period, we will continue to follow a monetary policy which will concentrate on curtailing excess demand pressures by reducing domestic liquidity while providing adequately for the credit needs of the economy. The rate of growth of domestic credit in 1983 will be reduced to about 5 per cent,

with net domestic credit to the Government curtailed by 13 per cent and credit to the nongovernment sector allowed to grow by 19 per cent. Given the projected change in net foreign assets, the expansion in net domestic credit will imply a decline in domestic liquidity during 1983 by 5 per cent.

12. For the purpose of monitoring the program, net domestic credit, which is expected to amount to So. Sh. 5,168 million at end-June 1983, will not exceed So. Sh. 5,223 million and So. Sh. 5,293 at end-September and end-December 1983, respectively. Net domestic credit includes net credit to the Governement and credit to public and private enterprises. Within the global ceiling, net bank credit to the Government (defined as the banking system's claims on Government, less government deposits, plus any budgetary use of local currency counterpart in respect of purchases from the Fund), which is expected to amount to So. Sh. 1,990 million at end-June 1983, will not exceed So. Sh. 1,910 million at end-September 1983 and So. Sh. 1,825 million at end-December 1983.

13. We are of the view that the appropriate expansion of the banking system in Somalia is essential to improving financial intermediation domestically as well as encouraging the inflow of remittances through the banking system. Accordingly, the Somali Government has decided, effective July 1, 1983, to allow branches of foreign banks to operate in Somalia. These banks will be subject to the same laws and regulations as the Somali commercial bank. The Central Bank currently has several applications under consideration; it is expected that approvals will be granted during the course of the year. During the last two years, the rapid pace of expansion of economic and financial activity has placed considerable strain on the operations of the state-owned Commercial and Savings Bank of Somalia. It is our intention to contract, by end-July, with a management consulting firm to prepare a study on the measures that need to be taken to strengthen and streamline the operations of the bank. We expect that the report of the consultants will be available by end-September so as to enable the bank to study the recommendations and start implementing them before the end of the year.

14. In view of the substantial decline in the inflation rate during the last year and the further decline expected in 1983, we regard the current interest rate structure, which was revised in mid-1982, as appropriate and in line with our economic and financial objectives. We fully recognize the important role that an appropriate interest rate policy plays in savings mobilization, financial intermediation, and resource allocation. Accordingly, we plan to keep the interest rate structure under review and revise it, as the need may arise, in light of changing economic and financial conditions in Somalia and abroad.

15. External sector prospects and policies: Recognizing the importance of a flexible exchange rate policy for the success of our adjustment efforts, we are introducing a change in our exchange rate system. Effective July 1, 1983, we intend to peg the Somali shilling to the real SDR basket, with a base rate of So. Sh. 16.5 = SDR 1, in order to stabilize the real effective exchange rate of the Somali shilling. The rate of the Somali shilling for the U.S. dollar, the intervention currency, will be set within margins of 7.5 per cent around the central rate. Further, indicative bands of 2.25 per cent will be set around the central rate. Whenever the Somali shilling per U.S. dollar rate should reach the limit of the 2.25 per cent band, the Central Bank will, at its discretion, decide whether to modify the intervention rates. In so doing, it will take into account recent and prospective developments in exports, imports, remittances, capital flows, and international reserves, as well as any other relevant indicators.

16. Reflecting a further tightening of financial policies and the effect of measures taken, including the pursuit of a more flexible exchange rate policy during the latter half of 1983, we expect that the current account of the balance of payments will be in near balance during 1983, compared with a deficit of US$51 million envisaged in the original program projections. Our latest projections indicate a growth in imports (excluding grants and loans in kind) by about 16 per cent in U.S. dollar terms, as non-oil imports are projected to rise considerably, reflecting a return to more normal weather conditions and a continued expansion in economic activity. On the other hand, commercial oil imports are expected to be reduced due to an overaccumulation of oil stocks resulting from substantial commercial imports in 1982 and the Saudi oil grant. In view of the favorable response to the use of external accounts for import purposes, it is now projected that such accounts will finance approximately US$30 million worth of imports in 1983. Export earnings are expected to continue rising due to the favorable response of livestock and banana exports to measures taken. Transfers are also expected to rise, reflecting an increase in both private remittances and official grants. As an increased proportion of private transfers is projected to be effected through the banking system and in the form of own-exchange imports, the private capital outflow, financed through such remittances, is now projected to decline to about US$28 million from US$45 million in 1982. In part because of this development, the overall balance of payments deficit is expected to be contained to US$40 million, compared with US$49 million in 1982 and a review projection of US$52 million.

17. The underinvoicing of livestock exports has continued. The Government, in accordance with the understandings reached with the Fund, has studied the issue and is of the view that an increase in the minimum export prices of about 5-10 per cent should be introduced. In view of

the importance of introducing such an increase at a time when it would not disrupt the flow of livestock exports, the Government of Somalia has decided to introduce the increase on November 1, 1983 following the peak season of 1983. A study on the livestock sector is currently under way with assistance from the USAID and, in light of the recommendations of the study, it is expected that the Government will consider further action designed to improve the marketing process of livestock exports and enhance their profitability. The formation of livestock traders' associations to organize the marketing process as well as the setting up of holding grounds in Saudi Arabia are currently under consideration.

18. Somalia's disbursed external debt at the end of 1982 amounted to about US$1.05 billion, most of which is on concessional terms. During 1982 and the early part of 1983, the Somali Government has serviced its external debt on schedule. In order to contain service payments on our external debt, which were expected to rise very sharply in 1983, we have renegotiated on the basis of verbal agreements the terms of out outstanding debt with several of our creditors. Our debt service payments due to the Governments of Abu Dhabi, Iraq, Saudi Arabia, and the People's Republic of China have been frozen on the basis of verbal agreements with those Governments, pending further negotiations. Debt service payments due to Yugoslavia and the Saudi Fund during 1983 have been rescheduled to 1984. We have also reached an agreement with the Islamic Development Bank to further reschedule a large part of payments due in 1983 to subsequent years. As a result, debt service payments on our external debt in 1983 are projected to be contained to about US$39 million or about 18 per cent of projected exports of goods and services; in the absence of this debt relief, our scheduled debt service payments in 1983 would have amounted to about US$80 million. We plan to continue to try to obtain debt relief from other sources during the remainder of the program period. We also intend to limit new commitments on public and publicly guaranteed nonconcessional external debt with a maturity of 1 to 12 years to no more than US$25 million through the end of the program period, excluding any refinancing obtained through negotiations. Furthermore, in order to improve debt monitoring procedures, we have instituted a debt unit within the Ministry of Finance.

19. Exchange and trade system: The Government of Somalia does not intend to introduce any multiple currency practices or impose new or intensify existing restrictions on payments and transfers for current international transactions or enter into any bilateral payments arrangements with Fund members. Furthermore, the Government does not intend to introduce new or intensify existing restrictions on imports for balance of payments reasons.

20. Public enterprises: The Inter-Ministerial Commission on public enterprises, composed of representatives from the Central Bank, the Ministry

of Finance, the Ministry of Commerce, and other ministries responsible for various public enterprises, has made considerable progress in evaluating the problems and the financial position of public enterprises. It is expected that its report, containing recommendations on measures to improve the operation of public enterprises as well as indicating those which the Government should divest from or phase out of operation, will be ready during the second half of 1983. This commission was set up because of the Government's firm commitment to improve the profitability and productivity of public enterprises and to maintain in operation only economically viable public enterprises. In this connection, the decision taken by the Government early in 1983 to generally allow public enterprises to set prices that reflect fully the cost of production plus a profit margin should contribute to an improvement in the financial position of these enterprises. Furthermore, and in line with its policy to enter into joint ventures, the Somali Government has sold a 60 per cent interest in the state-owned National Banana Board to a private firm; the new company will operate as a joint venture.

21. Development planning: We are preparing, within the context of our Five-Year Development Plan (1982-86), a three-year public investment program in close consultation with the World Bank and the Fund. The public investment program will be used to manage and monitor the development effort and will be developed in the context of a medium-term recovery program for the rehabilitation and consolidation of the economy. We will ensure that the public investment program will direct available resources to the development activities with the greatest promise of augmenting domestic commodity production, increasing exports, and replacing imports. The public investment program will be elaborated in the context of a macroeconomic framework to ensure its consistency with our objective of re-establishing domestic and external financial stability. The level of investment will be kept consonant with the absorptive capacity of the economy and with available resources. We will present an initial outline of this medium-term program at the Consultative Group Meeting of Somalia's donors being organized by the World Bank for the fall of 1983.

22. The Somali Government believes that the policies set forth in our letter of intent of April 15, 1982 and supplemented by our letter of December 8, 1982 and this letter are adequate to achieve the objectives of the program and will take any further measures that may become necessary for this purpose. We will continue to consult with the Fund in accordance with Fund policy in this respect.

Sincerely yours,

Mohamud Jama Ahmed
Governor, Central Bank of Somalia

Abdullahi Ahmed Addou
Minister of Finance