

DOCUMENT OF INTERNATIONAL MONETARY FUND  
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**FOR  
AGENDA**

EBS/83/15  
Correction 1

CONFIDENTIAL

February 7, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Somalia - Staff Report for the 1982 Article IV Consultation,  
Review Under Stand-By Arrangement, and Program for 1983

The following corrections have been made in EBS/83/15 (1/19/83):

Page 6, item 3c, line 3, under Program: for "internal petroleum"  
read "international petroleum"

Page 38, Table V: Revised.

Corrected pages are attached.

Att: (2)



Table 3. Somalia: Implementation Status of the 1981 and 1982 Financial Programs

Program	Current Status of Implementation
<b>1. Fiscal measures</b>	
a. Reduce budgetary deficit, including loans in kind, to 28 per cent of expenditure in 1981 and 19 per cent of expenditure in 1982. Excluding loans in kind, reduce the deficit to 19 per cent in 1981 and 5 per cent in 1982.	Budgetary deficit, including loans in kind, reduced to 30 per cent of expenditure in 1981 and 26 per cent in 1982. Budgetary deficit, excluding loans in kind, reduced to 12 per cent in 1981 and a budgetary surplus of 5 per cent of expenditure in 1982.
b. Limit expansion in net domestic credit to the Government to 18 per cent in 1981 and reduce net credit to Government by 6 per cent in 1982.	Implemented in 1981 and 1982.
c. Improve collection rates by enactment of more stringent penalties for tax evasion and failure to file a return. Eliminate the <u>concordato</u> procedure. Introduce a 25 per cent ad valorem tax on livestock exports. 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.	All enacted. The 25 per cent ad valorem tax on livestock exports was levied on a price which was lower than the actual export price. Exemptions of import duties were limited to infant industries.
d. Consider implementing 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.	Preparations undertaken to introduce a general sales tax, convert specific excises to an ad valorem basis, and restructure the tax system of public enterprises.
e. Grant no cost of living increase in the public sector in the second half of 1981 and in 1982.	Implemented. In 1982, however, the development levy on the wages of government employees was abolished.
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.	Implemented.
<b>2. Monetary measures</b>	
a. Increase interest rates on the average by three percentage points in mid-1981 and two percentage points in mid-1982.	Implemented.
b. Introduce external accounts denominated in U.S. dollars for Somali workers and exporters.	Implemented.
c. Reduce the rate of growth of domestic credit to 17 per cent in 1981 and 11 per cent in 1982, while providing more adequately for the credit needs of the private sector.	Implemented.
<b>3. Pricing measures</b>	
a. Increase producer prices for agricultural products 17 to 30 per cent in April 1981 and for bananas 107 per cent and 10-27 per cent, respectively, in June 1981 and 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.

Table 3 (concluded). Somalia: Implementation Status of 1981 and 1982 Financial Programs

Program	Current Status of Implementation
c. Move petroleum product prices to reflect exchange rate changes and changes in international petroleum prices.	Implemented. The price of gasoline was raised by 153 per cent in August 1981 and the prices of diesel fuel and kerosene 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. <u>Public enterprises</u>	
a. Abolish public enterprises determined to be not viable.	Three public enterprises abolished.
b. 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.
5. <u>Development planning</u>	
a. Prepare a Five-Year Development Plan (1982-86).	Implemented.
b. Organize with the assistance of the World Bank a Consultative Group Meeting of donor countries for Somalia.	Steps taken to organize a Consultative Group meeting for Somalia in the first half of 1983.
6. <u>External sector measures</u>	
a. On June 30, 1981 devalue the Somali shilling 50 per cent in foreign currency terms for all foreign exchange transactions except the imports of specified essential goods. 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. Until the end of February 1982 certain transactions, other than the import of essential goods, were also effected at the appreciated exchange rate.
b. Change the peg of the Somali shilling from the U.S. dollar to the SDR on July 1, 1982.	Implemented.
c. Cease to issue licenses for own-foreign exchange imports and stop such imports.	Implemented.
d. Liberalize import licensing system and administer more flexibly restrictions on foreign exchange.	System introduced. The government monopoly on imports has been discontinued.
e. 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.
f. Limit new commitments on public and publicly guaranteed nonconcessional external debt with a maturity of 1-12 years to US\$25 million.	Through December 1982 no such debt incurred.

Table IV. Somalia: Balance of Payments (Including Grants and Loans in Kind), 1979-83

(In millions of U.S. dollars)

	1979	1980	1981	1982		1983	
				Prog.	Prel. est.	Prog.	Rev. prog.
Goods and services	-300	-336	-313	-248	-323	-199	-305
Exports, f.o.b.	106	133	121	172	167	200	183
Livestock	75	102	105	127	125	142	135
Bananas	12	8	6	15	12	26	18
Other	19	24	10	30	30	32	30
Imports, c.i.f.	-394	-461	-453	-410	-510	-387	-503
Foreign exchange	-289	-276	-176	-290	-227	-310	-270
Franco valuta	-34	-55	-60	--	--	--	--
Grants in kind	-15	-69	-140	-65	-178	-22	-133
Loans in kind	-56	-61	-77	-55	-105	-55	-100
Trade balance	-288	-328	-332	-238	-343	-187	-320
Services (net)	-12	-8	19	-10	20	-12	15
Transfers (net)	94	200	212	130	228	93	208
Private	36	57	64	50	50	56	60
Official	58	143	148	80	178	37	148
Current account	-206	-136	-101	-118	-95	-106	-97
Capital account	88	87	73	80	58	80	45
Private (net)	4	--	--	--	-45	--	-30
Official (net)	84	87	73	80	103	80	75
Receipts	(87)	(97)	(93)	(95)	(113)	(...)	(130)
Payments	(-3)	(-10)	(-20)	(-15)	(-10)	(...)	(-55)
Errors and omissions	19	22	16	--	--	--	--
Overall balance	-99	-28	-13	-38	-37	-26	-52

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

Table V. Somalia: Debt Service Payments, 1/ 1979-87

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

	1979	1980	1981	1982	1983	1984	1985	1986	1987
Amortization, excluding Fund	2.9	6.9	18.3	10.0	58.6	60.0	57.0	73.1	97.1
Fund repurchases	--	--	--	--	--	4.0	16.4	28.6	26.2
Total	2.9	6.9	18.3	10.0	58.6	63.9	73.5	101.8	123.3
Interest payments, excluding Fund	1.0	1.9	8.9	6.7	16.3	19.4	23.1	28.4	32.9
Fund charges	--	--	0.4	3.3	4.9	4.8	4.2	2.7	1.4
Total	1.0	1.9	9.3	10.0	21.2	24.2	27.3	31.1	34.3
Total debt service	3.9	8.8	27.6	20.0	79.8	88.1	100.8	132.9	157.6
Exports of goods and services	153	204	203	227	254	285	319	357	400
Debt service ratio	2.5	4.4	13.6	8.9	31.4	30.9	31.6	37.2	39.4

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-March 1982 and on additional disbursements, based on new commitments, of US\$50 million in 1983 and 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 1983-87 are assumed to rise at an annual rate of 12 per cent.