FOR AGENDA

SM/85/203

CONTAINS CONFIDENTIAL
INFORMATION

July 15, 1985

To: Members of the Executive Board

From: The Secretary

Subject: Somalia - Staff Report for the 1985 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1985 Article IV consultation with Somalia. A draft decision appears on page 31. This subject will be brought to the agenda for discussion on a date to be announced.

Mr. Ewart Williams (ext. 6973) or Ms. Calika (ext. 6948) are available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

Other Distribution:
Department Heads

CONTAINS CONFIDENTIAL
INFORMATION

INTERNATIONAL MONETARY FUND

SOMALIA

Staff Report for the 1985 Article IV Consultation

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 A.D. Ouattara and W.A. Beveridge

July 12, 1985

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I. Introduction

The Article IV consultation discussions with Somalia were held in Mogadiscio during the period April 24-May 9, 1985. The mid-term review of the current stand-by arrangement was also initiated at that time but was scheduled to be completed in June. 1/ The Somali representatives included Mr. Husayn Kulmiye Afrah, Second Vice President and Minister of National Planning; Mr. Mohamed Sheikh Osman, Minister of Finance; Mr. Omar Ahmed Omar, Governor of the Central Bank, and other ministers and senior officials of ministries and agencies concerned with economic and financial matters. The staff representatives were Mr. E.S. Williams (head-AFR), Mr. J.D. Simpson (AFR), Ms. N. Calika (AFR), Ms. K.M. Meesook (ETR), Mr. A.H. Mansur (FAD), and Mrs. G.J. Dass (secretary-TRE).

On January 25, 1985, the Executive Board approved in principle Somalia's request for a one-year stand-by arrangement in an amount equivalent to SDR 22.1 million (50 percent of quota, EBS/85/1). At the same time Somalia's request for a purchase of SDR 32.6 million (equivalent to 73.8 percent of quota) under the compensatory financing facility (EBS/85/8) was also approved contingent upon the coming into effect of the upper credit tranche program.

1/ A follow-up mission to complete the review visited Mogadiscio during June 27-July 4, 1985.

The program was predicated on the closing of the estimated financing gap of around US$50 million, 1/ in addition to the rescheduling of external debt service payments and arrears expected to provide relief of US$44 million, of which US$32 million was owed to Paris Club creditors. At a special donors' meeting held in Paris on January 23, 1985, under the chairmanship of the World Bank, pledges and indications of support amounting to US$80 million were received largely in the form of commodity aid. Following discussions with the respective donors, the World Bank and the Fund, projected expected disbursements of pledged assistance in 1985 at around US$55 million. On the basis of these projected disbursements, debt relief granted by the Islamic Development Bank and the scheduling of the Paris Club meeting to reschedule debts owed to official creditors, the Fund determined that satisfactory arrangements had been made for financing the expected balance of payments gap in 1985. Accordingly, the stand-by arrangement came into effect on February 22, 1985 (EBS/85/1, Supplement 2), and the compensatory financing purchase was made on March 1 and March 4, 1985.

The meeting of official creditors within the framework of the Paris Club was held on March 4, 1985, to consider Somalia's request for rescheduling external debt arrears due as at end-December 1984 and debt service payments due in 1985. Debt relief granted as a result of the meeting amounted to US$124 million. 2/ When allowance is made for moratorium interest to be paid in 1985, the net debt relief is roughly consistent with what was assumed in the program. 3/

So far SDR 2 million has been purchased under the stand-by arrangement; a purchase of SDR 3 million scheduled to be made in

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1/ The financing gap was originally estimated at US$100 million but was revised to about US$50 million to take account of (i) the receipt in 1985 of a US$20 million cash grant from Saudi Arabia which, at the time of the formulation of the program, was expected to be disbursed in 1984, (ii) debt relief of US$13 million granted by the Islamic Development Bank, and (iii) the elimination of targeted official reserve accumulation of US$15 million (instead, the entire compensatory financing facility purchase of SDR 32.6 million, which was not included in the financing gap estimate, was allocated to reserve accumulation).

2/ This sum included the US$32 million that was included in the original program, US$19 million upward revision in the debt service payments due for 1985, US$13 million of short-term commercial arrears which was not expected to be rescheduled, and US$62 million which in the program was assumed to have been rescheduled on a bilateral basis; US$2 million was paid to the United States prior to the Paris Club meeting and therefore was not eligible for rescheduling.

3/ The details of the debt rescheduling agreements are provided in EBS/85/72.

May on the basis of the performance criteria for end-March was not made because Somalia accumulated new external debt service arrears in the first quarter. As of end-May 1985, Fund holdings of Somali shillings subject to repurchase amounted to SDR 133 million (301.6 percent of quota) or excluding purchases under the CFF, SDR 100.7 million (227.8 percent of quota). Assuming all purchases under the existing arrangement are made, Fund holdings of Somali shillings subject to repurchase will reach 310.6 percent of quota (or 236.8 percent of quota excluding purchases under the CFF) at the end of the arrangement (Table 1). Summaries of Somalia's relations with the Fund and the World Bank are presented in Appendices II and III.

Since mid-1983, Somalia has experienced frequent difficulties in discharging its financial obligations to the Fund on schedule, the latest being in May/June 1985, when two repurchases totaling SDR 1.3 million were in arrears for about three weeks. These obligations were discharged on June 13, 1985.

The last Article IV consultation with Somalia was discussed by the Executive Board on April 30, 1984 (SM/84/71). Somalia continues to avail itself of the transitional arrangements of Article XIV.

II. Background and Developments in 1984

In the face of mounting domestic and external financial imbalances, the Somali authorities launched in mid-1981, a major adjustment effort, supported by two consecutive stand-by arrangements with the Fund, 1/ to promote economic activity, reduce inflationary pressures, and strengthen the external sector position. During the course of the next two and a half years, many demand- and supply-oriented measures were implemented. As a result, and notwithstanding a number of exogenous developments, some progress was made toward domestic and external financial stability (Table 2). 2/

In late 1983 and early 1984 the Government formulated a medium-term economic program designed to consolidate the progress made in 1981-83 and at the same time confront the structural and institutional problems facing the economy. However, the implementation of the program was postponed because it was felt that a more gradual adjustment approach was appropriate in view of existing social and political

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1/ A one-year stand-by arrangement for an amount equivalent to SDR 43.13 million was approved on July 15, 1981 (EBS/81/146) and on July 15, 1982 an 18-month stand-by arrangement for an amount equivalent to SDR 60.0 million was approved (EBS/82/105).

2/ A detailed description of developments under the two adjustment programs is provided in SM/84/71.

Table 1. Somalia: Use of Fund Credit, 1985-86

	Outstanding at beginning of arrangement Dec. 31, 1984	1985 Jan.-March	1985 April-June	1985 July-Sept.	1985 Oct.-Dec.	1986 Jan.-March
	(In millions of SDRs)					
Transactions under tranche policies (net)		-1.24	-2.93	5.22	0.38	0.35
Purchases		2.00	-- 1/	8.70	5.70	5.70
Ordinary resources		(1.00)	(--)	(4.35)	(2.85)	(2.85)
Borrowed resources		(1.00)	(--)	(4.35)	(2.85)	(2.85)
Repurchases		3.24	2.93	3.48	5.32	5.35
Credit tranche		(2.32)	(2.19)	(2.56)	(3.41)	(3.41)
Enlarged access		(0.92)	(0.74)	(0.92)	(1.91)	(1.94)
Transactions under special facilities (net) 2/		32.60	--	--	--	--
Purchases		32.60	--	--	--	--
Repurchases		--	--	--	--	--
Total Fund credit outstanding (end of period)	102.91	134.26	131.33	136.55	136.93	137.28
Under tranche policies	102.91	101.66	98.73	103.95	104.33	104.68
Under special facilities	--	32.60	32.60	32.60	32.60	32.60
	(As percent of quota)					
Total Fund credit outstanding (end of period)	232.83	303.76	297.13	308.94	309.80	310.59
Under tranche policies	232.83	230.00	223.37	235.18	236.04	236.83
Under special facilities	--	73.76	73.76	73.76	73.76	73.76

Sources: Treasurer's Department; and staff estimates.

1/ A purchase of SDR 3 million scheduled to be made in May was not made because Somalia did not meet all performance criteria.

2/ Compensatory financing facility.

Table 2. Somalia: Selected Economic and Financial Indicators, 1980-85

	1980	1981	1982	1983	1984 1/ Prel. est.	1985 2/ Prog.	1985 2/ Est.
			(Growth rate in percent unless otherwise specified)				
National income and prices							
GDP at constant prices	2.1	4.9	11.2	2.4	2.3	4.0	4.0
Consumer price index	59.0	44.6	22.6	36.4	92.2	20.0	30.0
Trends in central government finance							
Revenue	-6.9	58.4	15.0	57.5	-7.6	92.9	49.3
Total revenue and grants	5.1	41.8	41.4	40.4	11.0	147.5	142.6
Total expenditure	-3.8	18.9	44.2	23.7	69.7	59.3	56.6
Trends in monetary aggregates 3/							
Money and quasi-money	20.2	30.8	15.7	7.5	26.0	5.8	-8.6
Net domestic credit	32.8	19.7	10.8	4.6	79.2	2.8	15.2
Government (net)	23.9	10.3	-3.4	-5.8	46.8	-3.2	8.5
Private	8.9	9.4	14.2	10.4	32.4	6.0	6.7
Net domestic assets	26.4	31.3	30.3	40.9	65.4	96.0	148.3
Interest rates							
Commercial bank lending rate							
Minimum	6.0	10.0	12.0	12.0	12.0	15.0	15.0
Maximum	12.5	12.5	14.5	14.5	14.5	20.0	20.0
Commercial bank maximum deposit rate	7.0	9.0	11.0	11.0	11.0	18.0	18.0
Development bank maximum lending rate	7.5	14.0	14.0	14.0	14.0	17.0	17.0
Trends in external sector (in U.S. dollars)							
Exports, f.o.b.	26.4	-14.9	20.2	-27.0	-38.0	81.7	72.6
Imports, c.i.f.	17.0	-8.5	14.7	-7.0	-9.8	24.7	38.2
Nominal effective exchange rate (depreciation -)	0.8	-4.0	-27.3	-11.3	-9.0	...	-32.7 4/
Real effective exchange rate (depreciation -)	36.9	21.3	-20.8	19.5	60.4	...	-24.3 4/
				(In percent of GDP)			
Overall budget balance							
Including grants	-9.1	-5.0	-5.5	-3.3	-6.9	-2.0	-3.1
Excluding grants	-12.6	-7.1	-9.3	-6.1	-9.5	-10.2	-11.4
Current budget balance							
Including grants	0.7	2.0	3.3	1.6	-2.8	8.0	6.4
Excluding grants	-2.8	-0.2	-0.5	-1.2	-5.4	-0.2	-1.9
Balance of payments							
Current account balance							
Adjusted 5/	-6.3	-4.4	-5.7	-6.3	-6.2	-5.1	-4.9
Unadjusted	-6.3	-4.4	-6.5	-5.9	-3.8	-6.3	-6.1
Current account balance, excluding grants							
Adjusted 5/	-12.9	-11.5	-12.5	-12.7	-13.5	-15.7	-16.7
Unadjusted	-12.9	-11.2	-14.3	-11.9	-8.3	-19.3	-20.5
Overall balance							
Adjusted 5/	-1.3	-0.6	-1.9	-3.7	-5.9	0.7	-1.8
Unadjusted	-1.3	-0.6	-2.2	-3.5	-3.6	0.9	-2.3
			(In millions of U.S. dollars unless otherwise specified)				
Current account balance	-135.0	-95.0	-131.0	-147.0	-145.0	-131.0	-126.0
Current account, excluding grants	-278.0	-245.0	-288.0	-295.0	-319.0	-400.0	-426.0
Overall balance of payments	-27.0	-13.0	-44.0	-86.0	-139.0	18.0	-47.0
Gross official reserves	25.0	42.0	14.0	16.0	6.0	39.0	21.0
(in weeks of cash imports)	(3.9)	(10.7)	(3.6)	(4.0)	(2.0)	(9.2)	(6.5)
External debt, including IMF	698.5	995.4	1,146.4	1,260.5	1,354.5	1,446.8	1,502.5
Debt service ratio	4.6	14.2	12.2	17.2	94.8	38.7	47.6
External debt servicing arrears	44.6	46.5	55.6	82.8	154.8	--	27.0
External commercial arrears	...	...	...	...	33.9	10.0	6.0

Sources: Data provided by the Somali authorities; and staff estimates. GDP data are based on staff estimates derived from 1978 base using estimates of real GDP growth and the consumer price index as a proxy for the GDP deflator.

1/ Balance of payments data for interest and amortization payments, as well as debt service ratio, are on commitment basis.

2/ As in the original program, the fiscal and monetary data exclude the resources accruing to the Government as a result of the gap-fill exercise. Fiscal and monetary programs, however, differ from EBS/85/1 because they are calculated at So. Sh. 50 = US$1 and So. Sh. 80 = US$1, respectively.

3/ Change in relation to broad money at the beginning of the year.

4/ January-April 1985.

5/ GDP converted into U.S. dollars by assuming the real effective exchange rate constant at the 1980 level.

circumstances at the time. In the event, financial policies became more expansionary in 1984, and this, combined with adverse exogenous factors--including a ban on Somali cattle exports to Saudi Arabia-- 1/ resulted in a sharp deterioration in internal and external imbalances and a resurgence of inflationary pressures.

Economic growth in 1984 is estimated to have remained at the previous year's level of around 2 percent. 2/ Agricultural production rose sharply, reflecting the liberalization of marketing and pricing policies and favorable weather conditions during the first part of the year. The manufacturing and trade sectors were, however, seriously affected by the foreign exchange shortage which reduced the availability of essential imported inputs. With the shortage of imported goods and expansionary financial policies, the inflation rate reached over 90 percent in 1984 which was about three times the average rate of 1981-83.

The fiscal situation weakened markedly in 1984 (Table 3). On a commitment basis the overall budgetary deficit (including grants) of the Central Government increased from So. Sh. 1.3 billion (the equivalent of 3.3 percent of GDP) in 1983 to So. Sh. 5.3 billion (6.9 percent of GDP) in 1984. Government revenue declined by 8 percent partly as a result of a significant erosion of the tax base due to (1) the introduction of a ban in 1983 on the importation of "Kat" (a stimulant herb), which in 1982 is estimated to have accounted for about 24 percent of total import duties, (2) a ban on imports of foreign cigarettes by individuals or companies other than the state tobacco monopoly, and (3) reductions, or, in some cases, the elimination of import duties on agricultural machinery, spare parts, semi-processed inputs, and industrial raw materials. The effect of these factors on import duties was aggravated by the reduction in imports due to the general shortage of foreign exchange. Also export duty receipts were reduced by 70 percent due to the sharp decline in livestock exports resulting from the Saudi ban.

Total government expenditure increased by about 70 percent in 1984; ordinary expenditure rose by 75 percent as a result of higher interest payments, higher domestic inflation, and a relaxation of the system of expenditure controls that had been established over the previous two years. 3/ Investment spending, which had declined

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1/ In May 1983, Saudi Arabia imposed a ban on cattle imports from Somalia and other African countries after the discovery of rinderpest disease in some imported cattle. A temporary ban was also placed by Saudi Arabia on Somali sheep and goat exports late in 1983. This latter ban was lifted in February 1984.

2/ Somalia has no official national income accounts, GDP data are based on staff estimates. For details, see SM/85/---.

3/ An economic breakdown of government ordinary expenditure is not available.

Table 3. Somalia: Summary of Central Government Operations, 1981-85

	1981	1982	1983	1984 Prel. est.	1985 Prog. 1/2/	1985 Rev. est. 1/2/
	(In millions of Somali shillings)					
Total revenue and grants	2,698	3,816	5,359	5,951	16,239	14,436
Revenue	2,251	2,588	4,075	3,766	7,574	5,621
Tax	(2,002)	(2,275)	(3,371)	(2,972)	(6,870)	(4,771)
Nontax	(249)	(313)	(704)	(794)	(704)	(850)
Grants 3/	435	1,056	1,106	1,980	8,450	8,600
Oil grant and commodity import program	(--)	(600)	(901)	(620)	(3,450)	(3,100)
Transfers from local authorities	12	172	178	205	215	215
Total expenditure	3,720	5,366	6,636	11,264	18,364	17,639
Ordinary expenditure 4/	2,295	2,750	4,539	7,965	7,700	7,475
Investment expenditure	1,425	2,461	1,920	3,124	10,400	9,900
Development budget	(286)	(348)	(498)	(604)	(1,200)	(1,200)
Transfers to local authorities	--	155	177	175	264	264
Overall balance 4/						
Excluding grants	-1,457	-2,606	-2,383	-7,293	-10,575	-11,803
Including grants	-1,022	-1,550	-1,277	-5,313	-2,125	-3,203
Change in domestic counterpart external arrears	--	--	--	1,800	-2,300	-2,435
Financing	1,022	1,550	1,277	3,513	4,425	5,638
Foreign (net)	681	1,724	1,572	940	4,700	5,050
Domestic	341	-174	-295	2,573	-275	588
Banking system (net)	(347)	(-150)	(-295)	(2,573)	(-275)	(588)
Cash balances (net)	(-6)	(-24)	(--)	(--)	(--)	(--)
	(In percent of GDP)					
Total revanue and grants	13.1	13.6	13.7	7.7	15.6	13.9
Of which: revenue	(11.0)	(9.3)	(10.4)	(4.9)	(7.3)	(5.4)
Total expenditure	18.1	19.2	17.0	14.7	17.7	17.0
Ordinary expenditure	11.2	9.8	11.6	10.4	7.4	7.2
Investment expenditure	6.9	8.8	4.9	4.1	10.0	9.5
Of which: development budget	(1.4)	(1.2)	(1.3)	(0.8)	(1.2)	(1.2)
Overall balance						
Excluding grants	-7.1	-9.3	-6.1	-9.5	-10.2	-11.4
Including grants	-5.0	-5.5	-3.3	-6.9	-2.0	-3.1
External financing (net)	3.3	6.2	4.0	1.2	4.5	4.9
Bank financing (net)	1.7	-0.5	-0.8	3.3	-0.3	0.6

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

1/ Based on an average official exchange rate of So. Sh. 50 per U.S. dollar, compared with an average official exchange rate of So. Sh. 40 per U.S. dollar originally assumed in the program.

2/ Excluding the proceeds from additional commodity and project aid generated from the gap-fill exercise which was programmed to result in a reduction in bank financing.

3/ Includes cash grants as well as grants in kind, including project grants, Saudi oil grant, commodity import program, and budgetary support in the form of food aid.

4/ Commitment basis.

in 1983, rose by two thirds in 1984 following a review of all capital projects and an increase in project grants and loans and technical assistance pledged at the Consultative Group meeting organized by the World Bank in late October 1983.

To aid in the financing of the deficit the Government borrowed extensively from the Central Bank (So. Sh. 2.6 billion or 47 percent of the beginning money stock). This was in sharp contrast to the two previous years during which Government had reduced its net indebtedness to the banking system. The effect of government operations on the money supply was reinforced by an unusually strong growth (equivalent to about 32 percent of the opening money stock) in credit to the nongovernment sector related to the weakening in the financial positions of some public enterprises and the effect of the higher inflation rate. The increase in the money supply in the first three quarters of the year was 41 percent but following a sharp deceleration in the last quarter the increase for the year as a whole was 26 percent (Table 4).

The balance of payments came under serious pressure in 1984 as a result of a decline in export receipts mainly related to the abovementioned ban on cattle exports and a sharp increase in scheduled debt service payments (Table 5). 1/ Consequently, external payments arrears amounting to US$97 million were accumulated during the year. These arrears were related to bilateral loans (mainly from Italy) as well as loans from multilateral institutions, mainly the Islamic Development Bank, the Arab Monetary Fund, and the Arab Fund for Economic and Social Development. In addition, there were external commercial arrears amounting to US$34 million arising from suppliers' credits to state enterprises and the private sector and remittances to foreign airlines operating in Somalia.

With official reserves virtually depleted, foreign exchange demand was diverted to the parallel market, and by August 1984, the exchange rate in this market reached So. Sh. 70 per U.S. dollar compared to the official exchange rate of So. Sh. 17.6 per U.S. dollar. 2/ With a view to narrowing the gap between the official and parallel exchange rates and to stimulating export expansion and diversification, on September 15, 1984 the authorities devalued the Somali shilling by 32 percent in foreign currency terms to So. Sh. 26 per U.S. dollar. This adjustment was not sufficient to reverse the appreciation of the exchange rate which had taken place since the currency was pegged to the real SDR in mid-1983.

1/ Beginning in 1984, with the aid of a technical expert provided by the Fund there was a marked improvement in the compilation of external debt data. The improvement in recording partly explains the large increases in scheduled debt service payments in 1984.

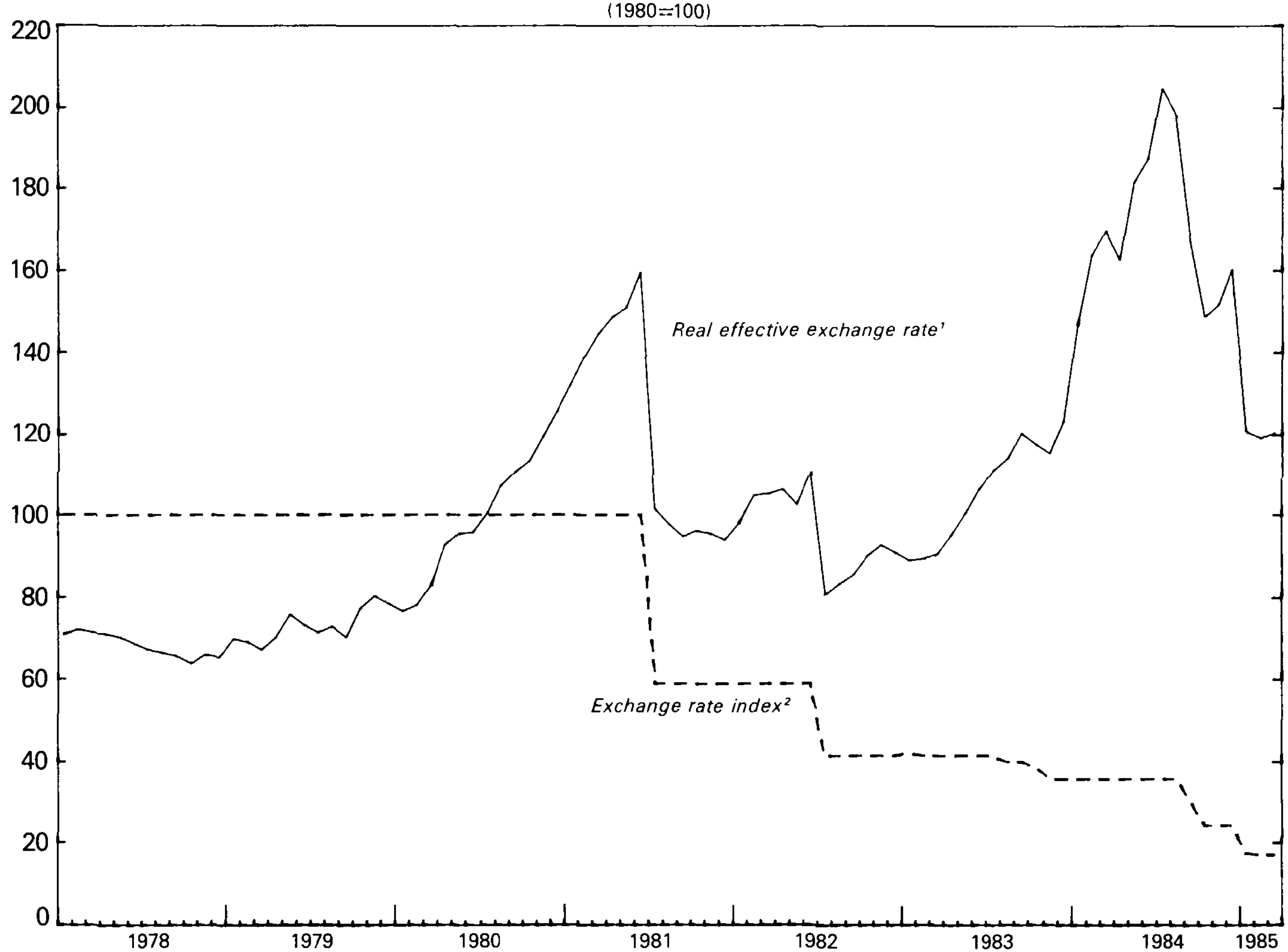
2/ Somalia's real trade-weighted effective exchange rate index is shown in Chart 1.

CHART 1

SOMALIA

INDEX OF REAL EFFECTIVE EXCHANGE RATE, JAN. 1978-APRIL 1985

(1980=100)



[1] Trade weighted index of nominal exchange rates deflated by seasonally adjusted relative consumer prices (information notice system). Increases mean appreciation.

[2] U.S. dollar per Somali shilling.

Table 4. Somalia: Monetary Survey, 1981-85

	1981	1982	1983	1984	1985	
	Dec.	Dec.	Dec.	Dec.	December	
					Program 1/	Estimate 2/
	(In millions of Somali shillings)					
Net foreign assets	126.4	-519.3	-2,227.6	-4,390.1	-11,590.8	-15,268.0
Central Bank	-804.0	-1,947.3	-3,134.2	-4,989.8	-15,723.1	-16,953.2
Commercial bank	930.4	1,428.0	906.6	599.7	4,132.3	1,685.2
Domestic credit	4,545.7	5,023.8	5,260.8	9,616.2	9,820.0	10,668.2
Government (net)	2,249.6	2,100.0	1,805.0	4,378.2	4,118.0	4,966.2
Other	2,296.1	2,923.8	3,455.8	5,238.0	5,702.0	5,702.0
Public enterprises	(1,721.5)	(1,300.0)	(1,163.0)	(1,511.1)	(...)	(...)
Private sector	(574.6)	(1,623.8)	(2,292.8)	(3,726.9)	(...)	(...)
Broad money	4,421.2	5,116.1	5,500.9	6,933.2	9,091.0	6,335.0
Other items (net)	250.9	-611.5	-2,467.6	-1,707.1	-10,861.8	-10,934.8
Valuation adjustments	--	-514.1	-1,551.6	-1,446.9	-10,354.8	-10,564.8
Other items (net)	250.9	-97.4	-916.0	-260.2	-507.0	-370.0
	(Percentage changes from end of previous year)					
Domestic credit	17.2	10.5	4.7	82.8	2.5	10.9
Government (net)	18.3	-6.7	-14.0	142.6	-6.3	13.4
Other	16.1	27.3	18.2	51.6	10.0	8.9
Broad money	30.8	15.7	7.5	26.0	5.8	-8.6

Sources: Central Bank of Somalia; and staff estimates.

1/ Assumes end period exchange rate of So. Sh. 80 = US$1 and average period exchange rate of So. Sh. 50 = US$1. The program had utilized end period exchange rate of So.Sh. 60 = US$1 and average period exchange rate of So. Sh. 40 = US$1.

2/ Excluding the proceeds from additional commodity and project aid generated from the gap-fill exercise.

Table 5. Somalia: Balance of Payments, 1981-85

(In millions of U.S. dollars; unless otherwise stated)

	1981	1982	1983 Rev.	1984 Prel. Act.	1985 Prog.	1985 Est.
Goods and services (net)	-309	-338	-346	-391	-480	-506
Exports, f.o.b. 1/	114	137	100	62	109	107
Livestock	98	106	72	33	78	74
Bananas	6	14	15	14	14	15
Others	10	17	13	15	17	18
Imports, c.i.f.	-422	-484	-450	-406	-570	-561
Foreign exchange 1/	-145	-199	-186	-105)		
Foreign currency accounts	--	-5	-20	--)	-220	-168
Franco valuta 1/	-60	--	--	-51)		
Grants in kind	-140	-157	-147	-151	-229	-260
Loans in kind	-77	-123	-97	-99	-121	-133
Trade balance	-308	-347	-350	-344	-461	-454
Net services	-1	9	4	-47	-19	-52
(Of which: interest payments)	(-10)	(-14)	(-6)	(-44) 2/	(-31) 2/	(-50) 2/
Transfers	214	207	199	246	349	380
Private	64	50	51	72	80	80
Official, of which	150	157	148	174	269	300
Saudi cash grant	(--)	(--)	(--)	(20)	(40)	(40)
Other cash	(10)	(--)	(1)	(3)	(--)	(--)
Current account balance	-95	-131	-147	-145	-131	-126
(excluding official transfers)	(-245)	(-288)	(-295)	(-319)	(-400)	(-426)
Capital account	79	84	68	23	94	79
Private	--	-39	-32	-23	--	-7
Official (net)	79	123	100	46	94	86
Disbursements	(93)	(132)	(107)	(106)	(121)	(136)
Amortization	(-14)	(-8)	(-6)	(-59) 2/	(-27) 2/	(-50) 2/
Capital subscriptions and others	(--)	(-1)	(-1)	(-1)	(--)	(--)
Gap-fill financing	...	...	...	...	55	...
Errors and ommissions	3	3	-7	-17	--	--
Overall balance	-13	-44	-86	-139	18	-47
Financing	13	44	86	139	-18	47
Central Bank, net 3/	33	64	47	13	-3	20
Assets	-17	28	-1	9	-33	-15
Liabilities	50	36	48	4	30	35
Of which:						
Use of Fund credit	(30)	(34)	(44)	(-3)	(35)	(35)
Purchases	(30)	(34)	(44)	(--)	(50)	(50)
Repurchases	(--)	(--)	(--)	(-3)	(-15)	(-15)
Commercial bank, net 3/	-20	-20	39	29	--	2
Accumulation of arrears	--	--	--	97	-61	-118
(New arrears)	...	...	...	(97)	(--)	(12)
Italian suppliers	...	...	...	(45)	(--)	(-62)
Other debt service	...	...	...	(52)	(-51)	(-41)
Commercial	...	...	...	...	(-10)	(-27)
Arrears rescheduled	--	--	--	--	24	102
Current debt service rescheduled	--	--	--	--	22	41
Memorandum items:						
Gross official reserves	42	14	16	6	39	21
(In weeks of cash imports) 4/	10.7	3.6	4.0	2.0	9.2	6.5

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

1/ Data differ somewhat from information on foreign exchange flows. Adjustments were made based on other sources of information, reflecting changing lag structure between trade and foreign exchange flows.

2/ On the basis of known scheduled payments; not comparable with data for previous years which refer to actual debt service payments made and exclude other scheduled payments due but not paid.

3/ Including revaluation due to exchange rate movements.

4/ Comprising foreign exchange, franco valuta, and foreign currency account imports.

Export receipts declined by 38 percent in 1984; livestock exports were slightly less than one half the 1983 level and about one third the average for the period 1980-82. Other export receipts (largely bananas and hides and skins) were about the same level as the previous year. Total imports declined by 10 percent in 1984; however, nontied imports (i.e., excluding imports directly financed by official grants and loans) fell by 24 percent. The decline in these imports would have been significantly larger had not the Government given temporary approval to the reintroduction of the franco valuta system whereby individuals with their own foreign exchange were permitted to import essential goods directly. In 1984 franco valuta imports accounted for about one third of nontied imports. The decline in total imports coupled with the increase in both private and official transfers (which included a cash grant of US$20 million from Saudi Arabia) 1/ enabled the current account deficit to remain at the same nominal level as in 1983. Large scheduled amortization payments reduced net capital inflows in 1984 to about one half the 1983 level and led to an overall balance of payments deficit of US$139 million as against US$86 million in 1983.

As at end-1984, Somalia's medium- and long-term external public debt amounted to US$1,355 million, the bulk of which was contracted on concessional terms. After allowing for the rescheduling of debt obligations to Abu Dhabi and China and excluding foreign debt owed to Bulgaria and the Soviet Union, the debt service ratio (as a percentage of goods and services) was estimated at 17 percent in 1983. This ratio was based on actual interest and amortization payments made in 1983. Data for 1984 cover scheduled debt service payments known at that time. On the basis of these data and taking into account the sharp drop in export earnings, the debt service ratio in 1984 is estimated at 95 percent (Table 6).

III. The Economy in 1985

1. The 1985 economic program

In early 1985 the authorities embarked on a comprehensive economic and financial program aimed at raising the rate of economic growth, reducing the rate of domestic inflation, and improving the balance of payments situation with a view to attaining external viability over the medium term. The program involved the introduction of a new foreign exchange arrangement to ensure the determination of the exchange rate for most nongovernment transactions in accordance with market conditions, the liberalization of export and import

1/ In mid-1984, Saudi Arabia gave a commitment for a grant of US$60 million to be disbursed in three installments over a 12-month period. The first installment was paid in the last quarter of 1984.

Table 6. Somalia: External Debt Service Payments Scheduled, 1/ After Relief Obtained Prior to 1985, 2/ 1983-90

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

	1983	1984	1985	1986	1987	1988	1989	1990
	Actual 3/	Est. 4/			Projections			
Before 1985 debt rescheduling 5/								
Total	29.5	108.0	106.7	123.0	125.3	106.9	104.7	89.7
Amortization	8.9	64.4	66.2	85.9	88.7	69.6	66.6	50.9
Interest	20.6	43.6	40.5	37.1	36.6	37.3	38.2	38.7
Excluding IMF and AMF	20.9	95.6	76.7	68.6	62.4	66.7	68.4	75.9
Amortization	5.5	58.6	49.8	46.6	37.0	36.9	34.5	38.5
Interest	15.4	37.0	26.9	22.0	25.4	29.8	33.9	37.3
Debt service ratio (in percent)								
(Including private remittances)	13.2	58.1	43.6	44.7	40.0	32.4	30.3	24.2
(Excluding private remittances)	17.2	94.8	64.7	64.4	55.7	45.1	42.1	33.3
Impact of 1985 debt rescheduling 5/								
Amounts rescheduled								
Arrears	--	-105.2	--	--	--	--	--	--
Amortization	--	--	-20.1 6/	--	--	--	--	--
Interest payments	--	--	-18.1 6/	--	--	--	--	--
Debt service on rescheduled amounts			10.0	12.4	12.1	11.8	9.6	6.3
Amortization			--	5.1	5.1	5.1	3.2	--
Interest 7/			10.0	7.3	7.0	6.7	6.4	6.3
After 1985 debt rescheduling 5/								
Total	29.5	108.0	78.5	135.4	137.4	118.7	114.4	96.0
Amortization	8.9	64.4	46.1	91.0	93.8	74.7	69.8	50.9
Interest	20.6	43.6	32.4	44.4	43.6	44.0	44.6	45.1
Excluding IMF and AMF	20.9	95.6	48.5	81.0	74.5	78.5	78.0	82.2
Amortization	5.5	58.6	29.7	51.7	42.1	42.0	37.7	38.5
Interest	15.4	37.0	18.8	29.3	32.4	36.5	40.3	43.7
Debt service ratio (in percent)								
(Including private remittances)	13.2	58.1	32.1	49.2	43.9	36.0	33.1	25.9
(Excluding private remittances)	17.2	94.8	47.6	70.9	61.1	50.1	45.9	35.7
Memorandum items:								
Exports of goods and services								
(Including private remittances)	223	186	245	275	313	330	346	370
(Excluding private remittances)	172	114	165	191	225	237	249	269

Sources: IBRD External Debt System (3/14/85); Paris Club Agreements; Board documents; and IFS.

1/ Assumes interest rate on financing for 1986-89 gaps at 6 percent per annum and grace period of 5 years.

2/ Debt relief prior to 1985 corresponds to frozen debt, under verbal agreement, owed to Abu Dhabi, Saudi Arabia (other than to Saudi Fund), and China; and frozen debt to Bulgaria and the U.S.S.R.

3/ Excludes debt service payments arrears related to Italian suppliers' credits incurred up to end-1983; also excludes other scheduled payments due but not paid. Therefore, not comparable with data for subsequent years.

4/ Data are on basis of known scheduled payments. Actual amortization and interest payments (including Fund repurchases and charges) on current debt service in 1984 were US$4.2 million and US$7.2 million, respectively. The above data include debt service by Abu Dhabi and Italian suppliers', previously understood to have been rescheduled.

5/ 1985 debt rescheduling comprises (a) Paris Club rescheduling involving US$108.766 million of service on medium- and long-term official debt and US$13.397 million on guaranteed short-term commercial arrears; (b) non-Paris Club rescheduling with Romania and Yugoslavia involving US$5.816 million, which has not been concluded; (c) rescheduling of US$12.5 million to Islamic Development Bank (IDB), of which terms are not yet known; and (d) rescheduling of short-term commercial arrears owed to Irving Trust and Saudia.

6/ Net of payments due to Irving Trust and Saudia. Amounts rescheduled at the Paris Club are estimated at US$41.6 million (US$22.1 million in amortization payments and US$19.5 million in interest payments).

7/ Assuming interest rate at 6 percent per annum from 1986 onward. The amount shown for 1985 represents moratorium interest payments on Paris Club rescheduling.

restrictions, the de jure dismantling of all price controls, the reform of the public enterprise sector and the implementation of an expanded public investment program. The program also included a tightening of financial policies and an adjustment of the interest rate structure.

On January 1, 1985, the Somali authorities introduced a market-determined exchange rate for most private transactions. The official exchange rate was maintained on a transitional basis for government transactions and for the surrender requirement of export proceeds which was reduced from 100 percent to 35 percent. This rate was devalued by 28 percent in foreign currency terms on January 1, 1985 and is to be adjusted in the period to June 30, 1985, in accordance with the prevailing system of pegging to the real SDR plus an additional So. Sh. 0.5 per U.S. dollar a month. The official and free market rates are to be unified by the end of the program period.

As an integral part of the exchange reform, the authorities liberalized and simplified the exchange and trade system. Generally, foreign exchange may now be bought and sold freely by both residents and nonresidents; practically all controls with respect to trade and current payments have been removed, and most notably, licensing requirements for virtually all import and export transactions have been abolished. 1/

The new exchange system was intended to lead to an increase in foreign exchange receipts through an improvement in the export sector's profitability and by encouraging the inflow of workers' remittances while trade liberalization measures were expected to encourage an increase in cash imports from the low level of the previous year. However, because of a significant growth of transfers related to expansion of the public investment program, the current account deficit in 1985 was projected to show a decline from the previous year. When allowance was made for the special gap-fill inflows of US$55 million expected to be disbursed in 1985, the overall balance of payments on a commitment basis was expected to show a surplus of US$18 million. In addition, external payments arrears were programmed to be virtually eliminated either through cash payments or through rescheduling arrangements.

Fiscal policy was centered around a significant increase in tax revenue (106 percent) expected to result mainly from the application of the market exchange rate for certain transactions and the liberalization of imports, and a containment of ordinary expenditures. New valuation procedures were introduced to raise customs duties

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1/ The exceptions involve a few commodities which, for reasons of public policy, are either prohibited or subject to prior approval.

which were to be levied on the basis of letters of credit (or updated price lists) converted at market exchange rates. 1/ In addition, a general surcharge of 20 percent of the basic import duty was introduced and a number of specific excise duties were converted to an ad valorem basis. As a result of these measures, the revenue ratio which in 1984 had reached a low of 4.9 percent of GDP was expected to rise to 7.3 percent of GDP. To maintain ordinary expenditures virtually unchanged in nominal terms, the authorities undertook to reduce the size of the civil service by about 2 percent, and to further strengthen expenditure controls. The staff reduction was the first phase of a program, formulated in collaboration with the USAID to reduce the size of the civil service by one third over the next few years. The USAID study also recommended a major upward adjustment in the structure of civil service salaries which declined by 72 percent in real terms during 1980-84. In view of the fiscal constraints, the budget provided for only a 15 percent wage increase in 1985. A threefold increase in capital spending was programmed for 1985, the second year of the 1984-86 public investment program. The capital program which was fully financed by external resources was reviewed by the World Bank and deemed to be consistent with the Government's development strategy.

The overall deficit (before grants) was projected to decline from the equivalent of 9.5 percent of GDP to 8.9 percent of GDP. The impact of the large increase in external grants and the depreciation of the official exchange rate was to result in a decline in the projected overall deficit (including grants) from 6.3 percent of GDP in 1984 to 2.0 percent of GDP in 1985. 2/

Reflecting the reduction in the Central Government's need for bank financing, the program aimed at limiting the increase in domestic credit to 6.7 percent of the beginning money stock. 3/ This represented a considerable tightening of monetary policy compared to 1984 when domestic credit expansion was equivalent to 79 percent of the beginning money stock. On January 1, 1985, the structure of interest rates was revised upward by an average of 5 percentage points and the authorities undertook to make further adjustments as required to achieve positive real interest rates by the end of the program period.

1/ The exchange rate to be used for the conversion was to be the actual market rate with a lag of two months. For January and February the rate for customs duty purposes was set at So. Sh. 60 per U.S. dollar.

2/ These ratios, as shown in EBS/85/1, are based on calculations of the fiscal program in terms of an average exchange rate of So. Sh. 40 = US$1 and also exclude the impact of grants and loans accruing to Government from the gap-fill exercise.

3/ As presented in EBS/85/1 where the monetary program was calculated at So. Sh. 60 = US$1.

2. Performance and outlook under the program

So far this year, there have been encouraging developments with respect to agricultural production, the reduction in domestic inflation, the operation of the private exchange market, and export performance. However, the authorities have had difficulties in following through with the implementation of some of the policy measures envisaged under the program. Consequently, serious problems have emerged which if not corrected immediately could jeopardize the attainment of the program objectives. The major areas of concern are the balance of payments outlook, the official foreign exchange market, and the central government finances.

Favorable weather conditions, together with the effect of new price and marketing policies, are having a positive impact on agricultural production. The growth in output, particularly of cereals, along with the restrictive demand policies, have succeeded in dampening inflationary pressures despite delays in the receipt of food aid. On present indications, the expansion in agricultural production should lead to an increase in real GDP of between 3.5-4.0 percent, and the rate of inflation for the year as a whole could decline to the 30-35 percent range. While the inflation rate will be higher than projected in the program, it will represent a marked deceleration from the previous year.

Government revenue in the first quarter of 1985 was significantly below programmed levels mainly because of shortfalls in import duty collections. Government ordinary expenditure in the first quarter was slightly below the program rate partly because of the nonpayment of debt servicing arrears; fiscal operations in this quarter benefited from the receipt of a US$20 million cash grant from Saudi Arabia which was originally expected in 1984 and had not been included in the 1985 estimates. In these circumstances government recourse to bank credit was kept below programmed levels. Preliminary data for the commercial bank suggest that bank credit expansion to the nongovernment sector was also somewhat less than anticipated in the program. However, when these data are adjusted for the accumulation of external payments arrears, both the ceiling on total bank credit and net bank credit to Government were exceeded by 2 percent and 5 percent, respectively, at the end of the first quarter (Table 7).

Present projections indicate that for the year as a whole, government revenue will be So. Sh. 2 billion (26 percent) below the program level with the shortfall almost entirely in the area of customs duties. Based on the first quarter performance, the Government expects savings on ordinary expenditure of So. Sh. 200 million compared to programmed levels; also savings of about So. Sh. 500 million are expected in the area of capital expenditures because of the

Table 7. Somalia: Quantitative Performance Criteria

(End of period)

	1984 Dec.	1985 March	June	Sept. 1/	Dec. 1/
	(In millions of Somali shillings)				
Net domestic credit 2/					
Ceiling		9,703	9,840	9,995	10,150
Actual	9,616	9,900			
Net credit to Government 2/					
Ceiling		4,415	4,448	4,448	4,448
Actual	4,378	4,647			
	(In millions of U.S. dollars)				
External debt					
1-12 year maturity 3/					
Ceiling		--	--	--	--
Actual	--				
External debt service payments arrears 4/					
Ceiling		...	--	--	--
Actual	117.2				
Commercial arrears					
Ceiling		...	...	...	10.0 5/
Actual	33.9 6/	9.6 6/			

Source: Central Bank of Somalia; and staff estimates.

1/ Indicative ceilings.
2/ Net domestic credit comprises credit to government, public enterprises, and private sector less goverment deposits with the banking system. Net credit to Government comprises 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, plus losses accruing to the Central Bank from the operations of the dual exchange rate system. Actual data for March 1985 include the domestic counterpart of government arrears accumulated during the first quarter of 1985, estimated to be about So. Sh. 234 million.
3/ New commitments of public and publicity guaranteed nonconcessional external debt with a maturity of between 1 and 12 years.
4/ Excluding debt to Abu Dhabi, Saudi Arabia (other than Saudi Fund) and China frozen on the basis of verbal agreements. Includes arrears to Italian suppliers in the amount of US$62 million.
5/ Based on preliminary estimates of commercial arrears of US$20 million. The results of the survey of commercial arrears, which showed such arrears to be US$33.9 million at end-1984, are to be discussed at the mid-term review of the program and final provision for their reduction is to be set.
6/ The difference in the oustanding amounts at the end of December 1984 and the end of March 1985 has been rescheduled or paid. Of the outstanding shown for end of March 1985 an unkown amount has already been paid.

elimination of certain projects. 1/ Thus, in the absence of additional measures, the overall deficit excluding grants will reach So. Sh. 11.8 billion (11.4 percent of GDP) compared with the program target of So. Sh. 10.6 billion (10.2 percent of GDP); the deficit including grants is projected at So. Sh. 3.2 billion (3.1 percent of GDP) compared to the program target of So. Sh. 2.1 billion (2.0 percent of GDP). 2/ The larger deficit will imply an increase in the the Government's recourse to bank credit equivalent to 8 percent of the opening money stock. The program had envisaged a small reduction in government indebtedness to the banking system.

In the period January-May 1985, the official exchange rate was adjusted from So. Sh. 36 per U.S. dollar to So. Sh. 40.1 per U.S. dollar (representing a devaluation of 10.2 percent in foreign currency terms). The official rate was within the limits established by the peg to the real SDR plus the additional adjustment of So. Sh. 0.5 per U.S. dollar per month. The weighted average exchange rate in the free market rose from about So. Sh. 80 per U.S. dollar to So. Sh. 95 per U.S. dollar. The gap between the official and the free market rate thus widened.

In the first six months of 1985 it is estimated that there was a deficit in the official exchange market of US$14 million, reflected in an accumulation of external payments arrears. The deficit was the result of shortfalls in certain official inflows as well as the fact that payments for fuel imports in this period were significantly higher than originally programmed.

Inflows to embassies and international institutions were originally expected to be about US$22 million in the first half of 1985 (compared to about US$16 million in 1984). These inflows largely represent contributions from donors to finance the local costs of development projects, funds to finance certain special programs run by international institutions (most notably the United Nations High Commission for Refugees), and administrative expenses of foreign embassies and international institutions. As at the end of March these inflows amounted to no more than US$1 million. Among the factors responsible for this reduction were: (i) a temporary suspension of some of the special refugee programs, and (ii) a virtual halt to disbursements on many investment projects that included local cost contributions pending the elimination of arrears to certain institutions. Moreover,

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1/ This has not resulted in a corresponding reduction in budget financing flows since project grants have been converted into commodity grants.

2/ Programmed figures as well as estimates for 1985 are based on an average official exchange rate of So. Sh. 50 per U.S. dollar. In EBS/85/1 an average exchange rate of So. Sh. 40 = US$1 was used.

the new exchange arrangement allowed the salaries of employees of embassies and international institutions to be exchanged in the private market. This sharply reduced the amount of foreign exchange that these institutions needed to convert in the official market. On the payments side, foreign exchange expenditures for fuel imports amounted to US$26 million in the first four months of the year. This is almost the entire amount of cash projected to be disbursed for oil imports for the year as a whole. The balance of the oil bill estimated at US$37.5 million is expected to be met from commodity grants from Saudi Arabia (US$15 million) and other donors.

Export growth in 1985 is approximately on target with program projections. Exports of goats and sheep to Saudi Arabia have been somewhat higher than projected, but this has been offset by lower than projected prices for cattle exports to Egypt. The projected level of livestock export proceeds is double actual receipts in 1984, but still more than 25 percent below the level of 1982, the year before the ban on cattle exports was imposed. Total imports are projected to be 2 percent lower than in the program, mainly due to the expected shortfall (about 24 percent) in foreign exchange imports (i.e., other than project-related imports and commodity aid). This notwithstanding, the overall balance of payments position is much worse than expected in the program because of the downward revision to the official inflows as mentioned above, 1/ and higher projections for debt servicing, related to new debt obligations which have just come to light and the inclusion of US$10 million of moratorium interest arising from the Paris Club rescheduling. On present projections, and excluding adjustment measures now being considered in the context of the mid-term stand-by review, the external current account deficit is estimated to be more or less as programmed, but there could be an overall deficit of US$47 million compared to the US$18 million surplus envisaged in the program.

IV. Report of Policy Discussions

The policy discussions centered on Somalia's performance under the current stand-by program and the range of corrective measures that need to be considered in order to prevent the program from going seriously off-track. While the authorities agreed with the staff's assessment of the departures from the program targets that were likely to take place during 1985, they were reluctant to commit themselves to further adjustment measures at the present time. They pointed to the difficult economic decisions that had already been taken in the context of the program and the social and political implications of further adjustment measures in 1985. They, however, undertook to study further the various policy proposals of the staff and to resume the review discussions in late June. A summary report of the discussions follows:

1/ In Table 5 these are included in "net services."

1. Production and prices

The Somali authorities were very optimistic about the outlook for agricultural production in 1985. They explained that this year, the area under crop cultivation had reached an all-time record. Along with favorable weather conditions, there were several other factors that were responsible for this development. Firstly, the marketing system has been further liberalized by the removal of the provision whereby producers were required to sell 5 percent of cereal output to the Agricultural Development Corporation (ADC). As sales to the ADC were at below market prices, this move had the effect of increasing producer prices. Secondly, in late 1984 and early 1985, the Government had expended considerable sums on the rehabilitation of irrigation systems and on flood control. Thirdly, the sharp increase in banana export prices and the new exchange system had greatly increased prices to banana producers with a positive effect on banana cultivation. In addition to these price incentives, the Government has continued the process of dismantling existing state farms and leasing the land to tenant farmers. In this project, the Government provides in addition to prime irrigated land, infrastructure, agricultural extension and management while the farmer provides labor. So far, 4,100 hectares have been settled and another 1,900 hectares are expected to be settled before end-1985. The phased dismantling of the system of state farms is being supplemented by a land-settlement scheme involving secondary school graduates 1/ and retrenched public sector employees. These individuals are given five hectares of land each and provided machinery and agricultural inputs, together with a full year's wages. So far 1,300 individuals have entered the program.

The rate of price increases in the first five months of the year has been reduced significantly compared with the corresponding period of 1984. Some of the factors responsible for this development are the delays in the disbursement of pledged food aid (none of which had arrived up to the end of May), the change in the system of import duty taxation (whereby duties are now based on near market exchange rates) and some hoarding following an official announcement, early in the year (which proved to be incorrect) of continued drought in Somalia. The authorities explained that it was in order to further dampen price increases that in early April, the import duty on all essential items was reduced by one half. This move, together with the expectations of a good harvest after June and the arrival of commodity aid should result in an even more favorable price performance in the second half of the year. This notwithstanding, the rate of inflation for 1985 as a whole is unlikely to reach the 20 percent target envisaged in the program.

1/ Beginning early 1984, the policy of automatic government employment for secondary school graduates was discontinued.

In April 1985 the Government issued a decree which officially abolished price controls. This action formalized the policy of price liberalization that has been implemented since 1983 thus removing any uncertainties about the Government's pricing policy. At present, the Government sets prices for a few commodities (including sugar, cigarettes, and fuel) which are produced or imported by state agencies and public utility rates. Most administered prices were adjusted in 1985 though in some cases (including fuel) the adjustment was not sufficient to compensate for cost increases (including changes in the exchange rate). Also electricity rates were increased by an average of 45 percent with effect from April 1, 1985 to compensate for the increase in the landed cost of fuel and higher debt service charges.

2. External policies

a. The official market

As mentioned earlier, the financial program as constructed envisaged the functioning of a dual foreign exchange market and assumed that most of the aid required to fill the balance of payments gap would be in the form of cash and would go to the official market to ensure equilibrium between demand and supply in that market. As it turned out, the balance of payments gap was closed largely by pledges for commodity aid leaving a deficit in the official exchange market. However, as a prior condition to giving effect to the stand-by arrangement, the Somali authorities confirmed their intention to take the necessary measures to bring the official exchange market into equilibrium. These measures were to be the subject of understandings during the first scheduled review of the program.

The present estimate of the financing gap in the official market is US$60 million compared with US$47 million originally projected. The increase in the deficit comes from two main factors, viz.: (1) a downward revision of about US$25 million in the projection for inflows to embassies and international institutions resident in Somalia, and (2) the need to provide for moratorium interest payments of at least US$10 million as required under the terms of the Paris Club rescheduling agreement of March 7, 1985. The revised gap already takes into account several steps taken by the authorities to reduce the imbalance, including (a) the trimming of the fuel import bill from US$68 million to US$65 million, (b) the securing of donor financing for US$22.5 million of fuel imports (in addition to the US$15 million Saudi grant), and (c) the cutting of allocations for government travel by US$1.5 million.

The staff representatives noted that the payment of the cash portion of the entire year's fuel import bill in the first four months of the year had pre-empted one of the options originally contemplated to reduce the foreign exchange gap in the official market.

The options left for eliminating the foreign exchange gap are: (1) further rescheduling and/or an extension of the period for liquidation of arrears and debt servicing to non-Paris Club creditors; (2) possible sale of commodity imports against foreign exchange; and (3) government purchases of foreign exchange from the free market to be financed from proceeds from the sale of commodity aid at the free market rate. The staff urged the authorities to initiate discussions on further rescheduling and to begin purchasing foreign exchange from the free market immediately so as to minimize any further accumulation of external arrears.

There were some administrative delays in finalizing the necessary agreements for commodity aid with donors. Agreements with the three main donors/creditors (the International Development Association (IDA), Germany, and Italy) have now been completed. The IDA credit and the aid program with Germany (US$10 million each) will be administered under cofinancing arrangements. The World Bank will also administer the aid program of the Italian Government (US$35 million). With technical assistance from the World Bank, arrangements are being put in place to ensure prompt disbursements of pledged assistance. These arrangements include (a) widening the range of commodities eligible for importation under the AID program (actually any commodity could be imported except a few on a "negative" list) and (b) establishment of a special procurement unit in the Ministry of Finance headed by an expert, financed by the World Bank.

b. The private market

The Somali authorities explained that the private exchange market was still somewhat fragile though participation in the market had increased markedly in March and April. Over this period, the value of exchange transactions between individuals averaged US$4 million a month compared with an average of US$1.5 million in the first two months of the year. The rise was attributed to growing public confidence in the ability of the commercial bank to administer the system. Activity in the market was expected to pick up significantly during the May-August period, which was the peak period for export receipts. The authorities noted that the exchange rate in the private market had leveled off at around So. Sh. 95 per U.S. dollar, or about the same rate as in the unofficial parallel market which was considerably contained, but still existed to finance capital flight and the underinvoicing of imports.

At the present time the commercial bank posted exchange rate, which is the rate the bank applies for the purchase of remittances and for the sale of small amounts of foreign exchange for travel and other purposes is about 10-15 percent below the weighted average rate in the private market. The staff representatives explained that the commercial bank's posted rate should, in principle, reflect trends in the market and urged that this rate be brought more in line with market rates in order to avoid distortions in the market.

The program provides for the unification of the official and the market rates at the market rate by the end of the program period. The staff representatives urged the authorities to begin a faster depreciation of the official rate so as to narrow the gap between the two rates and to formulate a timetable for the unification of the two rates.

3. Fiscal policy

The major problem in the fiscal area is the shortfall in government revenue which is mostly due to the downward revision in foreign exchange imports by 24 percent (in U.S. dollar terms), but also reflects some weakening in tax administration and an unprogrammed 50 percent reduction in import duties on essential items. The projected reduction in current spending (So. Sh. 200 million) will result from the postponement of the 15 percent salary increase which was originally earmarked to be given in 1985 (the first increase since 1981) and a larger reduction in the labor force than originally planned.

The authorities proposed that the fiscal gap should be covered by external grants and loans from the gap-fill exercise, most of which, under the terms of the current program, are to be sterilized. This approach had been built into the original program to avoid the emergence of a new financing gap which could emerge if the counterpart funds were used. The staff representatives felt that it would be unwise to postpone fiscal adjustment for a second consecutive year and instead depend on exceptional grants and loans which cannot be expected to be forthcoming in similar quantities over the medium term. Consequently, the staff representatives urged the authorities to take steps to tighten revenue administration and to develop new sources of revenue. In the area of revenue administration it was noted that (1) the exchange rate currently used to value imports for tax purposes was still So. Sh. 60 = US$1. The program envisaged that this rate would be used in January and February but that the private market exchange rate should be used thereafter; (2) export duty was currently charged on the basis of outdated domestic prices. The program envisaged that the prices to be used for taxation purposes will be the U.S. dollar export price, as declared in the letter of credit, converted into local currency using the market exchange rate. It is estimated that these improvements in administration could result in increased revenue collections of about So. Sh. 270 million. The staff representatives also suggested several new revenue measures for the consideration of the authorities. One such proposal is an increase in taxes on fuel which is currently heavily subsidized through the exchange system. Another measure that could boost government receipts substantially would be to sell commodity aid at market prices rather than at subsidized prices based on the official exchange rate.

The authorities stated that in recognition of the urgent need to improve tax administration, a Vice Minister with exclusive responsibility for revenue collection had recently been appointed. One of his immediate tasks will be to implement steps to reduce the incidence of tax evasion through underinvoicing of imports or through other means. The authorities were, however, skeptical of the Government's ability to mobilize additional revenue at the present time. Specifically, they believed that higher taxation on imports would lead to increased smuggling and perhaps a further cut in import demand and that raising taxes on livestock exports would erode profitability and provide a disincentive for exports at a time when exporters are trying to diversify into new markets. Moreover, they noted that many of the measures proposed will result in upward pressure on the price level, thus undercutting government attempts to reduce inflation. The authorities however undertook to re-examine the budget to identify areas of adjustment which would have a reasonable chance of being implemented but would take into consideration present social and political realities.

4. Public enterprises

Progress in the area of public enterprise reform has been much slower than anticipated in the program. The program envisaged that by April 1985, existing public enterprises would have been classified into three categories: (i) those to be phased out of operation, (ii) those to be privatized or converted into joint ventures, and (iii) those to remain in the public sector. It also had been hoped that by May, a specific schedule for divestiture, privatization, and rehabilitation of individual enterprises would have been prepared. The authorities, however, explained that there had been unanticipated delays in the implementation of the program. So far, a preliminary selection of enterprises to be allocated to the various categories has been made and is being studied by an Interministerial Committee whose recommendations are expected to be finalized by end-June. Pending the formulation of comprehensive rehabilitation plans, steps were being taken to improve the efficiency of some of the public enterprises. Thus, in April 1985, a Presidential circular had been issued instructing all government agencies to put into effect a hiring freeze, to dismiss all surplus and temporary employees, and to enforce the compulsory retirement age law. Also a Presidential Committee has been established to expedite the settlement of arrears within the public sector.

The staff representatives urged that the public enterprise reform be given greater priority and specifically proposed that the authorities seek technical assistance to facilitate the process of divestiture of public enterprises.

5. Monetary and credit policy

The credit program and ceilings will be re-examined during the June stand-by review mission in the light of understandings reached on new fiscal measures, the reassessment of likely disbursements of gapfill resources in 1985, and the implications for domestic liquidity and the balance of payments of the sterilization of these gap-fill resources. The authorities agreed that the main objective of the credit policy should be the reduction of the rate of inflation to as close to the programmed target as possible. They, however, stressed that the reduction in liquidity, that would arise from the sterilization of the gap-fill proceeds, should not become so tight so as to disrupt the workings of the foreign exchange market or adversely affect the level of economic activity.

In the area of interest rate policy, the staff underscored the importance of raising the present interest rate structure in the light of revised projections for inflation in 1985 and the Government's commitment in the context of the program to achieve positive real interest rates by the end of December 1985. Because of delays in finalizing an extension of technical assistance arrangements with the European Economic Community (EEC), the study of managerial and accounting practices of both the Commercial and Savings Bank and the Development Bank has not been completed on schedule. The study is now expected to be completed by September 1985, and implementation of some of the recommendations should start before year-end. The authorities stated that the Governement was still interested in attracting suitable commercial banks to Somalia and was presently studying applications from two foreign banks that had expressed interest.

V. Medium-Term Prospects

Medium-term balance of payments prospects for the Somali economy will depend critically upon the strengthening of adjustment efforts and the Government's success in mobilizing external financial assistance on concessional terms. The scenario presented here is an optimistic one in the sense that it assumes appropriate economic and financial policies to be sustained in the medium term. In particular, it assumes a system free of price, exchange, or trade restrictions. It also assumes aid-flows at the level compatible with the authorities' medium-term public investment program. However, it has not made any assumptions about exceptional financing beyond 1985. With these assumptions, the medium-term outlook is little changed from that described in the request for stand-by the document issued in early January (EBS/85/1), except that external debt service payments in the next few years will be larger than originally projected, partly because of upward revisions to the data for debt outstanding, and partly due to interest payments arising from debt rescheduled in 1985.

It is projected that the current account deficit will decline from the equivalent of 5 percent of GDP in 1985 to 3 percent in 1990 and that the overall balance of payments should improve from a deficit of about US$47 million in 1985 to a small surplus in 1987, and a surplus of about US$15 million by 1989-90 (Table 8). Nonetheless, in view of repurchase obligations to the Fund and others, and assuming a modest strengthening of the official reserve position, there will be a financing gap in each year during the period 1986-89.

Following the sharp recovery in 1985, exports are expected to rise at an annual rate of 12 percent assuming that increased incentives will result in a continuation of the recovery of livestock and other exports. Total imports are projected to increase at an average annual rate of 6 percent (about 1 percent in volume terms), the growth in cash imports is projected to level off at about 7 percent annually (about 2 percent in volume terms), while that of tied imports projected at 57 percent in 1985 is likely to decline somewhat in 1986 to the trend level and remain constant in real terms thereafter.

While the total level of foreign aid is projected to be maintained in real terms over the period 1986-90, it is expected that an increasing proportion will be in the form of grants, reflecting a conscious policy to reduce reliance on foreign borrowing, even on concessional terms, in recognition of the unsustainably high debt service burden. Private transfers are expected to rise by about 10 percent annually during the period. With the improvement in domestic economic conditions, private capital flows are projected to reverse from a net outflow in 1985 to a net inflow beginning in 1986.

Under this scenario, Somalia's external debt service ratio (in percent of exports of goods and nonfactor services), after the various debt reschedulings, is projected to rise sharply from 48 percent in 1985 to 71 percent in 1986, due to a concentration of original maturities, including repurchases to the Fund, and certain rescheduled commercial debts which become due in 1986. The debt service ratio is projected to decline in subsequent years to about 36 percent by 1990.

If there should be a delay in implementing major policies as intended, it is likely that the distortions in the system would further erode production and export incentives. Moreover, without appropriate economic and financial policies, it is probable that aid-flows, only part of which have been committed, may not be as high as projected here and obtaining exceptional financing may prove to be difficult. In such a situation, the medium-term outlook will be more unfavorable than presented here.

Table 8. Somalia: Medium-Term Balance of Payments, 1984-90

(In millions of U.S. dollars; unless otherwise stated)

	1984. Prel. Act.	1985 Est.	1986	1987	1988 Projected	1989	1990
Goods and services (net)	-391	-506	-467	-466	-490	-514	-540
Exports, f.o.b.	62	107	127	154	166	178	191
Livestock	33	74	91	113	120	126	133
Bananas	14	15	16	18	20	22	24
Others	15	18	20	23	26	30	34
Imports, c.i.f.	-406	-561	-546	-577	-609	-644	-682
Foreign exchange	-105	-168	-180	-192	-206	-220	-236
Franco valuta	-51	--	--	--	--	--	--
Grants in kind	-151	-260	-243	-259	-275	-293	-312
Loans in kind	-99	-133	-123	-126	-128	-131	-134
Trade balance	-344	-454	-419	-423	-443	-466	-491
Net services	-47	-52	-48	-43	-47	-48	-49
(Of which: interest payments) 1/	(-44)	(-50)	(-45)	(-40)	(-44)	(-45)	(-46)
Transfers	246	380	357	377	398	420	443
Private	72	80	84	88	93	97	101
Official, of which	174	300	273	289	305	323	342
Saudi cash grant	(20)	(40)	(30)	(30)	(30)	(30)	(30)
Other cash	(3)	(--)	(--)	(--)	(--)	(--)	(--)
Current account balance	-145	-126	-110	-89	-92	-94	-97
(Excluding official transfers)	(-319)	(-426)	(-383)	(-378)	(-397)	(-417)	(-439)
Capital account	23	79	76	94	98	108	114
Private	-23	-7	5	10	12	15	18
Official (net)	46	86	71	84	86	93	96
Disbursements	(106)	(136)	(123)	(126)	(128)	(131)	(134)
Amortization	(-59)	(-50)	(-52)	(-42)	(-42)	(-38)	(-38)
Capital subscriptions and others	(-1)	(--)	(--)	(--)	(--)	(--)	(--)
Errors and omissions	-17	--	--	--	--	--	--
Overall balance	-139	-47	-34	5	6	14	17
Financing	139	47	34	-5	-6	-14	-17
Central Bank, net	13	20	-33	-52	-33	-32	-17
Assets	9	-15	--	--	--	--	-5
Liabilities	4	35	-33	-52	-33	-32	-12
Of which:							
Use of Fund credit	-3	35	-20	-25	-33	-32	-12
Purchases	(--)	(50)	(6)	(--)	(--)	(--)	(--)
Repurchases	(-3)	(-15)	(-26)	(-25)	(-33)	(-32)	(-12)
Commercial bank, net	29	2	--	--	--	--	--
Accumulation of new arrears	97	12	...	...	...	...	...
Settlement of existing arrears	...	-130	-27	--	--	--	--
Arrears rescheduled	...	102	...	...	...	...	...
Current debt service rescheduled	...	41	...	...	...	...	...
Financing gap 2/	...	--	94	47	27	18	--
Memorandum item:							
Gross official reserves	6	21	21	21	21	21	26
(In weeks of cash imports)	2.0	6.5	6.1	5.7	5.3	5.0	5.7

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

1/ Includes interest payments on financing gaps for 1986-89.
2/ Incorportes elimination of arrears, estimated at US$27 million at end-1985, by 1986.

VI. Staff Appraisal

The improvement in the Somali economy which was achieved in 1981-83 came to an abrupt halt in 1984 as the Government relaxed adjustment efforts at a time when exogenous factors were also unfavorable. As a result the economic situation deteriorated considerably in 1984 and external and internal imbalances widened significantly.

In early 1985 the Somali Government embarked on a program supported by a one-year Fund stand-by arrangement, designed to reduce these imbalances and at the same time to create an economic and financial environment that will stimulate private sector economic activity. The program involved the establishment of a secondary market for the free determination of the exchange rate applicable to the bulk of private transactions, the virtual elimination of trade restrictions, and the introduction of restrictive financial policies aimed at controlling the growth in demand.

The program was predicated on obtaining debt relief from bilateral creditors and the provision of concessionary donor assistance to fill the balance of payments gap. The debt relief was provided largely in the context of a Paris Club rescheduling arrangement while at a special meeting of donors held in Paris in late January sufficient donor assistance was pledged to fill the balance of payments gap. However, while the program had assumed that the bulk of the balance of payments assistance would be in the form of cash grants to finance the official exchange market, most of the assistance pledged was in fact in the form of commodity aid. This resulted in an imbalance in the official foreign exchange market. In the light of this change the authorities undertook to take whatever measures were necessary to restore a balance between supply and demand for foreign exchange in the official market.

In early January the authorities implemented the initial measures called for under the program. Partly as a result of some of these measures, there have been encouraging developments in many areas. However, subsequent slippages in policy implementation threaten to jeopardize the attainment of some of the more important program targets.

In the area of external policy there is general acceptance of the free exchange market which has been handling an increasing volume of exchange transactions. This acceptance is partly due to growing confidence in the commercial bank's ability to administer the system. The incentives provided by the exchange system, along with the liberalization of the marketing system, have helped to stimulate agricultural production which has also benefited greatly from favorable weather conditions. With respect to financial policies, the Government has moved to curtail bank credit expansion to the private sector. This has contributed to the marked deceleration of inflation even in the absence of food aid imports.

On the negative side, already there has been an accumulation of about US$7 million of debt servicing arrears in the first quarter as a result of which a performance criterion of the stand-by arrangement was not observed. Another slippage of major importance is the serious shortfall in government revenue in part due to a reduction in import duty rates. Looking ahead, there are two fundamental problems which need to be addressed very early if the program is not to go seriously off-track. The imbalance in the official foreign exchange budget for the year as a whole is now larger than originally projected. Moreover, because most of the cash payments for the annual oil import bill has already been made the options for correcting the imbalance are more limited. If steps are not taken to close this deficit very soon the accumulation of external arrears will accelerate and official reserves will be virtually depleted.

It seems very unlikely that the authorities would be able to eliminate the deficit in the official exchange market without some additional debt relief. This relief could be achieved either through debt rescheduling or an extension of the period for liquidation of arrears. An option that should be explored by the authorities is the sale of commodity imports against foreign exchange. This will require the approval of the donors, most of whom specify that counterpart funds generated from commodity aid be allocated to projects. Another option would be government purchases of foreign exchange from the free market. Given the present fragility of this market, care should be taken as government intervention will to some extent crowd out the private sector and/or put pressure on the free market rate. To minimize the adverse consequences, the Government should begin early with a program of purchases which will build up over time depending on supply conditions in the market.

The depreciation of the official market rate by the minimum amount permitted under the program has not resulted in a narrowing of the gap between the official and free market rates. Given the present balance of payments pressures, an immediate large devaluation of the official rate, with a full pass-through of its impact on fuel and other prices, is necessary. Also, in view of the program objective of unification of the two markets by end-December, the authorities need to continue to depreciate the official rate steadily so as to avoid the need for another sizable devaluation at the end of the period. Narrowing the gap between the official and free market rates would probably unlock some official sources of foreign exchange that are being withheld because of the current unfavorable official market rate.

The program provides for only a modest adjustment in the central government finances. In fact, the program target for the overall deficit, excluding grants, is higher than in 1983 before the adjustment process was temporarily relaxed. In these circumstances, and in view of the domestic imbalances, the staff is of the view that it would be inapproriate for Somalia to postpone the adjustment effort further by relying excessively on external grants some of which are of a once-and-for-all nature. As a matter of priority steps should be taken to improve revenue collection and to implement fully all of the revenue measures that are included in the program. Moreover, the authorities should seek to introduce additional measures to offset, in part, the shortfall in government revenue that arises from the unanticipated reduction in imports. The proposed adjustment in fuel prices to reflect the market rate is appropriate from the point of view of the revenue impact as well as for its effect on the efficient allocation of resources. Adjustment to the prices of other commodity imports to reflect the market exchange rate, to the extent that these are in conformity with the agreements with bilateral donors, should also be introduced. Meanwhile, the Government should continue on-going efforts to improve mechanisms of expenditure control so as to achieve maximum possible savings from programmed current expenditures. In this context, the authorities should continue to guard against the emergence of government payments arrears and make every effort to discharge those which have emerged.

Attainment of the programmed fiscal adjustment will greatly facilitate the control of domestic demand which is required for reducing inflationary pressures and protecting the balance of payments. It is also important to guard against such a stringent reduction in liquidity as will jeopardize the smooth functioning of the exchange market or adversely affect the level of economic activity. The program provides that the revision of the indicative ceilings for September and December 1985 take into account the effect of the sterilization of the gap-fill resources on the growth of the money supply.

Given the latest projection for domestic inflation in 1985--between 30-35 percent--another adjustment of interest rates should be implemented soon so as to encourage savings mobilization and reinforce the effects of the new exchange arrangement on capital inflows. Despite the progress achieved in the past few months, there still is much room left for improving the operations of the state-owned commercial bank whose role is of major importance to the success of the new exchange system. Accordingly, the authorities should ensure that the study now being conducted by Samuel Montagu is completed as quickly as possible and that an early start is made in implementing the study's recommendations. The authorities should also intensify efforts to attract reputable foreign banks to the country since this will enhance the process of financial intermediation as well as the operation of the exchange market.

Public enterprise reform is an integral part of the current program, as this would provide more scope for private initiative and generally result in a more rational use of scarce managerial and technical resources. Thus, the staff urges the authorities to finalize quickly its selection of those enterprises that should be phased out of operation and those that should be transferred to the private sector. A comprehensive rehabilitation program for the remaining public enterprises should also be considered an urgent priority.

Somalia maintains a multiple currency practice as described in Section III. Somalia has accumulated new arrears in respect of current international payments that are evidence of a restriction on payments and transfers for current transactions.

It is expected that the next consultation discussion will take place on the basis of a twelve-month cycle.

VII. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Somalia's exchange measures subject to Article VIII, Section 2(a) and 3, in concluding the 1985 Article XIV consultation with Somalia, and in light of the 1985 Article IV consultation with Somalia conducted under Decision No. 5392-(77/63), adopted April 27, 1977 (Surveillance over Exchange Rate Policies).

2. The Fund notes that Somalia maintains a restriction on payments and transfers for current international transactions and a multiple currency practice, as described in SM/85/ . The Fund notes the intention of the Government of Somalia to eliminate the multiple currency practice, which was approved through December 31, 1985 (Executive Board Decision No. 7894-(85/12), adopted January 25, 1985), in the context of the adjustment program described in EBS/85/1 and urges Somalia to adopt measures that will enable it to eliminate the restriction on payments and transfers for current international transactions.

SOMALIA - Basic Data

Area and population

Area	637,700 square kilometers
Population: Total (mid-1983 estimate)	5.3 million
Growth rate	3.1 percent

	1981	1982	1983	1984 Prel. est.	1985 Est.
Selected economic indicators		(Annual percentage changes)			
Exports, f.o.b.	-14.9	20.2	-27.0	-38.0	72.6
Imports, c.i.f.	-8.5	14.7	-7.0	-9.8	38.2
Government revenue and grants	41.8	41.4	40.4	11.0	142.6
Government expenditure	18.8	44.2	23.7	69.7	56.6
Domestic credit	17.2	10.5	4.7	82.8	10.9
Domestic liquidity	30.8	15.7	7.5	26.0	-8.6
Trade-weighted effective exchange rate (depreciation -)					
In nominal terms	-4.0	-27.3	-11.3	-9.0	...
In real terms	21.3	-20.8	10.5	60.4	...
Government finance		(In millions of Somali shillings)			
Total revenue	2,251	2,588	4,075	3,766	5,621
Transfers from local authorities	12	172	178	205	215
Grants (excluding direct food aid for refugees)	435	1,056	1,106	1,980	8,600
Ordinary expenditure	-2,295	-2,750	-4,539	-7,965	-7,475
Transfers to local authorities	--	-155	-177	-175	-264
Investment expenditure	-1,425	-2,461	-1,920	-3,124	-9,900
Overall deficit (-)	-1,022	-1,550	-1,277	-5,313	-3,203
Change in domestic counterpart external arrears	--	--	--	1,800	-2,435
Financing	1,022	1,550	1,277	3,513	5,638
Foreign (net) 1/	681	1,724	1,572	940	5,050
Domestic	341	-174	-295	2,573	(588)
Banking system	(347)	(-150)	(-295)	(2,573)	(588)
Cash balances	(-6)	(-24)	(--)	(--)	(--)
Overall deficit as percent of total expenditure	27.5	28.9	19.2	47.2	18.2

1/ Includes loans in kind.

SOMALIA - Basic Data (continued)

	1981	1982	1983	1984 Prel. est.	1985 Est.
Money and credit (end-year)	(In millions of Somali shillings)				
Foreign assets (net)	126	-519	-2,228	-4,390	-15,268
Domestic credit	4,546	5,024	5,261	9,616	10,668
Government (net)	2,250	2,100	1,805	4,378	4,966
Other	2,296	2,924	3,456	5,238	5,702
Money and quasi-money	4,421	5,116	5,501	6,933	6,335
Other items (net)	251	-612	-2,468	-1,707	-10,935
Balance of payments	(In millions of U.S. dollars)				
Exports, f.o.b.	114	137	100	62	107
Livestock	98	106	72	33	74
Bananas	6	14	15	14	15
Other	10	17	13	15	18
Imports, c.i.f. 1/	-422	-484	-450	-406	-561
Foreign exchange	-145	-199	-186	-105)	
Franco valuta	-60	--	--	-51)	-168
Foreign currency accounts	--	-5	-20	--)	
Other	-217	-280	-244	-250	-393
Trade balance	-308	-347	-350	-344	-454
Services (net)	-1	9	4	-47 2/	-52 2/
Transfers (net)	214	207	199	246	380
Private	64	50	51	72	80
Official 3/	150	157	148	174	300
Current account	-95	-131	-147	-145	-126
Capital account	79	84	68	23	79
Private (net)	--	-39	-32	-23	-7
Official (net) 4/	79	123	100	46	86
Disbursement	(93)	(132)	(107)	(106)	(136)
Amortization	(-14)	(-8)	(-6)	(-59) 2/	(-50) 2/
Other	(--)	(-1)	(-1)	(-1)	(--)
Errors and omissions	3	3	-7	-17	--
Overall balance	-13	-44	-86	-139	-47

1/ Imports, c.i.f. includes loans and grants in kind.
2/ Commitment basis.
3/ Including grants in kind.
4/ Including loans in kind.

SOMALIA - Basic Data (concluded)

	1981	1982	1983	1984 Prel. est.	1985 Est.
	(In millions of U.S. dollars)				
Outstanding external debt (end-year)	995.4	1,146.4	1,260.5	1,354.5	1,502.5
Gross international reserves of Central Bank (end-year)	42	14	16	6	21
In number of months of cash imports, c.i.f.	2.5	0.8	0.9	0.5	1.5
	(1977 = 100)				
Mogadiscio consumer price index (annual averages)	313.4	384.2	524.0	1,007.4	1,309.6

SOMALIA - Relations with the Fund
(As of May 31, 1985)

I. Membership status

(a) Date of membership:	August 31, 1962
(b) Status:	Article XIV

A. Financial Relations

(Amounts in millions of SDRs, unless otherwise indicated)

II. General Department

(a) Quota:	44.2
(b) Total Fund holdings of Somali shillings:	177.5 (401.6 percent of quota)
(c) Fund credit:	133.3 (301.6 percent of quota)
Of which: Credit tranches	28.6 (64.7 percent of quota)
Enlarged access	72.1 (163.1 percent of quota)
Compensatory financing facility	32.6 (73.8 percent of quota)

III. Current Stand-by or Extended Arrangement and Special Facilities

(a) Current stand-by:

(i) Duration from February 22, 1985 to February 21, 1986	
(ii) Amount	22.1
(iii) Utilization	2.0
(iv) Undrawn balance	20.1

(b) Previous stand-by arrangements during the last 10 years

(i) Duration from July 15, 1982 to January 14, 1984	
(ii) Amount:	60.0
(iii) Utilization:	60.0
(iv) Undrawn balance:	--
(i) Duration from July 15, 1981 to July 14, 1982	
(ii) Amount:	43.1
(iii) Utilization:	43.1
(iv) Undrawn balance:	--

SOMALIA - Relations with the Fund (continued)

(i)	Duration from February 27, 1980 to February 26, 1981	
(ii)	Amount:	11.5
(iii)	Utilization:	6.0
(iv)	Undrawn balance:	5.5

(c) Special facilities (current year and past two years):

(i) Compensatory Financing Facility (effective February 22, 1985)

Amount:	32.6
Utilization:	32.6

IV. SDR Department

(a)	Net cumulative allocations:	13.7
(b)	Holdings:	0.004 (.03 percent of net cumulative allocations)

V. Administered Accounts

(a) Trust Fund loans

(i)	Disbursed:	10.7
(ii)	Outstanding:	10.7

(b) SFF Subsidy Account — None

VI. Overdue Obligations to the Fund: 1.3

VII. Somalia has used Fund resources since 1964

B. Nonfinancial Relations

VIII. Exchange rate arrangement:

On January 1, 1985 Somalia established a dual exchange rate system whereby the official rate applies to all official transactions and surrendered portion of export receipts and the market rate applies to all other transactions. The official exchange rate which was set at So. Sh. 36 = US$1 on January 1, 1985 is pegged to the SDR adjusted for relative price developments vis-à-vis the five countries included in the SDR basket. The daily exchange rate is maintained within margins of 7.5 percent around the fixed real-term indicative bands of 2.25 percent.

SOMALIA - Relations with the Fund (concluded)

There is, moreover, an additional devaluation of So. Sh. 0.5 per U.S. dollar each month to the official rate. The market rate is determined by negotiation among buyers and sellers. At end-May 1985 the official rate was So. Sh. 40.1083 per U.S. dollar and the market rate was So. Sh. 83.6133 per U.S. dollar.

IX. Last Article IV Consultation:

Held in Mogadiscio December 3-19, 1983 and in Washington January 16-20, 1984; Executive Board discussed the staff report (SM/84/71 and SM/84/72) on April 30, 1984.

1. The Fund takes this decision relating to Somalia's exchange measures subject to Article VIII, Sections 2(a) and 3, and in concluding the 1983 Article XIV consultation with Somalia, in the light of the 1983 Article IV consultation with Somalia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. The approval by Decision No. 7331-(83/84), adopted February 22, 1983, of Somalia's multiple currency practice arising from a bonus scheme described in EBS/83/15, which was extended by Decision No. 7594-(83/185) adopted December 29, 1983, is further extended until December 31, 1984.

X. Technical assistance:

(a) FAD:	Since December 1983 an advisor from the FAD panel has been assisting the Ministry of Finance as a revenue advisor.
(b) CBD:	Since October 1984 a consultant on external debt has been assisting the Ministry of Finance.
(c) Other:	A Bureau of Statistics mission reviewed in May 1985 the coverage, sectorization, and classification of monetary accounts.

XI. Resident Representative/Advisor: Mr. Salvatore Schiavo-Campo assumed his post as resident representative to Somalia on March 27, 1985.

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, fisheries and rural development	82.6	45.7
Education	32.5	24.9
Energy	24.0	12.6
Industry	5.0	4.5
Transportation	73.4	54.6
Utilities	21.0	16.1
Total	238.8	158.3
Repayments	1.9	...
Debt outstanding (including undisbursed)	236.8	...
IFC operations	0.9	0.9

Source: World Bank.

1/ Through March 31, 1985

SOMALIA - Statistical Issues

1. Outstanding statistical issues

The data base is generally weak and there are problems with regard to the coverage and currentness of data in several areas.

a. National accounts

National accounts data are not reported for publication in the country page for Somalia in IFS. Data published by the Ministry of National Planning are believed to have limited reliability due to deficiencies and nonavailability of the basic statistics needed for preparing these estimates. Consequently, the national accounting data appearing in the Staff Report and the forthcoming Report on Recent Economic Developments represent staff estimates.

b. Monetary accounts

A technical assistance mission visited Somalia in May 1985 to review the coverage, sectorization, and classification of monetary accounts. The report of the mission, which is under preparation, will emphasize the need to revise existing accounting procedures to improve the compilation of monetary statistics, particularly in the following areas: (a) the treatment of the external arrears of the Government in the monetary accounts need to be rationalized; (b) the Central Bank's foreign currency holdings at the Commercial and Savings Bank should be properly classified so as to avoid double-counting in the measurement of foreign assets; (c) counterpart funds and other deposits need to be separated from deposits of nonfinancial public enterprises; (d) classification of foreign currency deposits and valuation of foreign assets need to be improved within the monetary accounts; and (e) timely and more detailed reporting by branches of the Commercial and Savings Bank is needed to improve the currentness and quality of data.

c. Government finance

Data published in the 1984 Government Finance Statistics Yearbook and in the IFS are extremely uncurrent with the latest data being available through 1978. Data for 1977 and 1978 had been assembled during a technical assistance mission in 1980; since then, no data have been reported to the Bureau of Statistics.

2. Coverage, currentness, and reporting of data in IFS

The table below shows the currentness and coverage of data published in the country page for Somalia in the June 1985 issue of IFS. The data are based on reports sent to the Fund's Bureau of Statistics by the Central Bank of Somalia, which during the past year have been provided on an infrequent basis.

SOMALIA - Statistical Issues (concluded)

Status of IFS Data

			Latest Data in June 1985 IFS
Real sector	-	National accounts	n.a.
	-	Prices (consumer)	February 1985
	-	Production	n.a.
	-	Employment	n.a.
	-	Earnings	n.a.
Government finance	-	Deficit/surplus	1978
	-	Financing	1978
	-	Debt	1978
Monetary accounts	-	Monetary authorities	November 1984
	-	Deposit money banks	September 1984
	-	Other financial institutions	n.a.
External sector	-	Merchandise trade: Values	Q1 1983
		Prices	n.a.
	-	Balance of payments	1983
	-	International reserves	March 1985
	-	Exchange rates	April 1985