



Ministry of Finance

Annual budgetary framework paper FY 2022



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Upper hill-Garowe, government zone

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Foreword

As part of the going efforts led by the current administration to enhance fiscal discipline, budget department produces budgetary framework paper in the second fiscal year with the aim of providing independent and authoritative analysis that supports budget committee by allowing them to effectively and efficiently allocate resources. In this economic and fiscal outlook we are focused in assessing the performance of budget over the past recent years, set out forecasts of most relevant macroeconomic variables and fiscal aggregates on medium-term basis, examining the performance of historical forecasts and addressed major fiscal risk factors confronting 2022 budget.

The projected economic and fiscal variables presented in this paper came up after utilizing the available historical data from the macroeconomic indicators, revenue and expenditure. The forecasted value could vary from the actual future values in case of unexpected events. If the fiscal risks addressed in this report are not taken to account seriously we may end up having different budget outturn.

Although grants and aids from international organization and NGO take crucial role in accelerating region's development, this analysis is focused on central government's revenues and expenditures with the exclusion of local governments.

List of abbreviations

MOF	Ministry of finance Puntland
GDP	Gross domestic product
CPI	Consumer price index
BOP	Balance of payment
S.SH	Somali shilling
USD	United state dollar
S.SH/\$	Somali shilling against united state dollar
FY	Fiscal year
DIFF.(%)	Difference in percentage
LCB	Lower confidence bond
UCP	Upper confidence bond

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Executive summary

Budgetary framework paper which is often known referred the pre-budget statement, the fiscal strategy paper and the budget strategy document, is backward and forward looking paper that focuses on:

- Review the historical performance of most relevant macroeconomic variables and forecast over medium-term horizon.
- Review the performance of fiscal policy in terms of expenditure, revenue and budget balance
- Conduct medium term fiscal projects
- Assess the forecasting performance.
- Address the main fiscal risk issues and recommend policy measures for those risks.

The overall purpose is to provide a contextual framework to budget committee under which resource envelope allocated efficiently and effectively.

Global growth is expected to rise by 5.5% in 2021 and 4.2% in 2022, after experiencing a contraction of 3.5% in 2020. International oil price is projected to rise by 20% although this rise isn't limited to oil price but also price for metals. Out gap is expected to continue until after 2022. In addition, global Inflation is expected to remain below the central bank target by 1.5% although it is projected to be 4% in emerging markets and developing economies. Global trade volume is forecasted to grow 8% in 2021 while this rate falls to 6% in 2022 as it will recover slowly.

Somalia has experienced a continues GDP growth in since 2012. Highest GDP growth of 22% was recorded in the year 2014 while lowest growth of 2% is recorded in 2017. However, GDP is projected to growth at 5% from 2021-23. In addition, Somalia's GDP is mainly contributed by household expenditure which contributes over hundred percent, follow by export, gross fixed capital and least contributed by the government expenditure.

Somalia's inflation has grown significantly over period from 1991 to 2019 with an average growth of 4.2 but expected to grow 3.3%, 3.2%, 3.1% and 3.0% in period 2020-23. Nevertheless, exchange rate of Somalia shilling against US dollar has depreciated tremendously over the period. Highest appreciation of S.SH/\$ was observed in 1992 as the rate changed from 7,000 to 4,000 reflecting an appreciation amounted of 40% while highest depreciation was observed as shilling rise from 10,000 to 18,000 in 2021 hence reflecting a depreciation of around 77%.

In 2012 Puntland's GDP was \$1806 million but increased by 6% in the subsequent year by reaching \$1917 million. In 2015 Puntland recorded its highest GDP of \$2054 million and reflected a growth of 11% in that very year comperated to \$1846 million recorded in 2014. GDP has declined the period between 2016-18 but reversed in 2019 by reflecting a positive growth of 10% with GDP value of \$1853 million. However, GDP is prediced to rise 9% in 2021, fall by 11% in 2022 and rise 10% in 2023 with GDP value of \$1801 million, \$1603 million and \$1756 million. Household final consumption takes biggest portion followed by gross fixed capital formation, export of goods and services and least contributed by governemt final consumption. The percentage of import in GDP is high and this call an action to avoid the huge money which is disappearing every year.

CPI as proxy of inflaiton is projected to decline 1% on montly basis from 2021-23. CPI is forecasted reach 88.15 in September 2021 hence showing 1% decline compared to August 2021 with CPI value of 88.26. Puntland's CPI is projected to be 88.707 is the month of January 2022 while January 2023 is forecasted to be 86.36. Therefore, inflation will decline consistently over the forecasted period. The

prediction goes until October 2023 and in that particular month CPI is expected to reach its lowest value of 85.36.

CPI as proxy of inflation is projected to decline 1% on monthly basis from 2021-23. The prediction goes until October 2023 and in that particular month CPI is expected to reach its lowest value of 85.36. Nevertheless, Puntland's balance of payment remains negative from the period 2012-19 and the gap between export use to widen a year after year. In the year 2012 Puntland recorded deficit of \$660 million and since then it keep rising until it reached \$1277 million in 2019 which was the last date to be produced this kind of data.

Real domestic revenue is fall by 6% in 2018 but then increased by 12% and 24% in the FY 2019-20. On the hand domestic expenditure fall 4% in FY 2018 compared to the previous year's expenditure but then expenditure increased 7% and 13% in the FY 2019-20. Government experienced 1.4% surplus in the FY 2017 but subsequent FY 2018 confronted a deficit of 0.7%. The fiscal years 2019 and 2020 government has experienced a surplus of 4.2% and 12.6%. nevertheless, the percentage equivalence of budget to GDP remains very low as it is being 3.3% in 2017 and 3.4% both FY 2018 and FY 2019.

Total actual domestic revenue collected in 2020 was \$ 79,200,002.00 compared to its budgeted one of \$ 76,785,373.66 which shows additional revenue of \$ 2,414,628.34. tax revenue is the main contributor of total domestic revenue as it contributes 65% followed by other revenue, social contributions and grants of about 20%, 2% and 13%.

In the FY 2020 Government budgeted domestic expenditure of about \$ 93,466,666.00 but actually realized \$ 69,236,118.91 hence showing that government avoided additional expenditure of about \$ 24,230,547. Moreover, in actual basis employees compensation takes 53% of the total domestic revenue while use of goods and services takes about 25%, subsidies on regional and capital development takes 1%, other expenditures takes 19% , contingency takes 1%, social benefits takes 1% and lastly, expenditure on capital takes 1%.

In the midium-term revenue is projected to be \$ 83,387,736.15, \$ 89,982,174.51, \$ 96,576,612.87 and \$ 103,171,051.24 in the fiscal years of 2021-22, 2022-23, 2023-24 and 2024-2025. On the other hand, expenditure is projected to be \$ 71,355,255.36, \$ 74,756,162.10, \$ 78,157,068.85 and \$ 81,557,975.59 in the fiscal years of 2021-22, 2022-23, 2023-24 and 2024-2025. However, all the forecasted values both in expenditure and revenue has upper bond and lower bond

Earlier the preparation of budget 2020-21 the anticipated revenue was \$63,785,732.47 while the expenditure was \$60,850,154.20. However, the achieved actual revenue at end of budget 2020-21 was \$79,200,002.00 showing that revenue exceeded its forecasted value by \$15,414,269.53 which is an equivalence gap of 24%. On the other hand, the realized actual expenditure was \$69,236,118.91 indicaitng that the expenditure was \$8,385,964.71higher than its forecas and an equivalence gap of 14%.

The budget of 2022 is confronting a number of fiscal risks such as macroeconomic risks, specific risks and institutional risks. in particular rising oil prices, negative world output gap, cyclical risks (draughts & floods), desert locust, unpredictable FGS transfer and grants, tax policy related risks are the main risk factors restricting the 2022 budget to end as planned. However, the following policy measures is suggested to the government in terms of reviewing its tax policy, stimulating the economy, efficient management of expenditure and restricting importation of unnecessary importation of goods and services etc.

1. Introduction

budget is government's plan to provide a wide range of public services to promote economic growth and stability, reallocate resources and transform the overall state of the public. Puntland ministry of finance recognizes the essential role that effective and efficient budgetary process plays in delivering security, health, education, infrastructure and other public services that are necessary for the wellbeing of people living under its jurisdiction.

Budgetary framework paper (BFP) is backward and forward looking paper that intends to review and reforecast key macroeconomic indicators and its implication on the budget, assess the budget performance and predict revenue and expenditure over the medium term. Moreover, the budgetary framework paper will address potential fiscal risks.

Budgetary framework paper sets out fiscal strategies not only for the coming year but over the medium which is in line with national development plan. This document will provide a contextual framework to the budget committee in the fiscal year 2022, thus enhancing efficient allocation of resources.

The country as experienced prolonged instability that led loss of the highly important institution for the economy remains inactive as central bank of Somalia while some relevant sectors as of industrial and financial sector remains premature. Apart from those structural issues, there are also frequent draughts and floods that has confronted by Puntland and Somalia at large. although in the recent period Covid-19 pandemic has come with additional fiscal pressures and economic slowdown across the world regions. all of those factors pose significant fiscal risks. Therefore, assessing the previous fiscal risks and predicting the budget aggregates as revenue and expenditure while taking all those challenges into account while enable the government to make effective budget and efficiently use the resource envelope.

2. Macroeconomic outlook

2.1. World economic outlook

Global growth is expected to rise 5.5 percent in the year 2021 and 4.2 percent in 2022 after experiencing a contraction of 3.5 percent in 2020 (as shown in table 1). The projected output in October by WEO is 0.9 percent lower than the estimate for 2020. Thus, reflecting stronger recovery across the regions than expected in the second half of the year.

Besides the projected global recovery, oil price is expected to rise by 20 percent in 2021 from the low base of 2020. However, this will be below the average price in 2019. This price increase isn't limited to oil but non-oil commodity particularly those of metals and expected to accelerate strongly in 2021. Output gaps are not expected to close until after 2022 despite of predicted recovery in 2021-22. In line with the negative output gaps, Inflation is expected to remain low during 2021-22. In advanced economies, inflation is expected to remain below the central bank targets at 1.5 percent. It is also projected to be over 4 percent in emerging market and developing economies although this is below the historical average of the group.

World trade volume is anticipated to grow 8 percent in 2021 consistent with the expected recovery in 2021 although this growth falls to 6% in 2022. Services trade is projected to recover more slowly than merchandise trade.

Table 1. Overview of the World Economic Outlook Projections
(Percent change, unless noted otherwise)

	Year over Year						Q4 over Q4 2/		
	Estimate		Projections		Difference from October 2020 WEO Projections 1/		Estimate	Projections	
	2019	2020	2021	2022	2021	2022		2021	2022
							2020		
World Output	2.8	-3.5	5.5	4.2	0.3	0.0	-1.4	4.2	3.7
Advanced Economies	1.6	-4.9	4.3	3.1	0.4	0.2	-3.9	4.6	1.9
United States	2.2	-3.4	5.1	2.5	2.0	-0.4	-2.1	4.0	2.0
Euro Area	1.3	-7.2	4.2	3.6	-1.0	0.5	-6.8	5.8	2.0
Germany	0.6	-5.4	3.5	3.1	-0.7	0.0	-5.3	5.2	1.7
France	1.5	-9.0	5.5	4.1	-0.5	1.2	-8.2	7.4	2.0
Italy	0.3	-9.2	3.0	3.6	-2.2	1.0	-8.3	4.2	2.3
Spain	2.0	-11.1	5.9	4.7	-1.3	0.2	-9.8	7.1	2.0
Japan	0.3	-5.1	3.1	2.4	0.8	0.7	-2.3	2.7	1.6
United Kingdom	1.4	-10.0	4.5	5.0	-1.4	1.8	-8.3	6.0	1.9
Canada	1.9	-5.5	3.6	4.1	-1.6	0.7	-4.0	3.7	2.7
Other Advanced Economies 3/	1.8	-2.5	3.6	3.1	0.0	0.0	-2.2	4.5	1.9
Emerging Market and Developing Economies	3.6	-2.4	6.3	5.0	0.3	-0.1	0.9	3.7	5.4
Emerging and Developing Asia	5.4	-1.1	8.3	5.9	0.3	-0.4	3.2	3.8	6.4
China	6.0	2.3	8.1	5.6	-0.1	-0.2	6.2	4.2	6.0
India 4/	4.2	-8.0	11.5	6.8	2.7	-1.2	0.6	1.7	7.8
ASEAN-5 5/	4.9	-3.7	5.2	6.0	-1.0	0.3	-3.2	5.2	6.1
Emerging and Developing Europe	2.2	-2.8	4.0	3.9	0.1	0.5	-2.7	4.8	3.0
Russia	1.3	-3.6	3.0	3.9	0.2	1.6	-4.6	5.3	2.6
Latin America and the Caribbean	0.2	-7.4	4.1	2.9	0.5	0.2	-4.8	2.3	2.8
Brazil	1.4	-4.5	3.6	2.6	0.8	0.3	-1.9	1.6	2.6
Mexico	-0.1	-8.5	4.3	2.5	0.8	0.2	-5.4	2.2	2.4
Middle East and Central Asia	1.4	-3.2	3.0	4.2	0.0	0.2	...	...	...
Saudi Arabia	0.3	-3.9	2.6	4.0	-0.5	0.6	-3.1	3.5	4.0
Sub-Saharan Africa	3.2	-2.6	3.2	3.9	0.1	-0.1	...	...	...
Nigeria	2.2	-3.2	1.5	2.5	-0.2	0.0	...	...	...
South Africa	0.2	-7.5	2.8	1.4	-0.2	-0.1	-6.2	2.8	0.6
<i>Memorandum</i>									
Low-Income Developing Countries	5.3	-0.8	5.1	5.5	0.2	0.0	...	...	...
World Growth Based on Market Exchange Rates	2.4	-3.8	5.1	3.8	0.3	0.0	-2.0	4.3	3.1
World Trade Volume (goods and services) 6/	1.0	-9.6	8.1	6.3	-0.2	0.9	...	...	...
Advanced Economies	1.4	-10.1	7.5	6.1	0.4	1.0	...	...	...
Emerging Market and Developing Economies	0.3	-8.9	9.2	6.7	-1.0	0.8	...	...	...
Commodity Prices (US dollars)									
Oil 7/	10.2	-32.7	21.2	-2.4	9.2	-5.4	-27.6	13.5	-2.2
Nonfuel (average based on world commodity import weights)	0.8	6.7	12.8	-1.5	7.7	-2.0	15.4	2.0	-0.1
Consumer Prices									
Advanced Economies 8/	1.4	0.7	1.3	1.5	-0.3	-0.1	0.5	1.5	1.6
Emerging Market and Developing Economies 9/	5.1	5.0	4.2	4.2	-0.5	-0.1	3.2	3.8	3.7

*Source: world economic outlook, IMF, January 2021 update.

2.2. Domestic economy

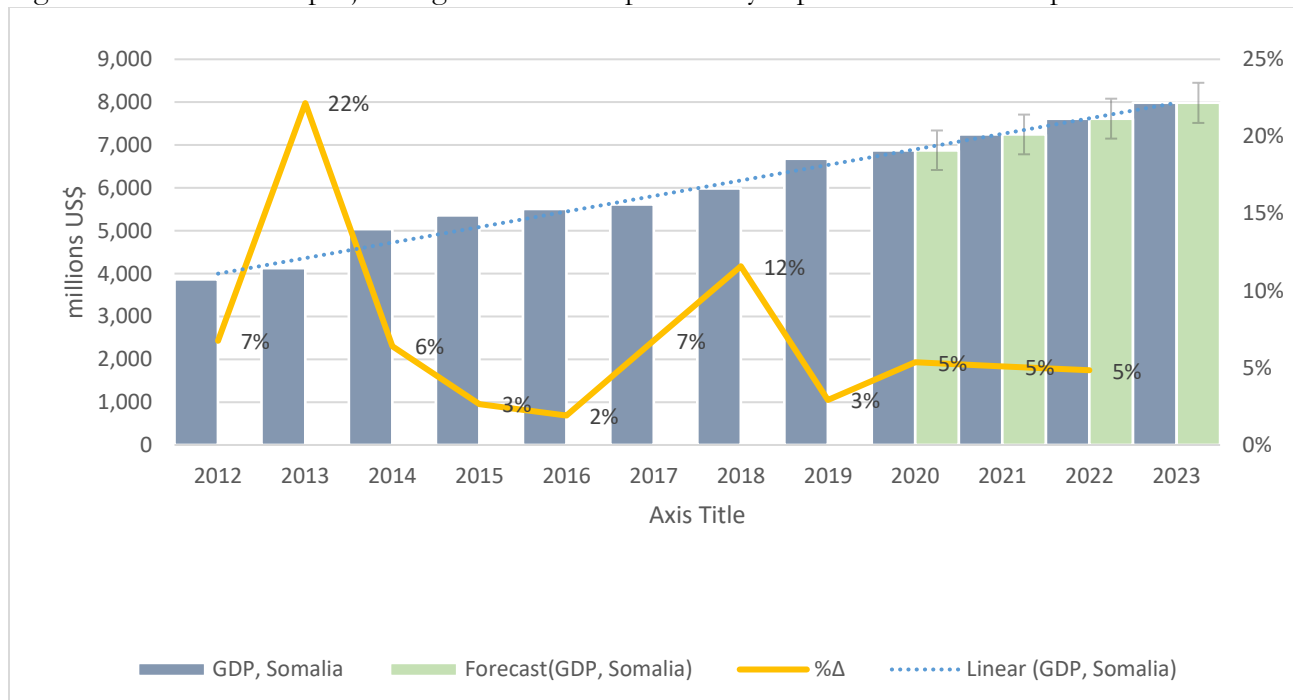
2.2.1. National macroeconomic outlook

i. Gross domestic product

Somalia's gross domestic product has shown a remarkable growth over the last eight years. Highest GDP growth was observed in the year 2014 which rise from estimated GDP of \$4125 million to \$5039 million thus reflecting GDP growth of 22%. Contrarily, the lowest GDP growth of 2% was observed in 2017 as estimated GDP slightly altered from \$5504 million to \$5609 million. The latest recorded GDP was published in 2019 with estimated value of \$6683 million and growth rate of 12%. However, GDP growth is projected to decline significantly in 2020 with rate of 3% but subsequent three years it is predicted to grow equal rate of 5%. The biggest contributor of Somalia's GDP is household consumption. Import remain the second largest share hence indicating country's greater dependence on purchases from abroad.

In the year 2018 the ratio of budget on GDP was 5% but this ratio was raised to 6% in 2019. Despite of the positive rise the ratio is remains very low, thus limiting governments capacity to manage the economy.

Figure 1: Historical and projected gross domestic product by expenditure at current prices



*source of data: NBS

*source of forecast: MOF, Puntland

Table 2: GDP by expenditure at current prices and expenditure shares (%)

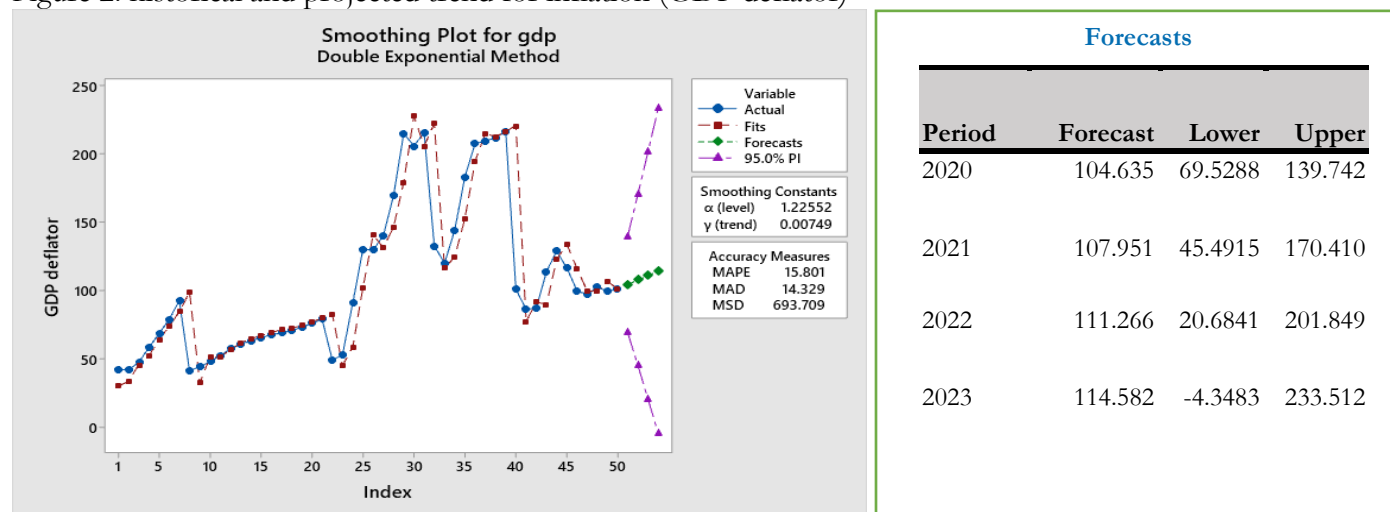
Expenditure	2012	2013	2014	2015	2016	2017	2018	2019
Household final	142.9	142.2	137.6	136.4	136.9	142.1	141.5	141.8
Government final	4.5	6.5	6.3	6.0	7.0	8.6	8.2	8.1
Gross fixed	14.9	14.8	12.7	12.6	12.8	14.1	14.5	14.3
Exports of goods	22.5	22.8	20.9	19.4	19.4	17.7	17.8	16.9
of which: livestock	12.7	13.0	11.9	10.4	8.3	4.8	4.9	4.4
Minus: Imports	84.7	86.3	77.5	74.4	76.2	82.4	82.0	81.1
services								
GDP at	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
prices								

*source of data: NBS

ii. Historical and projected trend for inflation (GDP)

GDP deflator measures level of prices of domestically produced goods and services. The rate of inflation was rising period from 1971-76 with growth rate fluctuating between 12%-22% until 1977 where price level fall by 55.2%, thus reaching its lowest over the observed period. Since then the inflation was moderately fluctuating until 1992 but the biggest growth of around 70% was observed in 1993. Highly price level was confronted in 2008 with growth of 2.1% but fall significantly in the subsequent two years by 53.3% and 14.6%. Moreover, inflation is projection to grow 3.3%, 3.2%, 3.1% and 3.0% in 2020-23. In overall, inflation has increased tremendously with an average growth of 4.2% over the observed period. However, this has an import implication for economic regulators as inflation influences fiscal policy.

Figure 2: historical and projected trend for inflation (GDP deflator)



*source of data: FAO statistics

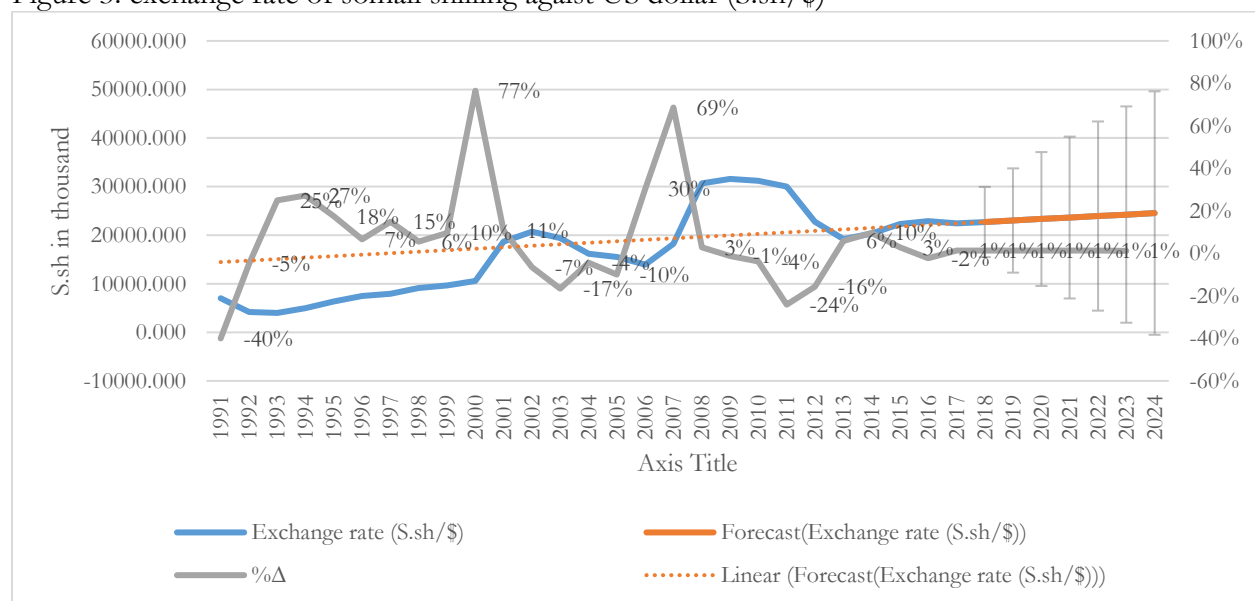
* source of forecast: MOF,Puntland

iii. Exchange rate of Somali shilling against US dollar

Alter the fall of Somali republic government many relevant public institutions got disappeared and remain inactive until the present time such institutions is included by Somalia's monetary authority leaving the Somali shilling unmanaged. Consequently, shilling as depreciated period from 1992-2019 by an average of 6%. Back in 1991 one US dollar was exchanged 7,000 Somali shilling while in 2019 was exchanged 22415 Somali shillings. Tremendous depreciation of Somalia shilling was experienced from 2008-11 with highest rate of 31585 Somali shillings per US dollar in 2009 although highest change of 69% was observed in 2008 as exchange rate rise from 18202 to 30695 Somali shilling.

Nevertheless, exchange rate is projected to rise by 1% and reach its highest in 2024 with 24559 Somali shilling per US dollar. In overall exchange rate of Somalia shilling has depreciated considerably thus creating uncertainty in the economy.

Figure 3: exchange rate of somali shilling against US dollar (S.sh/\$)



*source of data: FAO statistics

* source of forecast: MOF,Puntland

2.2.2. Puntland macroeconomic outlook

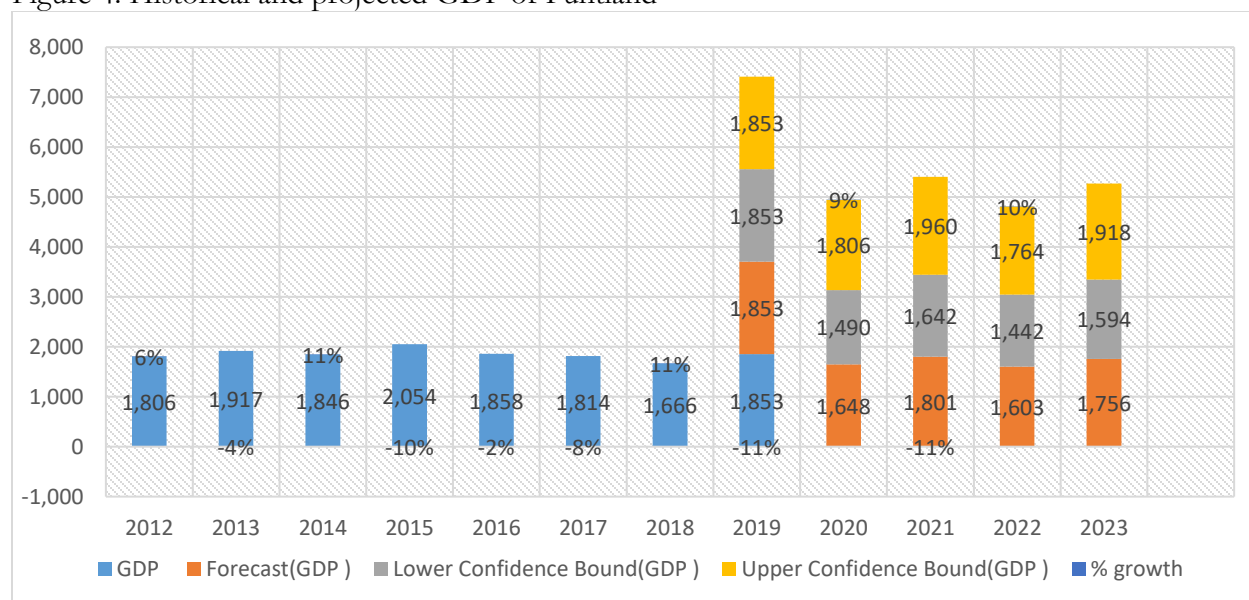
i. Gross domestic product

Gross domestic product data is produced annually by Puntland department of statistics as it provides relevant information regarding the size of the economy and how it performs. In 2012 Puntland's GDP was \$1806 million but increased by 6% in the subsequent year by reaching \$1917 million. In 2015 Puntland recorded its highest GDP of \$2054 million and reflected a growth of 11% in that very year compared to \$1846 million recorded in 2014. GDP has declined period 2016-18 but reversed in 2019 by reflecting a positive growth of 10% with GDP value of \$1853 million. However, GDP is predicted to rise 9% in 2021, fall by 11% in 2022

and is 10% in 2023 with GDP value of \$1801 million, \$1603 million and \$1756 million.

Household final consumption takes biggest portion followed by gross fixed capital formation, export of goods and services and least contributed by government final consumption. The percentage of import in GDP is high and this calls for an action to avoid the huge money which is disappearing every year.

Figure 4: Historical and projected GDP of Puntland



*source of data: Puntland statistics department

* source of forecast: MOF,Puntland

Table 3: GDP per component contributions (%)

GDP by component	2012	2013	2014	2015	2016	2017	2018	2019
Household final consumption	125%	127%	132%	126%	135%	141%	152%	151%
Government final consumption	3%	2%	2%	2%	3%	5%	6%	4%
Gross fixed capital formation	8%	8%	9%	9%	10%	13%	14%	14%
Exports of goods and services	9%	9%	11%	12%	10%	8%	9%	8%
Imports of goods and services	-46%	-47%	-55%	-49%	-58%	-67%	-81%	-77%
GDP at Current prices	100%	100%	100%	100%	100%	100%	100%	100%

*source of data: Puntland department of statistics

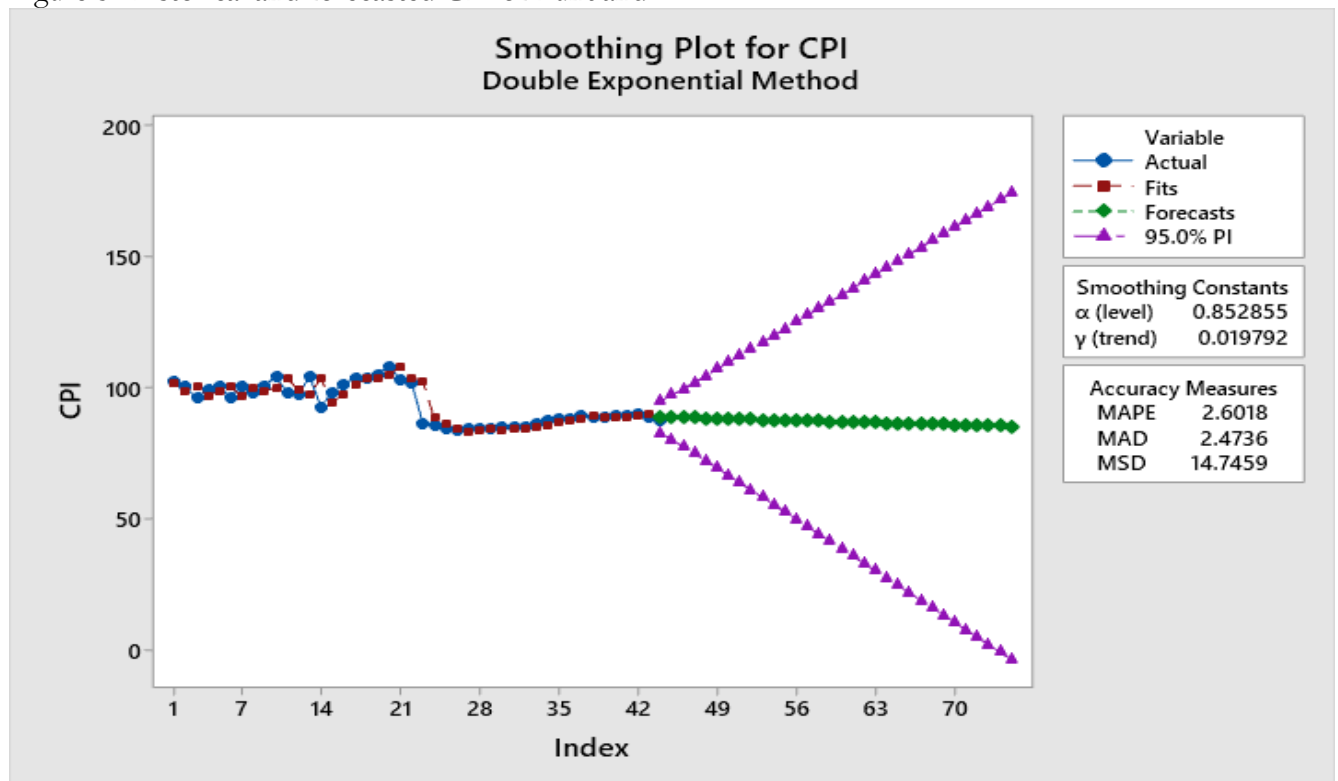
ii. Puntland consumer price index (all group CPI)

CPI as proxy of inflation is projected to decline 1% on monthly basis from 2021-23. CPI is forecasted to reach 88.15 in September 2021 hence showing 1% decline compared to August 2021 with CPI value of 88.26. Puntland's CPI is projected to be 88.707 in the month of January 2022 while January 2023 is forecasted to be

86.36. Therefore, inflation will decline consistently over the forecasted period. The prediction goes until October 2023 and in that particular month CPI is expected to reach its lowest value of 85.36.

CPI is an important macroeconomic variable as it provides information regarding variations of prices in the economy and act as guide to public policy makers in making informed decisions.

Figure 5: Historical and forecasted CPI of Puntland



*source of data: Puntland department of statistics

*source of forecast: MOF, Puntland

iii. Balance of payment (Bop)

Puntland's balance of payment remains negative from the period 2012-19 and the gap between export use to widden a year after year. In the year 2012 Puntland recorded deficit of \$660 million and since then it keep rising until it reached \$1277 million in 2019 which was the last date to be produced this kind of data.

Nevertheless, the ratio of balance of payment to GDP which is also expressed in percentage has a critical implication for the performance of the economy. The proportion of trade deficit to GDP was 37% in 2012 which means money equivalent of 37% of GDP was sent to abroad which otherwise would be added to GDP if it is spent on domestic goods and services. The highest proportion of 72% was recorded in 2018 but declined to 69% in 2019. However, it is forecasted to be 80%, 95% and 92% in 2021-23. This creates a major concern in the face of dollarization.

Table 4: Balance of payment (export minus import)

Date	Exports of goods and services	Imports of goods and services	Bop	% Bop of GDP
2012	167	827	-660	-37%
2013	173	892	-719	-38%
2014	205	1,011	-806	-44%
2015	241	1,010	-769	-37%
2016	188	1,086	-898	-48%
2017	151	1,215	-1064	-59%
2018	153	1,354	-1201	-72%
2019	153	1,430	-1277	-69%
2020	148	1496	-1348	-82%
2021	143	1582	-1439	-80%
2022	138	1667	-1530	-95%
2023	133	1753	-1620	-92%

3. Fiscal strategy and outlook

3.1. Fiscal strategy

In previous fiscal year government paid strong attention on reforming public finance and improving institutional quality which led revenue to rise tremendously compared to previous year's growth and meet all its primary financial requirements without involving debt. Nevertheless, by leaving aside its commitments to reform public financial management and institutional strengthening, the government has revised its fiscal strategy. The core to this strategy is focused on:

Increase salary of public employees: this is following remarkable fiscal success in terms of significant rise in domestic revenue confronted in the previous fiscal years and efficient expenditure management exposed which left surplus cash in the government accounts. Therefore, government is willing to increase the salary of all public employees in the FY 2021-22 budget more than hundred percent.

Promote inclusive growth: government will provide various economic stimulus including the one concerning public staff salary in order to stimulate the aggregate demands which eventually will promote investment, competition and create jobs for thousands of Puntlanders.

Public financial management reform: this was an ongoing strategy in the previous fiscal years and many important has been done in tax policy, tax collection, chart of accounts, budget documents and expenditure management mechanisms. Moreover, the government is willing to fully implement single treasury account in August 2021.

Maintain zero deficit: similar to the previous fiscal years government is determined to continue upholding its principle of keeping the budget balanced (meaning planned expenditure has be equal to the revenue) if not having a surplus budget. This commitment will enable government avoid debt and unnecessary expenditure with may lead excessive expenditure.

Public infrastructure development: In the fiscal year 2022 budget Puntland put public infrastructure development among the top government priorities particularly rehabilitation of old roads and building of new ones as they are vital for countries economic development and prosperity.

3.2. Priority Areas for Spending in 2021

While every MDA will receive some funds to enable the MDA to function, the focus for funding for the FY 2022 budget shall be mostly directed to the following priority areas, determined in context of the NDP and national objectives:

- I. Security and protection of Puntland's territorial integrity, which is so critical to peace building in State and the country wide.
- II. Critical infrastructure development, with a focus on:
 - a. Expanding and modernizing Bossaso port.
 - b. Improving and maintaining livestock health and food safety.
 - c. Enhancing our agricultural trade with the key trading partners.
 - d. Construction of roads to ease movement of people and goods.
 - e. Construction of water bore wells to enhance water security.
 - f. Construction of health facilities for women and children.
 - g. Reconstruction of classrooms to increase access to secondary education.
 - h. Further improvement in Information Technology.
 - i. Deepening public financial management, especially to build capacity of MDAs in the area of planning and budgeting
 - j. Human capital formation through job creation programs

3.3. Fiscal performance

Back in 2017 Puntland's actual domestic revenue was \$60,590,190.05 but in the subsequent fiscal year revenue fall by 6% as government collected \$56,942,947.27. In the fiscal year 2019 and 2020 domestic revenue was \$63,898,657.56 and \$79,200,002.00, thus indicating a percentage increase of 12% and 24%. In addition, Puntland has achieved remarkable fiscal success in the fiscal year 2020 as the government not only collected largest revenue since the emergence of Puntland but also highest growth in terms of year over year changes.

Nevertheless, domestic expenditure of \$59,756,045.59 was experienced in the fiscal year 2017 but the following fiscal year the domestic expenditure was fallen to \$57,330,611.43 reflecting a decline of 4%, this is because of 6% revenue shortfall confronted by the government in the fiscal year 2018. Domestic expenditure had increased by 7% in the fiscal year 2019 with expenditure of \$61,182,985.59. Puntland's domestic expenditure was \$69,236,118.91 in the fiscal year 2020, hence indicating an increase of 13% compared to the previous fiscal year. Therefore, highest expenditure both in monetary term and year over year change was observed in 2020, this is mainly due rise in domestic revenue that we have realized in that specific fiscal year.

In most cases Puntland set a balanced budget to avoid excessive spending that may lead debt and focus on areas that is required the most by the public. In the fiscal year 2017 Puntland experienced a positive balance of \$834,144.46 which is an equivalent of gap 1.4 percent but budget deficit of \$387,664.16 was realized in the FY 2018 which reflects an equivalent gap of 0.7%, this is as a result of revenue short fall confronted by the government during fiscal year. In the fiscal year 2019 budget surplus of \$2,715,671.97 was confronted by the government, which is an equivalent gap

of 4.2%. nevertheless, remarkable budget surplus of \$9,963,883.09 which is an equivalent gap of 12.6% was observed in the fiscal year 2020.

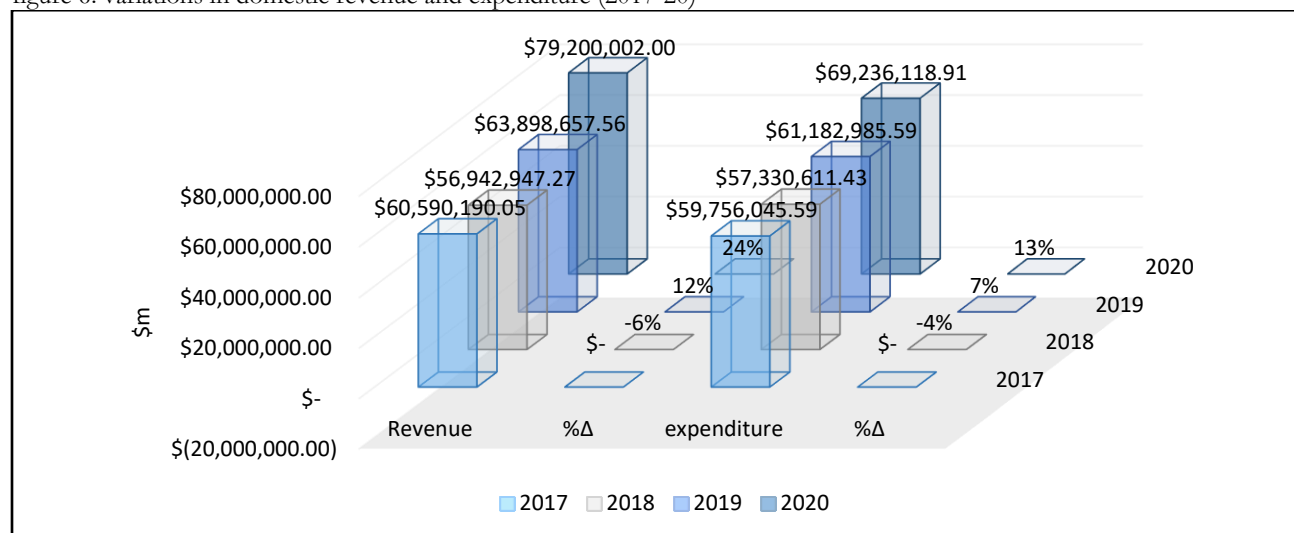
The ratio of revenue and expenditure to GDP is a useful look at country's budget as it indicates county's budget relative to its economy and how well government directs its economy. In the FY 2017 revenue was an equivalent of 3.3% of GDP while this value had increased to 3.4% in subsequent Fiscal year. In the FY 2018 expenditure was an equivalent of 3.3% but changed to 3.4% and 3.3% in the FY 2018 and FY 2019. Both revenue and expenditure has fallen in the FY 2018 but their ratio to GDP increased (as indicated in table 7), this is because GDP fall by 8% in that year hence rising the proportion of budget to GDP. Nevertheless, in overall the equivalence of budget to GDP is Puntland is significantly low.

Table 5: Fiscal summary

Date	2017	2018	2019	2020
Revenue	\$ 60,590,190.05	\$ 56,942,947.27	\$ 63,898,657.56	\$ 79,200,002.00
% of GDP	3.3%	3.4%	3.4%	-
expenditure	\$ 59,756,045.59	\$ 57,330,611.43	\$ 61,182,985.59	\$ 69,236,118.91
% of GDP	3.3%	3.4%	3.3%	-
difference (R-E)	\$ 834,144.46	\$ -387,664.16	\$ 2,715,671.97	\$ 9,963,883.09
Diff.(%)	1.4%	-0.7%	4.2%	12.6%

*source of data: MOF, Puntland

figure 6: variations in domestic revenue and expenditure (2017-20)



*source of data: MOF, Puntland

3.4. Revenue FY 2020

Consist with standardized GFSM 2014 we mainly classsied revenue in to four categories such as tax revenue, other revenue, social contributions and grants. Tax revenue collected in the 2020-21 budget is estimated to be \$ 58,107,746.00 while the actual collected was \$ 50,057,819.08 reflecting a difference of \$ 8,049,926.92 showing an equivalent gap of 14%. Other revenue was estimated to be \$19,568,256.00 but realized actual was \$ 15,166,540.33 indicating a shortfall of \$ 4,401,715.67 and equivalent gap of 22%. Initially the formulation of 2019-20 budget we estimated a social contribution of around \$ 1,524,000.00 but in actual government received \$1,832,014.25 hence, receiving additional \$ 308,014.25 which is more than 20% the estimate made at the beginning of

the budget. moreover, government received unexpected budget support amounted \$ 9,729,000.00 making the total domestic revenue by \$ 79,200,002.00.

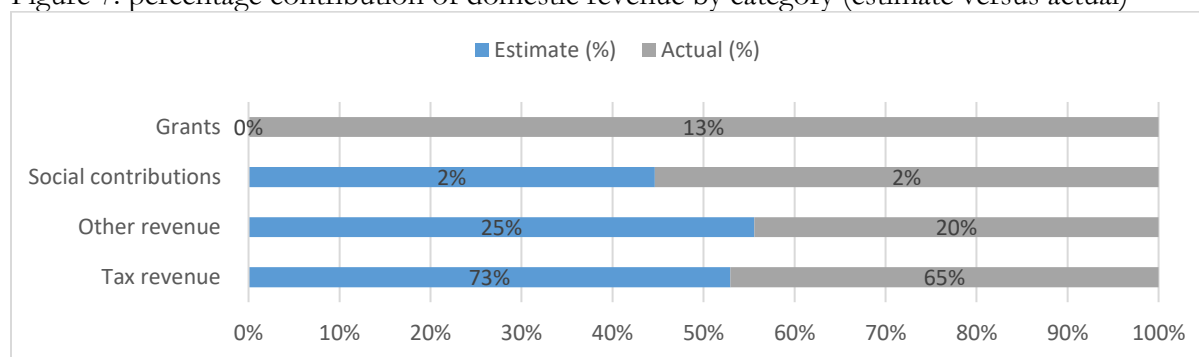
Among the revenue categories tax revenue takes the biggest contribution of the revenue with estimated value of 65% and actual contribution of 73%. Other revenue in 2019-20. budget is estimated to contribute 20% but actually contributed 25%. The estimated percentage of social contribution equates the actual realized at end of the budget period. However, grants which was in estimate was to be zero percent has contributed 13% to domestic revenue.

Table 6: Revenue by category (estimate versus actuals)

Revenue by category	Estimate (E)	Actual (A)	Difference	Diff.(%)
Tax revenue	\$ 58,107,746.00	\$ 50,057,819.08	\$ 8,049,926.92	-14%
Non tax revenue	\$ 19,568,256.00	\$ 15,166,540.33	\$ 4,401,715.67	-22%
Social contributions	\$ 1,524,000.00	\$ 1,832,014.25	\$ 308,014.25	20%
Grants	-	\$ 9,729,000.00	\$ 9,729,000.00	-
Total	\$ 79,200,002.00	\$ 76,785,373.66	\$ 2,414,628.34	-3%

*source of data: MOF, Puntland

Figure 7: percentage contribution of domestic revenue by category (estimate versus actual)



*source of data: MOF, Puntland

3.5. Expenditure FY 2020

Employees compensaiton was estimated to be \$ 42,063,726 in 2019-20 budget but become \$ 36,616,759.71 in actual showing that actual expenditure was \$5,446,966 lower than the estimate hence reflecting an equivalent gap of 15%. The use of goods and services is estimated to be \$ 25,391,036 in the initial period of budget formulation but the actual government expenditure incurred in the use of goods and services become \$ 17,061,214.37 at end 2019-20 budget, thus showing a difference of 49%. In Puntland subsidy usually goes to the development of capital city and other regions of the state. The planned subsidy in the fiscal year 2019-20 budget on regional and capital city development was \$1,440,000 but government spent in actual by \$ 523,725.00 reflecting a difference of 175% which remains a bit wider.

Other expenditure was estimated to be \$ 2,345,588 in the formulation of 2019-20 but in actually approached 13,376,891.30 which resulting additional expenditure of \$ 11,031,303 and an equivalent gap of 82%. The government estimated a contingency amounted \$ 815,886 but in actual incurred \$ 669,582.53 showing a difference of 146,303 which is an equivalent gap of 22%. Government

planned to spend on social benefits \$ 1,197,120 but actually spend on \$ 511,864.00 leading the actual to be lower than the estimate by 685,256 which is an equivalent gap of 134%. Government planned capital expenditure of about \$ 20,213,310 but actually incurred \$ 476,082.00, thus showing the biggest difference of \$19,737,228 which is an equivalent gap of 4146%. In overall the government estimated an expenditure of \$93,466,666.00 in 2019-20 budget but actual spent \$ 69,236,118.91 resulting a difference of \$ 24,230,547 and equivalent gap of 35%.

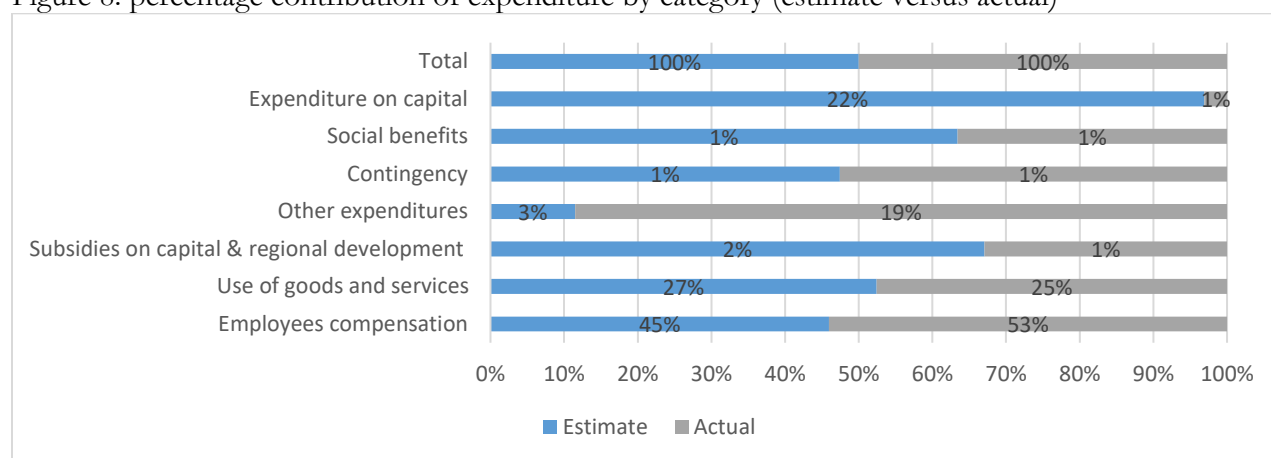
In budget 2020-21 employee compensation was estimated to be 45% of the domestic expenditure but become 53% in actual while use of goods and services which is expected to be 27% become 25% in actual. The estimated subsidy on the capital city and regional development made at period of budget formulation was 2% but in actual become 1% of the total expenditure. other expenditure was estimated to be 3% become in actual 19% of the total expenditure. Both contingency and social benefits expenditures in estimate and actual remains similar as it rests 1%. Moreover, the estimated expenditure on capital was 22% but in actual government spent 1% on capital of the total domestic revenue.

Table 7: expenditure by category (estimate versus actual)

Expenditure by category	Estimate	Actual	Difference	Diff.(%)
Employees compensation	\$ 42,063,726	\$ 36,616,759.71	\$ 5,446,966	15%
Use of goods and services	\$ 25,391,036	\$ 17,061,214.37	\$ 8,329,822	49%
Subsidies on capital & regional development	\$ 1,440,000	\$ 523,725.00	\$ 916,275	175%
Other expenditures	\$ 2,345,588	\$ 13,376,891.30	\$ -11,031,303	-82%
Contingency	\$ 815,886	\$ 669,582.53	\$ 146,303	22%
Social benefits	\$ 1,197,120	\$ 511,864.00	\$ 685,256	134%
Expenditure on capital	\$ 20,213,310	\$ 476,082.00	\$ 19,737,228	4146%
Total	\$ 93,466,666.00	\$ 69,236,118.91	\$ 24,230,547	35%

*source of data: MOF, Puntland

Figure 8: percentage contribution of expenditure by category (estimate versus actual)



*source of data: MOF, Puntland

3.6. Medium-term fiscal projections

In contrast to the previous fiscal years forecast, this year we have improved our forecasted technique by introducing to the forecast lower confidence bond and upper confidence bond which will add an important insight to our projection specially in creating an interval which is going to lie by the revenue and expenditure. In the medium-term revenue is projected to be \$

83,387,736.15, \$ 89,982,174.51, \$ 96,576,612.87 and \$ 103,171,051.24 in the fiscal years of 2021-22, 2022-23, 2023-24 and 2024-2025. On the other hand, expenditure is projected to be \$ 71,355,255.36, \$ 74,756,162.10, \$ 78,157,068.85 and \$ 81,557,975.59 in the fiscal years of 2021-22, 2022-23, 2023-24 and 2024-2025. However, all the forecasted values both in expenditure and revenue has upper bond and lower bond as presented in the table below.

Table 8: Medium-term fiscal projections

		2021-22	2022-23	2023-24	2024-25
Revenue	Forecast	\$ 83,387,736.15	\$ 89,982,174.51	\$ 96,576,612.87	\$ 103,171,051.24
	LCB	\$ 70,637,236.44	\$ 76,836,161.97	\$ 83,043,622.66	\$ 89,258,894.58
	UCB	\$ 96,138,235.86	\$ 103,128,187.05	\$ 110,109,603.08	\$ 117,083,207.89
Expenditure	Forecast	\$ 71,355,255.36	\$ 74,756,162.10	\$ 78,157,068.85	\$ 81,557,975.59
	LCB	\$ 64,262,821.17	\$ 67,443,724.88	\$ 70,629,376.25	\$ 73,819,372.59
	UCB	\$ 78,447,689.54	\$ 82,068,599.32	\$ 85,684,761.45	\$ 89,296,578.60

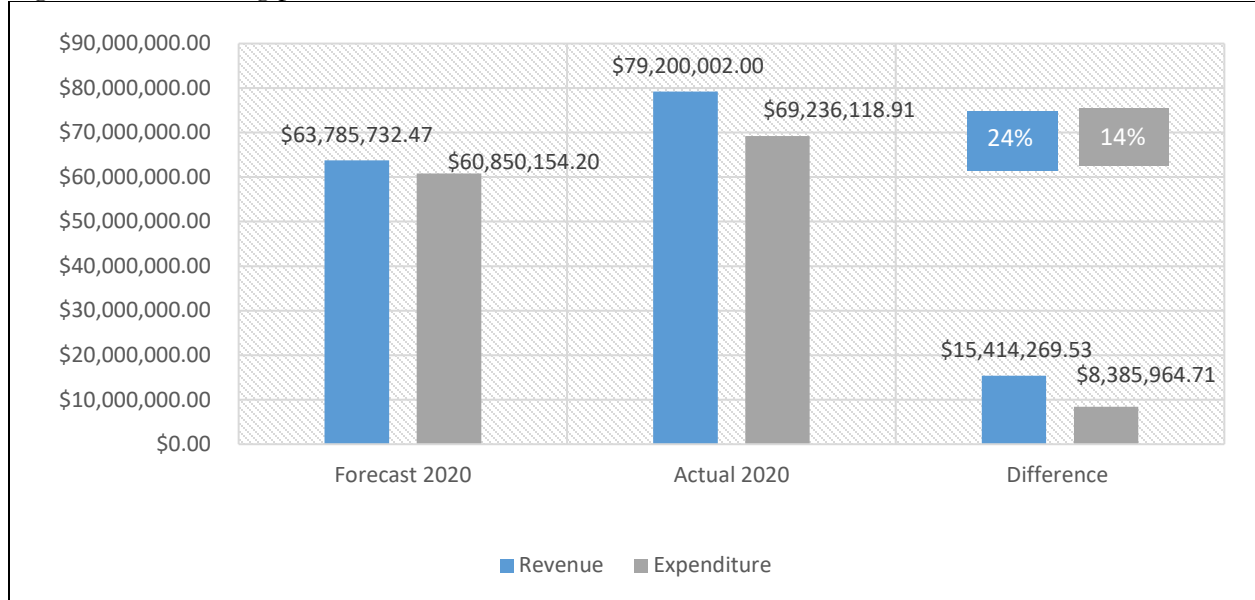
*source of data: MOF, Puntland

3.5. Forecasting performance

Budget forecast is an integral part of the annual budget process for making improved decisions in maintaining fiscal discipline and setting up appropriate ceilings for the MDAs. On that account, every fiscal year prior the formulation of budget domestic revenue and expenditure is forecasted. Earlier the preparation of budget 2019-20 the anticipated revenue was \$63,785,732.47 while the expenditure was \$60,850,154.20. However, the achieved actual revenue at end of budget 2020-21 was \$79,200,002.00 showing that revenue exceeded its forecasted value by \$15,414,269.53 which is an equivalence gap of 24%. On the other hand, the realized actual expenditure was \$69,236,118.91 indicating that the expenditure was \$8,385,964.71 higher than its forecast and an equivalence gap of 14%.

The gap between the predicted and realized values is considerable although the difference is much higher in revenue. This is mainly due to the ongoing reform in public financial management, the state of macroeconomic environment, data inconsistency and lastly as a result of the forecasting methods employed although the forecasted approach improved in this fiscal year.

Figure 9: Forecasting performance



*source of data: MOF, Puntland

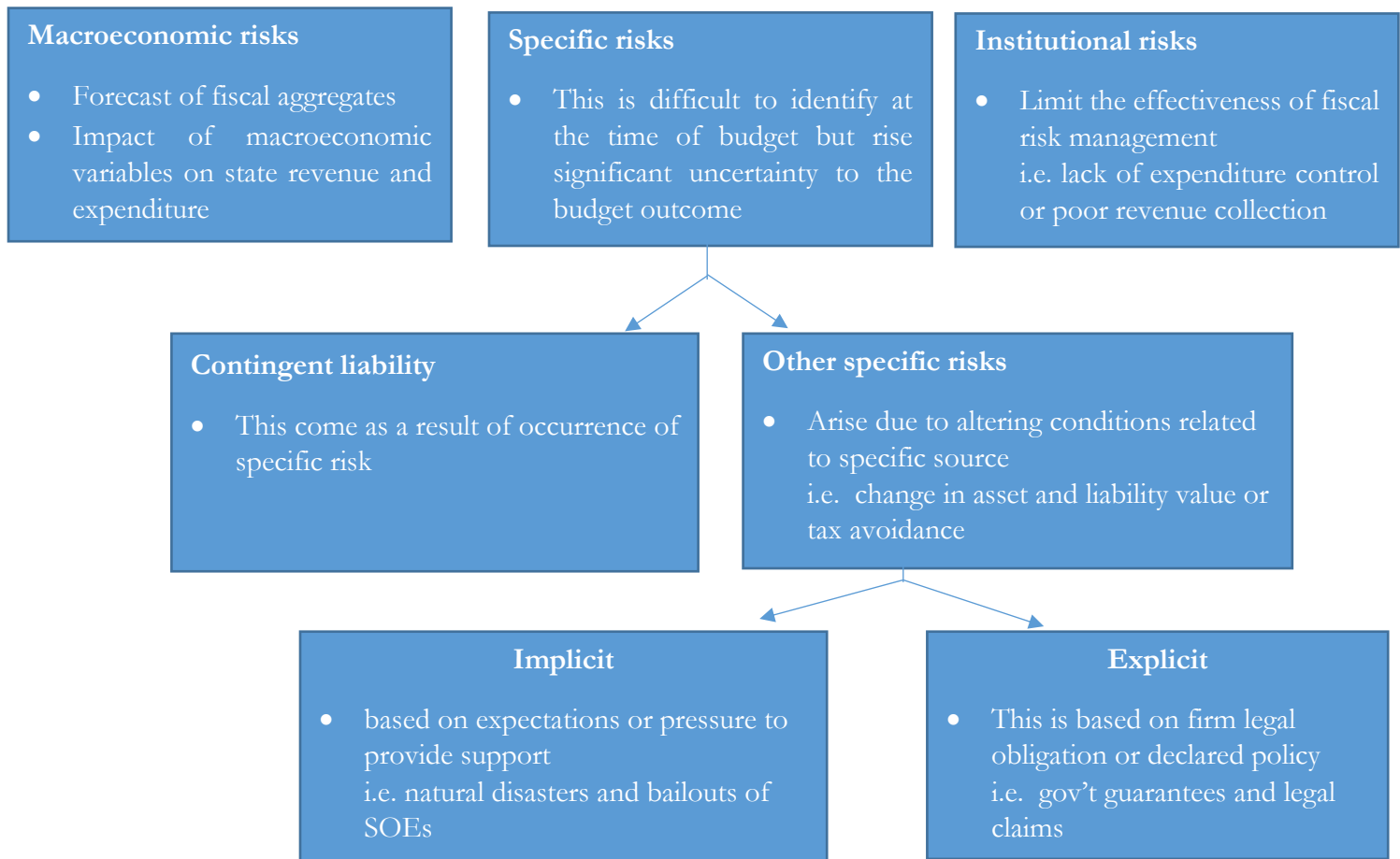
4. Fiscal risk statement

Occasionally, fiscal aggregates as revenue, expenditure, gross domestic product, inflation etc. encounter notable deviations from what is expected or projected in the budget. This discrepancy occurs as a result of financial crisis, higher inflation, economic downturn, natural disasters, realization of government guarantees, cost overrun of big projects or unprecedented condition like Covid-19. These kinds of shocks disrupt the government finances and pose significant challenge to functioning of the economy. Therefore, fiscal risk is referred to possibility of deviations of fiscal outturns from what is expected at the time of budget or other forecasts.

Puntland state is publishing fiscal risk statement for the first time. This is consistent with international best practices and inspires to outline not only potential risks but also mitigating measures needed in order to lower the impact of such risks. Nevertheless, this is an indication of government's commitments to uphold its fiscal policy targets that aims to stabilize the economy and promote economic development of its territory.

Following this, we consider fiscal risk framework that organize fiscal risk in to three categories such as macroeconomic risks, specific risks and institutional risks. fiscal risks are interdependent and highly correlation. For example, decline in economic activities or significant rise in inflation will result lower tax base hence declining government revenue and in return disrupt public spending.

Chart 1: fiscal risk framework



4.1. Macroeconomic risks

Projections of government revenue and expenditure over the medium term depends assumptions and decisions based on best available information at the time of budget formation. Projection are made with the assumption that macroeconomic condition remains the same if it wouldn't get better. Nevertheless, there are alarming issues that may impose significant macroeconomic risks to the implementation of the budget and realization of fiscal policy objectives.

International oil price is expected to grow by 20% in 2021 while the price of some other commodities like metal is also projected to grow. The existing output gap is expected to continue even beyond 2020. In addition, global trade volume is expected to recover slowing. Consequently, all of these will lead local economic activities to slow hence, resulting revenue short fall as the economy highly depends on import.

Many crucial economic sectors as that of production collapsed following the fall of Somalia republic in 1991. Consequently, most of the commodities used in the country to be imported

from abroad yet the very few is exported to abroad. This led Puntland to experience a consistent trade deficit that is increasing year after year since 2012. In 2019 GDP was recorded to be \$1853 million while \$ 1430 million is spent on import of goods and services resulting domestic economy to lose a money equivalent of 77% of GDP which if not would have contributed to domestic economy and uplift the rate of activities in the region hence limiting revenue growth and create liquidity concerns.

Following the collapse of the central bank of Somalia back in 1991, the shilling was unregulated resulting the currency to lose most relevant properties of money, significant loss of value and frequent currency crisis. Currently, with benefit of public government continue to take up to 20% of the total tax from the Bossaso port (which is among the main source of government revenue). Since shilling lost its acceptability among the public, government incurs monthly revenue loss of about \$ 622,395.4 making the annual estimated revenue loss \$ 7,468,745.

4.2. Specific risks

Puntland has its own cyclical disasters that come in many faces as draughts, floods, dissert locust and other similar disasters which always introduce fiscal pressures. Back in 2020 Puntland confronted join of various disasters such as floods that occurred in regions of Karkar and Gardafu, outbreak of dissert locust that damaged agricultural sector, covid-19 and collapse of Bossaso road. However, most of these disasters are cyclical and impose huge fiscal pressures and sometimes fiscal policy failure due to states economic fragility and the nature of the environment.

Unpredictable transfers from the federal government of Somalia and other international organizations. If we trace back the federal government transfers, there has been \$ 550000 received in the FY 2017 and \$ 671,840.00 in FY 2018. However, this is not consistent. Grants from international organization remains also remains highly uncertain and often non regular. In the FY 2020 Puntland received \$ 9,729,000.00 as budget support from European union but previous fiscal years this wasn't there, hence reflecting huge uncertainty in both transfers and grants.

The ongoing budget 2020-21 government has marked a remarkable revision particularly on the dimension of public expenditure. such revision in the budget create concerns and will lead government to into deficit and debt and can transfer those pressures to next fiscal year if not considered carefully.

4.3. Institutional risk

Despite ongoing reform in revenue there is no existing public financial management act that is currently passed by parliament hence limiting the ability of the ministry of finance and in particular revenue directorate to inforce and organize the tax and other revenue collections. This would result a lot of revenue to end up accounts other than that of the ministry of finance.

On the hand, there are various firms that has developed financial conglomerate system making their financial information more complicated, thus allowing them to escape the right tax they should have be paid and as a result government will miss out a revenue.

Chart 2: Fiscal risk assessment framework

Fiscal impact	>0.5% of GDP	Gross slowdown	Unpredictable foreign assistance Inflation	Currency crisis Capital flight Natural disasters Covid-19 Revenue shortfall
	0.1% -0.5% of GDP		Unpredictable FGS transfer Large revision in public expenditure Unemployment	
	<0.1% of GDP	Tax refund Employee welfare fund		
	Low (<10%)		Medium (10% - 50%)	High (>50%)
	Likelihood of realization			

4.4. Fiscal risk mitigation measures

Fiscal risks differ in nature as there are those that can be influenced directly by the government when it comes to risk mitigation such as revenue shortfall, there are those that are not under the direct control of government but have influence such as economic slowdown and domestic inflation while there are others that is difficult for the government to control or manage as required such as negative shocks from the global commodity market, natural disasters and currency crisis. Nevertheless, there are possible measures to diminish the potential of the risks and are as flows;

- Quitting the 20% tax taken in Somalia shilling in the main port of Bossaso.
- Ensuring revenue projections and making base to that revenue in any budget revisions required.
- Domestic revenue is mainly collected from the economic activities within the state and fore this rationale its pre-mandatory to stimulate Puntland's growth domestic product through adoption of expansionary fiscal policy.
- Government should avoid unnecessary expenditure to avoid public debt and deficit.
- Government should also come up with policies to restrict importation of locally available commodities to avoid slow the pace of capital flight.
- Full economic dollarization is good option to protect the economy from the frequent crisis of Somalia shilling which is highly volatile and fragile.
- Government should come up with packages to create the more jobs for public as means of stimulating purchasing power and promoting revenue growth.

Appendices

Appendix 1: Historical and projected CPI of Puntland

Forecast							
Period	forecast	Lower	Upper	Period	Forecast	Lower	Upper
44	88.8223	82.6998	94.945	60	87.0378	38.6435	135.432
45	88.7108	80.2326	97.189	61	86.9263	35.8352	138.017
46	88.5992	77.6041	99.594	62	86.8148	33.0263	140.603
47	88.4877	74.9038	102.072	63	86.7032	30.2167	143.190
48	88.3762	72.1659	104.586	64	86.5917	27.4066	145.777
49	88.2646	69.4062	107.123	65	86.4802	24.5961	148.364
50	88.1531	66.6327	109.674	66	86.3687	21.7852	150.952
51	88.0416	63.8500	112.233	67	86.2571	18.9740	153.540
52	87.9301	61.0608	114.799	68	86.1456	16.1625	156.129
53	87.8185	58.2669	117.370	69	86.0341	13.3507	158.717
54	87.7070	55.4695	119.945	70	85.9225	10.5387	161.306
55	87.5955	52.6693	122.522	71	85.8110	7.7264	163.896
56	87.4839	49.8670	125.101	72	85.6995	4.9140	166.485
57	87.3724	47.0630	127.682	73	85.5880	2.1014	169.075
58	87.2609	44.2576	130.264	74	85.4764	-0.7113	171.664
59	87.1494	41.4510	132.848	75	85.3649	-3.5242	174.254