

Statement by the Staff Representative on Somalia
December 5, 2022

This statement is to update the Executive Board on some recent developments following the issuance of the Staff Report for the 2022 Article IV Consultation and Fourth Review Under the Extended Fund Facility. These developments do not alter the thrust of the staff report or staff appraisal.

Drought and food security. Overall cumulative rainfall since the start of the Deyr season in October remains well below average across most of the country, risking a fifth consecutive failed rainy season. It remains urgent for humanitarian aid to be scaled up and sustained.

Tender protocol for the petroleum sector. On November 22, 2022, the Inter-Ministerial Concessions Committee approved the revised tender protocol and accompanying amended regulation, in line with IMF recommendations, thereby completing the structural benchmark.

Budget 2023. The 2023 budget was approved by Cabinet on November 16, 2022 and was submitted to Parliament on November 27, 2022 for consideration. Staff's assessment of the Cabinet approved budget remains broadly unchanged relative to the staff report. It is consistent with agreements reached with staff: it promotes higher domestic revenues, maintains domestically financed current expenditure in check while accommodating higher spending on drought response and security, and incorporates higher externally financed project in support of NDP9 priorities, including social spending. In particular:

- **Domestic revenue.** Domestic revenue in the approved budget is forecast at 3.1 percent of GDP, in line with expectations, and incorporates some additional revenue from new fishing licenses.
- **Mandatory spending** (excluding projects). Compensation of employees is budgeted at 3.1 percent of GDP, compared to 3 percent of GDP in the draft budget earlier seen by staff, mainly on account of higher spending in the defense and security sector. Goods and services are budgeted at 1.1 percent of GDP, compared to 1 percent of GDP in the draft budget, including some additional spending on military supplies, utilities and fuel, and other operating expenses.
- **Transfers to Federal Member States (FMS).** While the approved budget incorporates 0.7 percent of GDP in transfers to FMS, compared to 0.5 percent of GDP in the draft budget, discussions on the size of transfers are still ongoing between the Federal Government and the FMS.
- **Overall balance.** As a result of these small deviations, the approved budget shows an overall deficit of 0.2 percent of GDP for 2023, compared to a surplus of 0.2 percent of GDP in the draft budget. Staff considers the overall fiscal objectives for 2023 as appropriate, and the small deficit in 2023 is expected to be covered by budget grants already disbursed in 2022.