

# SOMALIA

**Table 1**

**2019**

Population, million <sup>a</sup>	14.6
GDP, current US\$ billion	5.0
GDP per capita, current US\$	339
International poverty rate (\$1.9) <sup>b</sup>	69
Gini coefficient <sup>b</sup>	34.0
School enrollment, primary (% gross) <sup>b</sup>	33.0
Life expectancy at birth, years <sup>b</sup>	56.7

Sources: WDI, IMF, UNFPA and Macro Poverty Outlook.

Notes:

(a) Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.9%

(b) Somali Poverty and Vulnerability Assessment Report (World Bank, 2019); Life expectancy for 2017 from WDI.

*Real GDP growth is estimated at 2.9 percent in 2019 and forecasted at 3.2 percent in 2020. Growth is being driven by increased confidence in the economy, implementations of reforms and improved political stability. However, over half of the population lives in extreme poverty and experiences multiple deprivations. Enhanced economic resilience is needed to improve the standard of living. Key risks to the medium term outlook include insecurity, climatic shocks, political tensions, and slow implementation of policy reforms.*

## Recent developments

Somalia's economy is slowly recovering from the 2016/17 drought. Real GDP has slowly picked up from 1.4 percent in 2017 to 2.8 percent in 2018 and 2.9 percent in 2019. While below-average rainfall reduced agricultural production in the first half of 2019, key reform implementation has improved confidence in the telecommunications and financial sectors, supporting growth in 2019, and boding well for a medium-term recovery.

Inflationary pressure is building in 2019. Inflation increased from 3.2 percent in December 2018 to 6.8 percent in July 2019 compared to 3.1 percent (year on year) in the previous year, driven by higher food prices. The stable exchange rate—the Somali shilling depreciated by 2.7 percent against the U.S. dollar in the same period—and substantial dollarization of transactions has helped to stabilize domestic prices.

Improvements in the supervisory capacity of the Central Bank of Somalia (CBS) have increased confidence in the banking sector. Year-on-year private sector credit grew by 53 percent in December 2018, while the banking sector remains liquid. In July 2019, the CBS expanded its supervisory reach to include the dynamic mobile money industry.

Public finances continued to strengthen. Central government domestic revenue grew to 3.9 percent of GDP in 2018 from 3.2 percent in 2017 (figure 1). By June 2019 it was 7.2 percent above the same period

in 2018. Broadening of the tax base to include services industries, coupled with improved tax administration, helped increase tax revenue, which in turn enabled the federal government to increase spending (projected at 6.9 percent of GDP in 2019).

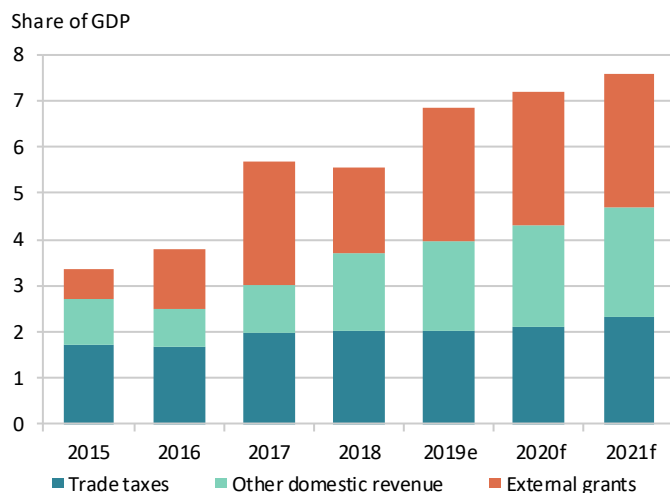
The current account deficit narrowed to 8.3 percent of GDP in 2018 from 9.0 percent in 2017 and projected to remain steady at 8.3 percent in 2019. The trade deficit remains high, at over 70 percent of GDP, reflecting structural weaknesses in the economy. Remittances and official grants continue to finance most of the trade deficit, with net inflows in 2019 projected at 28.8 percent of GDP.

More than two in three Somalis live on less than US\$1.90 per day, in 2011 purchasing power parity terms (PPP). Poverty is highest and deepest among rural residents and nomads who are hard to reach given their remoteness and mobility. Most Somalis are vulnerable to a myriad of shocks resulting in losses to income, assets and food production. Poor households do not have the means to adequately cope with the negative welfare effects and their resilience is often eroded with recurrent and prolonged stretches of shocks. Adverse weather conditions to agricultural and livestock production have often resulted in higher food prices and acute food insecurity.

## Outlook

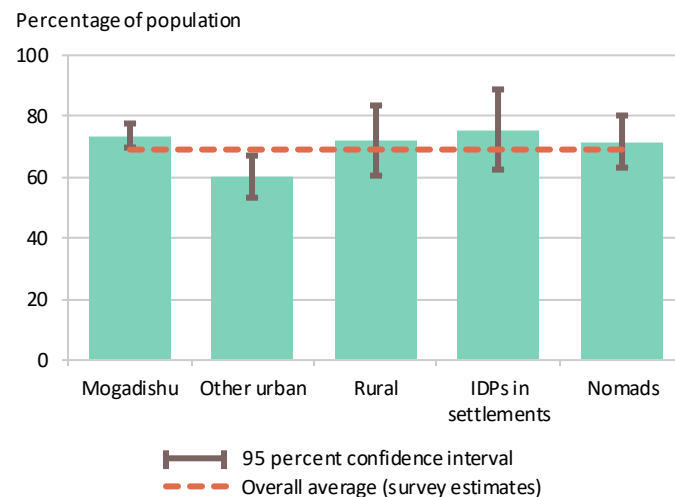
Real GDP is forecast to pick up modestly over the medium term, rising to 3.5 percent

**FIGURE 1 Somalia / Revenue mobilization by Federal Government**



Sources: Ministry of Finance, FGS, World Bank (2019) and IMF (2019).

**FIGURE 2 Somalia / Actual poverty rates by region and population group**



Source: World Bank 2019.

by 2022. The outlook is predicated on improved security, favorable weather, improved implementation of structural reforms and continued development partner support to the government –all of which will help increase confidence in the economy. The projection also assumes continued agricultural recovery, and solid growth in the service sector – in particular transport, construction, and telecommunications.

Domestic revenues are forecast to increase to about 4.2 percent of GDP in 2020, rising to 4.6 percent in 2022, with donor grants remaining steady. This would enable a gradual increase in spending and provide space to invest in infrastructure and social services. CBS financial sector oversight and regulatory capacity are expected to improve gradually, with financial intermediation deepening to support higher growth over the medium term.

Per capita incomes remain very low, and with the current depth of poverty at 29 percent, a much higher growth is needed to reduce poverty and foster greater economic resilience. While Somalia will continue to need humanitarian and development assistance in the medium term, faster and better-coordinated humanitarian response will likely shorten and alleviate

the negative impacts of shocks. Although the rising tax revenue in recent years has allowed, on the margin, to expand spending on health and education, spending on social and development programs remains well below what is needed to build human capital for Somalia's young and expanding population.

## Risks and challenges

There are three downside risks to this outlook. First, another weather-related shock (drought or flooding) could stall recovery to the economy. Poor harvests in the remainder of 2019 could exacerbate food insecurity, increase water stress, and reduce households' income. More generally, although Somalia is endowed with agricultural and aquaculture potential, limited resilience to climatic shocks may hamper food security, agricultural labor opportunities, and poverty alleviation, particularly for rural and coastal communities. Similarly, external shocks such as higher oil prices could hurt Somalia's economic prospects by increasing its import bill and worsening its already vulnerable external position.

Secondly, a deterioration of security in the country could wipe out the gains made during peace. Heightened insecurity could constrain economic activity and the prospects for FDI and other private investment. Continued insecurity in parts of the country may also hinder the provision of safety nets or delay the deployment of humanitarian assistance where needed. While remittances from the diaspora provides important resources to buffer the population from shocks, they do not always reach the most vulnerable in rural areas and IDP settlements.

Finally, the lack of resolution to political tensions between the federal and state governments could slow or undermine progress in implementing reforms, especially those linked to fiscal federalism and revenue sharing, which could, among other things, delay HIPC debt relief. On the upside, since the baseline outlook does not assume any debt relief, if Somalia reaches the HIPC Decision Point quickly, the latter could increase external resources to finance public investments and social programs.

**TABLE 2 Somalia / Macro poverty outlook indicators**

(annual percent change unless indicated otherwise)

	2016	2017	2018 e	2019 f	2020 f
<b>Real GDP growth, at constant market prices</b>	2.9	1.4	2.8	2.9	3.2
Private Consumption (% of GDP)	151.8	157.4	155.9	157.2	158.0
Government Consumption (% of GDP)	8.6	11.0	11.3	11.4	11.4
Gross Fixed Capital Investment (% of GDP)	14.1	12.1	6.5	3.8	1.6
Exports, Goods and Services (% of GDP)	25.4	22.1	25.9	27.1	26.5
Imports, Goods and Services (% of GDP)	99.9	102.6	99.6	99.3	97.6
<b>Inflation (Consumer Price Index)</b>	1.2	6.1	3.2	3.0	2.7
<b>Current Account Balance (% of GDP)</b>	-9.4	-9.0	-8.3	-8.3	-8.0

Sources: World Bank (2019) and IMF (2019).  
Notes: e = estimate, f = forecast.