Somalia

Recent macroeconomic and financial developments

The economy recovered from recession in 2020 to register estimated GDP growth of 2.0% in 2021, driven by private consumption and livestock exports. Multiple shocks including floods, locust invasions, and COVID-19 curtailed the pace of recovery and increased poverty. Private consumption was boosted by remittances, which increased to an estimated 31.3% of GDP in 2021 from 30.8% in 2020. Private investment remained resilient, despite the slight reduction in FDI to 9.2% of GDP in 2021 from 9.4% in 2020. The currency reform program stalled due to political uncertainty and is holding back monetary policy measures, given widespread dollarization and currency counterfeiting. Inflation increased to an estimated 4.6% in 2021 from 4.3% in 2020 due to reduced food supply.

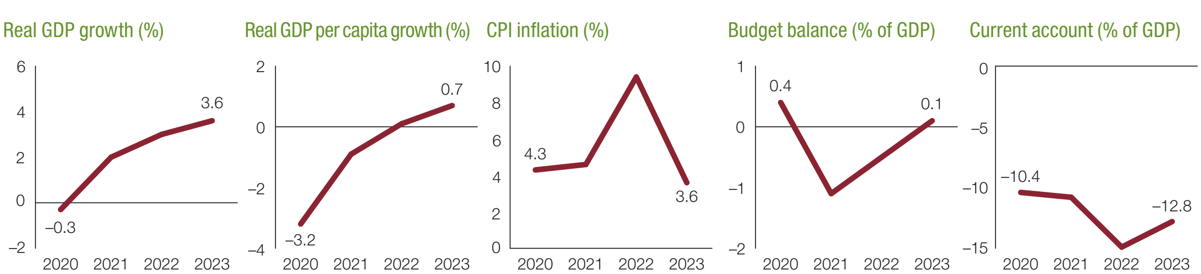
The banking sector remains stable, with NPLs at less than 3% of total credit. Somalia targets a zero-cash fiscal balance as part of the conditions for reaching the completion point under the Heavily Indebted Poor Countries (HIPC) initiative. The fiscal deficit in 2021 partly reflects the SDR allocation ($203 million or 4.1% of GDP), which helped to fill financing shortfalls created by the decline in public revenues and grants. Somalia is in debt distress, although when it reaches the HIPC completion point by 2023 as expected, that will ensure debt sustainability. The current account deficit widened to 10.8% of GDP in 2021, compared with 10.4% in 2020, owing to the slow recovery in livestock exports, and was financed by aid, remittances, and FDI.

Outlook and risks

The outlook is clouded by insecurity, political uncertainty, COVID-19 (given a 5.5% vaccination rate in December 2021), and climate change. Progress in concluding the national elections will catalyze development assistance and FDI. GDP growth is projected at 3.0% in 2022 and 3.6% in 2023, driven by private consumption and recovery in livestock exports. Inflation is projected to surge to 9.4% in 2022 due to higher food and oil prices because of the Russia–Ukraine conflict and drought. High oil prices will also affect energy supply, considering Somalia's dependency on fossil fuels for electricity generation. Balanced cash budgets will remain a fiscal policy target over the medium term in line with Somalia's HIPC program. Undiversified exports are a key source of external vulnerabilities, despite the recovery in livestock exports and other financial inflows. The current account deficit is projected to reach 14.9% of GDP in 2022 and 12.8% in 2023.

Climate change issues and policy options

Somalia is vulnerable to climate change, especially in agriculture, land, and marine areas. An average 6 million Somalis were affected by drought or floods, or both, in 2019–21, slowing GDP growth and exacerbating poverty and income inequality. Somalia is ranked the second most vulnerable country and the least equipped to adapt to climate change on the 2019 Country Index of the Notre Dame Global Adaptation Initiative. Somalia prepared its NDC in 2021 as an update to its intended NDC and National Adaptation Programme of Action of 2015. The NDC proposes investing in RE resources, reversing deforestation and range-land degradation, and beefing up disaster management, among other measures, and targets a 30% reduction in GHG emissions by 2030; the proposed mitigation measures are estimated to cost $6.96 billion. However, implementation of NDC actions is hampered by lack of human as well as financial resources. Access to global climate funds has been constrained by the limited investments in potential beneficiary sectors such as energy, which will make it hard for Somalia to achieve SDG 13 on climate action.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.