Somalia

Recent macroeconomic and financial developments

Somalia was affected by several shocks during 2019 and 2020—drought, floods, locust invasions, and the COVID–19 pandemic. As a result, real GDP, which grew 2.9% in 2019, shrank by 1.5% in 2020, mainly because of COVID–19 containment measures such as travel restrictions and supply and value chain disruptions. Growth has also been affected by reduced foreign direct investment, as investors shied away during contentious elections that were postponed, a shrinkage in remittances because of the global recession, and bans on livestock exports by the Gulf countries. Financial sector development is still nascent and there is no scope for monetary policy because of dollarization and currency counterfeiting. Annual inflation was estimated to decrease to 4% in 2020 from 4.7% in 2019, due to tax relief on food essentials and improved food supply. The Somali shilling remained relatively stable, depreciating by less than 1% between January and November 2020 as widespread dollarization reduced the supply of counterfeit currency. A structural trade deficit persists; exports continue to lag imports. Lower exports and reduced net financial inflows are expected to aggravate the current account deficit in 2020, estimated at 12.8%. Seven of 10 Somalis survive on less than $1.90 per day, and the COVID–19 crisis has likely increased poverty, as the 4.4% decline in real per capita income would suggest.

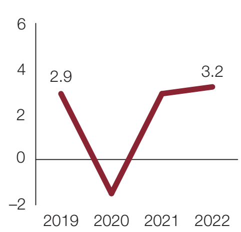
Outlook and risks

The economic outlook is clouded by uncertainty about the pandemic's course, which will require a strategic approach to reopening the economy. Containment measures are gradually being relaxed, but social distancing is likely to become more difficult as people seek to restore livelihoods and businesses return to normal operations. Growth is expected to recover to 2.9% in 2021 and 3.2% in 2022, which is still below pre-COVID–19 projections. A recovery in household expenditures and agriculture, especially livestock exports, will drive growth if other Gulf countries follow Saudi Arabia's move to lift a ban on imports of livestock from Somalia. The key downside risks include the climate and a decline in financial flows, notably development assistance and remittances, due to COVID–19. Inflation is projected to remain below 5% because of an improved food supply. While a balanced fiscal position is expected, due to conditions imposed for debt relief under the Heavily Indebted Poor Countries (HIPC) initiative, the current account deficit is projected to widen to 12.8% in 2021 and 12.9% 2022. Poverty and unemployment are expected to increase due to reduced remittances, which will disproportionately affect women, youth, and displaced persons.

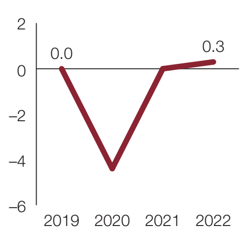
Financing issues and options

Somalia became eligible for interim debt relief under the HIPC initiative in March 2020, which set the country on a course to sharply reduce its debt levels. The International Monetary Fund's 2020 debt sustainability analysis indicates that even with the interim debt relief, Somalia will remain in debt distress, as its debt will still be about 43.3% of GDP in 2024, above the 30% sustainability threshold. Somalia's debt was 55.3% of GDP when it became eligible for HIPC interim debt relief. It largely fulfills its financing requirements from donor contributions. Domestic revenues were 3.9% of GDP in 2018 and 4.6% in 2019 and financed an average of 71% of the national budget during those two years. Considering Somalia's debt distress rating and the expectation that it will start honoring due debt repayments by 2024, the HIPC negotiations on debt restructuring should aim for comparability of treatment by non-Paris Club creditors to allow Somalia to secure a 9% debt-to-GDP ratio in 2024 when it is expected to reach the completion point of the HIPC initiative. Domestic revenue mobilization efforts and implementation of the new Public Financial Management framework are expected to expand the fiscal space for pro-poor spending. Gross reserves were low at 1.4% of GDP in 2020, equivalent to less than one month of imports, and are therefore not expected to complement the public financing sources in the short term.

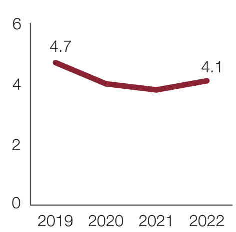
Real GDP growth (%)



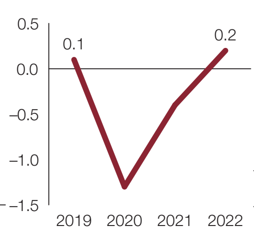
Real GDP per capita growth (%)



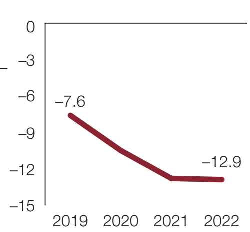
CPI inflation (%)



Budget balance (% of GDP)



Current account (% of GDP)



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.