

SOMALIA

Key conditions and challenges

Table 1 2020

Population, million ^a	15.0
GDP, current US\$ billion	4.9
GDP per capita, current US\$	327
International poverty rate (\$ 1.9) ^b	69
Gini coefficient ^b	37.0
School enrollment, primary (% gross) ^c	33.0
Life expectancy at birth, years ^d	57.1

Sources: World Development Indicators (WDI), IMF, UNFPA Notes:

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

(b) Most recent value (2017).

(c) Somali Poverty and Vulnerability Assessment Report (World Bank, 2019).

(d) Life expectancy for 2018 from WDI.

The Somali economy was affected by a triple crisis of COVID-19, locust's infestation and floods, which caused an economic contraction to the tune of 1.5 percent in 2020, pushing more people into poverty. The economy in 2021 is showing signs of a tenuous recovery, with growth projected at around 2.9 percent, supported by the continuous flow of remittances and official development assistance. However, the prolonged preparation of elections may have implications for external grant financing and broader stability.

Somalia is continuing to rebuild economic governance institutions amidst challenging circumstances. Continuous reform implementation enabled Somalia to reach the Decision Point of the Heavily Indebted Poor Countries (HIPC) Initiative in March 2020, facilitating full reengagement with the international community. The federal structure created under the 2012 Provisional Constitution remains incomplete, with discussions on resource and power sharing ongoing. As Somalia prepares for elections, the strength of institutions and intergovernmental cooperation is being tested in a context of rising security tensions.

Not with standing progress, economic growth has been persistently low. Between 2012 and 2019, Somalia only reached average growth levels of around 2 percent, insufficient to keep up with population growth. A projected growth rate of 3.2 percent in 2020 was interrupted by a combination of floods, locust's infestation and COVID-19—a 'triple crisis' that caused the economy to contract by an estimated 1.5 percent. The economic downturn has placed further pressure on joblessness and poverty, in a country where healthcare and education systems are weak. In 2020, 21 percent of Somalis had to stop their work activity following the outbreak of COVID-19 and 78 percent of households reported some reduction in

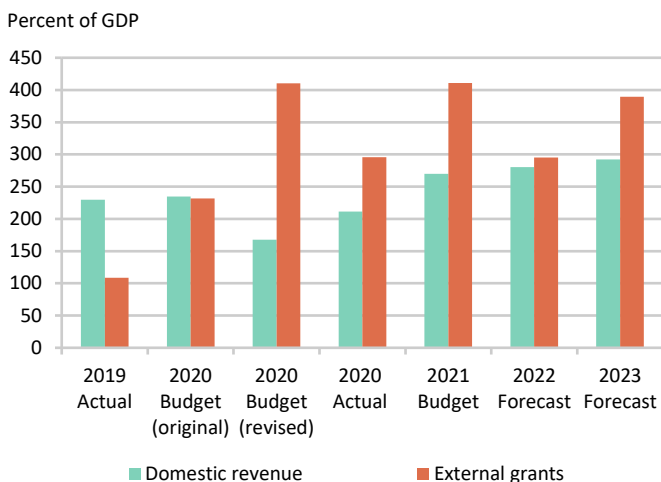
their income from wages. The slower pace of growth in 2019 and contraction in 2020 has pushed more people in to poverty. The international poverty estimate (measured using the \$1.90/person/day poverty line) was 71 percent in 2020, 2 percentage points higher than the latest actual data in 2017.

The latest shocks in an election context expose Somalia's dependence on volatile external financial flows to support the recovery from fragility. With limited exports and only nascent investment plans, Somalia's economy is driven by consumption financed largely by remittances and official grants—which together average more than 75 percent of GDP (Table 2). Limited revenue mobilization constrains the government from financing more than basic security and administration from its own resources. This leaves Somalia dependent on external grants for responding to shocks as well as long-term investments in human capital and public infrastructure.

Recent developments

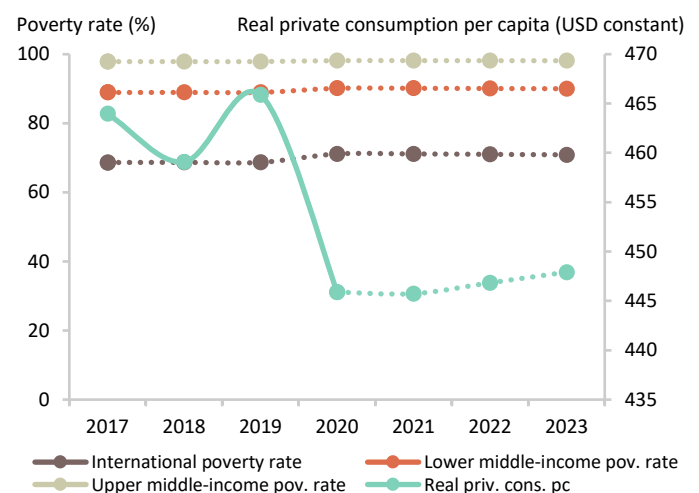
The Somali economy is tenuously rebounding from the crisis, supported by the easing of mobility restrictions in August 2020 and rising credit to the private sector. While official remittance inflows have risen y-o-y by an estimated 18 percent in 2020 largely due to improvements in the recording of official flows, it is likely that informal remittances have declined. With limited domestic production

FIGURE 1 Somalia / Domestic revenue performance



Sources: FGS (2021) and World Bank & IMF (2020).

FIGURE 2 Somalia / Actual and projected poverty rates and real private consumption per capita



Source: World Bank. Notes: see Table 2.

capabilities, overall import values were estimated to have risen 3.8 percent y-o-y in 2020, although food imports fell by 25 percent, signaling lower household consumption. With the added effects of the floods and locust infestation, approximately 2.7 million people are experiencing rising food insecurity.

While import spending has risen, Somalia's export receipts have declined, as demand fell for Somalia's major export commodity—livestock. The trade balance is estimated to have reached 91 percent of GDP in 2020, which is financed by remittances and grants. However, it may be possible that a reversal of a Saudi import ban of Somali livestock could provide a boost to livestock exports. These data remain subject to change in a context of continuous efforts to improve the quality and reliability of statistics.

The government responded to the crisis through approving a budget which estimated lower tax revenues (partly reflecting tax exemptions introduced on basic staples) and higher grants. Domestic revenue mobilization surpassed expectations, reaching around 90 percent of original 2020 budget targets, as trade-related taxes were boosted by imports. External grants increased to support the crisis, coming close to 60 percent of total revenue, compared to 32 percent in 2019. Higher grants

have supported the roll-out of pro-poor programs, including the “Baxnaano” cash transfer scheme and the “Gargara” lending facility to small and medium enterprises. However, the central bank has limited monetary policy instruments to respond to shocks, as widespread dollarization supports price stability.

Outlook

A moderate economic recovery is projected over the medium term with growth anticipated to reach 3.2 percent in 2022 and 3.4 percent in 2023. This outlook is based on the continuous flows of remittances and official development assistance. Planned investments in sectors such as energy, ports, and the financial sector are expected to gradually shift the drivers of growth from consumption to investment, to harness Somalia's potential in sectors such as fisheries, agriculture and renewable power generation, which can help to diversify the export base. The outlook assumes that a vaccine will be rolled-out in mid-2021.

With a modest recovery, per capita private consumption is projected to stagnate in 2021. The international poverty rate is projected to remain at 71 percent; a trend

expected to continue in 2022 and 2023. Accelerating the pace of poverty reduction will require policy interventions to raise productivity, create jobs, and expand pro-poor programs.

However, there are risks to the growth outlook, which are largely related to political developments. If agreements on electoral modalities are further protracted there may be waning support from the international community to provide official development assistance at comparable levels, especially in the absence of improvements to the security situation. If the COVID-19 crisis further affects diaspora communities, remittance flows could start to decline, while further delays to the rollout of the vaccine may undermine planned investment activities. In this downside scenario, the economy could be in a low growth scenario of around 0.5 to 1 percent. However, if election-related challenges are overcome, there is an upside scenario of greater stability, which could increase trade and cooperation in the region.

TABLE 2 Somalia / Macro poverty outlook indicators

(percent of GDP unless indicated otherwise)

	2018	2019	2020 e	2021 f	2022 f	2023 f
Real GDP growth, at constant market prices	2.8	2.9	-1.5	2.9	3.2	3.4
CPI Inflation, annual percentage change	3.2	3.1	3.0	2.5	2.2	2.2
Current account balance	-7.5	-10.5	-12.8	-12.9	-12.9	-13.2
Trade balance	-84.8	-83.0	-91.4	-86.8	-88.2	-85.0
Private remittances	31.4	31.9	31.4	31.0	31.4	30.8
Official grants	46.6	41.3	47.9	43.7	44.6	41.6
Fiscal balance^a	0.1	0.5	0.2	0.3	-0.2	-0.2
Domestic revenue	3.9	4.6	4.3	5.0	5.0	4.9
External grants	1.8	2.2	6.0	7.7	5.2	6.5
Total expenditure	5.7	6.3	10.1	12.4	10.3	11.6
Compensation of employees	3.0	3.3	4.6	4.7	4.0	3.8
External debt	112.8	108.8	40.7	38.0	36.7	30.5
International poverty rate (\$1.9 in 2011 PPP)^{b,c}	69.2	68.4	70.8	70.9	70.7	70.6
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{b,c}	89.2	88.8	90.0	90.0	90.0	89.9
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{b,c}	97.9	97.8	98.1	98.1	98.1	98.1

Source: World Bank and IMF (2020) and FGS (2021).

Notes: e = estimate. f = forecast. (a) Federal Government of Somalia (FGS).

(b) Calculations based on 2017 SHFS-wave 2. Actual data: 2017. Nowcast: 2018-20. Forecast are from 2021-23.

(c) Projection using neutral distribution (2017) with pass-through = 1 based on private consumption per capita in constant US\$.