### Key conditions and challenges

Somalia continues to contend with increasingly frequent shocks in the context of widespread fragility, conflict, and violence. Repeated climate-related shocks such as cycles of droughts, floods, and locusts’ infestation, lingering impacts of the COVID-19 pandemic, higher international commodity prices, as well as security inci-
dences have interrupted Somalia’s growth trajectory and slowed the transition from fragility. Growth has been low and volatile averaging only 2.8 percent in 2014–22 with no growth in real GDP per capita.

The economy does not generate the jobs needed to reduce poverty. Only about 30 percent of the workforce participates in the labor market, and this is markedly lower for women compared to men at 15 percent and 38 percent, respectively. Households suffer from food insecurity and loss of productive assets in a context of poor human capital and widespread insecurity. Repeated shocks contribute to internal displacement and rapid urbanization (estimated at 4 percent per annum), as well as conflict due to competition for limited resources.

The government has limited fiscal space to respond to shocks and development priorities, including taking over the provision of security services as the African Union plans to withdraw peacekeeping operations in 2024. Alongside efforts to increase domestic revenues, institutions need to be strengthened to mobilize private capital to support much-needed investments in human and physical capital to boost resilience, growth, and productive jobs to support poverty reduction.

Somalia is progressing towards attaining debt relief through the Heavily Indebted Poor Countries (HIPC) initiative, which would reduce its debt to sustainable levels. Upon reaching the HIPC Completion Point, Somalia will enjoy access to new sources of financing, but terms of financing will shift from grants to loans. Therefore, it is critical for the country to raise domestic revenues and improve institutions for debt management.

### Recent developments

Somalia is experiencing a prolonged severe drought, with a fifth consecutive sea-
son of failed rains, against a backdrop of higher commodity prices following Russia’s invasion of Ukraine. These paused 2021’s modest economic recovery from the pandemic with a slowdown in real GDP growth to an estimated 1.7 percent in 2022 (Table 2). Furthermore, 7.1 million people—nearly half of the population—were food insecure at the end of 2022 due to the drought and 1.3 million people were displaced. Agricultural and livestock production has suffered, with live goats and sheep that dominate the export basket declining by 3.1 percent of the total live animals exported in 2022. Overall merchant-
dise exports declined by 3.8 percent. Similarly, inflationary pressures intensified in 2022 with food inflation rate at its peak...
of 17.5 percent in July—almost four times higher than in mid-2021. Overall inflation averaged 6.8 percent in 2022. Official development assistance (ODA) including grants for social safety net programs, which are targeted to rural poor and vulnerable households, as well as remittances finance the trade deficit and play a vital role in supporting the vulnerable.

Poverty remains high across the country. An estimated 73.7 percent of the population living below the poverty line in 2022, the majority of whom are informal settlers, displaced people, rural communities, and nomads. According to the 2022 Integrated Household Budget Survey, the food price crisis in 2022 has eroded real household incomes, further contributing to household vulnerability from the ongoing drought. Although the international community has been supporting the humanitarian crisis through food assistance, an expansion of social safety net programs, and support to informal settlers in urban areas, there are risks of more people falling below the poverty line. In a context of increasing global shocks, there are competing demands for limited development assistance, underscoring the importance of Somalia strengthening resilience through advancing reforms to support growth and food security.

The fiscal situation remains challenging, offering limited opportunities to respond to recurrent shocks or investments in human capital or infrastructure. While domestic revenue mobilization has outperformed its pre-pandemic levels by 14 percent in 2022, largely dominated by trade-related taxes, it remains low and insufficient to meet expenditure needs. Public expenditures continue to rise, dominated by personnel costs with social spending largely financed by grants.

### Outlook

The economy is expected to make a modest recovery in the medium-term, despite the persistent severe drought. Real GDP growth is projected to recover to 2.8 percent in 2023 and increase to 3.7 percent in 2024 and 3.9 percent in 2025. The reforms supported through the HIPC Initiative and the prospect of receiving debt relief should boost business confidence. New private investments are anticipated in energy and telecommunications, while ongoing investments in sectors such as transport, education, and health are expected to improve conditions for trade and gradually contribute to improvements in human capital. Strengthening the framework for fiscal federalism by enhancing the dialogue between the Federal Government of Somalia and the Federal Member States can help to bring political stability, which can encourage investment from the private sector. Harmonizing the currently disparate regimes for customs and inland revenues across the federation can also support revenue raising. Collecting sufficient revenues to cover the wage bill, rising security costs as well as human and physical capital remain pressing priorities.

As the country continues to cope with ongoing severe drought, the overall humanitarian situation remains dire, and the number of food insecure could grow to 8.3 million people by mid-2023 if food assistance is not sustained. The poverty rate is projected to remain at around 73 percent between 2022 and 2024. Accelerating the pace of poverty reduction will require policy interventions and public investments that raise productivity, strengthen resilience, create jobs, and expand pro-poor programs which focus on women and youth.

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**TABLE 2** Somalia / Macro poverty outlook indicators (percent of GDP unless indicated otherwise)*

<table>
<thead>
<tr>
<th></th>
<th>2020</th>
<th>2021</th>
<th>2022e</th>
<th>2023f</th>
<th>2024f</th>
<th>2025f</th>
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</thead>
<tbody>
<tr>
<td><strong>Real GDP growth, at constant market prices</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>CPI Inflation, annual percentage change</td>
<td>4.3</td>
<td>4.6</td>
<td>6.8</td>
<td>4.2</td>
<td>3.8</td>
<td>3.6</td>
</tr>
<tr>
<td><strong>Current Account Balance</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Trade balance</td>
<td>-14.9</td>
<td>-12.5</td>
<td>-18.4</td>
<td>-15.9</td>
<td>-16.1</td>
<td>-16.8</td>
</tr>
<tr>
<td>Private remittances</td>
<td>-67.4</td>
<td>-65.7</td>
<td>-74.1</td>
<td>-72.5</td>
<td>-70.2</td>
<td>-70.2</td>
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<tr>
<td>Official grants</td>
<td>23.2</td>
<td>27.3</td>
<td>27.7</td>
<td>28.2</td>
<td>28.4</td>
<td>28.4</td>
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<tr>
<td><strong>Fiscal Balance</strong></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Domestic revenue</td>
<td>3.1</td>
<td>3.0</td>
<td>-0.1</td>
<td>-0.5</td>
<td>-2.1</td>
<td>-1.9</td>
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<tr>
<td>External grants</td>
<td>4.3</td>
<td>1.9</td>
<td>5.6</td>
<td>4.1</td>
<td>0.5</td>
<td>0.3</td>
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<tr>
<td>Total expenditure</td>
<td>7.0</td>
<td>6.0</td>
<td>9.0</td>
<td>7.9</td>
<td>6.1</td>
<td>6.0</td>
</tr>
<tr>
<td>Compensation of employees</td>
<td>3.3</td>
<td>3.3</td>
<td>3.2</td>
<td>3.4</td>
<td>3.3</td>
<td>3.3</td>
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<tr>
<td>External debt</td>
<td>56.8</td>
<td>45.0</td>
<td>42.7</td>
<td>6.6</td>
<td>9.5</td>
<td>10.7</td>
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<tr>
<td><strong>International poverty rate ($2.15 in 2017 PPP)</strong></td>
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</tr>
<tr>
<td>Lower middle-income poverty rate ($3.65 in 2017 PPP)</td>
<td>73.1</td>
<td>73.3</td>
<td>73.7</td>
<td>73.4</td>
<td>73.2</td>
<td>72.9</td>
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<tr>
<td>Upper middle-income poverty rate ($6.85 in 2017 PPP)</td>
<td>91.4</td>
<td>91.4</td>
<td>91.6</td>
<td>91.5</td>
<td>91.4</td>
<td>91.2</td>
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<tr>
<td><strong>GHG emissions growth (mtCO2e)</strong></td>
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</tr>
<tr>
<td>Energy related GHG emissions (percent of total)</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.6</td>
<td>1.7</td>
<td>1.7</td>
</tr>
</tbody>
</table>

Sources: World Bank, IMF, and FGS. Emissions data sourced from CAIT and OECD.

Notes: e = estimate; f = forecast.

a/ GDP baseline estimates 2020-21 are by Somalia National Bureau of Statistics (SNBS, June 2022).
b/ Federal Government of Somalia (FGS).
d/ Projection using neutral distribution with pass-through = 1 (High) based on GDP per capita in constant LCU.