

# SOMALIA

## Key conditions and challenges

**Table 1** 2021

Population, million <sup>a</sup>	15.2
GDP, current US\$ billion	7.6
GDP per capita, current US\$	502.2
International poverty rate (\$2.15) <sup>b</sup>	70.7
Gini index <sup>b</sup>	36.8
School enrollment, primary (% gross) <sup>c</sup>	33.0
Life expectancy at birth, years <sup>d</sup>	57.7

Source: WDI, Macro Poverty Outlook, and official data.  
 a/ Estimates based on 2013 population estimates by UNFPA and assumes an average annual population growth of 2.8%.  
 b/ Most recent value (2017), 2017 PPPs.  
 c/ Somali Poverty and Vulnerability Assessment Report (World Bank, 2019).  
 d/ Most recent WDI value (2020).

2021 saw a modest economic rebound at 2.9 percent, on par with the population growth rate. Despite an improvement in political stability following the conclusion of the elections, economic growth in 2022 is projected to decline to 2.2 percent. Drought conditions have worsened, commodity prices have increased, and humanitarian support has been insufficient for addressing high levels of food insecurity. Internal displacement is widespread, and poverty is projected at 72 percent.

As a legacy of decades of conflict and fragility, the Somali economy does not generate the jobs and incomes needed to reduce poverty. Economic growth has been slow and insufficient to keep up with population growth. Real GDP growth averaged only 2.9 percent between 2014 to 2021 with no growth in per capita terms. Overall employment remains low; less than half of the Somali working-age population is actively participating in the labor market with lower participation among women and youth, at 43 percent and 39 percent, respectively. The economy is extremely vulnerable to natural disasters and external economic shocks. Cycles of floods and droughts have become increasingly frequent, damaging traditional agriculture-based livelihood systems, and contributing to widespread food insecurity and internal displacement. Somalia is in debt distress and depends on official development assistance (ODA) and external remittances to finance consumption and the large trade deficit which averaged 67 percent of GDP in 2020 and 2021.

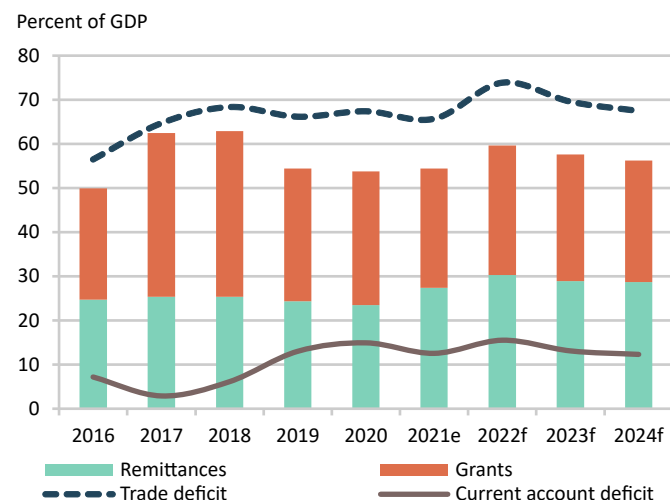
To achieve sustained economic growth, Somalia will need to build resilience to shocks. While more urbanized parts of the economy continue to develop, including the booming new services sectors such as telecommunications, there are insufficient jobs to move people out of poverty. The country lacks monetary policy instruments

and there is negligible fiscal space to respond to shocks or to invest in much-needed human and physical capital. Encouraging broad-based private sector activity including entrepreneurial activities for women and youth can help the economy to increase domestic production capacity and move away from a consumption-driven economy dependent on external flows. Somalia is participating in the Heavily Indebted Poor Countries (HIPC) initiative to address high levels of indebtedness for loans contracted before the civil war. Reaching the HIPC Completion Point milestone is envisaged in the second half of 2023, which would enable Somalia to qualify for debt relief and provide enhanced access to finance for development priorities.

## Recent developments

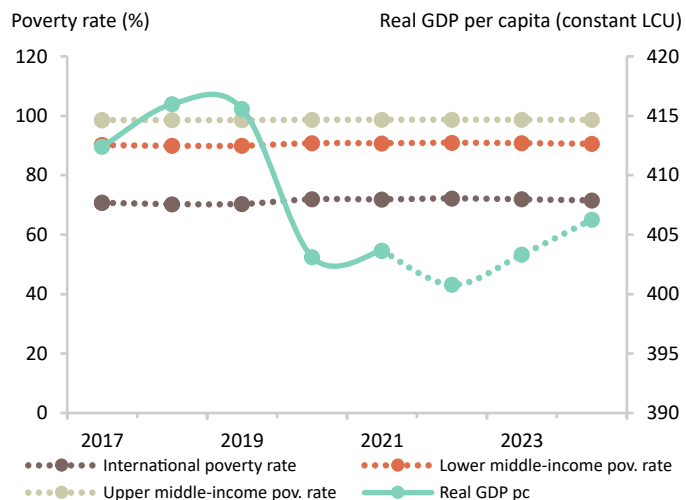
Somalia is experiencing a severe drought with famine conditions emerging in some parts of the country, which is preventing the economy from sustaining a modest rebound in growth. Real GDP growth is projected to slow down to 2.2 percent in 2022, from 2.9 percent in 2021. Exports, which are dominated by livestock, have been adversely affected by the drought, while the import bill has risen by 10 percent y-o-y as food and energy costs increased globally. Overall, the trade deficit is estimated to widen by 8.3 percentage points to 74 percent of GDP. Commodity prices which started rising in mid-2021 following challenges in global supply chains continue to

**FIGURE 1** Somalia / External position



Source: Somalia Authorities & World Bank Staff Calculations.

**FIGURE 2** Somalia / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

increase due to the worsening drought conditions, as well as the impacts of the Ukraine war. Inflation reached 7.7 percent in July 2022 (y-o-y) compared to 4.3 percent in the same period in 2021.

Poverty in Somalia is deep and widespread, increasing susceptibility to negative shocks. An estimated 72 percent of the population lived below the poverty line in 2021 with the majority of the population having experienced a reduction in income compared to pre-pandemic levels. The modest economic rebound pushed nominal GDP per capita to US\$502 in 2021 from US\$466 in 2020, but there has been no growth in real GDP per capita. The worsening drought conditions are estimated to have led to nearly 50 percent of the population being food insecure and 1 million people displaced from their homes as rural dwellers seek access to food and basic services in urban areas by end of July 2022. This growing size of the internally displaced population is likely to contribute to greater vulnerability and

poverty overall. Increasing remittance inflows and grants (jointly estimated at 60 percent of GDP) as well as the government's social protection program, Baxnaano, are providing some relief to the challenging economic situation.

Somalia's fiscal situation has been challenging in 2022. While domestic revenue mobilization recovered to the pre-COVID-19 pandemic levels, the tax-to-GDP ratio remains low at 2 percent. Following the peaceful conclusion of parliamentary and presidential elections in 2022, the new government should be in a position to focus on taking measures to build economic resilience including expanding revenue mobilization, which is currently dominated by trade-related taxes.

## Outlook

The economy is expected to pick up over the medium term, with growth projected to expand to 3.6 percent in

2023 and 3.7 percent in 2024. The peaceful conclusion of elections is expected to increase business confidence and encourage new investments. Improved growth conditions for Somalia's main trading partners, the Gulf Cooperation Council countries, are projected to contribute to an increased demand for the country's livestock exports. Ongoing investments in sectors such as energy, transport, education, and health are expected to improve conditions for trade and gradually contribute to improvements in human capital. Furthermore, upon reaching the HIPC Completion Point milestone Somalia is expected to access new sources of financing to boost economic growth and resilience.

The international poverty rate is projected to remain at around 72 percent between 2022 and 2024. Accelerating the pace of poverty reduction will require policy interventions and public investments that raise productivity, create jobs, and expand pro-poor programs which focus on women and youth.

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

(percent of GDP unless indicated otherwise)<sup>a</sup>

	2019	2020	2021e	2022f	2023f	2024f
<b>Real GDP growth, at constant market prices</b>	2.7	-0.3	2.9	2.2	3.6	3.7
CPI inflation, annual percentage change	4.5	4.3	4.6	8.5	3.6	3.8
<b>Current account balance</b>	-13.0	-14.9	-12.5	-15.5	-13.1	-12.3
Trade balance	-66.2	-67.4	-65.7	-73.9	-69.6	-67.5
Private remittances	24.3	23.5	27.4	30.3	28.9	28.7
Official grants	30.1	30.3	27.0	29.4	28.7	27.6
<b>Fiscal balance<sup>b</sup></b>	0.3	0.4	-1.1	0.2	-0.1	-0.2
Domestic revenue	3.5	3.1	3.0	3.1	3.4	3.7
External grants	1.7	4.3	1.9	4.3	3.3	2.2
Total expenditure	4.9	7.0	6.0	7.3	6.8	6.1
Compensation of employees	2.5	3.3	3.3	3.3	3.1	2.9
External debt	82.0	56.8	45.0	44.0	6.5	9.0
<b>International poverty rate (\$2.15 in 2017 PPP)<sup>c,d</sup></b>	70.3	71.9	71.9	72.2	71.9	71.5
<b>Lower middle-income poverty rate (\$3.65 in 2017 PPP)<sup>c,d</sup></b>	90.0	90.8	90.8	90.9	90.8	90.6
<b>Upper middle-income poverty rate (\$6.85 in 2017 PPP)<sup>c,d</sup></b>	98.5	98.7	98.7	98.7	98.7	98.7

Sources: Federal Government of Somalia, IMF, and World Bank staff estimates.

Notes: e = estimate; f = forecast.

a/ GDP baseline estimates 2019-21 are by Somalia National Bureau of Statistics (SNBS, June 2022).

b/ Federal Government of Somalia (FGS).

c/ Calculations based on 2017 SHFS-wave 2. Actual data: 2017. Nowcast: 2018–21. Forecasts are from 2022–24.

d/ Projection using neutral distribution (2017) with pass-through = 1 based on private consumption per capita in constant US dollars.