

Baanka Somaliland

Bank of Somaliland



بنك الصومالي لاند

INFLATION AND EXCHANGE RATE REPORT FOR THE YEAR ENDED DECEMBER 2018

MONETARY POLICY UNIT
CENTRAL BANK
Hargeisa Somaliland

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Inflation and Exchange rate of Somaliland for the year ended December, 2018

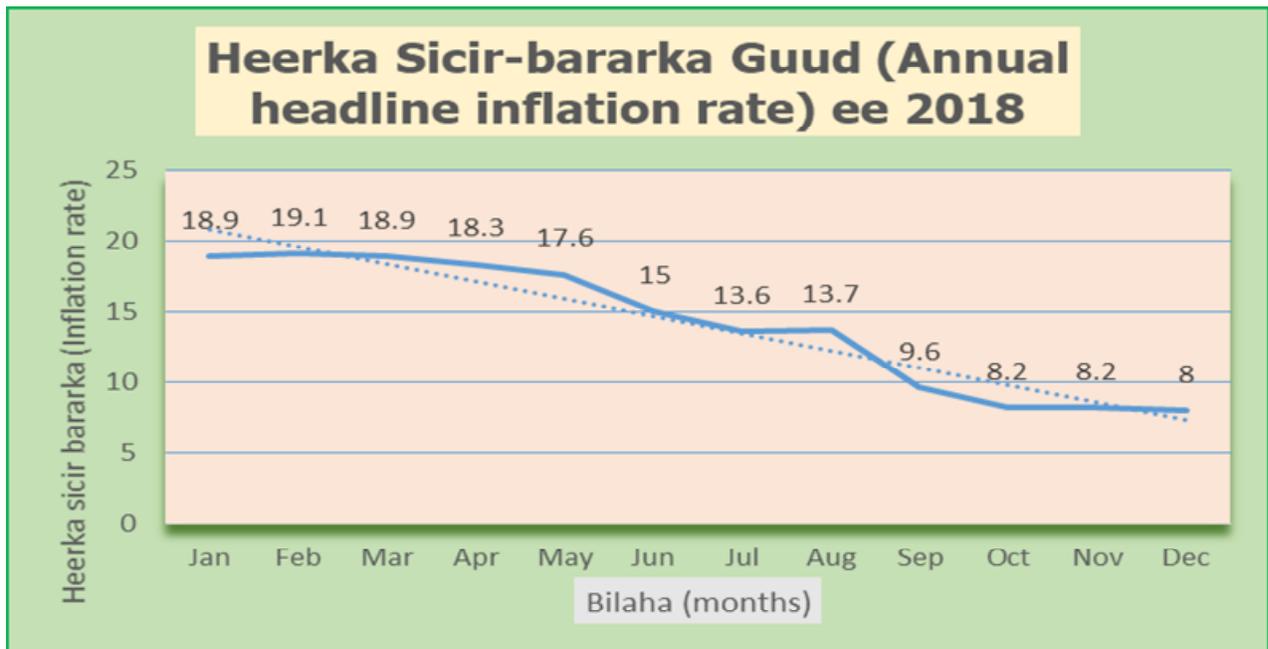
A) Introduction

The two main economic variables that have a major impact on the livelihood of the ordinary citizens in the Republic of Somaliland are the fluctuations of the local currency (SLSH), i.e. Exchange Rate and the prices of goods and services (Inflation rate). During the year ended December 31, 2018, the annual headline inflation rate declined to **8%**, from **18.9%** on January at the beginning of the year. On the other hand, data collected from the foreign exchange markets in the country indicates steady appreciation of the national currency after a year of high Volatility. On December 2018, USD1 (one dollar) was bought for SLSH. 9,840, while in January, 2018, 1 USD was exchanged 10,500 dollars (1USD). This indicates that the inflation and exchange rates were stable in last year 2018.

B) Details of the inflation rate for the year ended December 2018

According to the Consumer Price Index data provided by the statistics department of the Ministry of Planning and National Development of Somaliland, the Annual headline inflation rate has declined to 8% in December, 2018 compared to the same month one year ago (December 2017). The data of the inflation rate for the year of 2018 shows a significant decline from a two digit to single digit rate. The annual headline inflation rate hit its highest peak of 18.9% on January 2018, and declined to 8% (eight percent) by the end of December of the year 2018. See the following graph below showing the declining inflation rates for the months of January to December, 2018.

Figure 1: Annual Headline of Inflation Rates 2018.



Source: Statistics Department, Ministry of National Planning, 2018

The Main reasons caused this decline of the annual headline inflation rates were:-

1. The foreign exchange rate, a major determinant of inflation rate in Somaliland has become very stable and the national currency SLSH appreciated **6.3%** as shown above.
2. The prices of some food crops declined, particularly vegetables and fruits. Heavy rains were experienced in 2018 which increased after the country recovered from the serious draughts and starvations that hit the country in 2017.
3. Inflation rate of service also declined to 6.2% during the year ended December 2018, compared to the preceding year of 2017.
4. The inflation rates of energy especially some types of fuel like gas, Petrol and Diesel also declined during the year ended December 2018, compared to the last year ended December 2017.

Table 1: Annual Headline Inflation Rate 2018

Months	Headline inflation rate (%)
Jan	18.9
Feb	19.1
Mar	18.9
Apr	18.3
May	17.6
Jun	15
Jul	13.6
Aug	13.7
Sep	9.6
Oct	8.2
Nov	8.2
Dec	8

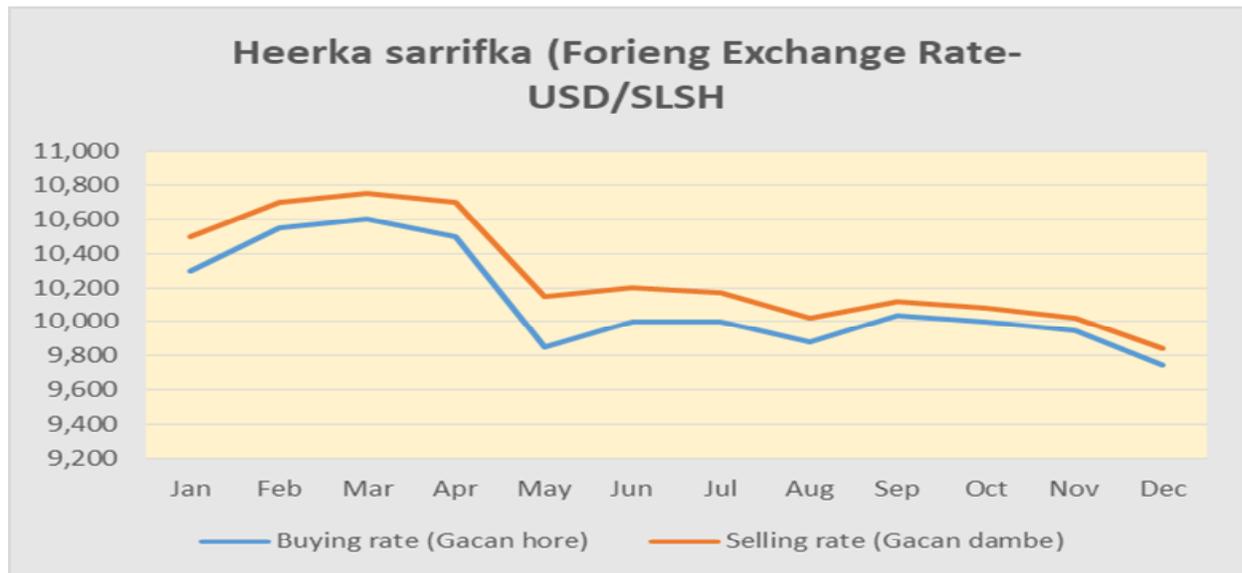
Source: Department of Statistics Ministry of National Planning and Development

The current inflation rate is relatively low when compared to some other African countries, like South Sudan whose inflation rate of November 2018 was 34%, Congo (December) 9.6%, Ethiopia (December) 10.4%, Egypt (December) 12%, Somaliland (December) 8%; Kenya (December) 5.7%.

C) The Somaliland Shilling and the Exchange Rate .

The Somaliland Shilling has appreciated during the year ended December 2018, while the US dollar, a widely used parallel currency to the legal tender depreciated. The exchange rate was SLSH 10,500 per 1USD during January 2018 it declined to SLSH 9,840 which means that the Somaliland shilling has appreciated 6.3% $\{(9,840 - 10,500)/10,500\}$

Figure 2: Foreign Exchange Rate During the Months 2018



Source: Bank of Somaliland, Monetary Policy Unit; December, 2018

The table below shows the monthly average foreign exchange rate of Somaliland shilling and US Dollar during the year ended December 2018.

Table 2: Foreign Exchange Rate During the Months 2018

(Months)	(Buying rate)	(Selling rate)
Jan	10,300	10500
Feb	10,550	10,700
Mar	10,600	10,750
Apr	10,500	10,700
May	9,850	10,150
Jun	10,000	10,200
Jul	10,001	10,168
Aug	9,877	10,020
Sep	10,039	10,121
Oct	10,000	10,083
Nov	9,946	10,024
Dec	9,743	9,840

Source: Bank of Somaliland, Monetary Policy Unit; December, 2018

The main reasons that positively affected the Somaliland shilling were:

1. The Central Bank of Somaliland had successfully managed to influence the supply of currencies in the foreign exchange markets. The Bank has successfully controlled the amount of money in circulation, and has collected the excess supply from the market to the central reserve of the bank
2. The bank had increased the accountability of foreign exchange dealers. Central Bank regulates the foreign exchange dealers in the foreign exchange market, sets and shares a weighted foreign exchange rate on a daily basis to the market, and the general public. Any foreign exchange dealer who violates the daily foreign exchange rate of the market as set by the Bank, and increases the rate by more than 2% of the official rate (Central Bank weighted average rate), the Central Bank revokes the license and ceases him/her from the use of mobile money Forex facility provided by the local telecommunications companies.
3. The last year government restrictions imposed on the mobile money service providers: ZAAD and E-Dahab, and the ban of less than \$ 100 transactions along with the expansion of Somaliland shilling via the mobile money service has positively affected the value of Somaliland shilling.

Conclusion

Although the value of the US Dollar depreciated, and the Somaliland shilling appreciated to SLSH 9,840 per 1 USD as mentioned above, the price of the goods and services is still a little bit high as it was when value of the Somaliland shilling was SLSH10, 000 per 1 USD, because the business men are reluctant to reduce the prices. Thus, Somaliland's Central Bank considers the use of this higher exchange rate by the traders to be unfair and burden to the public, and urges the traders to look after their customers and should adopt the official exchange rate for all of their business exchanges

Bank of Somaliland
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