

Currency Stability

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Currency Stability: Somalia

Overview

Somalia's currency landscape presents a complex picture characterized by a dual-currency system, with the Somali Shilling (SOS) and the US Dollar both widely used throughout the economy. The country faces significant challenges in currency management, including widespread counterfeiting, deep dollarization, and ongoing efforts to reform the monetary system.

Current Exchange Rate Trends

According to Trading Economics data, the Somali Shilling (SOS) has shown the following exchange rate patterns:

- The USD/SOS exchange rate has fluctuated significantly over recent years
- As of early 2025, the exchange rate stands at approximately 25,000-26,000 SOS per USD
- The currency has experienced periods of volatility, particularly during drought and political transitions
- The informal market exchange rates often differ from official rates due to the fragmented nature of Somalia's financial system

Key Challenges to Currency Stability

Dollarization

The Somali economy is deeply dollarized, with the US dollar widely accepted as a medium of exchange even for local trade. According to the Central Bank of Somalia:

- The US dollar is used for large and high-value transactions
- Dollarization stems from weak confidence in the local currency
- Many Somali shillings in circulation are counterfeits
- Mobile money platforms primarily operate in US dollars

Counterfeit Currency

A significant challenge to currency stability is the widespread circulation of counterfeit Somali shillings:

- Large issuance of Somali shillings by private entities has fueled price increases
- Counterfeit currency contributes to inflation, especially for low-value transactions
- The lack of standardized currency notes creates uncertainty in transactions

Limited Central Bank Control

The Central Bank of Somalia faces significant challenges in exercising monetary control:

- The newly revived Central Bank is still in the process of taking full charge of formulating and implementing monetary policy
- Limited resources, both financial and material, hamper the Bank's ability to manage monetary policy effectively
- The Bank lacks complete control over currency issuance and circulation

Currency Reform Initiatives

Somalia has been working on currency reform initiatives to address these challenges:

National Currency and Exchange Rate Regime

The National Economic Council (NEC) of Somalia has developed a comprehensive framework titled "National Currency and Exchange Rate Regime: The Options and Future Pathways" that outlines:

- Strategic options for currency reform
- Potential exchange rate regimes suitable for Somalia's economic context
- Pathways toward a more stable monetary system

Central Bank Currency Reform

The Central Bank of Somalia has initiated a currency reform program with the following objectives:

- Replacing privately printed currency with official Central Bank-issued notes
- Establishing greater control over the money supply
- Reducing counterfeiting through improved security features
- Building confidence in the Somali shilling

Legal Framework

The Central Bank of Somalia Act provides the legal foundation for currency management:

- Chapter II, Article 2, Section (2) grants the Bank the power to issue currency
- The Bank has the authority to regulate banking and credit systems
- The legal framework supports the Bank's mandate to stabilize the currency

Impact on Economic Activity

Currency instability has significant effects on Somalia's economic activity:

- High inflation rates, particularly for low-value transactions
- Continuous depreciation trend of the Somali shilling
- Challenges for businesses in managing exchange rate risks
- Complications in financial planning and investment decisions
- Barriers to international trade and foreign investment

Future Outlook

The future stability of Somalia's currency depends on several factors:

- Successful implementation of the currency reform program
- Strengthening of the Central Bank's capacity and resources
- Reduction in counterfeit currency circulation
- Gradual de-dollarization of the economy
- Political stability and security improvements

Experts anticipate that the inflationary environment may improve once the Central Bank takes full charge of monetary policy and replaces the privately printed currency currently in circulation. However, the transition will require significant resources, technical capacity, and time.

References

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