

# **Somalia's Inflation Outlook: Intersections of Global Oil Shocks, Import Dependence, and Climate Crises**

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## Executive Summary

Somalia is currently navigating a severe and multifaceted macroeconomic shock, characterized by a sharp, sudden rise in inflation. This inflationary environment is not the result of a single variable, but rather a complex confluence of global geopolitical shocks, domestic supply-side constraints, and the country's structural dependence on imports. The unexpected escalation of the Iran conflict in late February 2026 served as the primary catalyst, triggering an immediate and aggressive spike in global oil prices. Given the interconnected nature of global energy markets and maritime logistics, this shock rapidly transmitted into the Somali economy. Within a matter of days, domestic fuel prices in Mogadishu surged by over 100%, climbing from \$0.60 to \$1.50 per litre. This energy shock has created widespread, aggressive cost-push inflation across all critical sectors, most notably in transport, food distribution, and imported consumer goods.

Compounding Somalia's external vulnerabilities is a severe domestic crisis, driven by a worsening drought marked by consecutive below-average rainfall seasons, widespread crop failures, and rapidly rising acute food insecurity. Even before the February 2026 energy shock, baseline inflation was already on the rise. According to the December 2025 Consumer Price Index (CPI) data from the *Somalia National Bureau of Statistics (SNBS)* [1], annual inflation for 2025 had reached 5.1%. The most pronounced upward pressures were observed in essential, heavily weighted categories, including food, housing, water, electricity, gas, health, and services related to restaurants and accommodation. This highlights the acute vulnerability of Somali households to climatic and market shocks.

With the Holy Month of Ramadan and the approaching Eid festivities, domestic demand for clothing, specialized foods, and essential goods is peaking precisely as energy and import costs surge. Retailers are passing these compounded costs onto households, resulting in a severe contraction of purchasing power. The combined effect of these external and internal shocks is a rapid deterioration in household welfare, heightened inflationary pressure, and a marked increase in economic vulnerability across both urban centers and rural agropastoral regions. Immediate, coordinated policy intervention is required to stabilize markets and protect the most vulnerable populations. Given that Somalia entered 2026 with resilient but aid-exposed fundamentals, these compounded shocks now require temporary policy flexibility and additional external financing to prevent a significant household poverty shock.

## From Global Energy Shock to Domestic Inflation

Somalia's inflation dynamics cannot be understood in isolation from global economic conditions and domestic structural vulnerabilities. The current inflationary episode reflects the

interaction of external factors, such as the global energy shock and its rapid transmission through energy and transport costs, as well as domestic dependence on imports and the impact of climatic pressures that constrain local supply. Together, these factors create a reinforcing cycle that is exerting significant pressure on household purchasing power nationwide. In the following sections, these interconnected factors are briefly examined.

**Global energy shock.** The outbreak of conflict in Iran on 28 February 2026 fundamentally disrupted global energy markets. The conflict’s proximity to the Strait of Hormuz—a strategic maritime chokepoint through which approximately 20% of global oil consumption passes—immediately triggered uncertainty in international supply chains. Global crude oil benchmarks such as *Brent Crude* surged rapidly as markets incorporated geopolitical risk premiums and anticipated supply disruptions.

Beyond the direct effect on oil markets, the conflict also created significant disruptions in maritime logistics. Shipping insurance premiums for vessels operating in the Gulf of Aden, the Red Sea, and the Arabian Sea increased sharply with many freight operators diverted away from high-risk routes. For Somalia, this manifests as a shipping/insurance externality; war-risk cancellations and surcharges are set abroad, meaning Somali importers face significantly higher CIF (Cost, Insurance, and Freight) prices and tighter trade finance options. This effectively creates a balance-of-payments shock even before the goods reach domestic markets.

**Rapid transmission through fuel and transport costs.** As a price-taker in global energy markets, Somalia experienced immediate price transmission following the geopolitical shock. Throughout December 2025, January 2026, and most of February 2026, domestic fuel import costs remained relatively stable at approximately \$0.60 per litre. Following the escalation of the Iran conflict, however, fuel prices surged to roughly \$1.50 per litre, representing an increase of approximately 108%. This constitutes one of the most significant energy price shocks experienced by the Somali economy in recent years.

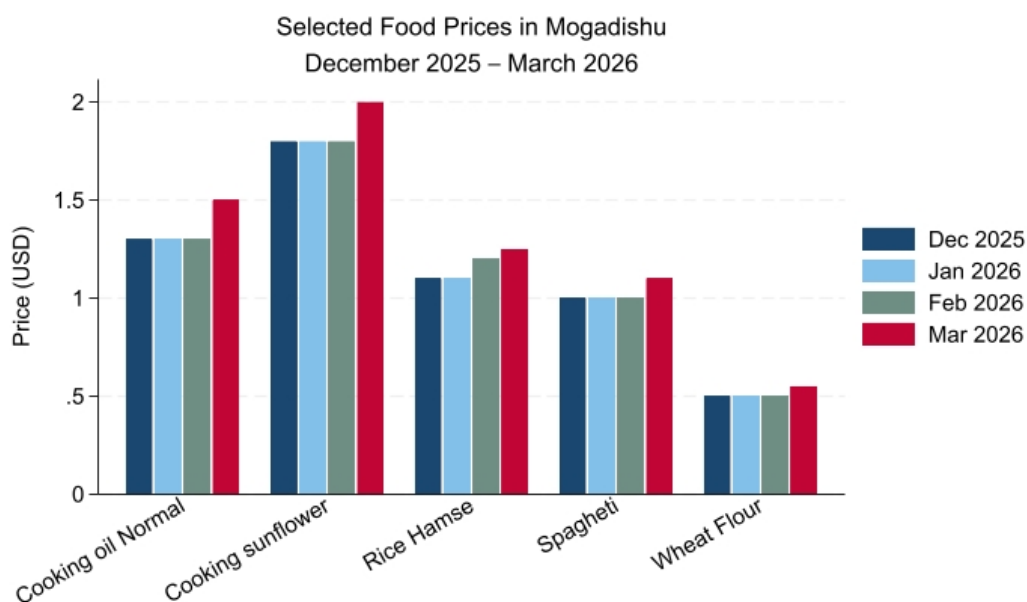
The implications for the transport sector were immediate. In December 2025, the *Transport* component of the Consumer Price Index had been providing modest relief for consumers, recording a price decline of 3.9% annually and 4.9% monthly. The surge in fuel prices has completely reversed this deflationary trend. Passenger fares and freight costs have risen sharply, increasing the cost of moving both people and goods across the country.

#### Key Transmission Mechanism

Fuel price increases quickly translate into higher retail prices because transportation costs are embedded throughout the supply chain. When diesel and petrol prices rise, the cost of importing, distributing, and selling goods increases simultaneously across multiple sectors of the economy.

These rising transport costs have particularly strong implications for food markets. Somalia imports a large share of its staple foods—including rice, wheat, sugar, and cooking oil—and these commodities require extensive maritime and inland transportation. As shipping insurance premiums and domestic freight costs increase, the price of these goods rises correspondingly in local retail markets.

**Domestic Dependence on Imports.** Somalia’s economy is structurally predisposed to imported inflation due to its heavy reliance on foreign goods to meet domestic consumption needs. More than 90% of essential commodities consumed within the country are imported. The import structure is heavily concentrated in refined petroleum products, staple foods such as rice and wheat, textiles and clothing, construction materials including cement and steel, and a wide range of manufactured household goods (see Figure 1 for recent trends in selected food prices).

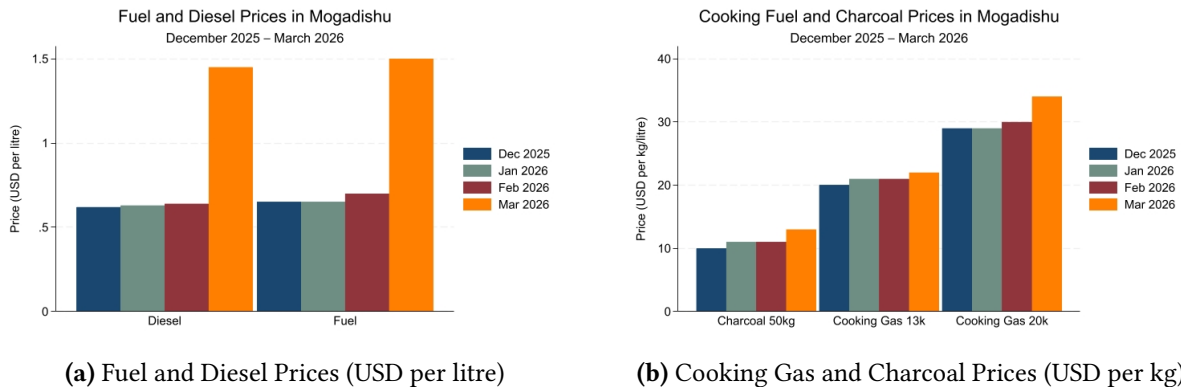


**Figure 1:** Selected food prices in Mogadishu, December 2025–March 2026. Prices remained stable until February, with March increases particularly evident for cooking oils. (Source: Somalia National Bureau of Statistics (SNBS) Consumer Price Index (CPI) market data).

Because domestic production alternatives remain limited, fluctuations in global commodity prices, freight rates, or exchange rate movements are transmitted almost immediately into local markets. This structural feature significantly magnifies the domestic impact of external shocks. When global prices rise, Somali consumers face higher costs within a very short period of time.

**Domestic Amplifiers: Climate, Energy, and Seasonal Pressures.** External price shocks are further intensified by domestic economic and climatic conditions. The Consumer Price Index division classified as *Housing, Water, Electricity, Gas and Other Fuels* recorded an an-

nual increase of 4.2% in December 2025. Somalia’s electricity sector relies heavily on diesel-powered generators, making electricity tariffs highly sensitive to changes in fuel prices. As imported fuel prices approach \$1.50 per litre, electricity and cooking fuel costs are rising sharply, placing additional strain on household budgets, as highlighted in Figure 2.



**Figure 2:** Price trends in Mogadishu from December 2025 to March 2026. **Left:** Fuel and diesel show sharp increases in February–March 2026 due to global oil shocks. **Right:** Cooking gas and charcoal prices gradually increased, reflecting domestic demand and import cost pressures.

At the same time, the country continues to face pressing climate stress. According to the CPI December 2025 Report, below-average rainfall between October and December 2025 led to failed crop harvests in agropastoral and riverine regions, while pasture and water resources in pastoral areas have been rapidly depleted.

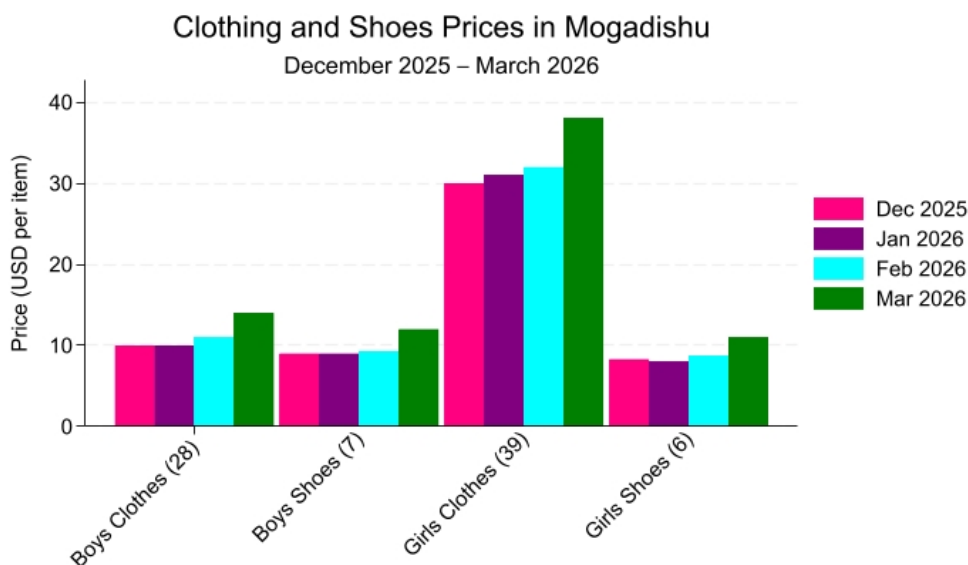
### Climate–Inflation Nexus

Reduced rainfall and crop failures have tightened domestic food supplies while increasing reliance on imported food commodities. As global food and fuel prices rise simultaneously, drought conditions amplify inflationary pressures across the economy.

The economic consequences of this drought are substantial. Reduced domestic yields of maize and sorghum have tightened local food supplies, while elevated livestock mortality is eroding the wealth and income base of pastoralist communities. As domestic production declines, reliance on imported food increases, further exposing the country to global price volatility.

Seasonal demand pressures are also contributing to rising prices. With the Holy Month of Ramadan and the approaching Eid festivities, domestic demand for clothing, specialized foods, and household goods typically increases. Retailers are currently facing higher freight and inland transport costs, which are being passed directly to consumers. The combination of rising demand and elevated import costs is accelerating the decline in real purchasing power, as reflected in clothing prices (Figure 3).

Taken together, these dynamics illustrate how global geopolitical instability, structural import



**Figure 3:** Price trends for clothing and shoes in Mogadishu from December 2025 to March 2026. Numbers in parentheses indicate typical sizes: Girls Clothes (39), Boys Clothes (28), Girls Shoes (6), Boys Shoes (7). Prices increased moderately over the period, with March 2026 showing the largest increases for most items.

dependence, and domestic climatic adversity are interacting to generate a powerful inflation-cycle within the Somali economy.

## What Is the State of Inflation Trends in Somalia?

Understanding the March 2026 inflation shock requires examining the macroeconomic baseline at the end of 2025. Somalia’s Consumer Price Index (CPI) reflects the weighted aggregate of price changes across all consumption categories:

$$CPI_t = \sum_{i=1}^n w_i \times \left( \frac{P_{i,t}}{P_{i,0}} \right) \times 100$$

where  $W_i$  is the expenditure weight of category  $i$ ,  $P_{i,t}$  is the price of category  $i$  at time  $t$ , and  $P_{i,0}$  is the price of the same category in the base period.

Over the twelve months leading to December 2025, the national CPI rose by 5.1% year-on-year. While this headline figure appears moderate, sector-specific inflation reveals significant pressures in essential services and non-discretionary items:

Transport prices fell by approximately 3.9% over the same period due to temporary stabilization in global oil markets, providing a small buffer for households. However, this deflationary trend has now been reversed following the early 2026 energy price shock.

**Table 1: Annual Inflation by Category, December 2025**

Category	Increase (%)	Key Drivers
Restaurants & Accommodation	+14.1	Rising food and generator costs
Personal Care Goods	+11.0	Import dependence
Health	+10.6	Imported pharmaceuticals
Education	+8.6	Rising service costs
Food & Beverages	+6.6	Early drought effects

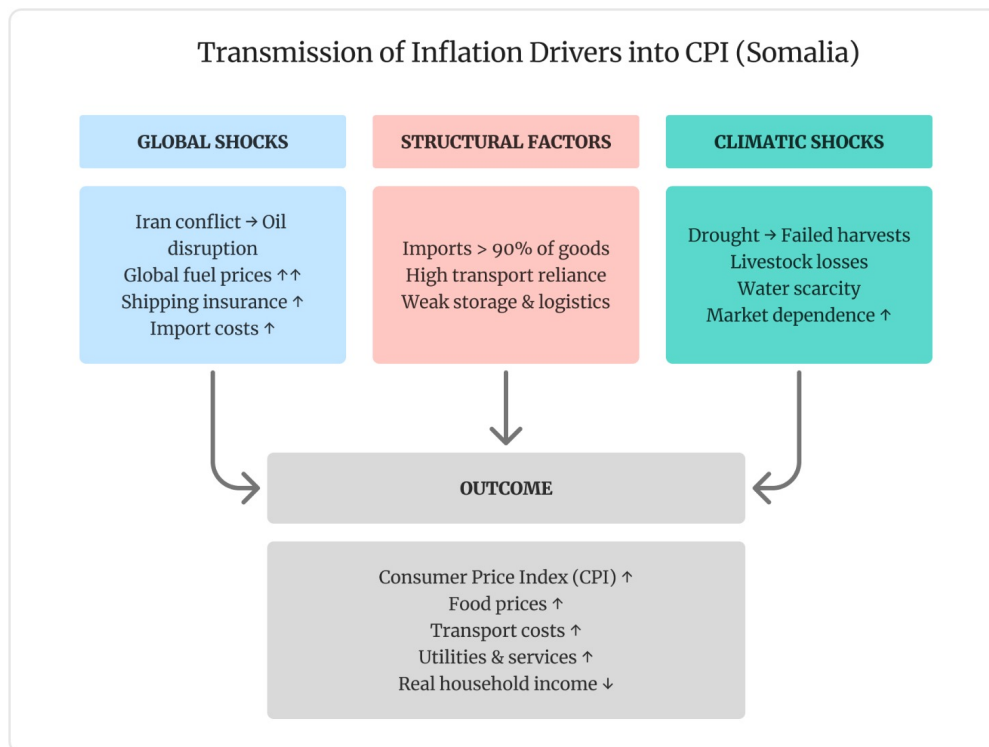
Month-on-month CPI data for December 2025 showed a 0.7% increase. Health costs rose by 6.2% and Education by 3.7%, while Transport declined by 4.9%, providing temporary relief that is now eliminated under current conditions.

Inflation pressures were also uneven across Somalia's Federal Member States. In December 2025, the highest increases were observed in South-West State (+8.0%), heavily affected by drought in agropastoral areas, followed by Banaadir (+5.7%) with high urban demand and import dependence, Hirshabelle (+5.6%), Jubaland (+4.8%), Galmudug (+4.3%), and Puntland (-1.3%), which benefited from specific cross-border trade dynamics and localized port pricing. This regional variation highlights structural vulnerabilities that make certain areas more susceptible to price shocks.

These baseline trends provide essential context for understanding the compounded effects of global oil price spikes, domestic drought conditions, and import dependence that have accelerated inflation in early 2026.

## How Do Global Fuel Shocks Transmit to Somalia?

**The Immediate Fuel Price Shock:** The jump from \$0.60 to \$1.50 per litre within days triggered a chain reaction across the Somali economy. Transport operators immediately adjusted fares upward to maintain margins, significantly increasing the cost of moving goods from major ports such as Mogadishu, Kismayo, and Bosaso to inland markets. At the same time, Somalia's electricity grid, which relies heavily on diesel generators, experienced a sharp rise in commercial electricity costs. Businesses responded by raising prices on goods and services, initiating a widespread cascading cost-push across multiple sectors (see Figure 4).



**Figure 4:** *Inflation transmission in Somalia: global oil shocks and drought drive higher food, fuel, and utility costs. Trade bottlenecks and import dependence amplify price pressures, reducing household purchasing power.*

**Impact on Imported Clothing and the Eid Effect:** The timing of this shock is particularly *disruptive*. With Eid approaching, seasonal demand for clothing and textiles is highly inelastic. Retailers, facing massive increases in shipping freight rates and domestic transport costs, passed these expenses directly onto consumers. Households, already dedicating a larger share of their income to basic food survival, experienced a marked reduction in purchasing power for essential holiday items.

**Amplification of Food Prices:** Somalia’s reliance on imported sustenance further intensified the crisis. Essential commodities such as rice, sugar, wheat flour, cooking oil, and processed foods are fuel-intensive to transport, and rising freight and fuel costs quickly translated into higher retail prices. Market surveillance indicates that many imported items doubled in price in retail markets within just two weeks of the geopolitical shock, amplifying inflationary pressures and compounding economic strain on households.

## The Climate-Inflation Nexus

Somalia’s current economic crisis is driven by both acute and chronic factors. While the recent oil shock is the immediate driver of inflation, the ongoing drought has weakened the econ-

omy's resilience and intensified household vulnerability, pushing multiple regions toward IPC Phase 3–4 outcomes through mid-2026. The failure of the October–December 2025 rains has severely affected agricultural production, forcing rural populations to rely on market purchases rather than subsistence farming. Livestock, a critical source of income for pastoralists, has deteriorated in condition due to depleted pastures, reducing market value and creating severe terms-of-trade shocks. Households are compelled to sell more animals at lower prices to purchase essential imported food at higher costs, a trend that is particularly dangerous as freight and fertilizer constraints continue to drive up the landed price of imported staples.

The housing, water, electricity, and gas (HWEG) sector, which accounts for one of the largest expenditure shares in the Somali CPI, has been particularly impacted. In drought-affected areas, populations depend on water transported from distant boreholes, and the recent doubling of diesel prices has directly increased drinking water costs. Urban households face higher utility bills and increased cooking fuel expenses, squeezing discretionary income and reducing the ability to purchase other essentials.

## **Vulnerabilities in Trade and Import Channels**

Somalia's trade and import systems have come under stress. The ongoing geopolitical crisis in the Middle East has disrupted shipping routes, increased war-risk insurance premiums, delayed cargo, and reduced vessel availability. These disruptions have pushed freight costs to multi-year highs and placed severe liquidity pressure on importers, who now require substantially more upfront capital to maintain existing volumes. As a result, profit margins for wholesalers have narrowed, retail prices have surged, and consumer demand has weakened as high costs erode purchasing power.

The potential for supply shortages remains a significant risk. Prolonged or escalated geopolitical tensions could convert a price crisis into a crisis of availability. Delays in bulk food shipments, shortages of cooking gas, and rationing of imported household goods could provoke market volatility, hoarding, and speculative pricing, particularly in urban centers. This risk is compounded by the fact that the country does not currently have real-time dashboards for data monitoring or enforcement, making the market highly susceptible to artificial price pressures if significant hoarding occurs.

## **Impacts of Rising Inflation on Households**

Rising inflation impacts the economic and social welfare of households. Real income, defined as nominal income adjusted for changes in the Consumer Price Index (CPI), has declined. This means that even unchanged nominal wages now buy significantly less. Families are forced to

adopt negative coping strategies, including reducing daily meals, withdrawing children from school, and taking on unsustainable debt. The timing during Ramadan and Eid exacerbates the social and psychological stress of these pressures.

Market stability and consumer confidence have also deteriorated. Rapid and unpredictable price increases encourage speculative behavior, with traders hoarding goods in anticipation of higher future prices, which further amplifies inflationary pressures. Humanitarian access is similarly constrained; fuel shocks have doubled the cost of transporting relief goods, reducing the reach and volume of aid precisely when acute food insecurity is rising. Despite the gains made following the HIPC Completion Point in December 2023, the country's fiscal space remains narrow and its fundamentals are heavily aid-exposed, leaving little room to absorb these external costs without immediate support.

## Policy Recommendations

Addressing a dual-shock crisis of this magnitude requires a sequenced, whole government approach that balances immediate relief with long-term structural reform.

### Short-Term Stabilization Measures

- **Market Surveillance:** Implement daily monitoring of essential commodity prices (fuel, wheat, rice, cooking oil) across all Federal Member States to detect and penalize artificial price gouging and hoarding. Establish an emergency task force with major importers to identify bottlenecks and stabilize supply chains ahead of peak demand periods.
- **Supply Chain Engagement:** Establish an emergency task force with major importers and shipping agents to identify bottlenecks, guarantee letters of credit, and stabilize supply chains ahead of peak demand periods.
- **Fiscal Adjustments:** Temporarily reduce or suspend port handling fees and import tariffs on essential food staples and agricultural inputs to offset the spike in global freight costs.
- **Social Protection:** Rapidly scale up targeted cash-based assistance programs (e.g., through Baxnaano and the new World Bank BOOST-You window) to shield the most vulnerable urban and agropastoral households from the worst impacts of the food and energy price surge.
- **Import Diversification:** Support traders in diversifying supply sources away from conflict-affected zones toward more stable routes in Asia or Southern Africa.
- **Trade Finance:** Collaborate with the Central Bank of Somalia to provide localized credit facilities or foreign exchange support to small and medium-sized traders struggling with higher upfront capital requirements.
- **Logistics Infrastructure:** Invest in expanded port storage, cold chain facilities, and inland warehousing to allow for larger bulk imports and achieve better economies of scale.

## Conclusion

Somalia is facing a complex, cascading inflationary environment. The economy is simultaneously impacted by a global geopolitical crisis, which has doubled domestic energy costs, and a severe domestic climate crisis that has devastated local food production. Data from late 2025 already indicated mounting pressures, but the February 2026 fuel shock accelerated inflation across all major consumer categories, effectively acting as a regressive tax on the poorest households.

The March shock implies acute, broad-based cost-push pressure that will widen the current-

account gap due to the surge in fuel and food import bills. For a country that imports a large share of staple foods and nearly all its fuel, this represents a classic imported inflation and balance-of-payments shock. With cultural and religious demand peaks during Eid approaching, and drought conditions persisting, households are under unprecedented economic strain. Addressing this crisis requires moving beyond passive observation through a coordinated short-term policy response to protect household welfare and maintain market stability. Over the longer term, resilience-building measures are essential to safeguard Somalia's economic recovery.

This external vulnerability is compounded by a severe domestic crisis: a worsening drought characterized by successive below-average rainfall seasons, failed crop harvests, and escalating acute food insecurity. Immediate and coordinated policy interventions are critical to stabilize markets and protect the most vulnerable populations from these compounding shocks.

## References

- [1] *Somalia National Bureau of Statistics (SNBS), Consumer Price Index: December 2025. Somalia CPI Report.* Mogadishu, Somalia: SNBS, 2025.