Abstract
The primary objective of monetary policy formulation and implementation is price stability. During the second half of 2018, it was beginning pace of disinflation for the nation, after a year of highly volatile inflation rate. This report captures the annual inflation rate movements, the key drivers of the volatility and the inflation and exchange rate targets of the Central Bank of Somaliland.
Contents
1.0 Inflation Statement ................................................................................................................. 2
  1.1 Introduction .......................................................................................................................... 2
  1.2 Analysis of Annual Inflation Rates (Consumer Price Index) Movements ......................... 3
  1.3 Exchange rate (Key Driver of the Somaliland Inflation rate) ............................................. 4
1.0. Inflation Statement

The primary objective of the central bank of Somaliland is to maintain price stability, thus the Bank carries out policy interventions for dealing with the key drivers of the inflation rates, mainly through foreign exchange rate interventions, as the foreign exchange rate is the main driver of the inflation rate in Somaliland to mitigate the risks arising from the exchange rate fluctuations which causes a pass-through inflation. Central Bank of Somaliland closely follows the monthly publications of the Consumer Price Index produced by the Somaliland Central Statistics Department (CSD), which measures the headline and core inflation rates of the Somaliland.

The inflation report will be produced quarterly by the Monetary Policy Unit of the Central Bank of Somaliland. This report serves two main purposes. First, its preparation provided a comprehensive and forward-looking framework for discussion among the Central Bank officials as a source and aid of our decision-making. The second, its publication allows the Bank to share and explain the major reasons for the decisions to the public.

This report has been produced in accordance with the Chapter six, Article 61 (1) of the Somaliland Central Bank Act No. 54/2012.

1.1. Introduction

The primary objective of monetary policy formulation and implementation is price stability. During the second half of 2018, it was beginning pace of disinflation for the nation, after a year of highly volatile inflation rate. The country’s annual Headline Inflation rate for the year ending September 2018 declined to 9.6 percent, which means the country’s Headline Inflation declined to its lowest rate since the beginning of the year. Worth to mention is that the Annual Headline Inflation rate declined from 18.9 percent during January of this year 2018 to 9.6 percent (a single digit rate) on September 2018.

This decline of inflation rate was mainly due to the decline of Annual Food Crops Inflation for the second half of the year 2018. The higher annual decrease were noted in the indices of some commodity groups’ vegetables and fruits. Peas and Beans were also the key drivers of the Annual Food Crops Inflation decline which were dropped.

Likewise, a very slower annual rate was recorded in the Annual Energy, Fuels and Utilities (EFU). The EFU Inflation declined more than 40.0% during the year ending April 2018 compared to the preceding year ending March 2018. The major drivers of this huge decline were decline in Electricity and Solid Fuels inflation. Though waters supply annual inflation has increased relatively. For May 2018, the Annual Energy
**Inflation**, Fuels and Utilities (EFU) increased to 25.5 percent for the year ending May 2018 compared to the 18.0 percent recorded during the year ended April 2018. The drivers were **Hargeisa water agency increased the prices of water by 71%**. In addition, the **Petrol** inflation that increased to 71.4 percent for the year ending May 2018 compared to 33.3 percent recorded in April 2018, which is equivalent to **114.4% increase**. Similarly, the **Diesel** Inflation increase by 33.3 percent in May 2018 compared to 21.7 percent recorded in April 2018, which is equivalent to **53.5% increase**. This increase was caused by serious supply shortage of Petrol and Diesel.

1.2. **Analysis of Annual Inflation Rates (Consumer Price Index) Movements**

The annual inflation rates was very volatile during the first quarter of 2018, but during the beginning second quarter of 2018. The inflation rate has started to gradually decline and has been quietly stable until the beginning of

The following graph of captures the annual inflation rate fluctuations from the period of January 2018 up to September 2018.

**Figure 1: Annual headline inflation rate, 2018**

![Annual Headline Inflation Rate](image)

Source: Central statistics department, MNoPD, 2018
1.3. Exchange rate (Key Driver of the Somaliland Inflation rate)

The stabilization of the exchange rate has positively impacted on the objective of containing inflation rate during the second half of 2018, confirming that inflation was being driven by exchange rate depreciation and the volatility was fuelling further uncertainty on domestic prices. The inflation in Somaliland appears to have rapidly declined in response to the stability and small an appreciation of Somaliland shillings, the national currency, against the dollar.

The following figure 2 shows that there is a strong direct correlation between the depreciation of the national currency and the increase of the inflation rate during the period of the first quarter of 2017 up to the first quarter of 2018, roughly a period of one year. In brief, the Somaliland shilling depreciated around 40 percent of its value and the inflation rate increased from 1 percent to a peak of 20 percent for a period of one year, late 2016 to the end of 2017.

The immediate burden of higher inflation rate affects the poorest people of Somaliland as they are the ones who conduct most transactions in national currency, civil servants fits in the first position who are paid in Somaliland Shillings.

Figure 2. Somaliland Exchange Rate and Inflation Rate (Period in Months)

During the second half of this year 2018, The exchange rate of Dollar to Somaliland shilling decreased from SLSH 10,700, per USD 1 (one dollar) to SLSH 10,000, which
indicates \textbf{6.5\%} appreciation of the local currency (Somaliland shillings). The following figure 3 shows the trend of exchange rates of Somaliland shillings and US Dollars during this year 2018. This may have been derived by the following factors:

1. The Central Bank of Somaliland carried out some measures to control the supply of shillings out of circulation and used this one of its monetary policy tools
2. The bank has also issued several directives for restoring the value of the national currency by imposing restrictions on the use of dollar based transactions less the $100 via the mobile money service by the public; and revoking foreign exchange license from the large companies of Dahabshil, Darasalam and Omar to remove the market imperfections resulted the monopolization of the foreign exchange market by these companies.
3. Information dissemination and public awareness measures has been taken by the bank including the calculation of weighted average exchange rate daily and sharing it with the public.
4. An improvement in the trade balance through lifted ban of livestock export and recovery from the droughts which help to improve the trade balance by increasing the price of Somaliland’s exports as well as reducing the need for food imports as local agricultural production increases.

Finally the goal of the central bank of Somaliland is to implement an inflation targeting monetary policy designed to keep the inflation rate stable, and below 10\% (single digit rate), while exchange rate target is to kept around and less than SLSH 10,000 during the upcoming year 2019.

\textit{The end}