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SUDAN: A Window Of Opportunity

Economic Snapshot

When Southern Sudan split away from the north in 2011 following a 22-year civil war, it took with it 75% of the previously united country's oil reserves a commodity that until then had also accounted for more than 50% of public revenues and 90% of exports. The result of this saw the economy of Northern Sudan (now referred to as Sudan) shrink dramatically. Thus while trying to increase its remaining crude output (currently 133,000bpd) Sudan has had to return to its previous reliance on agricultural production as well as the export of gum Arabic for which it is now the world's largest supplier. It's worth noting too that there has been a recent attempt by the Khartoum administration to develop other new non-oil related sectors such as mining. Ironically despite South Sudan inheriting the larger chunk of the oil sector, and an influx of Chinese firms into both countries over the past few years, it is currently in an even worse state than the north due to a vicious and ongoing internal conflict which has displaced a third of its population and triggered a serious famine.

Last month's lifting of US commercial sanctions on Sudan will likely provide its local businessmen with new opportunities and somewhat easier access to Western markets. It may also attract some much needed foreign investment. However while the country remains listed as a 'state sponsor of terror', foreign firms and banks are still likely to remain extremely cautious before entering into any Sudan linked transactions. On top of this the economy remains hamstrung by systemic corruption and mismanagement, whilst an ongoing chronic shortage of foreign exchange has hit local importers hard, with many forced to turn to the expensive black market for their US dollars due to the inability of domestic banks to satisfy their requirements, and international firms in Sudan are reportedly finding it difficult if not impossible to repatriate their profits. This in turn has fed into inflation which hit a record high of 35% y/y in September this year.

On the debt front Sudan currently has total external obligations of around US$52 bio and a significant percentage of this is reportedly in arrears. However China, to whom Sudan owes US$10 bio, recently agreed to accept a delay in some of the re-payments, and the African country may soon receive some further financial relief via its potential participation in the IMF's and World Bank's 'Highly Indebted Poor Countries Initiative'.

Political Climate

The US lifted its trade embargo on Sudan on the 12th of October 2017, however OFAC related sanctions with regards to the Darfur region remain in force and Washington has made it clear that a full normalization of ties with Khartoum will only occur once the government of Omar al Bashir has made substantial progress in the area of political reform, including a commitment towards protecting religious freedoms and human rights.

Meanwhile as mentioned above, the US still designates Sudan as a 'state sponsor of terrorism', and President al Bashir, who has ruled both a unified and later separate Sudan since 1989, remains wanted by the ICC over allegations of war crimes and genocide, although bilateral talks over the next step forward with regards to US/Sudan relations, including potentially removing the country from Washington's terror related blacklist, are reportedly due to take place early next year. (Sudan's removal from the latter will also be crucial for any progress to be made on debt-relief).

Regionally Sudan is involved in a long-standing border dispute with Egypt over an area known as the 'Halayeb Triangle' which currently falls under Egypt's territorial boundaries but which Khartoum claims historically as belonging to Sudan. This situation became even more heated earlier this year after Sudan announced the formation of a special committee to demarcate its border and Cairo refused a request by Khartoum for international mediation on the Halayeb matter. Then in April, Sudan barred Egyptian males between the ages of 18-50 from entering the country without a visa, and banned the importation of Egyptian fruit and animal products, whilst President al Bashir also accused Egypt of supplying weapons to South Sudan, and more recently of using some of Sudan's quota of water from the Blue Nile (This quota system forms a part of the 1959 Nile Waters agreement). In response Cairo has accused Khartoum of providing members of the Muslim Brotherhood with a safe haven, and according to local media reports some units of the Egyptian army were apparently deployed to areas close to the triangle. There is also an ongoing disagreement between both sides over Ethiopia's massive 'Renaissance Dam' project.

On a slightly more positive note the Sudanese government indicated last month that it wanted to improve its relations with South Sudan and attempt to resolve key issues between the two sides such as border disputes, transit fees linked to South Sudan's use of its main oil export pipeline which travels through Sudan, and allegations by the South that Khartoum has been providing support for rebel groups who are fighting against forces loyal to the current administration in Juba. The recent removal of US sanctions on Sudan may provide some impetus to this process.

Currency Overview

The Sudanese Pound has lost more than 100% of its value against the US Dollar since the 2011 secession, with this downward spiral exacerbated by sanctions, a weakening economy and dwindling supplies of hard currency, the latter triggering the growth of a foreign exchange 'kerb market.' Despite this the CB continues to follow a pegged FX regime, although it introduced an 'incentive' policy in November last year whereby commercial banks were allowed to use a more 'market' driven USD/SDG rate of 15.80. This was an attempt by the authorities to try and arrest the slide of the pound and reduce dependence on the black market, unfortunately this step has had a very limited impact on both problems, highlighted by the fact that the SDG was last seen changing hands at around 26.00 per US dollar (4th Dec 2017) compared to the official rate of 6.70.

Then early last month a series of new measures were announced including; restrictions on the importation of luxury goods, a cap on money transfers, allowing the Central Bank to supervise any hard currency purchases by public companies, directing domestic banks to only provide loan facilities to firms involved in strategically important sectors of the economy, limiting overseas travel by officials and introducing severe penalties for gold smuggling and black market currency trading.

However given the fact that only importers of essential goods such as petrol have access to the official exchange rate and local banks remain extremely short of hard currency, it's unlikely this latest clampdown will do much to improve the situation either. The shortage has even affected Sudan's largest oil refinery, where crucial maintenance work continues to be postponed due to quasi-state owned facility's reported difficulty in sourcing enough foreign exchange to pay for such work. Meanwhile the country's FX reserves were recently estimated to be at a level which would only provide about 1.5 months of import cover.

Conclusion

The recent lifting of US sanctions on Sudan provides the country with a window of opportunity, although it still faces numerous economic and political challenges. Thus broad-based reforms, such as a those called for by the IMF in its latest review of the country and which include; the unification of the various FX windows followed by the introduction of a more flexible exchange rate regime, a clampdown on corruption, tighter monetary policy, and a reduction in subsidies together with plans to improve fiscal revenues need to implemented as soon as possible. These steps combined with a real determination by the government in Khartoum to peacefully resolve its current diplomatic disputes with neighbours such as Egypt and South Sudan, and active foreign policy actions in order to improve the wider world's perception of the country, especially Washington, are urgently required if Sudan wants to stabilize its economy, attract significant foreign investment and eventually re-emerge fully from its current malaise.

Sudan - Key Indicators 2017*

Population	Real GDP Growth	Debt-to-GDP	Unemployment	Inflation	FX Reserves	FX Regime
40.9 mio	3.25%	61%	20%	24.76%	167 mio	US$ Peg

**Estimates: IMF/WB/FAB*

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