

ADB Sudan Economic Outlook

Recent macroeconomic and financial developments

Real GDP was estimated to have shrunk by 8.4% in 2020 after shrinking by 2.5% in 2019.

The COVID–19 pandemic's effect on commodity prices, trade, travel, and financial flows contributed to subdued economic activity. Reduced private consumption and investment as well as disruptions in value and supply chains also affected growth. Containment measures such as lockdowns took their toll on the service sector, with 58% of GDP, and the industrial sector, with 22%. Inflation escalated to an estimated 124.9% in 2020, compared with 82.4% in 2019, mainly due to a 118% currency depreciation and monetization of the fiscal deficit. Public revenues decreased by 35% in 2020, while the pandemic spurred a big increase in spending, worsening the fiscal deficit to 12.4% in 2020, compared with 11.3% in 2019. The fiscal deficit, which accounted for 40% of government revenues in 2019, has primarily been financed by advances from the central bank. Reduced demand among Sudan's major trading partners in the Persian Gulf lowered exports, but imports also declined. As a result, the current account deficit narrowed to 12.6% of GDP from 15.1% in 2019. Private sector credit as a percentage of GDP dropped by 4 percentage points during first half of 2020, reflecting the pandemic-related economic slowdown. In July 2020, the government adopted an accommodative monetary policy by reducing the cash reserve ratio, boosting credit to private sector to an estimated 12% of GDP at the end of 2020, still below the 14% of GDP it reached in 2019. While non-performing loans decreased from 3.5% in 2019 to 3% in 2020, returns on assets decreased to 1% from 1.8%, reflecting reduced profitability due to the sharp economic contraction. Subdued economic activity increased poverty from 48.3% in 2019 to an estimated 56% in 2020.

Outlook and risks

Sudan's economy is projected to remain in recession in 2021, with a return to modest growth expected in 2022. Agriculture and mining will drive growth on the supply side, and private consumption and investment on the demand side. The improved political outlook and Sudan's recent removal from the States Sponsor of Terrorism List (SSTL) by the United States will stimulate financial flows, benefiting growth. Poverty is projected to come down by 0.5 percentage points in 2022, reflecting the improved economic outlook. Reduced foreign exchange from remittances and foreign direct investment is expected to lower imports, including fuel and food supplies, and increase inflation in 2021. However, the prioritization of public spending and tighter monetary policies will reduce inflation from 129.7% in 2021 to 57.5% in 2022. Fiscal and current account deficits are expected to improve because of planned reforms to accelerate the economic recovery. The key downside risks include low public revenues, which may trigger further monetization of the deficit, and further depreciation of the local currency.

Financing issues and options

The 2020 debt sustainability analysis conducted by the International Monetary Fund and World Bank found that Sudan was in debt distress. Total public debt reached 201.6% of GDP in 2019, of which 80% was external. The share of total external debt in arrears increased to 85% in 2019 from 80% in 2017. The bulk of external debt in 2019 was owed to bilateral creditors (\$41.5 billion, or 76% of total external debt), about equally divided between Paris and non-Paris Club creditors, followed by commercial (14%) and multilateral (10%) lenders. Sudan's removal from the SSTL is expected to accelerate the country's eligibility for Heavily Indebted Poor Countries (HIPC) initiative relief, and discussions are under way on the possibility of debt relief. However, repayment of the country's commercial debt obligations has constrained the fiscal space for growth-generating public investments. This lack of fiscal space necessitates urgent reforms to broaden the tax base by rationalizing tax exemptions and improving tax administration. Improvements in governance are also necessary to crowd in private investment and finance. Gross reserves were low at \$1.1 billion in 2020, representing about 2 months of imports and are thus not expected to augment public financing sources in the short term.



Source: Data are as of December 2020 and are from domestic authorities; figures for 2020 are estimates and figures for 2021 and 2022 are projections by the African Economic Outlook team.