Sudan

Sudan's economy grew 5% in 2010, up from 4.5% in 2009 on the back of rising oil prices. As the country embarks on a historic political transformation, the challenge will be to ensure macroeconomic sustainability by controlling the fiscal deficit, rebuilding foreign reserves and lowering low inflation.

Sudan faces major economic, social and political hurdles in addition to the major structural economic shifts following the referendum in January 2011 in which the people of South Sudan voted for independence. Separation is due to be completed on 9 July 2011 but there remain significant contentious issues over border demarcation, currency, the division of public assets – especially oil -- and external debt.

Sudan has attracted substantial ‘resource-seeking’ foreign direct investment (FDI) from emerging country partners, notably China, Malaysia and India. The challenge is to sustain the key oil industry, which is a major resource for both North and South Sudan, and to attract more diversified FDI, especially in joint ventures with the private sector.

Sudan’s economy picked up slightly in 2010 to grow 5%, after 4.5% in 2009 but this was one percentage point lower than expected. The economy is projected to grow 5.1% in 2011 and then 5.3% in 2012 largely due to increased oil production and sustained gains in the non-oil sector. The non-oil sector remains buoyant and should underpin economic growth in the medium term through the continued revival of agriculture and increased investment in infrastructure, especially roads and electricity, and manufacturing.

A major feature of 2010 was continued expansionary public sector spending. This was driven firstly by implementation of various regional peace agreements and the financing of April 2010 presidential and parliamentary elections in the North and South. Additionally, the government continued costly subsidies for fuel and electricity. As a result, the budget deficit rose to 2.1% of gross domestic product (GDP) in 2010 from 1.9% in 2009. The Central Bank of Sudan increased money supply partly to provide credit to the government and partly to offset the negative effects of a decline in credit to the private sector in the aftermath of the global financial crisis. The Sudanese Pound (SDG) fell 16% against the US dollar (USD) due to political uncertainties associated with the January 2011 referendum as well as growing concerns over the low level of foreign reserves. Inflation rose to 13.8% from 11%.

The challenge ahead for the authorities is to ensure macroeconomic stability and sustainability of internal and external balances by controlling the fiscal deficit, rebuilding foreign reserves and maintaining low inflation.

As a result of increased public investment in infrastructure, the national road network and electricity generation have improved but many parts of the country, particularly conflict areas in the South and Darfur, suffer from a severe infrastructure deficit – even by national standards. Poor infrastructure means higher production costs and constrains opportunities for broad-based non-oil growth. At the same time, the authorities face tremendous challenges in providing public services, particularly education and clean water, to these areas, due to financial constraints and insecurity in some cases. Sudan has had limited access to external financing from donors and multilateral financial institutions over the last two decades. It remains among the heavily indebted least developed countries, with no signs of qualifying for debt relief on the horizon. Sudan has increased its ties with emerging country partners and this offers the possibility of resource-backed loans for infrastructure and public services projects as well as private sector development.

Sudan continues to strengthen links with key emerging country partners, especially China, Malaysia and India following the attraction of substantial "resource-seeking" FDI from these countries since the late 1990s. The oil sector has contributed significantly to economic development. A peaceful conclusion to the North-South separation process is critical for sustaining oil production and for protecting the stock of committed oil-related FDI. This is also an important catalyst for attracting further resource- and market-seeking FDI, and for paving the way to normalising relations with key global players, particularly the United States and the European Union.

The division of the country poses unprecedented challenges. The demarcation of the border presents major risks given the presence of several active conflict zones but the ruling National Congress Party (NCP) in the North and the Sudan People’s Liberation Army (SPLA) in the South have agreed to form joint forces to protect oil fields and infrastructure through the secession process. Despite progress in some areas of social development, the challenge of reducing poverty and achieving other Millennium Development Goals (MDGs) remains formidable, with a real per capita income growth rate of about 3% in 2010 and skewed income distribution across regions and social groups.

Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	4.5	5	5.1	5.3
CPI inflation	11	13.8	14.3	10.7
Budget balance % GDP	-1.9	-2.1	-0.5	-1.5
Current account % GDP	-10.1	-8.3	-6.1	-7.2

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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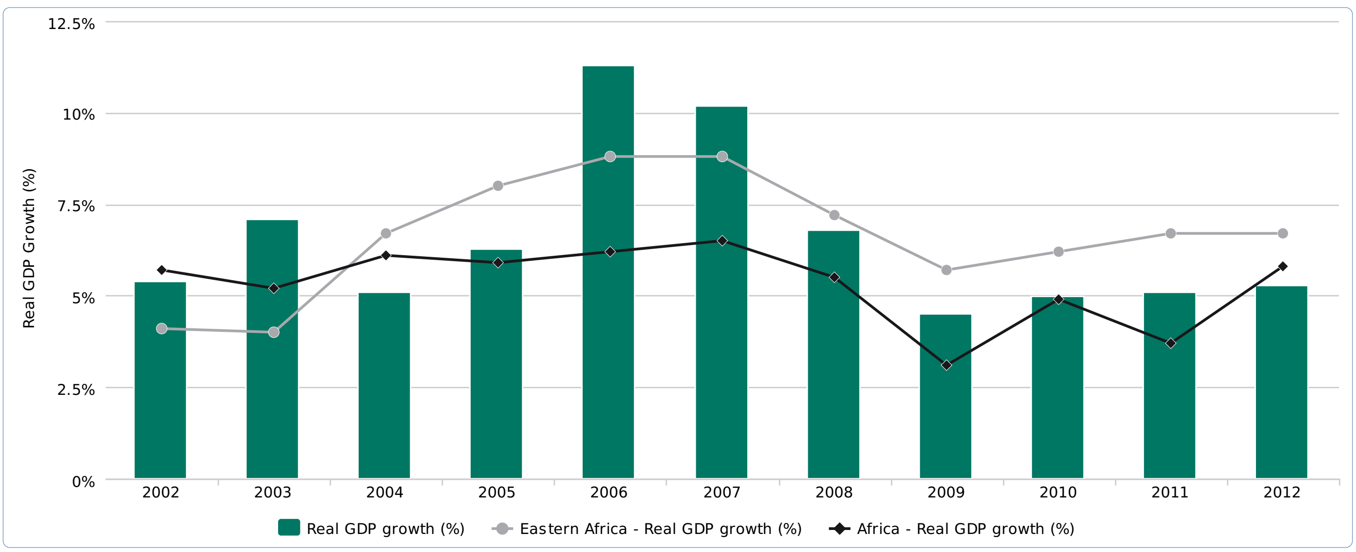
Figure 1: Real GDP growth (E)



Source: IMF and local authorities’ data; estimates and projections based on authors’ calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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