POTENTIAL IMPACT OF THE WAR IN UKRAINE ON SOUTH SUDAN'S ECONOMY

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Abstract

Recent global and regional economic policy discussions have shifted the focus from post-pandemic recovery to the impact of the war in Ukraine on global, regional and country economies. The aim is to prepare countries, especially in Africa, by providing policy options to mitigate the impact of a war fought far beyond their shores. South Sudan, like many other countries, if not all, will feel the effect of the war in Ukraine in several ways, especially in increased food and fuel prices. Whereas the most direct impact of the war on the economy of South Sudan will be on prices of these commodities, a positive impact is also inadvertently possible through increased fiscal space arising out of a global rise in the oil price. For South Sudan, the real impact, in the long run, will be determined by how the positive impact (increased fiscal space) counters the potential negative impact (increased food and fuel prices), both of which are dependent on several other factors, including (i) the duration of the war, (ii) other players supplying oil in the global market to suppress the price, (iii) what the windfall from increased oil prices is used for, etc. Therefore, in addition to the more generic impact, this policy brief seeks to elaborate on the specific impact of the war on the economy of South Sudan. A starting point in assessing this potential impact is a review of the projected performance/outlook of the economy in 2022. Consequently, this brief will present the South Sudan economic outlook for 2021–2022.

Introduction

Globalization and increased trade in the world have led to stronger connections between and among countries. As a result, events in one country have increasingly become the subject of important discussions in other, if not all, countries. This is the case with the war in Ukraine.

Countries were just beginning to recover from the global COVID-19 pandemic that has heaped untold suffering on the vulnerable in many countries. South Sudan, though spared from the heavy mortality impact of the pandemic, felt a serious blow on its economy with a sharp decline of global demand and prices for oil. In addition to the impact of the pandemic, the economy was affected in 2020 by locust invasions and floods. As oil prices recovered in 2021, optimism increased, and the outlook of the oil-dependent economy was projected to be positive.

As an import-dependent country, which depends largely on oil exports, South Sudan is vulnerable to global macroeconomic shocks. With the onset of the war in Ukraine at the beginning of 2022, a quick reflection on the potential impact of the war on the economy of South Sudan is necessary. This will provide analysis that will inform possible measures to be taken by government to mitigate the effect of the war.

The South Sudan Economic outlook

South Sudan's economy was on a good trajectory in the 2019/20 fiscal year (FY), with a real gross domestic product (GDP) growth rate of 9.5 percent. By mid-2020, which is the end of FY2019/20, about seven months before the onset of the war in Ukraine, the economy of South Sudan was projected to contract by 5.4 percent for the 2020/21 fiscal year. This was largely due to the global pandemic, as the socioeconomic impact of COVID-19, especially the decline of global oil prices and trade, negatively impacted the economy of South Sudan. Lower oil production and prices, floods and subnational violence in parts of the country are additional reasons for the reversal of the positive economic outlook. This exacerbates the poverty level, as South Sudan relies on oil, with a contribution of more than 90 percent of its revenues, as its primary export commodity. With the negative economic situation of 2020–2021, the country observed an increased population in need of humanitarian assistance of 8.3 million in 2021 with a further increase to 8.9 million in 2022. At the same time, food insecurity persisted in 2021 as food prices stagnated at a high level even with the stabilization of the currency. In 2021, South Sudan recorded a cereal deficit estimated to be equivalent to 35 percent of its overall annual food requirement.

"World Bank. 2022. South Sudan Economic Monitor, February 2022 : Towards a Jobs Agenda. World Bank, Washington, DC. © World Bank. https://openknowledge.worldbank.org/handle/10986/36994 License: CC BY 3.0 IGO."

The ongoing implementation of macro-fiscal and public financial management (PFM) reforms from 2020 to date have started to yield results that are slowly improving the macroeconomic environment. Foreign exchange and inflation rates stabilized, with a narrowing of the budget deficit, in 2021. The commitment to macro-fiscal and PFM reforms and some of the gains observed led to a projection of a positive economic outlook in 2022. A slight economic rebound of 1.2 percent is projected by the World Bank for FY2021/22 . However, this projection was made at about the same time the war in Ukraine started, so the war and its impact are occurring just as the economy was projected to start picking up.

POTENTIAL IMPACT

01. CRUDE OIL PRICE

60% Rise in Brent crude prices Since January 2022,

02. DEBT

An increase in crude oil prices will help to reduce the risk of default

03. COMMODITY PRICES

Rising cereal prices in source markets will negatively affect domestic prices in South Sudan

04. HUMANITARIAN ASSISTANCE

Rising inflation in Uganda and Kenya will have serious effects on poverty & humanitarian needs

05. PUBLIC FINANCIAL MANAGEMENT

if not properly managed, high fuel prices and general inflation could hamper provision of basic services to citizens

Since the war in Ukraine started on 24 February 2022, commodity prices have remained relatively stable in South Sudan. Food and fuel prices however increased by about 5% on average while the South Sudanese Pound remains stable. However, the war in Ukraine will potentially impact South Sudan in the following ways:

5% Increase in the average food and fuel price in South Sudan

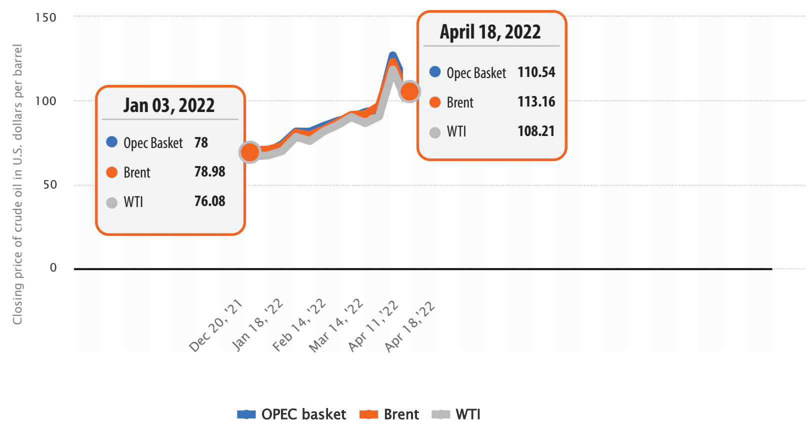
POSITIVE EXTERNALITY OF THE WAR

01. Increased Fiscal Space

As an oil producer and exporter, South Sudan may benefit from the windfall arising out of increased oil prices. Since January 2022, Brent crude has risen by 60 percent to over US$127 per barrel (8 March 2022). The prices hovered around $100 per barrel and stand at about $113 per barrel as at 18 April 2022.

Details: Worldwide; OPEC; Bloomberg; December 30, 2019 to April 18, 2022

Source: https://www.statista.com/statistics/326017/weekly-crude-oil-prices/



The benchmark price for crude oil projected in the FY2021/22 budget is $63 per barrel. There was an inconclusive discussion to increase the budget benchmark price to $80 during the February/March budget approval process in parliament to take advantage of increasing oil prices in 2022. In any case, the current level of oil prices still generates sufficient windfall regardless of the budget benchmark price mentioned here. This increased oil prices could positively impact the country's fiscal balance and growth prospects; contribute to improved current account surplus (projected at 2 percent of GDP in 2022) and boost foreign reserves (estimated at 0.9 months of imports in 2022). In addition, high commodity prices could increase market confidence, with a potential increase in foreign direct investment (estimated at $8 million in 2022) in the oil sector. However, the positive effect of increased oil prices on fiscal space in South Sudan could be influenced and possibly negated by the management of petroleum revenue. The current practice of forward sale of oil and significant mandatory payments tied to oil revenue will determine the net gains from the oil windfall. If oil prices remain elevated at current levels for the rest of the year, the net gains in fiscal space could increase.

02 .Debt Servicing

South Sudan's public debt is sustainable, but with a high risk of debt distress. The present value of the external debt-to-GDP ratio increased from 31.4 percent in 2020 to 46.9 percent in 2021 as the $539 million (10 percent of GDP) outstanding oil advance that was contracted in 2018 was reflected in the country's debt statistics in 2021. It is important to indicate that most of South Sudan's debt is in foreign-denominated currency. An increase in crude oil prices will help to reduce the risk of default as it will provide an additional foreign resource that will enable the government to service its debt.

NEGATIVE EXTERNALITY OF THE WAR

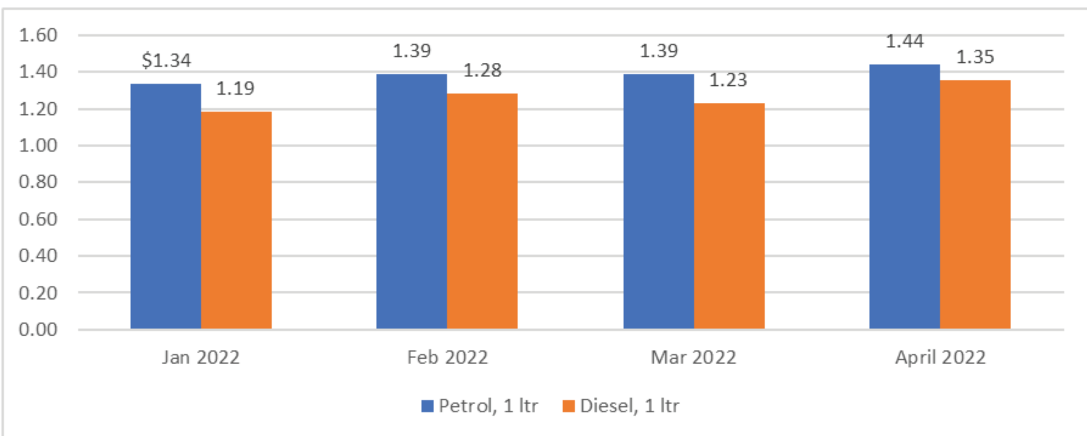
South Sudan is also likely to face some headwinds from the crisis. The main transmission channels will likely be through the factors that are discussed below.

03. Trade and commodity prices.

South Sudan is highly dependent on imported food supplies from neighbouring countries, notably Uganda and Kenya. For instance, between 2012 and 2019, imports from Uganda accounted for about $253 million (48 percent of total imports) while those from Kenya stood at $30 million (30 percent of total imports) in the same period. Rising food prices, notably cereals (wheat and maize) in source markets will negatively affect domestic prices in South Sudan, thus increasing inflation (projected at 24 percent in 2022), food insecurity and humanitarian needs (estimated at $1.5 billion or 30 percent of GDP).

Though it is an oil producer and exporter, South Sudan also imports refined petroleum products. Fuel prices increased at the pump from an estimated $1.04 per litre to $1.39 per litre in March 2022. Fuel price increase is often an immediate trigger for increase in price/cost of other related commodities and services, such as transport.

Source: National Bureau of Statistics, April 2022; SSP figures obtained from NBS have been converted into $ using Bank of South Sudan April 2022 indicative rate of SSP 426 to 1$. Monthly SSP/$ exchange rate not readily available so US$ figures may vary over the months.



04. Poverty and humanitarian assistance.

South Sudan continues to experience severe humanitarian challenges driven by climate-change-induced disasters and conflicts, which are negatively impacting poverty levels. The South Sudan 2022 Humanitarian Needs Overview suggests that about 8.9 million people – including refugees – are set to face extreme hunger in South Sudan this year. Rising inflation in Uganda and Kenya will have serious effects on poverty and humanitarian needs as the country continues to grapple with recent severe flooding.

05. Weak public financial management

As the country continues to contend with lack of accountability for the use of public funds and faces challenges to providing basic services to its people, an increase in global oil prices, with expected increase in fiscal space, may trigger higher expectations of better services at home. At the same time, ensuing high fuel prices and general inflation could worsen a complex situation in which poor households will not experience a positive change in their livelihoods. If not properly managed, this could be a recipe for disturbances and instability, especially if there is no support for poor households.

IMPACT IN THE REGION AND NEIGHBOURING COUNTRIES WITH STRONG TRADE LINKS

The impact of the war in Ukraine on individual countries will depend largely on the level of exposure between Russia, Ukraine and the country. However, there are also regional contagion effects which can spread across regions. For the eastern subregion of Africa, the war comes at a bad time. The region is currently experiencing a severe drought (Somalia, Kenya, etc.) which has affected food prices and threatens hunger for significant numbers of the population. A protracted conflict could worsen the plight of many and result in an increase in hunger for potentially millions of Africans.

South Sudan is not overly exposed to Russia or Ukraine, so the impact of the war in Ukraine could be relatively modest. However, while direct economic links are not very close, there could be secondary impacts through the countries that South Sudan trades with the most, namely its neighbours Kenya and Uganda, which South Sudan, a landlocked country, heavily relies on for trade. The impact of the war in Ukraine on these countries will have a negative spill-over effect on South Sudan. While Russia trades only modestly with Africa, Uganda is the continent's second highest trading partner with Russia after Malawi. A total of 7.2 percent of Uganda's trade is with Russia,[2] and in 2020, 33 percent of Uganda's wheat imports came from Russia.[3] Uganda also exports stripped tobacco and coffee to Russia.

In ***conclusion,*** no direct negative or positive impacts are expected, as South Sudan is not overly exposed to Russia or Ukraine. The impact is therefore expected to be relatively modest, given that economic links are not very close, though there could be secondary impacts through the countries that South Sudan trades with the most, namely Kenya and Uganda. Poor households spend a high proportion of their income on food and fuel, and price shocks on these two commodities is likely to be the channel through which countries like South Sudan will feel the pinch the most. Also, if the war continues over a longer period to affect the already sluggish recovery from the pandemic, countries (and even multilateral, and possibly bilateral institutions) may experience a shift in their focus of support away from developing countries. This will divert much-needed resources towards resolving pressing global issues and constrain support to countries such as South Sudan. Therefore, the expected positive impact of the war given higher global oil prices should be a key source to caution the potential negative impact on the economy.

2 *https://african.business/2022/03/energy-resources/how-will-the-russia-ukraine-war-affect-africa/, accessed 25 April 2022.*
3 *https://businessfocus.co.ug/how-russia-ukraine-war-will-affect-ugandas-economy-africa/, accessed 25 April 2022.*