Trends in the Sudanese Economy

1st Quarter, 2014

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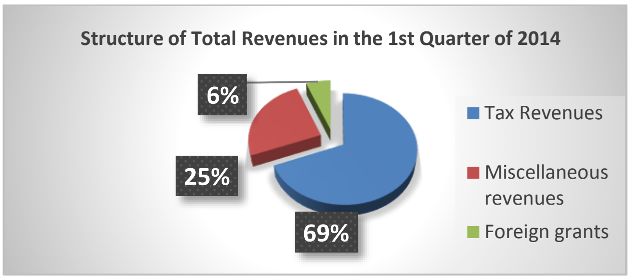
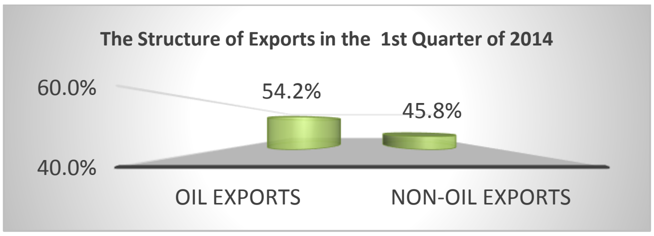
According to available information from the Ministry of Finance and National Economy (MoFNE), Central Bank of Sudan (CBoS), and the Central Bureau of Statistics (CBS), the preliminary economic indicators in Sudan for the first quarter of 2014 **show an improvement relative to the last year**.[1] The inflation rate fell from 41.9 percent at the end of December 2013 to 35.7 percent at the end of March 2014. Exports in the 1st quarter of 2014 increased by an estimated 14 percent compared to the same period in 2013 while import growth slowed sharply to 0.5 percent from 14 percent in the same period in 2012. The **trade deficit narrowed** to $420 million compared to $600 million in the same period of 2013. Underlying these developments, the budget deficit declined to 0.2 percent of annual GDP from 0.5 percent of GDP in the first quarter of 2013, while reserve money growth slowed to only 3.2 percent by March 2014 from 20.3 percent at end of 2013. **Sustained implementation of policies for the remainder of the year is required** in order to re-establish macroeconomic stability. Moreover, the government should **implement policies that could support development of the non-oil economy** in order to increase economic growth and reduce poverty.



Source: Ministry of Finance and National Economy

The **official exchange rate was stable** during the first quarter of 2014, at an average of **SDG 5.7**. However, the Central Bank of Sudan **does not have sufficient reserves** of hard currency to meet demand, and consequently a **substantial share of foreign exchange transactions are diverted to the parallel market**. At the end of March the exchange rate in the parallel market was SDG 8.5/US$1; a premium of nearly 50 percent to the official exchange rate.

Whereas the oil exports still account for 54.2 percent of the total exports, **gold exports now represent 20.9 percent**. At US$ 360.5 million gold exports denote 46 percent of the non-oil exports. In total the non-oil exports reached US$ 780 Million in the first quarter of the year 2014. The government announced that gold production in 2014 would reach 70 tons compared to 34 tons in 2013 following the modernization of traditional mechanisms of exploration. Developing an **appropriate tax regime** for gold mining activities is an **important challenge** for the government to support its development programmes. Gold **smuggling continues** to curtail the benefits from the gold production and Sudan would not benefit fully from gold mining as a source of hard currency. Traditional miners and mining companies prefer to sell their production in foreign currency outside the official channels as the Central Bank of Sudan buys gold from them using the local currency (although at the parallel market exchange rate) (Al-Intibaha Newspaper, 10 June 2014).



Source: Sudan Customs Authority

[1] Data has not been independently verified.

Total public revenues and foreign grants reached SDG 11 334 million whereas **public expenditure reached SDG 11 177 million** during the first quarter 2014. Accordingly, net operating balance stood at SDG + 157mMillion compared to SDG 861 million deficit for the same period in 2013. The non-financial assets (national development) reached SDG 1 034 million whereas the net financial assets (participation in capital) reached SDG 192 million. Based on this, the **total deficit** {net operating balance - (the non-financial assets (national development) + net financial assets (participation in capital)} **stood at SDG 1 069 million** and has been financed from internal and external resources. The total fiscal deficit as a ratio to GDP is approximately 0.28 per cent.

The bulk of total revenue comes from taxes revenues. The **share of tax revenues in total revenues stood at 69 per cent** in the first quarter of 2014. The second component of the revenue side is the miscellaneous revenues which include sales of goods and services, oil revenues and administrative fees. The share of the miscellaneous revenues in total revenues stood at 25 per cent whereas the share of the last component -foreign grants- in total revenues reached 6 per cent during the first quarter of 2014. This indicates that the government relies on self-resources in order to finance the budget.

The total expenditure reached SDG 11 177 million during the first quarter of 2014 compared to SDG 6 681 Million in 2013 in the same period. Expenditure on wages, social support and imported oil and transfers to the state has increased significantly compared to the same period of 2013.However, the increase in expenditure should be adjusted for a rise in general price level.

In order to alleviate the burden of the high rate of inflation on the public, **wages and salaries increased** from 2 954.9 million SDG in the first quarter of 2013 **to 3 835.1 million SDG in the first quarter of 2014 representing a 30 % increase**. However, the ongoing high rate of **inflation which reached 41.2 per cent in May** 2014 lowers the purchasing power of the SDG and decreases the real incomes.

A recent study by the Khartoum State's Ministry of Social Welfare has revealed that there are 13,000 women tea sellers in Khartoum State among them 73 with post graduate degrees and 388 university graduates. The study attributed the **increase in the numbers of female tea and food sellers** to the immigration from rural to urban areas in the capital due to the **drastic deterioration in the productivity of the agricultural and pastoralist sectors in addition to increase in poverty**, decrease in income and social development indicators. (Sudan Vision, June 18, 2014)

The **Sudanese Agricultural Bank issued its funding policy** for the summer season of 2014-2015. The policy is consistent with the economic reform programme, guidelines of funding policy of the Central Bank of Sudan (CBOS), and the Agricultural Bank plan for the year 2014. The policy is consistent also with the policy of the state to achieve food security by **increasing production and reducing its costs to enable export crops to compete** in the external market. However, from experiences and previous practices, policy development cannot stand alone. The **emphasis should be given to the implementation** of these policies, including an assessment of the Bank's commitment to **provide funds at the right time**, and for all agricultural activities during the rainy season.