

SUDAN

Key conditions and challenges

Table 1 2019

Population, million	42.5
GDP, current US\$ billion	30.5
GDP per capita, current US\$	717.4
International poverty rate (\$ 1.9) ^a	12.2
Lower middle-income poverty rate (\$3.2) ^a	44.0
Upper middle-income poverty rate (\$5.5) ^a	79.3
Gini index ^a	34.2
School enrollment, primary (% gross) ^b	76.8
Life expectancy at birth, years ^b	65.1

Source: WDI, Macro Poverty Outlook, and official data.

Notes:

(a) Most recent value (2014), 2011 PPPs.

(b) WDI for School enrollment (2017); Life expectancy (2018)

The COVID-19 and other shocks will depress growth significantly, with GDP growth estimated at -8.4 percent. Fiscal pressures remain acute despite efforts for consolidation. Severe economic challenges will remain in the near term. However, a broad macroeconomic stabilization and reform program is being supported by an IMF Staff Monitored Program (SMP). The ongoing economic crisis, exacerbated by COVID-19, is expected to lead to higher poverty rates.

The economic situation in Sudan continues to deteriorate at a rapid pace. Sudan's economy has been in recession since 2018, and real GDP contracted by 2.5 percent in 2019. The recession in 2018-2019 reflected a disruption in economic activities due to social turmoil and the acceleration in inflation that sharply reduced real incomes for a large part of the population. With the COVID-19 emergency and lockdown and multiple natural disasters, GDP is projected to contract by 8.4 percent in 2020. In this context, fiscal pressures have become more acute, leading to a steeper deficit in the first half of 2020, accelerated monetary expansion, and resulting higher inflation. Risks to Sudan's outlook remain on the downside. Growth and poverty reduction prospects may be further delayed due to a more prolonged COVID-19 crisis in the world or a more severe epidemic in Sudan. While Sudan achieved a major internal peace agreement at the end of August, flare ups of regional unrest remain possible. The population in Sudan has become increasingly frustrated with the continued economic deterioration, and civil unrest is on the rise throughout the country. If political resistance prevents the realization of key reforms to correct the enormous macroeconomic imbalances in Sudan, the year 2021 could bring further destabilization and associated high risks. Restoring debt sustainability and access to external

finance will require successful performance by Sudan under the IMF SMP, followed by clearance of arrears to IFIs and HIPC debt relief. The process should also involve the removal of Sudan from the U.S. State Sponsors of Terrorism List.

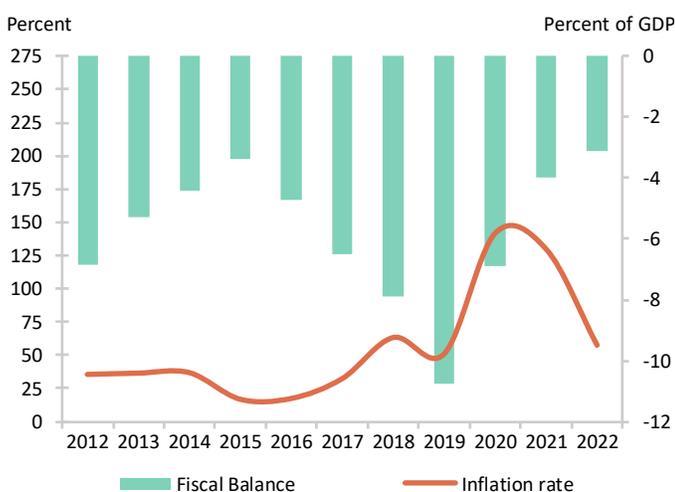
Recent developments

Growth in 2020 is projected to decline by 8.4 percent in the context of the COVID-19 pandemic. The recession reflects reductions in both public and private consumption and investment, which were negatively impacted by the COVID-19 lockdown, sharp declines in real income from inflation, a locust infestation in agriculture, and massive flooding.

The government continues to struggle with a large fiscal imbalance. In the first quarter of 2020, federal budgetary receipts were more than 40 percent less than anticipated in the planned budget. Despite the lower-than-expected fiscal performance and (monetized) fiscal deficit in the first half of 2020, a budgetary consolidation in the order of 3.6 percent is nevertheless now expected for the year of 2020. This reflects major savings on the expenditure side of the budget due to a sharp reduction in spending on fuel subsidies. It also reflects significant external support on the revenue + grants side of the budget, all of which is expected in the second half of the year.

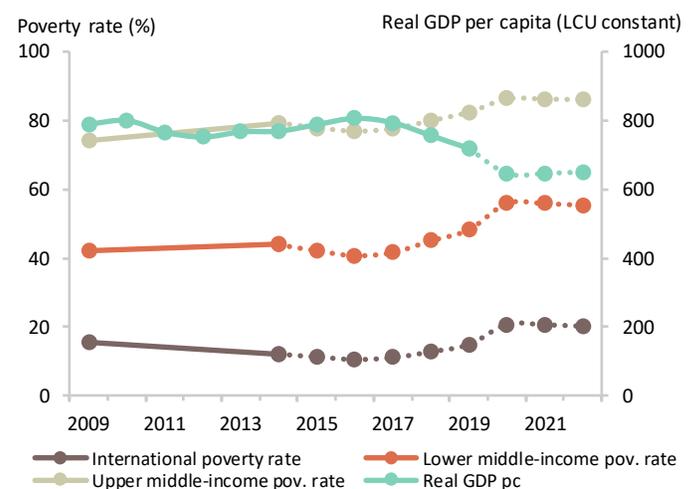
Public debt is expected to reach 259.5 percent of GDP in 2020, the vast majority of which is external debt in arrears. Arrears

FIGURE 1 Sudan / Fiscal Balance and Inflation Rate



Sources: WDI, IMF and World Bank staff estimates.

FIGURE 2 Sudan / Actual and projected poverty rates and real GDP per capita



Source: World Bank. Notes: see Table 2.

on repayment of prior lending from IFIs, including US\$ 1.05 billion now owed to the International Development Association (IDA), continue to bar it from access to significant external financing usually available to developing countries.

The exchange rate on the parallel market depreciated from 70 to 240 SDG per USD in the first nine months of 2020 along with the monetary expansion and inflationary pressures. Sudan will begin a major exchange rate reform in Q4 2020 that unifies official rates and begins liberalization. The pace of annual CPI inflation reached 167 percent in August 2020. The current account deficit is projected to decrease from 10.5 percent of GDP in 2019 to an estimated 8.4 percent of GDP in 2020, partly due to the strengthening of export prices on the country's primary export: gold. Gross international reserves are currently believed to be around only one month of imports.

The current poverty level for Sudan is unknown because data from the latest household survey (2014/15) do not reflect the impact of the recent economic decline, high inflation, and the impact of COVID-19 in Sudan. Assuming a neutral distribution based on GDP estimates, poverty rates may have increased consistently in recent years, to reach in 2019 an estimated 14.9 percent at \$1.90/day PPP and 48.3

percent at \$3.20/day PPP. A new household survey is urgently needed to provide a more accurate estimate of the poverty situation in current times.

Outlook

Sudan is expected to engage in deep reforms in the second half of 2020, supported an IMF SMP and significant mobilized external support. This has to the potential to put Sudan on a course toward stabilization and the revival of growth. GDP growth is expected to pick up to 2.5 and 3.1 percent, respectively, in 2021 and 2022 due to recovery from the covid-19 pandemic and progress in stabilization. The pace of inflation is also expected to moderate.

The fiscal deficit should narrow in the near term in the context of much lower spending on commodity subsidies, post-COVID improvements in revenue performance, and higher revenues from import tariffs following exchange rate liberalization. Sudan's ambitious economic and social revival program includes exchange rate policy, subsidy removal, social mitigation measures, greater fiscal transparency, tax reform and anti-corruption, while setting a series of benchmarks to guide

macroeconomic policy toward economic stabilization that is conditional on external financial commitments from the international community.

The Sudan poverty outlook remains negative. Poverty rates are projected by 2022 to increase to 20.1 percent at \$1.90/day PPP, and 55.4 percent at \$3.20/day PPP. Poverty projection for 2020 is yet to be finalized as the situation remains fluid and the full impact of COVID-19 remains unknown. The rising level of inflation, shortage of fuel and other basic commodities and COVID-19 are expected to continue having negative effects on living conditions. For example, according to the Bank's ongoing high frequency survey on COVID-19, about 40 percent respondents reported either a reduction or total loss in income due to COVID-19. Many people had to stop working because of lockdown measures imposed to contain the pandemic. The impending economic stabilization reforms are expected to take time to deliver positive results on poverty.

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TABLE 2 Sudan / Macro poverty outlook indicators

(annual percent change unless indicated otherwise)

	2017	2018	2019	2020 e	2021 f	2022 f
Real GDP growth, at constant market prices	0.8	-2.3	-2.5	-8.4	2.5	3.1
Private Consumption	-1.0	-3.2	-2.5	-7.9	2.4	2.9
Government Consumption	15.5	-1.1	-9.8	1.0	2.6	1.9
Gross Fixed Capital Investment	0.7	-2.7	-1.0	-11.3	3.3	3.7
Exports, Goods and Services	1.5	0.8	2.3	-9.6	2.4	3.2
Imports, Goods and Services	2.0	-0.4	1.6	-2.7	3.2	2.1
Real GDP growth, at constant factor prices	0.4	-2.3	-2.5	-8.4	2.5	3.1
Agriculture	2.5	-1.5	-1.0	-5.5	3.1	3.3
Industry	4.5	-1.7	-0.7	-10.7	2.7	3.2
Services	-3.5	-3.2	-4.8	-8.9	2.0	2.9
Inflation (Consumer Price Index)	32.4	63.3	51.0	141.6	129.7	57.5
Current Account Balance (% of GDP)	-7.2	-8.7	-10.5	-8.4	-4.8	-5.8
Net Foreign Direct Investment (% of GDP)	0.8	1.5	3.5	6.1	7.4	6.5
Fiscal Balance (% of GDP)	-6.5	-7.9	-10.8	-6.9	-4.0	-3.1
Debt (% of GDP)^a	159.6	185.6	200.3	259.4	250.0	220.5
Primary Balance (% of GDP)	-6.0	-7.7	-10.5	-6.9	-4.0	-3.1
International poverty rate (\$1.9 in 2011 PPP)^{b,c}	11.1	12.8	14.9	20.7	20.6	20.1
Lower middle-income poverty rate (\$3.2 in 2011 PPP)^{b,c}	41.7	45.1	48.3	56.0	55.9	55.4
Upper middle-income poverty rate (\$5.5 in 2011 PPP)^{b,c}	77.5	79.9	82.4	86.3	86.3	86.1

Source: World Bank, Poverty & Equity and Macroeconomics, Trade & Investment Global Practices.

Notes: e = estimate. f = forecast.

(a) Debt projections do not include any restructuring achieved during the HIPC process.

(b) Calculations based on 2014-NBHS. Actual data: 2014. Nowcast: 2015-2019. Forecast are from 2020 to 2022.

(c) Projection using neutral distribution (2014) with pass-through = 1 based on GDP per capita in constant LCU.