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## Following the Coup, A Dismal Economic Performance in the First Half of FY 2022

STPT predicts a tough last quarter of 2022 and expects a tougher 2023 if military rule persists



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Cover photo: Cartoon by world famous Sudanese cartoonist Khalid Albaih, see his other works at <https://www.facebook.com/KhalidAlbaih>

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## 1 Brief Background

On April 11, 2019, the peaceful Sudanese revolution deposed Omar al-Bashir and his regime after thirty years in power. Regime change created a window of opportunity for fundamental reforms. After the inauguration of Dr. Hamdok as Prime Minister and appointment of the civilian-led government, Sudan embarked on a journey of re-opening itself to the world and began restoring normal diplomatic and economic relations with international financial institutions (IFIs). Sudan also began a process of economic reforms under a Staff-Monitored Program (SMP) of the International Monetary Fund (IMF) in 2020 to address structural distortions in its economy, allowing it eventually to benefit from the IMF's Highly Indebted Poor Countries (HIPC) initiative for debt relief. This was welcomed by the IFIs who pledged to support Sudan as part of its democratic transition. These active diplomatic efforts were made possible by the delisting of Sudan from the US list of State Sponsors of Terrorism (SSTL), the lifting of the remaining comprehensive sanctions, and the restoration of Sudan's sovereign immunity in December 2020, which allowed Sudan to receive US financial aid and restore normal relations with the World Bank and the IMF.

Under the SMP, the now-dissolved civilian-led transitional government pursued a home-grown program of reforms aimed at stabilizing the economy, improving competitiveness, and strengthening governance. These reforms produced the first signs of stability. Artificial constraints on the exchange rate were removed allowing for unification of official and parallel rates on February 21, 2021. The Central Bank of Sudan (CBOS) began to be able to meet foreign currency demands through frequent foreign exchange auctions in May 2021, inflation declined by 35 percent for the first time in August 2021 and for the following few months. Sudan's chronic trade deficit declined to \$1.6 billion USD in the first half of 2021, driven by a 25.1 percent increase in exports on an annual basis.<sup>1</sup> Non-oil exports increased, with the deficit shrinking by almost 50 percent and the trade balance improved in line with

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<sup>1</sup> FEWSNet, "Political instability, port closures, and high prices drive food insecurity through the harvest," October 2021 – May 2022, <https://fews.net/east-africa/sudan/food-security-outlook/october-2021>.

economic reforms.<sup>2</sup> Remittances increased from \$136 million USD in the first half of 2020 to \$717 million USD in the second half of 2021, and bank deposits increased significantly over the same period.<sup>3</sup>

However, all these positive developments are now at risk because of the October 25, 2021 coup. In reaction to the coup, many donors immediately stopped funding, paused disbursements, and stopped development of new programming.<sup>4</sup> The debt relief process, the economic reform program, and assistance from the international community have also stopped. The effective functioning of government institutions has come under threat, especially after the reinstatement of former National Congress Party (NCP) senior officials to posts from which they had been removed. Economic activities have been disrupted. After decades of deep financial woes, the coup came at a time when Sudan was just starting to get back on the right track and make some economic progress.

## 2 Macroeconomic and Fiscal Outlook and Risks

Economic activity is projected to remain weak in the fourth quarter of 2022. The Sudanese economy is expected to grow by around 0.5 percent in 2022, driven by growth in household consumption. Continuous external pressures and high commodity prices are expected to constrain this growth. The 2022 budget projects nominal GDP to be SDG 28.7 trillion, equivalent to US \$49 billion if we estimate an average exchange rate of SDG 580/\$. Currently, there are no real measures in place to contain the economic costs of the coup, and future projections are likely to be negatively revised in light of developments.

The IMF predicted prior to the coup, based on the assumption that reform measures would continue that macro-economic indicators would improve over the coming three years. It projected the real GDP growth to increase from 0.5% in 2022 to 6.8% in 2025, while inflation was expected to drop to 22.6% in 2025, while per capita income was projected to remain level through 2025.<sup>5</sup> Whether this somewhat optimistic scenario would come to fruition was predicated on the conclusion of productive political settlements, Sudan having a government that is acknowledged by the international community and hence remain eligible to support the resumption of the debt relief path through HIPC process. However, if military rule continues GDP is expected to contract by 3 percent.

Domestic revenue mobilization remains a key macroeconomic and developmental challenge for Sudan in the wake of the coup. The main constraints for 2022 performance are related to weak government revenues due to (a) tax exemptions and heavens, and (b) limited contribution from state owned enterprises (SOEs), including the Defense Industries System (DIS). Weak revenue is coupled with soaring government expenditure especially on salaries and subsidies, massive devaluation of the currency, and the weakness in the banking system in attracting remittances due to the slow integration of Sudanese banks into the international financial system, and lack of sound anti-money laundering and countering the financing of terrorism framework.

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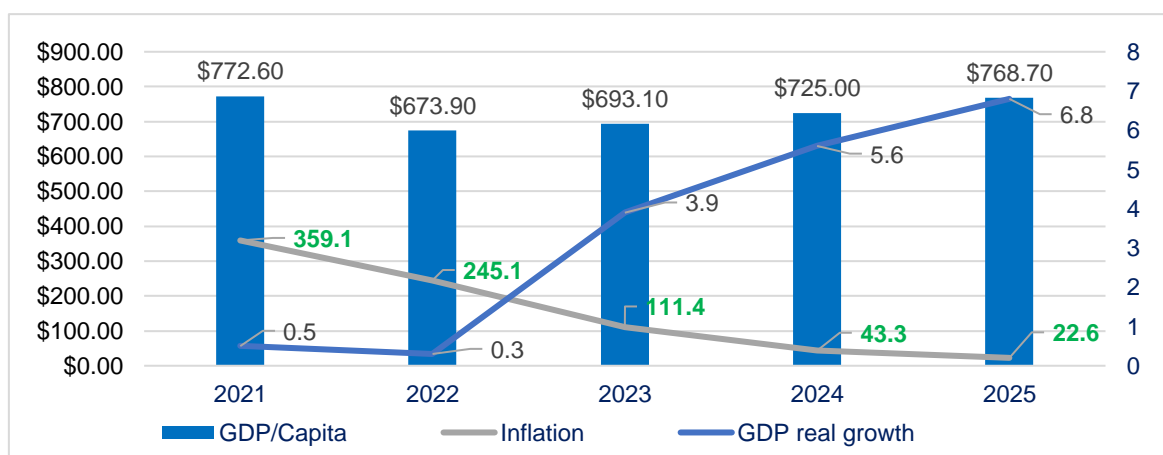
<sup>2</sup> Reuters, "Sudanese exports increase to \$2.53 billion in first half of 2021," September 14, 2021, available at: <https://www.reuters.com/article/sudan-economy-idUSKBN2GA1FR>

<sup>3</sup> Prime Minister Abdalla Hamdok, "Development in a Time of Upheaval Speech by World Bank Group President David Malpass and Panel Discussion in Sudan Ahead of the 2021 annual Meetings – Full Transcript," September 30, 2021, <https://www.worldbank.org/en/news/speech/2021/09/30/development-in-a-time-of-upheaval-speech-by-world-bank-group-president-david-malpass-and-panel-discussion-in-sudan-ahead>

<sup>4</sup> See, for example, World Bank, "World Bank Group Paused All Disbursements to Sudan on Monday," October 27, 2021, <https://www.worldbank.org/en/news/statement/2021/10/27/world-bank-group-paused-all-disbursements-to-sudan-on-monday>

<sup>5</sup> Statista, "Sudan: Inflation rate from 1987 to 2027," <https://www.statista.com/statistics/727148/inflation-rate-in-sudan/>

**Figure 1: GDP per Capita, Inflation and Real GDP Growth Projections**



**Table 1: Selected Macroeconomic Indicators**

Selected macroeconomic Indicators	2021 Actual	2022 Budget estimation
GDP (Bln SDG)	16,093	28,755
Revenues (Bln SDG)	1,412	3,326
Expenditure (Bln SDG)	1,456	3,317
Fiscal Deficit (% GDP)	-0.3%	-1.30%
Trade Deficit (US Bln)	-1.97	-1.6
Inflation (average)	357.9%	202.6%

Aggregate government revenue for 2022 was estimated at SDG 3.3 billion, increasing by 34 percent as compared to 2021. This estimate consists of tax revenue of SDG 1.9 billion; (representing 58 percent of the total) and other revenue estimated at SDG 1.3 billion (39 percent of total),<sup>6</sup> but it is not clear whether these forecasts in the budget are likely to be realized after the liberalization of the exchange rate on March 7, 2022, and suspension of grants and foreign assistance.

The overall public spending was projected to total SDG 3.3 billion in 2022, a 38 percent increase over the budgeted figure of SDG 2.4 billion. This is mainly attributed to the 141 percent rise in wages and salaries, and the increased expenditures of some government units to meet necessary and urgent needs (purchases of goods & services, including on defense and security) by 138 percent.

In the 2022 budget, the Ministry of Finance & Economic Planning (MOFEP) predicts economic stability and targets a more stable exchange rate and limiting inflation to 202% while keeping the fiscal deficit in a safe range of -1.3% of GDP. All are challenged by the ability of the government to attract international assistance, collect more taxes, and control the mismatch between the official and the parallel rate which has been a significant driver of inflation over the past two years. An additional factor is the expected impact of the Ukrainian war on the prices of fuel, food, and agricultural inputs, another driver of inflation.

<sup>6</sup> For more details, see: The Ministry of Finance and Economic Planning, "Performance Report for January – March 2022," published in May 2022, available in hard copy from the Ministry.

**The Budget Deficit** is expected to be financed by domestic borrowing from the CBOS as temporary advances, not grants from abroad. The fiscal deficit for FY 2022 is projected to be around SDG 363 billion, while the budget deficit for FY 2021 is estimated at SDG 44 billion i.e. 1.5 percent of GDP. In comparing the deficit between 2019 and 2021, a clear pattern of declining deficit is visible. This pattern was reversed in 2022 when the total budget deficit reached SDG 363 billion compared with a deficit of SDG 44 million in 2021.

**The Trade Deficit** is projected – as per 2022 budget – to slightly reduce from \$1.9 billion in 2021 to \$1.6 billion in 2022.

Specifically, exports are projected to increase more than imports. Exports are expected to increase substantially from \$5.1 billion in 2021 to \$6.1 billion in 2022, while imports are projected to increase to a lesser extent from \$7.0 billion in 2021 to \$7.7 billion in 2022. It is worth mentioning that 70 percent of imports are inputs and raw materials, which exposes the country to the risk that if there is further devaluation of the currency the increased cost of these inputs may drive systemic (cost-push) inflation. The recurrent trade deficit is a sign that Sudan is struggling to sell its goods internationally and this is expected to exacerbate lack of foreign exchange reserves and could result in external sector imbalances, more exchange rate distortions, an acceleration in inflation, because the lack of export proceeds in the official market will push many traders turn to the parallel market.

## Downside risks to the outlook dominate, uncertainty is high

Failure to manage expectations and suspension of economic reforms could undermine the growth outlook. Sudan faces economic risks as the October 25 coup interrupted the promised democratization process and returned Sudan to a state like the isolation that characterized al-Bashir's autocratic rule. Over the last year, the coup has had a catastrophic impact on economic institutions. Signs of a rapidly declining economy abound, including: the worsening of SOE sector governance and transparency, fragile fiscal sustainability, loss of financial support for reform, booming of the illicit economy, food security crisis, and deterioration of the living standards because of all these factors. While officially proclaiming continued adherence to the requirements of the debt relief process and the reform priorities identified in the Extended Credit Facility (ECF), the Finance Ministry of the post-coup government has lost the partnership of the international community which stopped its assistance due to the coup's derailing of the country's democratic transition, and its full return to practices such as the maintenance of off budget accounts by SOEs and the reluctance of SOEs, especially those incorporated under the Defense Industries' System, to account for public funds invested in them or channel these public funds to the revenue streams of the finance ministry. These financial losses will only increase without a reform-minded political solution acceptable to all parties that would make possible the restoration of normal relations with the world's development and financial community.

Sudan lost USD \$4.6 billion in foreign assistance, of which the International Development Association (IDA) had allocated USD \$2 billion to Sudan as part of a 2020 round of financing that Sudan was meant to receive to support projects in irrigation, agriculture, small producers, energy, health and water, and EU, World Bank Group (WBG) and other donors had allocated USD \$760 million in support to the Sudan Family Support Project (SFSP). Sudan also was expected to receive \$500 million from the WBG planned budget support and an additional \$500 million as direct budget support, as of November 4, 2021.<sup>7</sup> For its part, the US suspended, and subsequently repurposed, the congressionally approved USD \$ 700 million assistance to Sudan. In addition, they suspended their annual grant of 350,000

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<sup>7</sup> Reuters, "Sudan's Economy Tumbles in Post-Coup Deadlock," March 2, 2022, available at: <https://www.reuters.com/world/africa/sudans-economy-tumbles-post-coup-deadlock-2022-03-02/> .

metric tons of wheat earmarked for the supply of subsidized bread to the urban poor, which was worth another \$125,000,000.<sup>8</sup>

These financial losses have affected the 2022 budget. As a result, the military government is raising prices and taxes on everything from corporate business tax, to services fees, to customs duties, to healthcare, to fuel products. This has further worsened the economic impact on vulnerable segments and business activity. Business sector recession and reduced purchasing power are major concerns in the wake of the October 25 coup and are likely to drive Sudan's economic growth rate into negative territory by December 2022. It is going to be a tough 2022 and possibly an even tougher 2023 in Sudan, with increased risk of recession.

Concerns about governance and corruption sharply increased following the October 25 coup. While regime change provides opportunity for substantial improvements, Sudan suffers from weak institutional capacity and deep-seated weak governance. Country indicators point to pervasive corruption, lack of judicial independence, and weak rule of law and lack of public-sector accountability. There are widespread fiscal governance weaknesses: Sudan publishes little fiscal information; internal monitoring reports are compiled from un-reconciled data sources; and spending control and bank account reconciliation need strengthening. Multiple currency practices (MCPs) and associated distortions persist, encouraging rent-seeking and increasing vulnerabilities to corruption. The deteriorating purchasing power of the pound is exposing a growing number of public sector workers to all forms of petty corruption, and incidents of organized violent burglaries and home invasions are adding to the population's predicament.

### 3 Recent Domestic Developments

**Monetary aggregates have expanded rapidly**, reflecting fiscal deficit monetization and exchange rate devaluation. Money supply increased from SDG 3,820.4 billion at the end of Q1 2022 to SDG 4,086.0 billion at the end of Q2 of the year 2022, representing an increase of 7.0%.

**Credit to both** private sector and State-owned enterprises provided by commercial banks in local currency increased from SDG 1,166.5 billion at the end of Q1 2022 to SDG 1,234.7 billion at the end of Q2 2022, 5.8% increase.

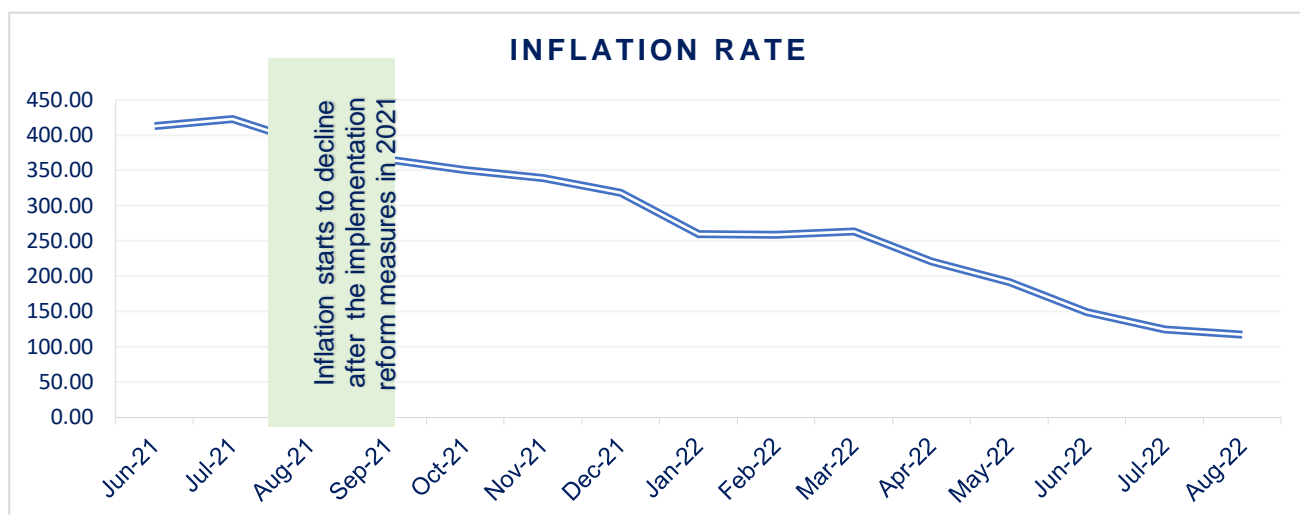
**Sudan consumer price (inflation)** decreased year on year from 148.9 percent in June and 125 percent in July to 117.4 percent in August. This strong decline in recent months is due to the base effect (in which a period of high inflation tends to be followed by lower inflation due to high base prices and a period of low inflation tends to be followed by a period of high inflation, due to relatively low base prices), since inflation was already exceptionally high last year. The inflation rate, however, remains in the double-digit zone, which is concerning given that demand is still below potential output. The driving force behind higher inflation is the debt monetization schemes that the government is undertaking. The Ministry of Finance First Quarter report (January to March 2022) indicates similar trends; with the decline of the first quarter inflation rate to an average of 260.5% compared to the 325.6% of the corresponding period in 2021.<sup>9</sup>

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<sup>8</sup> British Broadcasting Corporation, "What Sudan's Economy Lost Because of Burhan's Coup," January 24, 2022, in Arabic, available at: <https://www.bbc.com/arabic/middleeast-60106548>.

<sup>9</sup> The Ministry of Finance and Economic Planning, "Performance Report for January – March 2022," published in May 2022, available in hard copy from the Ministry.

**Figure 2: Inflation Rate (June 2021- August 2022)**



**Exchange Rate:** The exchange rate remains highly distorted. In February 2021, the CBOS official and commercial bank exchange rates were unified and devalued from SDG 55.2/US\$ to SDG 375/US\$. However, the weighted average exchange rate of the SDG in banks and exchange bureaus devalued further to SDG 436.32/US\$ by the end of Q2 2021 and to SDG 568/US\$ by the end of Q2 2022. Over the same period, the parallel market exchange rate devalued from 445 SDG/US\$ to SDG 580/US\$. Despite the difference in absolute numbers, both the official and parallel rates devalued by 30 percent. Interestingly, the Finance Ministry attributes the depreciation of the national currency to “several factors, of which the most important of which is the stoppage of foreign assistance and loans as a result of political developments in the country following the decisions of 25 October 2021.”<sup>10</sup>

The customs exchange rate—which is only used in assessing customs duty and VAT on imports—was also adjusted from the SDG 445/US\$ in June 2021 and unified with the market rate to SDG 565/US\$ by August 2022, without having any measures from MOFEP to (1) limit the price impact, or (2) allow more time for importers and the general public to adjust to the significant impact on prices. In response, the Importers’ Chamber issued a statement condemning the sharp increase and pointing to its detrimental effects on the economy and people’s livelihoods. The Chamber asked all importers to stop operations and withhold payments of government customs and taxes dues for three days.<sup>11</sup>

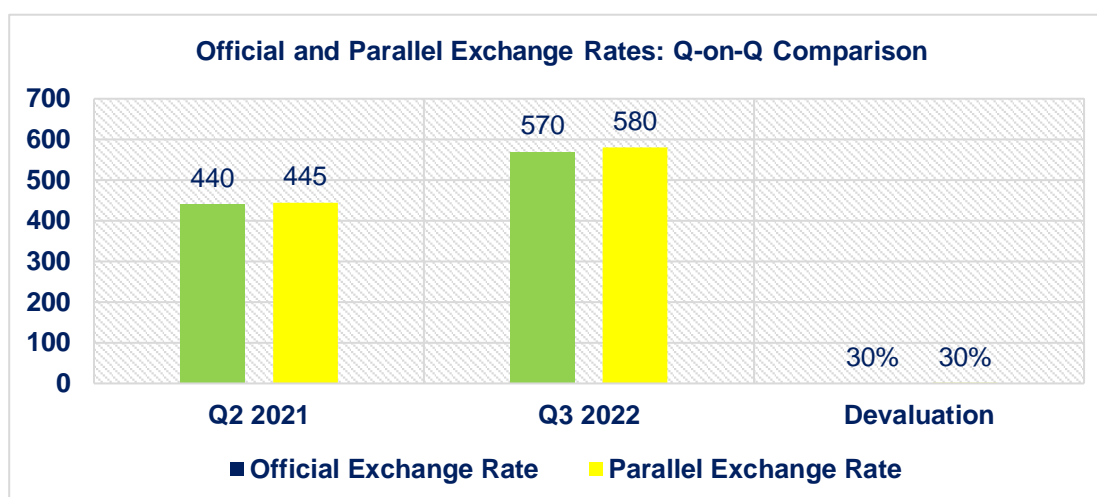
It is worth noting that the parallel market accounted for about 80 percent of all FX transactions before the implementation of reform measures. Much of the impact of nominal exchange rate depreciation on the real effective exchange rate (REER) has been offset by sharp increases in inflation.

<sup>10</sup> The Ministry of Finance and Economic Planning, “Performance Report for January – March 2022,” published in May 2022, available in hard copy from the Ministry.

<sup>11</sup> Sharq al-Aswat, “Sudan Faces Imports Paralysis,” August 5, 2022, available at: <https://english.aawsat.com/home/article/3799156/sudan-faces-import-paralysis>



**Figure 3: Official and Parallel Exchange Rates**



## Budget at Glance: Q1 Performance of 2022 Budget

### Public Revenues

Aggregate revenue for 2022 was estimated at SDG 3.3 billion, increasing by 34 percent as compared to 2021. Such revenue consists of tax revenue of SDG 1.9 billion; representing 58 percent of total; other revenue is estimated at SDG 1.3 billion i.e. 39 percent of the total,<sup>12</sup> but the accuracy of forecasts in the budget are not clear after the liberalization of the exchange rate on March 7, 2022, and the suspension of grants and foreign assistance.

Despite institutional reforms and introduction of new measures in 2022 to maximize revenue collection, tax collection remains below average.<sup>13</sup> Actual tax collection in Q1 2022 was lower than budgeted, attributed to uncertainty in the business environment, economic slowdown and recession. More can be done to improve the efficiency of collecting taxes and closing loopholes where they exist.

**Table 2: Revenues in SDG Million (budgeted Q1 2022 vs. Actual 2022)**

	Budgeted 2022	Budgeted Q1 2022	Actual Performance at Q1	Percentage
	SDG m	SDG m	SDG m	
Public Revenues	3,326,826	831,456	575,424	69%
Taxes	1,943,144	485,786	286,289	59%
Grants	0	0	142	0%
Other Revenues	1,382,681	345,670	289,993	84%

### Current Expenditure

As notes above, according to December 2021 estimates, overall public spending was projected to total SDG 3.3 billion in 2022, a 38 percent increase over the budgeted figure of SDG 2.4 billion.

<sup>12</sup> Central Government Budget 2022.

<sup>13</sup> Second Half Fiscal performance 2022.

Table 3 shows the actual expenditure for Q1 2022, which was 68 percent of what was budgeted for the same quarter. This was attributed to weak domestic revenue mobilization to cover the required expenses.

**Table 3: Expenditure in SDG Million (Q1 2022 Budgeted vs. Actual)**

	Budget 2022	Q1 2022	Actual Performance at Q1	Percentage
Expenditure	SDG m	SDG m	SDG m	
Wage & Salaries	779,075	194,768.9	151,535	78%
Purchase of Goods* & Services	458,818	114,704.5	76,133	66%
Cost of Finance	8,000	2,000	500	25%
Subsidies	971,744	242,936	205,381	85%
Grants	739,425	184,856.2	83,571.6	45%
Social Welfare	345,682	86,421	44,581	52%
Other Expenditure	15,000	3,750	140	4%
<b>Total</b>	<b>3,317,744</b>	<b>829,436.60</b>	<b>561,841.60</b>	<b>68%</b>

\* including Defense and Security requirements

## Poor Budget Priorities: Total Allocated Subsidies in Q1 2022

Subsidies are a major expenditure item in the 2022 budget. Sudan runs an expensive system of general subsidies covering fuel, electricity, wheat and wheat flour, lifesaving medicine, and other items. The appropriations allocated for subsidies are estimated at SDG 971 billion (\$2.1 billion USD), which is SDG 88 million (about 10 percent) higher than the 2021 figure. For Q1 2022, the budgeted amount of subsidies was SDG 243 billion, while the actual expenditure from the MOFEP was SDG 205 billion, equivalent to 36 percent of revenues collected for Q1 2022.

However, with ongoing military rule, and without foreign grant assistance to enhance revenue, the current economic situation appears unsustainable. Maintaining current subsidies requires heavy reliance on monetary resources and is likely to fuel high and rising inflation over the medium term, which would disproportionately affect vulnerable groups, and could aggravate social tensions.

**Table 4: Strategic Goods Subsidy**

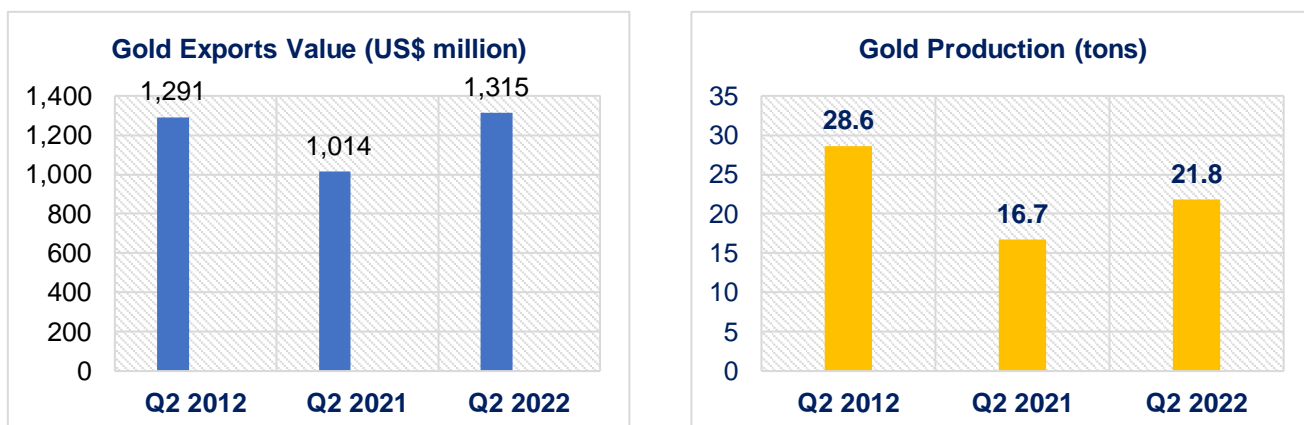
Item	2022 budget	Q1 2022	Actual performance	percentage
	SDG million	SDG million	SDG million	
Strategic Goods	931,000	232,750	195,745	84
Fuel	60,000	15,000	43,645	291
Electricity	735,000	183,750	146,902	80
Wheat	17,000	4,250	199	5
Life saving medicine	119,000	29,750	5,000	17
Media Institutions	4,000	1,000	635	64
Higher Education institutions	36,744	9,186	9,000	98
Total Subsidies	971,000	242,936	205,381	

### Gold Production

Gold export proceeds increased roughly by 30 percent to US\$ 1.3 billion in Q2 2022 compared to US\$ 1 billion in Q2 2021, fueled by both an increase in production and in gold prices.

Despite the rising importance of gold mining in the national economy, compensating for the loss of oil revenues, improper management of the sector creates incentives for smuggling while this activity further encourages poor management. Mismanagement of gold production in Sudan has played a key role in the maintenance of a massive informal parallel foreign exchange market. There is a huge quantity and value gap between gold production and exports as shown in the CBOS foreign trade digest.<sup>14</sup> Between 2017 and 2020, the CBOS reported 106.7 tons of gold exports, whereas total production reported was 332 tons, indicating a gap of 185.3 tons of gold. The revenue loss (cumulative) related to the value gaps for this period could potentially be as much as US\$ 10.2 billion. The government of Sudan also lost substantially on the annual royalty rates paid by gold producers.

**Figure 4: Gold Production per tons and Gold Export Proceeds**



<sup>14</sup> CBOS foreign trade digest, <https://cbos.gov.sd/en/publication-type/foreign-trade-statistical-digest>

## Trade Balance

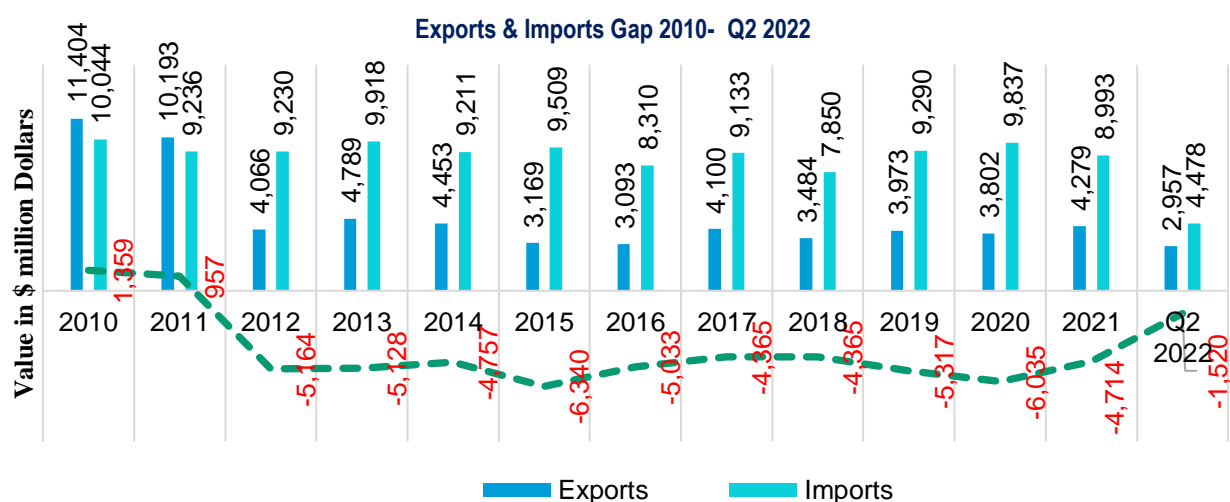
Before the implementation of reforms, Sudan's external imbalances worsened in 2019 and further deteriorated in 2020. Imports were roughly twice exports. The deterioration in the trade balance reflects lower exports particularly from the agricultural sector, which was affected by fuel shortages and increased cost of inputs which reduced production. The trade imbalance exacerbates the dire foreign currency situation, already impacted by low remittances and foreign direct investment. These imbalances contribute to the excessive devaluation of the pound and inflation. As a result, the parallel market exchange rate depreciated from SDG 85/USD at the end of 2019 to SDG 250/1USD in November 2020. Accordingly, the current account deficit (cash basis) stood at 10.5 percent of GDP in 2020, mainly due to a widening trade deficit.

However, external sector performance in Q2 2021 improved significantly and continued improving in Q2 2022. The trade balance improved in 2022 on the back of exchange rate reforms. Exports increased by 17 percent in Q2 2022 over Q2 2021. With more transactions shifting to the banking sector, remittances from Sudanese working abroad increased from \$136.1 million USD in 2020 to \$716.9 USD in Q3 2021. Gross usable international reserves improved to \$400 million USD at the end of December 2021. Accordingly, the current account deficit (cash basis) stood at 3.0 percent of GDP in 2021, mainly due to a tightening trade deficit.

**Table 5: Trade Balance Position Q-on-Q Comparison**

Item	Q2 2021	Q2 2022	Percentage Change
Total Exports	2,528.13	2,957.46	17.0
Oil	11.50	34.45	119.57
Gold	1,014.14	1,314.96	29.6
Other	1,502.49	2,606.05	73.45
Total Imports	(4,161.26)	(4,477.91)	8
Trade Balance	(1,633.13)	(1,520.45)	6.9

**Figure 5 Sudan's Trade Balance Performance during the Period (2010 – Q2 2022)**



## Current Account

The external position of Sudan is weak. The position of the current account in Q2 2022 recorded a deficit of \$ 169.4 million USD, compared to a deficit of \$ 327.5 USD million in the Q1 2022 and a deficit of \$ 989.1 million USD in the corresponding quarter of 2021.<sup>15</sup>

Despite the remarkable progress made by the now-dissolved transitional government towards restoring macroeconomic stability and promoting economic growth, the economy continues to face numerous risks and challenges again because of the coup that was carried out on October 25, 2021, especially in the external sector which has lost an estimated \$4.6 USD of financial resources.<sup>16</sup>

## External Debts

Sudan is in debt distress. External debt stock amounted to about 62.4 USD billion in December 2021. The bulk is public and publicly guaranteed (PPG) debt (US\$54.6 billion, of which 85 percent are in arrears), mainly owed to bilateral creditors, both members and non-members of the Paris Club. About US\$1.8 billion is private debt owed to suppliers. Resolving the unsustainable debt burden is critical to development efforts, especially those associated with Sudan's poverty reduction and millennium development goals.

# 4 Policy Direction/Recommendations

Sudan urgently needs to reestablish macroeconomic stability and create conditions for stronger inclusive growth after the phasing out of the current military rule. The October 2021 coup crushed the promises of a reformist, civilian-led democratic transition and returned Sudan to a state similar to the isolation that preceded the revolution. However, overcoming all the challenges previously discussed requires the steering of Sudan back to a path of well thought out macroeconomic reforms, fiscal transparency and accountability for public funds, and of rule of rule of law and equality among citizens. If ongoing domestic and international efforts to bring civilian political forces to agree on a consensus path to the restoration of democracy succeed, we make the following broad recommendations to the new executive emerging from this consensus that has proven illusive one year into military rule:

- 1. Formulation of a new economic recovery plan** which contains specific elements to restore macroeconomic stability, external sector imbalances, and resume economic reform programs by fully engaging with the IMF, WBG, development partners, and the international community, especially with regard to HIPC debt relief. Moreover, a fiscal adjustment plan centered on domestic revenue mobilization, public expenditure review, strengthening social protection, enhancing the role of the private sector, banking sector reform, enactment of laws and regulation for gold production management should be adopted. Moreover, civilian control of the economy is a necessary prerequisite for a democratic Sudan, and the job creation for youth.
- 2. Enhancing economic governance and reducing the opportunities for corruption in Sudan:** Overarching challenges in Sudan in the wake of 25th October coup include fragility, lack of transparency, and poor data quality requiring urgent economic governance and addressing vulnerability to corruption, where Sudan has limited capacity and multiple constraints to move forward to pursue necessary reforms to strengthen public financial management and fiscal transparency, enhancing oversight of SOEs, promoting transparency in the petroleum and mining (especially gold) sector, reforming the tax exemption regime, enhancing CBOS governance and

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<sup>15</sup> Central Bank of Sudan: Economic and Financial Review 2022 Q2

<sup>16</sup> Ministry of Finance

operations, strengthening financial sector oversight, and strengthening the anti-corruption framework and rule of law.

3. **Civilian control of the economy is a necessary prerequisite for a democratic Sudan** to focus on sound economic management to permit and facilitate the private sector actors to participate in the market, regulate when the public interest is impacted, build the capacity of civil society to hold the public sector accountable to the public.
4. **The international community must play a role in restoring macroeconomic stability in Sudan.** A transition to democratic civilian government is still a real possibility. Despite the military's efforts to block this path, the protest movement and people's resistance are still going strong and show no signs of waning. However, the people of Sudan need support from their international partners and friends, including the US, the EU and its member states, the Gulf countries and other Friends of Sudan. The restoration of the democratic path will serve not only the democratic aspirations of the people of Sudan, but also stability in the region and international democracy.

A political settlement is needed now to avoid more fragility. The international community realizes the importance of major political and economic reform to ease the economic crisis.

The international community should prod the Sudanese to adopt a forward-looking strategy, focusing on inclusive solutions to the current situation in Sudan and support the transitional authorities' efforts to rebuild strong governance and justice systems.

The macroeconomic environment in Sudan has been characterized by instability since the coup. To restore that stability, the international community should support the following key reform priorities:

- The resumption of the extended credit facility (ECF) and engagement with the WBG and IMF
- Adoption of a debt relief process to transform Sudan from fragile State to developing State, and ease access to concessional loans needed for infrastructure, basic services such as health, education, and food security.
- Creation of social protection programs that condition transfers to households on investing in the human capital of family members. Provision of services has been found to effective in generating a sustained decrease in poverty and helping to break the intergenerational transmission of poverty.