الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

Republic of the Sudan

September, 2020

TRUST . TRANSPARENCY . INDEPENDENCE

ECONOMIC & BANKING SECTOR REVIEW – SUDAN

Republic of Sudan ('Sudan' or 'the country') is home to around 42.8m people. With a GDP of US$45.2b[1] - as of 2019- which translates in per-capita GDP of ~US$1,050, Sudan falls in the category of "lower middle-income countries" as per World Bank classification.

The economy is driven in most part by consumption, with constrained contribution from investments and negative performance of the external sector. Sudanese economy shrank in 2018 and 2019 on the back of weak business environment, where political uncertainty discouraged private investment and dampened confidence. Agriculture, which accounted for around 30% of GDP, also contracted in 2019, due to shortage of inputs especially fuel.

On the back of high inflationary pressures and sharp currency movements that have dampened consumption and investment, GDP is estimated to have contracted by 2.5% in 2019, on top of a 2.3% contraction in 2018 according to the IMF and World Bank estimations. Adverse economic conditions persist in 2020. Rising cost of food and fuel and shortages of cash create a challenging environment for the country. GDP growth would likely remain negative in the near term, even excluding the possible negative impact of the COVID-19 pandemic. GDP is projected to contract further by 1.6% in 2020 and 0.8%[2] in 2021, accompanied with high inflation, continued exchange rate depreciation.

Trade and financial transactions between Sudan and the World economy remain very limited. In recent years, the Sudanese economy has been weighed down by the shortage of foreign currency, limited access to external financing, a weak business environment, and absence of foreign correspondent banking relationships, along with US sanctions. As the government monetized the fiscal deficit, the economy entered an inflationary cycle, coupled with a devaluing currency and declining reserves, and with the CBoS striving to maintain an overvalued peg.

In August 2019, the military and peoples' representatives signed a constitutional declaration which paved the way for the formation of a transitional government. The agreement dictates the formation of a Sovereign Council, Cabinet, and a legislative body. There will be 39 months of power sharing with the Council, comprising 11 members; 5 civilian and 5 military nominees plus one agreed by consensus, being led by a General for 21 months and a civilian for 18 months. After this period, there will be general elections. A prime minister, nominated by the pro-democracy movement, was to head the cabinet. Accordingly, on August 22nd, Mr. Abdalla Hamdok was appointed new prime minister. Commanding a PhD degree in economics and having worked as an economist in United Nations and African Development Bank, economic reforms may be expected, given that the present situation is one of the biggest challenges at hand.

The official exchange rate has posted sharp depreciation in the value of the SDG in 2018 (nearly six times against USD) and in early 2020 (22% as of end-March), with adverse implications in the medium term, imposing pressures on corporates' repayment ability, particularly when borrowing has been carried out in USD. The average exchange rate of the US Dollar against SDG had fallen to 55 SDG by the end of March, further sharp depreciation on SDG continues in the free market (parallel market), with SDG trading at 110-120 levels, indicating continued depreciation during 2020.

Annual consumer price inflation (CPI) has averaged 30% between the years 2012 and 2017. Practice of "monetizing" the fiscal deficit has resulted in rapid money supply growth both in 2017 and 2018 and incited an inflationary spiral. In tandem with the sharp depreciation of the SDG and reduction in fuel subsidies, inflation surged to as high as 72.9% at the end of 2018 from 25.2% in 2017. After falling to 44.6% in April 2019, annual inflation has been on uptrend again and reached 57.0% at December 2019.

The monetary and fiscal policy is expected to be tightened, in order to control inflation. In this regard, the subsidies are expected to be replaced with targeted subsidy programs. Furthermore, the country's tax to GDP ratio – which, at 5.3%, is lower than the average for the Sub-Saharan Africa region of 16.8% - is planned to be enhanced by reduction in tax

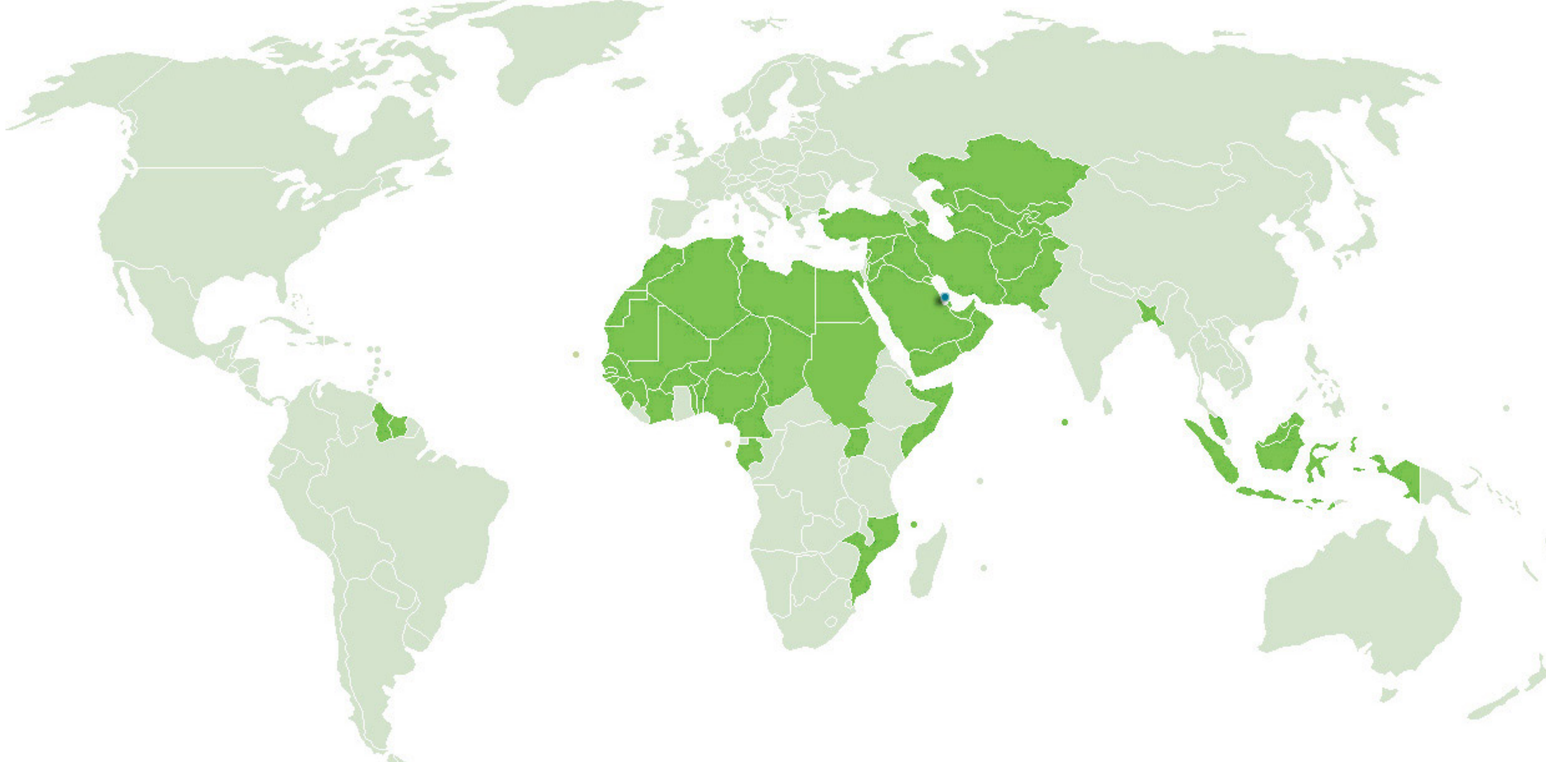
[1] *Source: IMF*
[2] *CMF and World Bank*

exemptions/holidays and other tax reforms. However, the COVID-19 pandemic is causing uncertainty for policy framework given limited translation effects of policy changes to the economy.

Brokerage & Fund Management Sector

There are 66 companies listed on the Khartoum Stock Exchange as of September 2019. Market capitalization grew to SDG8bn at the end of 2018, and trade volumes have risen at a slow pace to SDG11bn at end 2019 from SDG9bn in the prior year. Primary issuances on the exchange have been rather muted and total issuances since the year 2010 amounted to SDG1.9bn with the number of listed companies increasing from 55 to 66; SDG1.3bn of this amount was executed in the year 2019. Trading activity has been very weak historically, and in the year 2019 only 14 stocks and 9 investment funds witnessed trading activity. Most of the equity trading is seen in banking sector stocks. On the other hand, secondary market trading was also not active over a time line.

There are 41 brokerage companies in the country engaged in equities and sukuk trading, IPO of equities and investment funds, and financial advisory as permitted in the Capital Markets Act.



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