الوكالة الإسلامية الدولية للتصنيف
Islamic International Rating Agency

ECONOMIC & BANKING SECTOR OVERVIEW

The Republic of Sudan

December, 2020

TRUST . TRANSPARENCY . INDEPENDENCE

Economic Overview

The Republic of Sudan ("Sudan" or "the country") is home to around 42.8mn people. With a nominal GDP of US$33.6bn [1] during 2019 - which translates in per-capita GDP of US$441.5[2] and GNI per capita of US$590[3], Sudan falls in the category of "lower income countries[4]" as per World Bank classification. Sudan witnessed a major political change during the previous year and in August 2019, the military and peoples' representatives signed a constitutional declaration that paved the way for the formation of a transitional government. On August 21, 2019, Mr. Abdalla Hamdok was appointed a new prime minister with a focus on economic reforms and improved international relations.

Largely because of the sanctions imposed by the U.S. and a weak institutional framework, Sudan is faced with severe economic challenges. Structurally, the economy is driven in most part by consumption, with constrained contribution from investments and negative external balance. Sudanese economy shrank by 2.5% in 2019 after a contraction of 2.3% in 2018 on the back of weak business environment, with political uncertainty having discouraged private investment and dampened confidence. Compounded by the pressures of COVID-19, Sudan is expected to contract by 8.4%[5] during 2020 with further downside risk to economic activity.

Sudan has been facing a persistently high inflationary environment. Following the negative supply shock in the current year coupled with monetization of fiscal deficit and hikes in food prices and transport fares, annual inflation increased to 212.29%[6] in September 2020. The central bank and commercial bank rates were revalued to SDG 47.5/US$ from SDG 18/US$ in October 2018. In April 2019, the currency was again revalued to SDG 45/US$, despite the parallel exchange rate continuing to depreciate. Later in early 2020, the official exchange rate has further posted sharp depreciation in the value of the currency to SDG 55/US$; while in the parallel currency market that dominates with a share of around 80% of all transactions, the rate has quadrupled over the official rate as of September 2020[7].

With very low revenues to GDP, the fiscal position has been continuously deteriorating over the years to a deficit of -10.8% of GDP during 2019 (2018: -7.9% of GDP). Considering slower economic activity in 2020 and higher government spending to fight the COVID-19 pandemic, the fiscal deficit is expected to increase further.

Trade and financial transactions between Sudan and the world economy remain very limited, although some positive momentum in trends was evident in 2019. The current account deficit has declined to -7.8% of GDP during 2019 from 8.7% during 2018, because of large grants from Gulf countries; however, a globally depressed economy and restricted trade flows are likely to keep deficit high in the current year.

Meanwhile, the debt position of Sudan has remained extremely high and unsustainable as public and external debt stood at 211.7% of GDP and 198.2% of GDP, respectively, as at end-2019. Positive developments in diplomatic relations in recent months have paved the way for the country to benefit from the debt relief program of IMF and increase the fund flows to the country. Sudanese Government requested a Staff-Monitored Program ("SMP") from IMF in June 2020 to support the country's efforts to restore macroeconomic stability, lay the foundation for strong and inclusive growth, mobilize external financing, make progress toward debt relief under the Heavily Indebted Poor Country Initiative, as well as cope with the negative impacts of COVID-19. In September, IMF Executive Board approved Sudan's SMP. Specific policies embedded in the SMP comprise instituting a unified exchange rate, preceded by measures to identify and address individual bank resilience to exchange rate shocks, and set up a reserve money targeting framework; upgrade of the central bank law to strengthen its independence and governance; fiscal adjustments for the years 2020 and 2021, and establishing an independent anti-corruption commission, strengthening oversight and corporate governance rules for public enterprises.

[1] *Source: IMF*
[2] *Source: World Bank; Current US$*
[3] *Source: World Bank; Atlas Method*
[4] *Source: World Bank (https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups)*
[5] *Source: IMF, dated October 23, 2020*
[6] *Source: Al Jazeera quoting CBoS*
[7] *Source: World Bank – Sudan: Country Engagement Note for the Period FY21-FY22, September 10, 2020*

Banking Sector of Sudan

Sudan's banking sector comprises 37 banks, all of which are Shari'a compliant and falling under the oversight of the High Shari'a Commission of Control on Banks and Financial Institutions ("HSCC" or "the commission"). Government stake is discernible in a number of banks, as an offshoot of equity injections made in the past to recapitalize fragile banks. With recently announced constitutional changes on the anvil, entry of conventional banks may be expected in the near future.

Table 1: Sudanese Banking Sector Financial Position

SDG'mn, unless otherwise stated	Dec'16	Dec'17	Dec'18	Dec'19	Jun'20
Financing Portfolio	80,158	120,582	190,373	245,708	277,394
Liquid Assets	30,023	53,847	188,055	208,573	257,016
Others*	22,533	36,817	69,423	96,618	153,628
Total Assets	132,714	211,246	447,851	550,898	688,038
Deposits	79,460	139,106	302,979	361,808	443,781
Borrowings	6,789	14,513	34,260	44,610	45,321
Others	28,041	34,779	79,553	86,779	126,292
Total Liabilities	114,290	188,399	416,792	493,197	615,394
Equity	18,424	22,847	31,059	57,701	72,643
Total Liabilities and Equity	132,714	211,246	447,851	550,898	688,038

Source: CBoS; * Including foreign assets and other accounts

Operative in the country are 7 foreign-owned banks with ownership from Gulf States (UAE, Jordan, Saudi Arabia, and Qatar) and neighboring countries (Egypt, Lebanon, South Sudan and Ghana), which account for 23% of banking assets. The banks have established a Liquidity Management Fund in 2014 as a collaborative effort to provide liquidity support to banks to facilitate liquidity management.

The banking sector of Sudan is highly concentrated where 5 largest banks account for 55% of total banking assets with the largest bank holding 17.3% market share. Total assets of the banking industry have been growing rapidly in nominal terms and posted 3 years growth, 2016-2019, CAGR of about 60.7% to SDG 551bn at year ended 2019 (Q2'20: SDG 688bn, up 24.9% YTD) versus SDG 133bn in 2016, reflective of a hyperinflationary environment and steep currency depreciation. The banking industry of Sudan is all set to start a new era where under the supervision of World Bank and IMF, the Central Bank of Sudan ("CBoS") would undergo structural changes to bring it in line with the international banking system. Additionally, the merger and recapitalization of several weak banks is also on the cards with an aim to bring efficiencies in the banking industry. On top of it, several players of Sudan's banking industry are introducing Visa payment systems in an attempt to develop its financial sector following decades of isolation.

Reduced financing exposures are reflected in a declining ADR and financing portfolio- to- total assets of 67.9% and 44.6%, respectively, at the end of 2019 as compared to prior four years average of 88.1% and 54.8%, respectively. The declining trend continued in Q2'20, where ADR and financing portfolio- to- total assets further reduced to 62.5% and 40.3%, respectively. A low ADR would provide some cushion to absorb asset quality deterioration under the stressful incumbent macroeconomic situations and support the bottom-line by containing the quantum of provisioning charges, despite the continued depreciation having increased credit risk associated with foreign currency ("FCY") denominated facilities extended.

[8] *Advances / Deposit Ratio*

funding of the banking industry witnessed a growth of 20.5% during 2019 backed by largely commensurate 19.4% growth in deposits. Deposit access is cost effective with non-remunerative deposits accounting for 51.3% (48.7% in 2018; Q2'20: 50.6%) of total deposits and 45.6% of funding (43.7% in 2018; Q2'20: 56.9%).

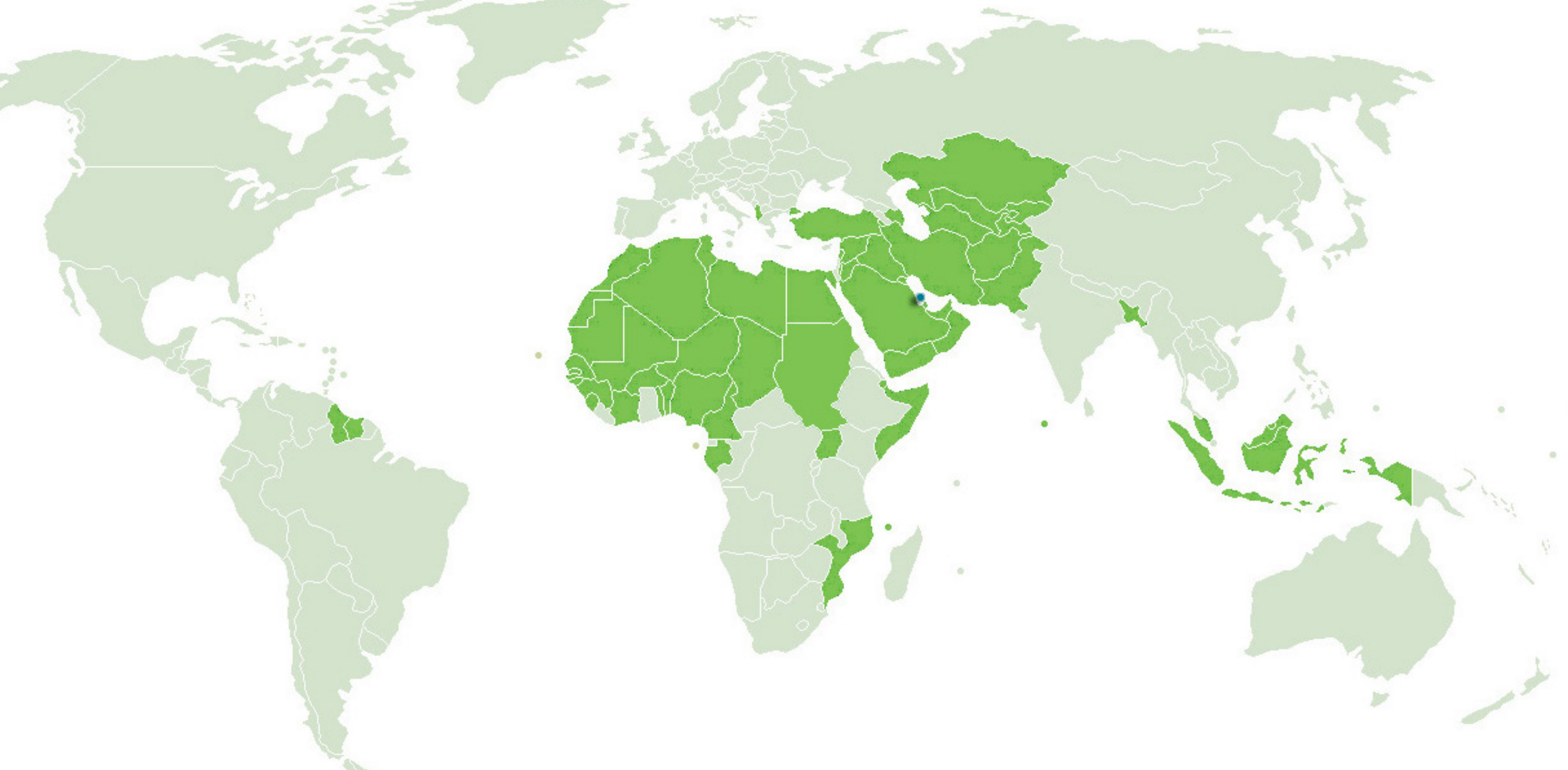
Table 2: Sudanese Banking Financial Indicators

	Dec'16	Dec'17	Dec'18	Dec'19	Jun'20
Finances & claims on Central Government to Total Assets	60.4%	57.1%	42.5%	44.6%	40.3%
ADR*	100.9%	86.7%	62.8%	67.9%	62.5%
Liquid Assets to Total Assets	22.6%	25.5%	42.0%	37.9%	37.4%
Remunerative Funding	56.3%	57.1%	56.3%	54.4%	54.1%
Non- Remunerative Funding	43.7%	42.9%	43.7%	45.6%	45.9%
Total Borrowings to total funding	7.9%	9.4%	10.2%	11.0%	9.3%
Current Deposits to Total Deposits	47.4%	47.4%	48.7%	51.3%	50.6%

Source: CBoS statistics;* financings including claims to central

As Sudan currently features a completely Islamic banking system, profit margins are set based on the underlying project's return (contrary to conventional discount rates). However, the profit rates have remained significantly lower with a range of 12%-15% during 2019, against inflation of around 70% during the year.

Sudan has the lowest financial inclusion in Sub-Saharan Africa with only 15.3% of adults having financial accounts. Cash is widely used in retail payment as the scarcity of bank notes in 2018 has negatively impacted the public confidence in the financial sector. User behaviors also persistently favor cash products because of low financial awareness and literacy. The banking sector of the country remains vulnerable with several banks undercapitalized. CBoS sets Capital Adequacy Ratio ("CAR") at 12% but a number of banks' CAR has been below the requirement for many years.



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