SUPPORTING ECONOMIC TRANSFORMATION

Economic impacts of and policy responses to the coronavirus pandemic: early evidence from South Sudan

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Key messages

- While there have only been two reported official cases of COVID-19 in South Sudan, the government has put several measures in place to contain the outbreak.
- South Sudan will be hit hardest through the channel of lower oil prices. Unless there is a swift recovery in prices, there will be a substantial loss of export and government revenues, resulting in wide trade and budget deficits.
- Already resource-stretched as a result of ongoing conflicts, households will fall deeper into food insecurity as a result of the preventative measures – particularly the closing of the border – imposed to slow the spread of COVID-19.

Introduction

On 5 April 2020, South Sudan was the 51st country in Africa to report its first official case of COVID-19. As of 8 April 2020, the country has two active cases.

The government has put several measures in place to control the spread of the outbreak. On 23 March, all inbound and outbound international flights were banned, in light of a rise in cases in the country's neighbours. Land borders and river ports have also been closed. (There is an exception for individuals and organisations providing humanitarian assistance.) Since 24 March, a curfew from 8pm to 6am has been in place. Bans have also been introduced on social and religious gatherings, as well as on sporting events.

Economic performance in South Sudan has been highly volatile since the country gained independence in July 2011, fluctuating significantly from year to year against the backdrop of intermittent civil war and drought. The big picture, though, is that output has dropped by around 47% since the end of 2011 (estimated from data taken from the IMF WEO.) The economy has been battered by big falls in the currency – exacerbated by the collapse in oil prices between 2014 to 2016 – and high inflation.

In the immediate run-up to the COVID-19 outbreak, developments in the economy had become more positive. Real GDP growth strengthened in 2019, coming in at an estimated 5.8%, marking the fastest rate of expansion since 2013. Meanwhile, inflation had eased from a recent peak of 170.5% year on year in October 2019 to 3.0% year on year in February 2020 – the lowest rate in five years (data sourced from Refinitiv Datastream).

Turning to the health sector, spending is low. According to figures from 2014 (the latest available data), sourced from WHO, spending per capita amounts to $73 (in international US$). Meanwhile, total health spending accounts for 2.7% of GDP. This compares unfavourably with the sub-Saharan African aggregate numbers of $189 and 4.9%, respectively.

Economic and social impacts

Trade and production impacts so far

There is little *ex-ante* evidence of the impact of the COVID-19 outbreak on economic growth. There have been no downward revisions to GDP growth forecasts from the government. Furthermore, the latest IMF WEO and African Economic Outlook, which both provide forecasts for South Sudan, were last released in October and January, respectively. Sizeable revisions to existing forecasts will not be made until the next editions of these publications. (The next release of the IMF WEO will be on 14 April.)

That said, it is clear that the recent collapse in global oil prices will hit the real economy hard – triggered by the COVID-19 outbreak and exacerbated by a rise in tensions between Russia and Saudi Arabia. According to the most up-to-date data from Intracen, oil exports accounted for 95.6% of total goods exports in 2018 and are the equivalent of 34.7% of GDP. Estimates of the impact of lower oil revenue on the economy are outlined below under 'Fiscal impacts'.

Finance

The impact of the COVID-19 outbreak on capital inflows into South Sudan cannot yet be gauged as balance of payment data are not released on a timely basis. There is also a lack of timely data on FX reserves. However, it is noteworthy that the official exchange rate has been stable against the US dollar since the start of the COVID-19 outbreak. (Data are sourced from Refinitiv Datastream.) Given the downward pressure that the currency would have inevitably faced following the drop in oil prices, it appears that policy-makers have drawn down FX reserves to prop up the official exchange rate.

Social impact

In the run-up to the outbreak, households were already suffering from high crops and livestock losses, owing to floods in 2019 and ongoing intercommunal conflicts. The majority of areas in the country are categorised as in the 'crisis' or 'emergency' stage of food insecurity.

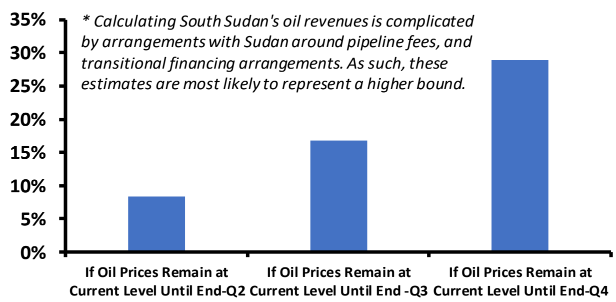
The closing of the border has led to reduced agricultural imports (particularly from Uganda and Sudan) and is likely to result in delays in international food assistance. As a result, the supply of food has shrunk and prices have reportedly spiked. In an attempt to quantify these effects, FEWSNET estimates that there was a 30% decrease in maize imports from Uganda between the weeks commencing 9 and 16 March. There is little reason to think that imports have since recovered.

FEWSNET also estimates that the price of maize more than doubled in the main market of Juba between the weeks commencing 2 and 23 March. Furthermore, new swarms of locusts are expected to arrive in the country in April or May. This is likely to exacerbate these food insecurity issues.

Fiscal impacts

There is a lack of timely data on government revenues or sovereign debt, and no Eurobonds have been issued since independence. All of this makes it difficult to assess the fiscal impact of the COVID-19 outbreak at this stage.

Estimated loss of export revenue between 2019 and 2020 if oil prices stay at current levels (% of 2019 GDP)



That said, it is possible to estimate the impact of the fall in oil prices on export revenues and the fiscal position. The graph shows the loss of export revenue the South Sudanese economy is likely to experience in three scenarios. One scenario assumes that prices will remain at the same level until the end of Q2, another assumes that prices will stay the same until the end of Q3 and the final one assumes that there will no change in prices until the end of the year. In all three scenarios it is assumed that, following the end of the period, prices will immediately rebound to their average level in 2019 (i.e. before the COVID-19 outbreak). Revenue losses are presented as a share of 2019 GDP.

These estimates suggest that, if oil prices remain at their current level until the end of Q2, there could be an 8% of GDP loss of export revenue between 2019 and 2020. If oil prices remain at these levels for the rest of 2020, this may lead to a 29% loss of export revenue.

Turning to the fiscal impact, the IMF has estimated that state oil revenues in 2019 were equal to 28% of GDP. In a similar analysis to that outlined above, oil prices remaining at their current level until the end of Q2 would result in an estimated 6% of GDP loss of state revenue. If prices stay at this level until end-2020, this will lead to a 21% loss. In this worst-case scenario, the budget balance will – all else equal – shift to a deficit of around 18.5% of GDP (based on the IMF estimate of a 2.4% of GDP surplus in 2019), putting significant upward pressure on the public debt-to-GDP ratio. It is very unlikely that policy-makers will be able to finance a deficit of this size, meaning there will likely be a cut in expenditure, an accumulation of arrears or both.

Monetary and financial policy

The South Sudanese monetary framework is too rigid to respond to an economic crisis such as that triggered by the COVID-19 outbreak. Interest rate decisions are typically taken on an annual basis. No emergency monetary policy meetings have yet been called to cut interest rates. However, the stability of the official exchange rate suggests the central bank has been intervening in the FX market to support the currency.

Fiscal policy

According to the IMF, no fiscal measures have been adopted in response to COVID-19 (as of 24 March).

Donor support

In April, the US government donated $8 million to South Sudan to help prevent the spread of COVID-19.

Information in this note is correct as of 9 April 2020. The author is an ODI Fellow in Uganda; this note is written in a personal capacity. Comments welcome to l.carson.fs@odi.org.uk