SUPPORTING ECONOMIC TRANSFORMATION

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

Joseph Peissel and Eleanor Keeble

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Key messages

- Sudan currently has 15 active cases of COVID-19, with 2 deaths and 2 survivors. The government has responded quickly to the first cases.
- However, Sudan lacks the basic infrastructure needed to fight COVID-19, with limited testing facilities and an almost non-existent health care system.
- The government's weak fiscal position makes COVID-19 a major economic risk. It will be impossible to mobilise from domestic resources the estimated $82 million required for an effective response.

Introduction

As of 9 April 2020, Sudan has 15 confirmed cases of COVID-19, with 2 deaths and 2 recoveries. The first case was reported on 13 March 2020. The virus may be far more widespread than this low number suggests, mainly because there is only one testing facility in the country, provided by WHO. Last week over 300 Sudanese suspected as having the virus escaped government-administered quarantine, and 100 Sudanese nationals returning from Egypt evaded health screenings. The country reportedly has around 80 ventilators and 200 intensive care unit hospital beds, which is low for a population of 40.5 million.

The health minister is holding daily press conferences on best practice and government efforts. Airports are closed until 23 April and land borders until further notice. Mass gatherings and bus transport are banned, and a curfew is in place from 6pm to 6am. Schools and universities have been closed since 14 March and anyone returning from abroad is asked to self-quarantine. On 25 March, 4,217 prisoners were released to pre-empt transmission within the prison system. However, the large number of refugees and displaced communities from the country's conflict zones make it vulnerable to rapid transmission.

The costs of coping with the outbreak are at least $82 million. After years of war, Sudan does not have the basic infrastructure required for rapid emergency response or security of supply chains. The latest health expenditure data available (2016) show government health spending per capita at $58.04 PPP (current international $), below the sub-Saharan Africa average of $69.10. External health spending per capita is $6.60 PPP (current international $), significantly below the sub-Saharan Africa average of $24.04 PPP.

A revolution in 2019 resulted in the ousting of long-term ruler President al-Bashir and the subsequent signing of a political agreement and draft constitutional declaration, laying out a three-year timeline to return to civilian democracy. A high mortality rate and economic hardship now could lead to political challenges. There is a need for decisive action to stop the spread of the virus and the social unrest that may prevail.

Economic and social impacts

Monetisation has led to a rapidly devalued Sudanese pound and extremely high inflation, measured at 71.4% in February 2020. In this context, Sudan is continuously confronting both balance of payments and exchange rate crises.

The economic outlook was weak before the outbreak and has worsened because of it. Real GDP contracted by 2.4% in 2019 and was projected to contract by 1.6% in 2020 because of political instability, low domestic demand and weak private sector investment. The contraction in GDP growth this year is now likely to be greater than the previous estimate.

Unemployment has been at 14–15% for over two decades, with 25% youth unemployment. The informal sector dominates, at 60% of GDP. The services and agriculture sectors take up 42% and 43%, respectively. Informal activity will cease in the event of a lockdown, and be heavily affected in the longer term. The impact on agriculture will depend in part on the policies to prioritise and secure food supplies. However, many farmers are smallholders, who may struggle to access required inputs with accelerating inflation.

Sudan lost 95% of its export revenue when South Sudan seceded; it is now likely to face multiple shocks in its external trading relationships. It has a current account deficit of 11.4% of GDP (World Bank 2018) and a very small (0.8% of GDP) positive trade balance in services, mainly in the travel industry (69%). In merchandise, Sudan runs a deficit: exports equivalent to 8.5% of GDP compared with imports of 19% of GDP. The country has a positive trade balance in services, albeit under 1% of GDP, from travel (69%) and transport (27%), which are likely to collapse given the inter-region and international travel bans.

Sudan's main export market is UAE; economic damage to UAE by COVID-19 will determine the future here. The next largest markets are China (19%), Saudi Arabia (14%) and Egypt (10%). The main export is gold, followed by livestock and oil. The silver lining for Sudan is that risk aversion in global markets will mean continued flows into safe haven assets such as gold and gold-linked assets. As an oil-producing country Sudan will likely suffer from the collapse in oil prices. However, this will also help a country that faces continued fuel shortages, which may augur well for Sudan's finances.

Inflation was projected at 61.5% for 2020 prior to the COVID-19 outbreak, and was at 64.3% in January, driven by government monetisation causing exchange rate depreciation and rising food prices. The price of medical supplies has also increased since the first COVID-19 death on 12 March: masks that previously sold for SDG 80 ($1.45) now sell for SDG 200 ($3.62).

The agriculture sector, accounting for 32% of GDP, contracted in 2019, owing to the government's limited forex for fuel imports, which left commercial farmers without the fuel they needed to harvest their crops. This is causing food shortages and food price inflation. The drop in global oil prices is a welcome development for the agriculture sector, which relies on an expensive fuel subsidy provided by the government.

Food price inflation and lack of government resources have left the population unable to pay for basic commodities, increasing food insecurity. Conflict and economic crisis have led 9.2 million people in Sudan to rely on humanitarian assistance, including 3 million refugees and internally displaced persons.

Capital inflows are below the sub-Saharan African average, because Sudan receives remittances equivalent to 3% of its GDP, compared with 14% for the rest of the region (World Bank 2018). FDI is 8% and net ODA amounted to 9% (current US$) in 2018, close to the average for sub-Saharan Africa.

Fiscal impacts

The government lost half of its fiscal revenue when South Sudan seceded. Meanwhile, Sudan has accrued significant arrears in debt repayments over the past two decades, mostly because of its macroeconomic instability. This means the country has largely been unable to access global financial markets on affordable terms or to obtain concessional loans from donors.

Public and external debt ratios are high and unsustainable, at 211.7% and 198.2% of GDP, respectively, with a deficit of 10.8% of GDP. The IMF estimated in 2020 a government expenditure deficit of 15%. Government revenue was previously predicted by the IMF at 6.4% of GDP, with tax revenues at 4.9% and the remaining 1.5% coming through grants and non-tax revenue. COVID-19 is likely to reduce tax revenues through its impact on economic activity, reducing growth and suppressing incomes. The fiscal deficit may thus exceed the previous IMF forecast.

Almost a third, 27.4% of the national budget for 2020 is supported by grants from Friends of Sudan, a group of foreign countries and international institutions. This may be at risk with the diversion of the members of Friends of Sudan funding to COVID-19.

Given this fiscal impact, the government will be unable to meet the $82 million estimated cost of COVID-19. The domestic private sector has pledged $2 million to support the government but Sudan is looking to donors to finance the remaining costs of tackling the crisis.

Donor support

WHO has provided $44 million plus technical assistance to support the Health Ministry to produce a countrywide preparedness and response plan. UN agencies are supporting public awareness campaigns, supplying protective equipment, distributing soap and implementing monitoring in refugee camps. The Sudan Humanitarian Fund has allocated $500,000 to support COVID-19 preparedness. China has donated 50 ventilators and 400,000 surgical masks.

An international donor conference scheduled for June, to secure pledges of financial support from the international community, is at risk of being postponed. Sudan's aid appeal for humanitarian assistance for 2020 is one of the largest in the world, at $1.3 billion, and is presently only 13% funded.

A final point to consider in relation to donor attitudes is Sudan's placement on the US list of state sponsors of terrorism, which could result in the cessation or reduction of much-needed donor funding.

Information in this note is correct as of 9 April 2020. The authors are ODI Fellows in Sudan and Ethiopia; this note is written in a personal capacity. Comments welcome to j.peissel.fs@odi.org.uk and e.keeble.fs@odi.org.uk