

Recent macroeconomic and financial developments

GDP grew by an estimated 0.5% in 2021, recovering from a negative 3.6% in 2020. Growth was supported by agriculture and mining on the supply side, and private consumption and investment on the demand side. The recovery follows several years of economic contraction stemming from macroeconomic imbalances, structural deficiencies, political instability, and COVID-19. The central bank adopted an accommodative monetary policy in 2021 to boost credit growth and economic activity. Inflation more than doubled from 163.3% in 2020 to 358.9% in 2021, owing to currency depreciation and removal of fuel subsidies. Banks dominate the financial sector, accounting for over 80% of total assets. Fiscal consolidation and improved public revenues, as COVID-19 restrictions were eased, reduced the fiscal deficit to 4.5% of GDP in 2021 from 5.6% in 2020.

Sudan reached “decision point” under the HIPC initiative in 2021, cutting its \$56 billion external debt (163% of GDP) by 50%. The current account deficit increased to 10.0% of GDP in 2021 from 8.3% in 2020, with higher imports after the lifting of COVID-19 restrictions, offsetting the pickup in exports arising from improved external demand. The current account deficit was financed by portfolio investments and external borrowing. International reserves remained very low at 0.3 and 0.4 months of imports in 2021 and 2020. Sudan’s SDR allocation was equivalent to \$857.7 million (262% of international reserves) in 2021, but it was suspended after the October 2021 military takeover. Poverty increased from 55.4% in 2020 to 55.9% in 2021 and unemployment remained high at 18% in 2020, partly due to COVID-19.

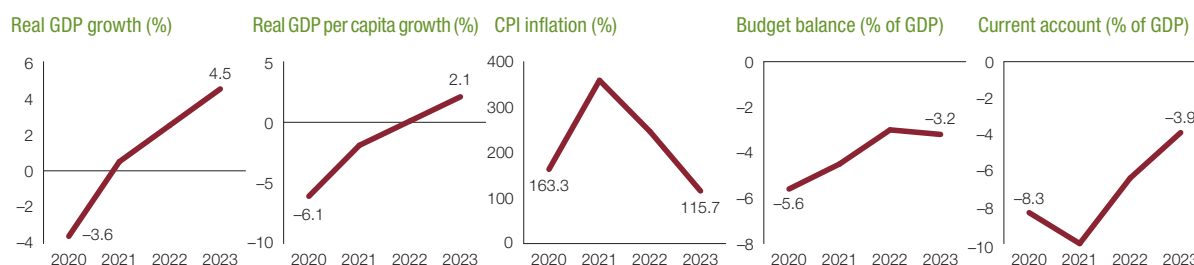
Outlook and risks

GDP is projected to grow by 2.5% in 2022 and 4.5% in 2023, driven by agriculture and mining, and by private consumption and investment. The main downside risks are political instability, COVID-19, and shocks related to

the Russia–Ukraine conflict (notably higher food and oil prices). Ongoing efforts to form a civilian government are expected to restore political stability and accelerate macroeconomic and structural reforms. Consequently, inflation is predicted to fall to 246.4% in 2022 and again to 115.7% in 2023. Public spending rationalization is expected to reduce the fiscal deficit to 3.0% of GDP in 2022 and 3.2% in 2023. The fiscal deficit will be financed by domestic and external borrowing, and by part of Sudan’s SDR allocation (which in all is equivalent to 3.4% of GDP). The current account deficit is projected to narrow to 6.4% of GDP in 2022 and to 3.9% in 2023, reflecting ongoing structural reforms.

Climate change issues and policy options

Sudan faces land degradation, temperature increases, frequent droughts and floods, erratic rainfall, and locust invasions, which have lowered agricultural output, slowed GDP growth, and destroyed livelihoods. Drought and floods are taking out 20% of the harvested area each year, and cause deaths of thousands of livestock. Climate risks are aggravated by unsustainable exploitation of natural resources and weak institutional and human capacities. Sudan ranked 174 out of 180 countries on the 2019 Country Index of the Notre Dame Global Adaptation Initiative and 11 on the 2021 GCRI. Sudan is party to UN initiatives on climate change and environmental conservation, and has established national institutions, laws, and regulations. Its transition to low-carbon and climate-resilient development is guided by its 2021 National Adaptation Plan and NDC strategy. The Plan’s interventions, also mainstreamed in the Poverty Reduction Strategy Paper 2021–23, include 20% RE generation by 2030. Sudan requires \$12.88 billion to mitigate climate change over 10 years, but spends an average of \$23.3 million annually, which calls for larger resource mobilization to bridge the huge financing gap of about \$1 billion a year. Sudan is therefore unlikely to achieve SDG 13 on climate action by 2030.



Source: Data are as of April 2022 and are from domestic authorities; figures for 2021 are estimates and figures for 2022 and 2023 are projections by the African Economic Outlook team.