Injections into the Dutch Disease: Do IMF Packages and Foreign Aids recover Sudan’s Economy?

Yagoub Elryah1 and Nai Qian Qian2
1PhD Candidate, Research School for Southeast Asian Studies, Xiamen University
2Postgraduate Candidate, Research School for Southeast Asian Studies, Xiamen University
No.422 Siming Nan Lu, 361005, P. R. China, Fijian, Xiamen
*Correspondent Author: yagoubelryah@hotmail.com, +8618559254130

Abstract

The secession of South Sudan has rendered the political, security, economic and social situation of Sudan fragile. Thus, the IMF packages and foreign aids had yielded some positive returns on Sudan economy recovery. This study focused on the foreign aids and recent economic reforms which are conceived to be relevant in the sustainable economic recovery in Sudan. We analyzed the effects of foreign aids IMF packages on Inflation and exchange rates using an augmented Fischer-Easterly model for the panel data from 1985-2014. The results show that Sudan will face in upcoming five years gap in balance of payments and debts crisis harder than current situation compared to those of another country who adopted the same policies becomes lower over time. The results also show that shortage of foreign currencies is the main factors affecting Sudan’s economy.

Keywords: Foreign Aids, Economic Recovery, Dutch Disease, IMF Packages, Natural Resources.

1. Introduction

Sudan experienced long civil wars which have led to a huge of devastation of the human and social capital. Thus, Sudan has lost both South Sudan and high skilled workers. However, following the secession of South Sudan in July 2011, there is increasing interest in attracting Foreign Direct Investment (FDI) and foreign aids to recover Sudan’s economic decline and decrease in foreign currency reserves to balance the budget deficit, trade balance for financing the development. For instance, both the IMF and Qatar target to rebalance the economic situation and to stop the decline of foreign currency reserves. In particular, the IMF introduces the reform package, the non-oil real GDP growth showed 4.6% reflecting a slowdown in economic activity. Inflation rate reached 44.4% in 2012, largely driven by the monetization of the fiscal deficit and a weakening exchange rate. After introducing the IMF’s package the consumer price inflation rate fell to 27.1% on mid-2013 from 44.4% in December 2012 (Addis Ababa, 2012). While the reserve money increased modestly by 4.6%, compared with end-December 2012, largely reflecting the drop in gold purchase by the central bank.

Sudan has advantages to attract Foreign Direct Investment FDI. Recently, it classified as number two of the most attractive for foreign investment in Africa and as number three in the Arab region. Sudan has initiated and adjusted new policies to attract foreign finance to fill the gap of loss of about 75% of revenue due to the secession of South Sudan. The real GDP is estimated to have grown by -0.6% and is projected to rise respectively to GDP in 2014 to an estimated 5.1% (The World Bank, 2014).

However, the inflation rate was 36.0% in 2014, up from 20.0% in 2011 and the increasing inflationary pressures coupled with a high fiscal
deficit of 4.4% in the face of continuing United States sanctions and the binding domestic borrowing constraint could incur political instability and reduce potential social development (African Development Bank Staff, 2014).

In Sudan, more than 70% of its total population working in agricultural industry, and although the majority of people are engaged in agriculture, it accounts only for 34% of gross domestic product. It is one of the most agricultural countries in the world with cultivable land estimated to be around 200 million feddan (Kabbashi, 2010). Thus, Sudan has suffered severe financial crisis with the demise of 75% of its oil revenues that represented over 90% of its foreign currency after the secession of its Southern part after a constitutional referendum (Elryah Y., 2014).

2. The Declining of Sudan’s Economy

In 2013, the Bank of Sudan (The Central Bank) reported that after the secession of South Sudan, Sudan has lost 75% of oil revenues, the alternative policies is to develop the agricultural sector, which becomes one of the growing sector, where there are more than 60% of population work in, which provides 90% of the national food requirements, consists 70% of exports and 60% of GDP in 2013 (Siddig and Mubarak 2013). However, foreign aids, loans and IMF package were considered important elements of the post-secession of South Sudan development. Therefore, Arabic countries promised to help Sudan through aids and invest in the agricultural sector, this comes after the signing of the Al-Doha peace in Qatar in 2010.

Sudanese economy has been plagued by large budget deficits since the secession of the South Sudan and lost 75% of oil revenues. The Sudan experienced deficit budget, which lets the government, borrows from foreign financial institutions to recover it is expenditure on goods and services and transfer payments exceeds tax revenues. Thus, the expenditures are greater than its tax revenues, the government policy are to borrow from abroad, which causes increasing in the national debt or by printing bank notes, which will increased the inflation.

However, crude oil export has contributed significantly to the Sudan’s GDP, which was account for 90 percent of Sudan’s total export revenues in years from 2005-2011 (Elryah Y. 2014) and it was estimated around 65% of Sudan’s GDP (Almosharaf and Tian, 2014). Thus, the oil revenues put the real exchange rate on an appreciation path.

Despite the high revenues from the crude oil at that time, the policy makers did not diversified the GDP. The ignorance of the agricultural sector, which Sudan has comparative advantages of many agricultural products such as live stocks, Cotton and Gum Arabic.

The Sudan’s economy is still suffering and has to recover even further to play its due role in foreign aids and structural program in economic activity in Sudan. According to (Hassan, 2014) Sudan still imports some foodstuffs with the potential for production of these foodstuffs in the country; one can say that agriculture has not met one of the main contributions expected from it. The study clearly specifies that it lagged economic activity. It seems that the current IMF packages, economic reforms and phenomenal growth in the foreign aids do not seem to enhance the Sudan’s economy.

After South Sudan become independent, Sudanese authorities agreed to share the oil ravenous with South Sudan by 25% and 75% respectively. In May, 2012, the first dispute has brought between the two countries, due to the Sudan control the oil revenues, the conflict erupted between the two parties has caused the shutdown of oil production. The shutdown of oil pipelines has contributed to creating severe macroeconomic imbalances and deteriorates considerably the economic conditions in Sudan.
Fig. 1 shows that the average real GDP growth was 5.4% during the period 2008-2010 compared with a growth rate of 2.8% in 2011. Real GDP is projected to contract by -7.35% in 2012. The falling oil revenue also contributed to a slight deterioration in the fiscal deficit of 3.1% of GDP in 2010 to 4.3% in 2011, and is projected to decline further to 8.6% of GDP in 2012. Similarly, the current account deficit of 7.5% of GDP in 2011 is projected to deteriorate further, with a deficit of 8.6% of GDP projected in 2012. The Figure below shows that the GDP is recovered from -10% in 2012 to -5.5% in 2013, which reflects to the impacts of Qatar aids and IMF packages.

The Bank of Sudan (BoS) issues bonds or Musharaka Certificates (GMCs) and other debt instruments to finance the deficit. As a result, domestic debt increased from SDG18.67 billion in 2008 to SDG22.76 billion in 2011, which represents an increase of about 22%. The domestic debt as at December 2011 constitutes 12.7% of GDP. Combined with the huge foreign debt overhang (about USD38 billion), the financial situation of the country remains very challenging.

Deficit financing and the pressure on the exchange rate contributed to escalating inflation. Average inflation surged to 15.3% in 2011 up from 13.0% in 2010, and is expected to increase to about 25% in 2012. The official exchange rate has been kept at SDG2.7 per USD since April 2012, while the parallel market rate was SDG5 per USD, representing a difference of almost 50%. This presents a serious challenge to the on-going exchange rate anchoring.

This paper analyzes the impacts of foreign aids, economic reforms, and IMF packages on economic recovery in Sudan, using the data from 2006-2013. We assume there is a great effort to recover the Sudan’s economy in order to distinguish between the characteristics of foreign aids and economic reforms. We consider three major factors (i.e. foreign aids, economic reforms, and IMF packages) as potential forces behind Sudan’s economic recovery.

This paper is organized as follows: In section 2, we present an overview of Sudan’s economy and develop a method for measuring the role of foreign aids, economic reforms, and IMF packages. In section 3, we explain the data resources and show the estimated results for the impacts of foreign aids, economic reforms, and IMF packages on recovery of Sudan economy. Using the methodology suggested in section 2. In section 4 we explain the factors effecting Sudan’s economy. Finally, concluding remarks are provided in section 5.
3. Literature Review

The economists used the term of the Dutch Disease to the decline of the county’s macroeconomic indicators; it also refers when the country lost a high economic growth, due to the increasing of natural resources revenues, which pushes the value of a country’s currency higher compared to the foreign currencies. The first time used this term, when the manufacturing sector has declined in the Netherlands in 1977.

The concept of foreign aid highlighted in the end of Second World War, which was launched by the United States under the economic recovery initiative program in 1948, since then the 19th century witnessed a numerous studies and debate on foreign aids. These foreign aids, is to transfer foreign of public resources at concessional financial terms which is lower than in the eternal financial market.

Numerous studies have analyzed the recovery of economic growth and the impacts of foreign aids and the IMF packages on national economy. (Abdulnasser, 2005) investigate the relationship between foreign aid and economic growth. They used panel data from developing countries from Africa and Asia. Their results showed that foreign aid has a positive and significant effect on economic activity for each country in the sample. In their research, Sohier M.A. and et al. (2014) reported the increasing annual growth rates of inter-Arab investment balance for Sudan during the period (2006-2013). The suggested that the creating a pool of Arab investment bodies, as well as the necessity for investors to invest in industries producing machinery and equipment in agriculture and industry and urging the huge funds of GCC countries. Further contributions of this paper are that, in addition to measuring foreign aids, economic reforms, and IMF packages.

Several studies have been conducted to enhance and recover Sudan economy and then its inter relationship with the real economic activity such as (Sohier M.A. and et. al , 2014) who investigate the Inter-Arab Investments and Necessary Trends of the Senior Arab Investors in the Light of the Current Global Economic Situation.

In Sudan context, there are many studies discussed the recent Sudan economic crisis, the impacts of succession of South Sudan and losing the oil revenues on decline of Sudan economy. (Haitham, 2014) have discussed the Sudan’s economic decline reasons according to two types of factors, internally and externally. They pointed out that Sudan's economy had significant economic opportunities if it handled properly and exploited efficiently it would put the economy on the right track and made it able to absorb any sudden shocks, There are a number of political and economic challenges which need response and resolve, in order to take the advantage of the big economic opportunities inherent in the Sudanese economy.

To the best of our knowledge, there has been very little theoretical work on economic crisis and external trade (Mohamed, 2010) shows that Sudan suffers severe financial crisis with the demise of 75% of its oil revenues that represented over 90% of its foreign currency after the secession of its Southern part after a constitutional referendum.

There are very few studies analyze the relationship in the foreign aids, economic reforms and Sudan’s economic recovery, but most of these studies are conducted on the homogenous countries. For instance, Siddig and Elgizouli (2013) examined the impact of foreign aid and sustainable agriculture in Africa. They used data from sub-Saharan Africa countries between the years 1981 and 2001. They found that Aid recently became a top agenda in donors’ priorities because of concerns about its effectiveness and also because of budget pressures in donor countries as well as queries raised by their tax payer.

In this study, we analyze the foreign aids, economic reforms, and IMF packages and their relative contribution to Sudan’s economic recovery. The results show that Sudan will faces in upcoming five years gap in balance of payments and debts...
crisis harder than current situation compared to those of another country who adopted the same policies becomes lower over time. The results also show that food security and shortage of foreign currencies are the main factors affecting Sudan’s economy (IMF Sudan-Staff, 2013).

Despite its potential benefits, there is considerable evidence that foreign grant financing can play a crucial role in strategies aimed at drastic improvements in economic performance, and Reforming Sudan's foreign trade sector is essential though it will not replace oil revenues in the near future. The current exports do not cater for the gap in the balance of payment (African Development Bank Staff, 2014). We aim to partially fill this gap in the literature by asking how to Sudan can use the huge amount of foreign aids to fill the gap in foreign currency, food security, finance the development projects, and to how an IMF packages and foreign aids could support and recover Sudan economy. Since Sudan missed the oil revenues and expands the gap of foreign currencies, we postulate that the inflation increased from 17% in 2011 to 44% in 2014 (Medani, 2004).

4. Research Methodology

The study is analytical and empirical in nature in which it explores the relationship between the foreign aids and IMF policies and their impacts on Sudanese economic recovery. Further, in order to show the position of foreign aids and role of IMF packages in we selected different economic indicators i.e., GDP growth, inflation, export, import, exchange rates, and foreign exchange reserves.

4.1 Statement of the Problem

The present study tried to assess the impacts of foreign aids and economic reforms which are conceived to be relevant in the sustainable economic recovery in Sudan. Thus, the present study is an endeavor to discuss the trends and patterns of foreign aids, and its impact of IMF packages on Sudanese economy.

4.2 Objectives of the study

The purpose of this study is to identify the factors which influence the Sudan’s economic recovery. The study also investigates empirically the role and the impact of foreign aids and IMF policies on economic recovery and their causality using annual data of Sudanese economy over the period 1985 to 2014.

4.3 Sources of data collection

An annually data were extracted from World banks (WB), International Monetary Fund (IMF), various issues Economic Survey and Central Bank of Sudan (CBoS). We consider the recent foreign aids, economic reform, and IMF packages that initiated by Qatar and IMF in Sudan and data period the years from 1985-2014. Thus, our analysis focuses on the foreign aids and IMF policies, where gap of foreign currencies, shortage of balance of payments, and dramatic inflation are more prevalent than in other sectors.
4.4 Hypotheses

The study has been taken up for the period from 1985 to 2014.
H01: Economic growth does not granger cause foreign aids.
H02: Foreign aids do not granger cause economic growth.

4.5 Model Specification:

This paper employs panel data and used an augmented Fischer-Easterly model for the recent period of 1985-2014. A general representation of the panel model is as follows:

\[ Y_t = \alpha + \beta'X_t + \gamma'Z_t + \varepsilon_t \]

Where:

\( Y \) = the GDP per capita
\( t \) = denotes time
\( X \) = vector of capital sources (foreign and domestic)
\( Z \) = vector of ‘control variables’ (such as; macroeconomic, financial repression, and trade),
\( \varepsilon \) = an error term.

From the equation above, the next equation measures the dummy variables under the least squares dummy variables (LSDV), which can be expressed as follows:

\[ Y_t = \alpha_0 + \alpha_1 + \lambda_t + \beta'X_t + \gamma'Z_t + \varepsilon_t \]

\( \alpha_0 \) represents an overall constant, \( \alpha_1 \) represents non-measurable effects such as, political instability and \( \lambda_t \) is the time period effects such as world commodity prices. We also use the Johansen Method a Vector Autoregressive (VAR) to test the causality between economic growth and foreign aids and see whether are integrated of order 0, I (0).

\[ \Delta y_t = \sum_{i=1}^{k-1} \theta_i \Delta y_{t-i} + \alpha \beta_4 y_{t-1} + \varphi D_t + \varepsilon_{4t} \]

Where; \( y_t \) represents a vector (GDP, FID, \( \beta_4 \)) co-integrating vectors among the variables in \( y_t \), \( \alpha \) is a vector of error correction coefficients; \( 0 \) is a matrix of short run coefficients; \( \varphi \) represents a matrix of coefficients on and is a vector of deterministic terms (constant, trend).

4.6 Data and Variables:

The previous studies carried by Easterly (1993) and Fischer (1993) suggested that there is a need to control macroeconomic stability or instability and policy measures distortions. The finding proxies are that, however a daunting task. In this study we control the variables by adapting augmented Fischer-Easterly model. To this end, we use the following variables.

4.6.1 Official Development Assistance (FAIDOECD) as defined by the Organization for Economic Co-operation and Development (OECD) as a percentage of the gross domestic product (GDP).

4.6.2 Total net private capital flows (TNPCF) as a percentage of GDP.
4.6.3 Domestic savings (SAV) as a percentage of GDP.
4.6.4 Two measures to reflect trade openness and macroeconomic stability (TR_OPEN) and (WOPEN) respectively. Thus, trade openness is measure by the standard openness index as follows.

\[
\frac{X + M}{GDP}
\]

The macroeconomic stability (WOPEN) is considered to measure whether Sudan has a trade surplus, trade deficits trade equilibrium. This can be estimated by the following equation.

\[
\frac{X + M}{X - M}
\]

4.6.5 The stabilizing role of government or budget surplus (BSUR) has been proxied by referring to its action in mobilizing local resources. Which estimated by the sum of current and capital revenue including aids, less the total of current expenditure and total lending minus repayments, as a percentage of GDP.

4.6.6 INFSTD: represents the standard deviation of the inflation rate, which gives an indication of the extent of volatility in inflation, has now used to proxy general macroeconomic instability. However, we expect that the inflation to be negative with growth.

4.6.7 MONEY: as used by many scholars, the financial repression is incorporated as a dichotomous variable. Easterly (1993) has considered −5% and −2% interest rate thresholds as well as the actual average real interest rate. Others used the money supply (M2) as a percentage of GDP, for instance, Hiemenz, (1983). However, according to this model, small values are regarded as being associated with financial repression while large values indicate greater financial liberalism.

In this study, we intend to analyses the augmented Fischer-Easterly model, which can be estimated as follows.

\[
\text{Growth} = \alpha_0 + \beta_{1t}FAID + \beta_{2t}PRIV + \beta_{3t}SAV + \beta_{4t}TRADE \\
+ \beta_{5t}M2 + \beta_{6t}BSUR + \beta_{7t}INFSTD + \beta_{8t}EX + \varepsilon_t
\]

The impact of foreign aids in the economic recovery can extracted from the above equation as follows.

\[
\frac{\text{GROWTH}}{\text{FOREIGN AID}} = \beta_1 + 2\beta_2 \text{(mean of FAID)}
\]

We also consider the following regression model to analyze the correlation between foreign aid and economic growth.
The Foreign Aids, the IMF Packages, and the possibility of an Economic Recover

5.1 Results and Discussions:

Table 1 Fixed effects model (OLS) – dependent variable is average GDP Growth

<table>
<thead>
<tr>
<th>Independent variables</th>
<th>Coefficients</th>
<th>Stand-Error</th>
<th>t-ratio</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>3.846325</td>
<td>2.74863</td>
<td>3.647</td>
<td>0.027</td>
</tr>
<tr>
<td>TNPCF</td>
<td>0.427463</td>
<td>0.00647</td>
<td>-4.746</td>
<td>0.528</td>
</tr>
<tr>
<td>FAIDOECD</td>
<td>0.607483</td>
<td>0.05362</td>
<td>3.207</td>
<td>0.473</td>
</tr>
<tr>
<td>SAV</td>
<td>0.274564</td>
<td>0.06453</td>
<td>0.053</td>
<td>0.893</td>
</tr>
<tr>
<td>TOT</td>
<td>0.735632</td>
<td>0.04672</td>
<td>4.873</td>
<td>0.637</td>
</tr>
<tr>
<td>BSUR</td>
<td>-0.645386</td>
<td>0.06185</td>
<td>1.927</td>
<td>0.582</td>
</tr>
<tr>
<td>INFSTD</td>
<td>-0.106457</td>
<td>0.00647</td>
<td>-4.182</td>
<td>0.003</td>
</tr>
<tr>
<td>M2</td>
<td>-0.067348</td>
<td>0.00072</td>
<td>0.016</td>
<td>0.748</td>
</tr>
<tr>
<td>EX</td>
<td>-0.474863</td>
<td>0.00719</td>
<td>-2.186</td>
<td>0.947</td>
</tr>
</tbody>
</table>

TNPCF: total net private capital flows; FAIDOECD: foreign aids; SAV: domestic savings; TOT: trade openness and macroeconomic stability; BSUR: budget surplus; INFSTD: inflation rate; M2: money supply as a percentage of GDP; and EX: exchange rate.

Table 1 shows that the coefficient of total net private capital flows and foreign aid are positive as predicted and significant at the 5 % level. This means that these variables are positively enhanced the GDP growth. While the coefficients of savings and trade openness are positive, but are significant with GDP growth. This refers to fact that the higher budget deficit decreases the domestic savings and eventually cause imbalance of foreign trade.

On the other hand, the coefficients of money supply, exchange rate are negative and are not significant with GDP growth. This indicates that the higher and more money in the economy through printing more money causes higher inflation, as a result, the exchange rate of foreign currencies will increase further.

Table 2 Panel Granger Causality Test Results

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>F-Statistic</th>
<th>P-Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP does not granger cause FAID</td>
<td>0.84726</td>
<td>0.7354</td>
</tr>
<tr>
<td>FAID does not granger cause GDP</td>
<td>5.73986</td>
<td>0.0073</td>
</tr>
</tbody>
</table>

Table 2 illustrates the results of the panel granger causality test; it confirms that the foreign aid leads to economic recovery and eventually causes economic growth in a long run. This supports our null hypothesis that the foreign-aid led growth in Sudan. The following table shows the correlation among the independent variables.
The values in the above table show that the total net private capital flows was negative and was caused the budget deficit, increased inflation rate and eventually depreciates the local currency versus the foreign currencies. As a result, the decreasing in foreign aid is minimized both the budget surplus and exchange rates.

### 5.2 The Impacts of IMF Packages

Most of the discussions between IMF and Sudan have centered on the government strategy for completing its adjustment process and transforming the economy in line with the country’s reduced economic and financial potential following the secession of South Sudan. In particular, discussions focused on policies to continue fiscal consolidation; unify the exchange rates and markets; enhance the monetary framework and improve financial intermediation; and further liberalize the economy and improve the business environment. The survey conducted by IMF Sudan office found that the fiscal policy stance underpinned by the 2013 budget lacks adequate measures to sustain the needed fiscal consolidation path.

In the early 2014, Staff- Monitored Program (SMP) continued supporting the Sudanese authorities to implement stabilization program. However, the IMF staff reports that despite the great efforts that made by the Sudanese authorities the inflation remain higher in 40.1%. The adjustments implemented by the IMF has been complicated to success with a heavily debt burden, structural weakness, volatile local and international political factors and the United State sanctions.

In the early 2014, Staff- Monitored Program (SMP) continued supporting the Sudanese authorities to implement stabilization program. The IMF staff expected that the economic growth is expected to recover if the government took steps to improve the business environment and continue the fiscal consolidation to reduce the inflation rate.

### 5.3 The Effect of Exchange Rates

Table 1 shows the exchanges rate of Sudanese pound versus US dollar. It reflects the whole economy especially external trade and the movements of the stock prices of the firms and relies on the imports. The local currency depreciates against other major currencies; many firms reduce their cash inflows and reduce the relative dividends. The local currency become under pressure from the major foreign currencies so the firms relying on the imports are under constant pressure. While the Sudan exports does not benefit from deprecating currencies.

The loss of hard currency derived from the export and shut down oil’s production could have major macroeconomic reverberations. As the government struggles to meet its domestic financial obligations, in particular, the Central Bank could begin to print more money, which, in turn, could lead to the flooding of Sudan’s economy with excess pounds and trigger inflation. As well, a balance of

### Table 3 Correlation

<table>
<thead>
<tr>
<th></th>
<th>TNPCF</th>
<th>FAIDOECD</th>
<th>SAV</th>
<th>TOT</th>
<th>BSUR</th>
<th>INFSTD</th>
<th>M2</th>
<th>EX</th>
</tr>
</thead>
<tbody>
<tr>
<td>TNPCF</td>
<td>1.239</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>FAIDOECD</td>
<td>0.938</td>
<td>1.239</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SAV</td>
<td>1.903</td>
<td>0.846</td>
<td>1.239</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOT</td>
<td>0.035</td>
<td>0.153</td>
<td>0.074</td>
<td>1.239</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSUR</td>
<td>-0.765</td>
<td>-0.948</td>
<td>-0.004</td>
<td>0.681</td>
<td>1.239</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>INFSTD</td>
<td>-0.547</td>
<td>0.819</td>
<td>0.186</td>
<td>0.018</td>
<td>0.129</td>
<td>1.239</td>
<td></td>
<td></td>
</tr>
<tr>
<td>M2</td>
<td>0.047</td>
<td>0.037</td>
<td>0.004</td>
<td>0.862</td>
<td>0.014</td>
<td>0.018</td>
<td>1.239</td>
<td></td>
</tr>
<tr>
<td>EX</td>
<td>-1.759</td>
<td>-0.075</td>
<td>-0.074</td>
<td>-0.183</td>
<td>-0.017</td>
<td>-0.502</td>
<td>0.827</td>
<td>1.239</td>
</tr>
</tbody>
</table>

TNPCF: total net private capital flows; FAIDOECD: foreign aids; SAV: domestic savings; TOT: trade openness and macroeconomic stability; BSUR: budget surplus; INFSTD: inflation rate; M2: money supply as a percentage of GDP; and EX: exchange rate
payments crisis may occur, if the Sudan begins to lack the hard currency necessary to import from abroad (Sudan Central Bank Staff, 2007-2013).

However, the local inflationary pressure makes the external trade difficult as the inflation in Sudan is much higher and it attires the increase in the corporate that the exporting firms get the depreciating currency. The official exchange rates of local currency versus US$ has increased from US$2.23 in 2006 to US$6.95 in 2013, while the exchange rates in black market reach US$7.8 and US$9.6 in 2013 and 2014 respectively.

5.4 The Effect of Inflation

In the long run, the inflation affects the whole economy in general and households in particular. It causes the shift from investment toward consumption and it also causes the tightening of the monetary policy, which increase the risk free and discount rate, which causes shift from investment in real economy to less risker investment.

Table 1 shows the inflation increase dramatically during the last three years, in 2006 the inflate rate was 15.7%; after south Sudan independent the consumer price index was increase from was 20.3% in 2011 to 36.5 in 2013 and it is rate raising until it reach in April 2014, more than 44.4% according to the estimates, increasing deficits in the balance of payments and other macroeconomic issues. This situation causes the deficit in the trade balance which was increased during 2012 and 2013 because the exports decline due to remove oil revenue from the exports lists, and the rise of exchange rate makes the non-oil exports low value. Also the increasing taxes and banking borrowing helps the inflation increased.

5.5 The Effect of Foreign Aids

Since it was lost the oil revenues in 2011, Sudan’s economy has facing a big gap in the public finance. Thus, Sudan continues the foreign financial resource to fill the budget and support its foreign exchange reserve. In this context, Qatar’s funding was not enough to finance the economic development and fill the gap of external trade shock. This fund supports the fiscal deficits which was peaked at 3.8% of GDP, the estimated external current account deficit was reached 10.8% of GDP reflecting the large drop in oil exports which financed by a combination of FDI, aids and loans from official sources.

Sudanese government invites the Gulf Arab states to set up companies especially in field of agriculture. Table 2 shows that Qatar has pledged $2 billion (USD) through the purchase of multi-sector treasury bonds from the Central Bank of Sudan, though only $500 million to $1.5 billion to Treasury bond purchase – varied (e.g. mining, oil and agriculture).

Qatar also provided up to $130.5 million in development assistance (with a further $412 million pledged) and at least $543 million in investment. For context, in 2010-11, Qatar gave Sudan approximately $90 million in aid and the value of Qatari investments in the country over 2007-11 reached over $1.5 billion in total. In 2014 Qatar granted Sudan up to $1 billion to stabilize its economy and to support Sudanese monetary policy and the Sudanese pound in 2014.

5. CONCLUDING REMARKS:

In this paper we hope to have made a contribution to the literature by addressing one important issue that has been faced Sudan’s economy. This study has discussed the impacts of foreign aids, economic reforms, and IMF packages by using the recent data between the years 1985 and 2014.

We started by explaining the impact of South Sudan Independent on Sudan’s economic development. We then provided macroeconomic indicators; these include the national accounts prices and money, government finance, external sector, debt and financial flows. We then illustrated the role
of IMF packages and foreign aids, and the impacts of exchange rates and inflation.

The results show that Sudan will face in upcoming five years gap in balance of payments and debt crisis harder than the current situation compared to those of another country who adopted the same policies becomes lower over time. The results also show that food security and shortage of foreign currencies are the main factors affecting Sudan’s economy.

Our main concluding is that, the Sudan Central Bank could apply necessity monetary policy that supports the economic growth and back the inflation rate under control. It also adapts the IMF packages and foreign aids to finance the agricultural sector to stimulate and boost the economic growth.

REFERENCES:

