KPMG

Economic Snapshot H2, 2017

South Sudan

Inflation overview – Headline inflation peaked at 835.7% year-on-year (y-o-y) in October 2016, moderating to 305% y-o-y in March 2017 and 273% y-o-y in April. Food inflation was recorded at 268% y-o-y in April, with 4.9 million people facing severe food insecurity at the time. The International Monetary Fund (IMF) expects inflation to moderate further during 2017 and average 28.5% in 2018.

Growth summary – A combination of internal conflict, weak global oil prices, the closure of oil fields and poor rains resulted in economic activity contracting by 13.8% last year. The country's recession is expected to slow this year, with real GDP projected to shrink by only 3.5% in 2017, though with government revenues still being squandered on security spending and divested away from productive investment.

Economic policy –The 2016/17 fiscal budget shifted the country's economic policy trajectory by introducing bold fiscal measures. The International Monetary Fund (IMF) expects these steps to go a long way towards restoring macroeconomic stability. Over the medium term, South Sudan will need a more substantial and coherent economic policy package in order to boost economic activity.

Trade & Investment SWOT

Strengths	Weaknesses
Large population and labour force.	Consumer spending power is significantly impeded by high inflation and a shortage of consumer goods.
South Sudan secured 75% of Sudan's oil fields when the country seceded, giving the country a solid revenue earner.	Weakening currency with a significant parallel market.
2016/17 fiscal budget (issued late in 2016) includes strong measures that will significantly contribute to restore macroeconomic stability.	South Sudan has never had a stable, centralised force governing the country.
Recent measures to improve public financial management, e.g. a requirement for all revenue to be immediately transferred from government accounts in commercial banks to the treasury account.	Government revenues are squandered on security spending, undermining potential for growth in infrastructure investment or public economic development.
Opportunities	**Threats**
The agricultural industry has significant potential - around 90% of South Sudan's land is arable, with about 50% considered prime agricultural land.	The political environment will be one of the world's most unstable in the years ahead.
The country joined the East African Community (EAC) in April 2016, opening up a massive regional market.	Humanitarian challenges (food insecurity) due to drought and conflict.
South Sudan hopes to gain export corridors to the south, which will require the construction of roads and pipelines to Kenya, which are being financially supported by international sources.	Non-oil sectors have been neglected due to a dearth of investment and oil will continue to comprise nearly 100% of export revenue. The country is vulnerable to oil supply disruption and global price changes.
Substantial underexplored acreage and untapped gas resource base.	Damage to oil-related infrastructure due to armed conflict.

Source: Business Monitor International (BMI), IMF, KPMG research

Mega trends

Population	2016	Total: 12.5 million; female: 6.2 million; male: 6.3 million; age 0-14: 44.86 % of total; age 15 +: 55.14% of total; age 65+: 2.1% of total
Population growth rate	2017	2.85%
Life expectancy at birth	2014	Total: 55.68 years; female: 56.68 years; male: 54.73 years
HIV/AIDS	2015	Total number of people living with HIV: 0.18 million; total adult prevalence: 2.5%; HIV/AIDS orphans (age 0-17): 0.1 million
Adult literacy rate	2015	Total population: 31.98%; female: 25.39%; male: 54.73%
Urbanisation	2015	Urban population: 18.8% of total; annual urban population growth: 4.67%; rural population: 81.20% of total
Population below $1.90 per day poverty line	2015	80%
Unemployment rate	2008	Total: 18.5%; female: 17%; male: 20%
Employment	n/a	n/a
Labour participation rate	2017	Total (ages 15+): 73.44% of total population
Business languages	n/a	English, Arabic
Telephone & Internet users	2012	Fixed telephone subscriptions: 150; wired internet subscriptions: 1.96 million (2014); cell phone subscriptions: 2.9 million (2015)

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Development Indicators, UNAIDS, International Labour Organisation

Human Development Index (HDI) 2015		Index of Economic Freedom 2016		Global Competitiveness Index (GCI) 2016		Doing Business 2017		Corruption Perceptions Index 2016	
181st	out of 188 countries	n/a	out of 179 countries	n/a	out of 148 countries	186th	out of 189 countries	175th	out of 177 countries

Source: Transparency International, Doing Business, World Economic Forum, UN Human Development Report, The Heritage Foundation

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody's Investors Service
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South Sudan does not currently have a sovereign rating from any of the three major rating agencies.

Quality of infrastructure	Economic diversity	Banking sector	Continuity of economic policy	GDP growth	Fiscal / current account balances	Foreign investment	Socio-economic development	Forex reserves
Severely limited	Limited, dominated by oil industry	Some banks are withdrawing	Haphazard	Negative	Fiscal deficit, oscillating current account balance	Limited	Low	Believed to be very limited

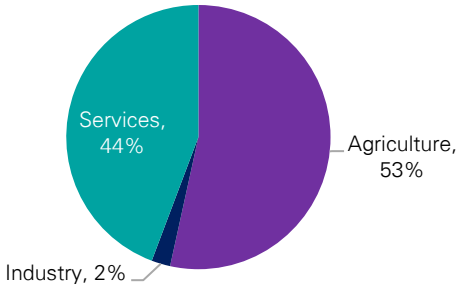
Stock market	Listed companies	Liquidity	Market capitalisation	Largest sector	Weekly trading volume
No	N/a	N/a	N/a	N/a	N/a
Capital market	**Level of development**	**Liquidity**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
No	N/a	N/a	N/a	N/a	N/a

Macroeconomic overview

Economic structure - The primary sector contributes the largest part of gross value added in the world's youngest country's economy. According to the Food and Agricultural Organisation (FAO), up to 95% of the population depends on farming, fishing and/or herding to meet their food and income needs. Farm crops from low-input, low-output subsistence operations include sorghum, maize, millet and rice production. However, only 4% of South Sudan is currently under cultivation. The secondary sector is very small in terms of value added despite the country's significant oil reserves, with crude production exported (via Sudan) without being refined. The tertiary sector is hamstrung by low investor sentiment and limited economic diversity in the country, with government expenditure squandered on security spending. The retail sector is under significant pressure from very high levels of inflation while the telecommunications industry suffers from underinvestment.

South Sudan is ranked 80th out of 104 jurisdictions in the Fraser Institute Survey of Mining Companies 2016 in terms of investment attractiveness in the mining sector. This was a higher ranking than Kenya, Sierra Leone, Mozambique and Zimbabwe. The country's mineral wealth is virtually unexplored due to recurring conflict. Decades-old research suggests that the country has deposits of gold, copper, lead, zinc, nickel and various rare earth metals. Metal deposits in South Sudan's mineral-rich neighbours are also encouraging. South Sudan's ministry of petroleum and mining lists gold, diamonds, chromite, copper, uranium, manganese and iron ore resources to potential investors.

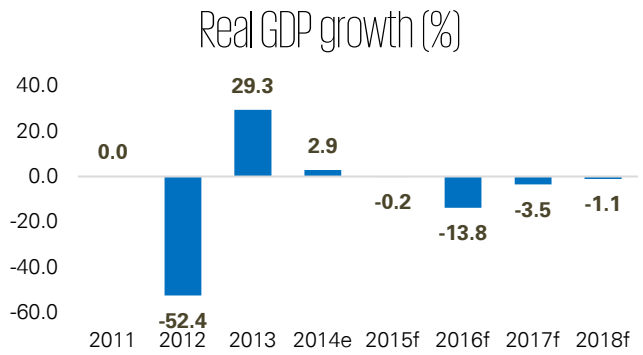
Economic structure (value added as % of total GDP 2015)

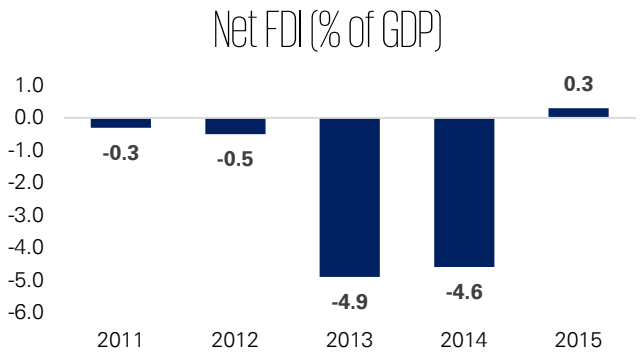


Note: The other publications in this series provide information on the division of GDP between primary, secondary and tertiary sectors. Due to GDP data limitations, information on gross value added - the value of goods and services produced minus intermediate consumption – is provided for South Sudan's three main sectors.

Economic growth – Only three months after the Transitional Government of National Unity (TGNU) was formed in April 2016, civil conflict again erupted in South Sudan. As a result, the country's economic conditions deteriorated rapidly in the second half of 2016. A combination of

internal conflict, weak global oil prices, the closure of oil fields and poor rains resulted in economic activity contracting by 13.8% last year. This was the third recession in the country's six-year existence, with real economic activity at the end of 2016 being almost half the value than it was at independence. The country's recession is expected to slow this year, with real GDP projected to shrink by only 3.5% in 2017. A positive growth outlook for 2018 is based on expectations of a sharp slowdown in consumer price inflation, an improvement in oil production and prices as well as adjustment in fiscal dynamics. The country's GDP growth rate is closely linked to oil production which, according to the IMF, represents half of GDP, up to 95% of exports, more than 90% of government revenue and a significant share of private sector employment. According to the World Bank, 85% of the working population is engaged in no-wage work, mainly in agriculture. Extreme poverty has increased to 65.9% as ethnically fuelled civil unrest continues, and an estimated 1.5 million people are reported to have fled the country due to hardship.

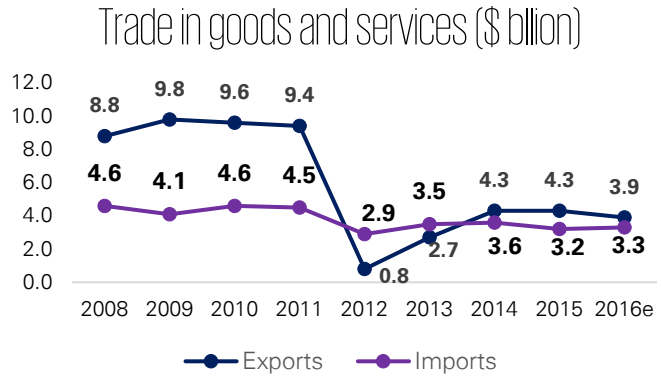




Sources: IMF

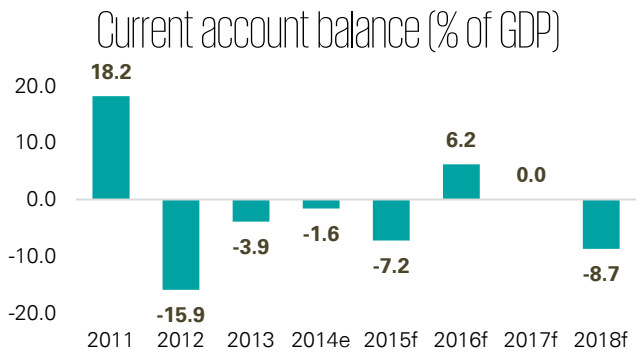
Note: The other publications in this series provide information on FDI inflows. Due to data limitations, information on net FDI (inflows minus outflows) is provided for South Sudan.

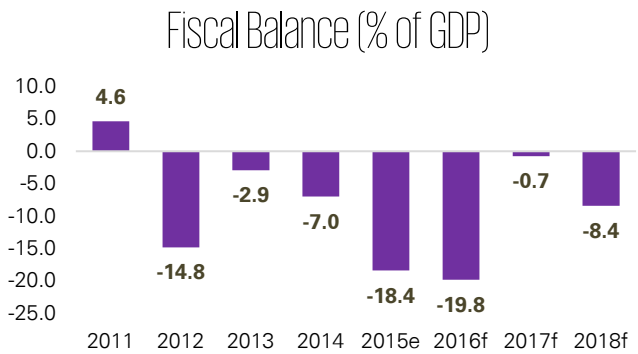
Foreign investment – In 2013, South Sudan's government went to great lengths to create a favourable investment climate. However, investors still face an extremely challenging foreign direct investment (FDI) environment. The World Bank's 2017 Doing Business report ranked South Sudan 186th among 190 economies on its ease of doing business scale. Laws and regulations in South Sudan are sporadically enforced and not well-publicised, which creates uncertainty among foreign investors. Underdeveloped infrastructure and a lack of skilled and unskilled labour are other factors that also inhibit investment in South Sudan. Ongoing civil conflict and poor financial management further exacerbate the difficult investment climate. These challenges resulted in a net outflow of FDI during 2011-14, with positive investment only recorded by the IMF in 2015.



Note: The other publications in this series provide a breakdown of countries' top four imports and exports. Due to data limitations, information on the total trade in goods and services is provided for South Sudan.

External trade – The African Development Bank (AfDB) announced in April 2017 that it had agreed to an $18 million facility for South Sudan in order to help the country in finalising its application to join the African Trade Insurance (ATI) and Trade & Development Bank (TDB). The latter is mandated to finance trade and support regional economic integration. Joining the ATI and TDB is seen as the next step in fostering South Sudan's fragile trade dynamics, and opens the doors for benefiting from debt, equity and guarantees to facilitate trade and investment. South Sudan's exports of goods and services declined by almost 10% in 2016, with domestic oil production falling 2% and oil prices falling 16%. In turn, imports increased marginally.

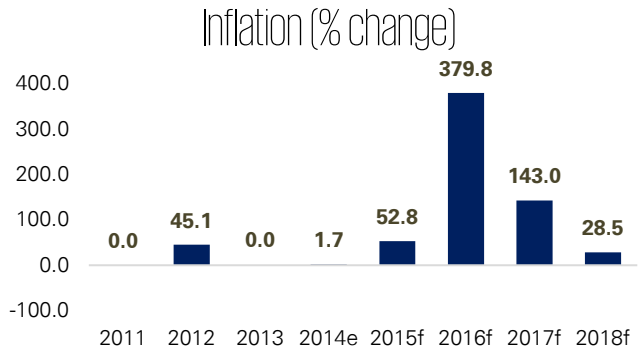




Source: IMF

Fiscal policy – After a small fiscal deficit in 2013, government finances deteriorated during 2014-2016. The country's struggles with oil production disruptions, internal conflict, drought and sporadic grant receipts resulted in pressure on revenues during the period. In contrast, expenditure increased markedly, with recurrent spending (including security costs) overshadowing infrastructure investment. As a result, the country's fiscal deficit widened to nearly 20% of GDP in 2016. The majority of financing needed to plug this gap was provided for by credit from the central bank. In essence, the Bank of South Sudan printed money in order to help the government finance its activities. At the same time, central bank reserves declined to less than $100 million by the start of 2017.

However, recent reforms have started to move the country into a more positive fiscal trend. According to the IMF, the 2016/17 fiscal budget passed in November 2016 reflected an improvement in management practices. The document reported early successes in implementing an economic adjustment programme, involving multiple revenue measures and a sharp reduction in expenditures, aimed at substantially narrowing the fiscal deficit and reducing the state's domestic financing needs. According to the IMF, a significant moderation in money growth was also achieved. The IMF commented during March 2017 that the budget includes increases in sales and excise taxes, while on the expenditure side the government is limiting expenses relating to travel, wages and the purchase of goods and services. The IMF believes that successful fiscal consolidation will result in increased credibility and access to external financial support.



Source: IMF

Monetary policy - Between September 2011 and December 2015, the South Sudanese pound was pegged to the US dollar at SSP2.96/$. However, this official rate became unrealistic soon after it was implemented, with a government shutdown of oil production in 2012 and a drop in oil prices during 2014 resulting in a dearth of foreign currency inflows needed to sustain the peg. As a result, the parallel market rate increased from SSP4/$ in mid-2014 to SSP17/$ by late-2015. The exchange rate was finally liberalised in December 2015 to a *de jure* floating exchange rate system. The Bank of South Sudan supplies foreign exchange through market-based auctions while commercial banks are free to determine their exchange rates. While the initial aim was to eliminate the gap between the official and parallel market rate, convergence has been hampered by excessive monetary expansion and a shortage of foreign currency (linked with the internal conflict situation).

The sharp depreciation in the South Sudanese pound – from SSP20/$ early in 2016 to almost SSP120/$ in April 2017 - resulted in significant upward pressure on consumer prices. Headline inflation peaked at 835.7% year-on-year (y-o-y) in October 2016, moderating to 305% y-o-y in March 2017 and 273% y-o-y in April. Food inflation was recorded at 268% y-o-y in April, with 4.9 million people facing severe food insecurity at the time. The IMF expects inflation to moderate further during 2017 and into 2018. However, this is premised on some key assumptions, including the state implementing proposed fiscal adjustments. The IMF believes that, in order to return to single digit y-o-y inflation, the country would have to see a peace resolution to conflict, a fiscal deficit no larger than 3% of GDP, exchange rate stability, and a recovery in both oil production and non-oil GDP.

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