South Sudan Economic Snapshot H2, 2017

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 is yet to have 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 prioritised 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 remain volatile leading up to elections in July 2018 and voter turnout could be low due to conflict.
The country joined the East African Community (EAC) in April 2016, opening up a massive regional market.	Humanitarian challenges like food insecurity due to drought and conflict - half the population is currently are severely food insecure.
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), KPMG research

Economic structure - The primary sector contributes the largest part of gross value added in the world's youngest country's economy. 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.

Mega trends

Population	2017	12.7 million
Population growth rate	2015	2.89%
Life expectancy at birth	2015	Total: 56.3 years; female: 57.33 years; male: 55.33 years
HIV/AIDS	2016	Total number of people living with HIV: 0.2 million; total adult prevalence: 2.7%; HIV AIDS orphans (age 0-17): 0.1 million
Adult literacy rate	2015	Total population: 94.6%; female: 93.43%; male: 95.83%
Urbanisation	2016	Urban population: 19.03% of total; annual urban population growth: 4.09%; rural population: 80.97% of total
Population below $1.90/day poverty line	2009	42.71%
Unemployment rate	2017	n/a
Employment	2017	Agriculture: 72.1% of total; industry: 7.4% of total; services: 20.5% of total
Labour participation rate	2017	Total (ages 15+): 73.44% of total population
Business languages	n/a	English, Arabic
Telephone & internet users	2016	Fixed telephone subscriptions: n/a; wired internet subscriptions: n/a; cell phone subscriptions: 2.7 million (2016)
Quality of infrastructure (1 = underdeveloped, 7 = developed)	2017	n/a

Sources: UNESCO Institute for Statistics, World Telecommunication/ICT indicator database, World Bank, UNAIDS, International Labour Organisation, Analyse Africa

Recent economic developments – The recently released World Bank Doing Business 2018 report ranked South Sudan 66th out of 190 countries regarding the payment of corporate taxes. The number of payments, time involved and tax paid as percentage of profit are all lower than the Sub Saharan Africa average. Sudan and South Sudan signed an agreement in September 2017 to open direct trade along their border and increase production in the oil fields of South Sudan that are currently not functioning. The South Sudanese pound depreciated to SSP80/$ by the end of 2016 and reached SSP130/$ in November 2017, with no reason to believe that the weakening trend would stop heading into 2018. Headline inflation peaked at 836% y-o-y in October 2016 and has subsequently been on a broadly downward trajectory. Inflation declined to 155% y-o-y in July 2017 before ticking up to 165% y-o-y in August – still the second-highest in the world after Venezuela. The International Monetary Fund (IMF) expects inflation to moderate from an average of 182% in 2017 to 45% in 2018.

Business Environment

Human Development Index (HDI) 2015		Index of Economic Freedom 2017		Global Competitiveness Index (GCI) 2017-18		Doing Business 2018		Corruption Perceptions Index 2016	
181st	out of 188 countries	n/a		n/a		187th	out of 190 countries	175th	out of 176 countries

Source: World Bank, The Heritage Foundation, World Economic Forum (WEF), Transparency International

Economic policy – South Sudan's Vision 2040 encompasses medium and long term objectives that the country wants to achieve by the year 2040. The objective is to ensure that the country is a united and peaceful nation, building strong foundations for good governance, economic prosperity and enhanced quality of life for all. This can be achieved through: 1) improving governance; 2) achieving rapid rural transformation to improve livelihoods and expand employment opportunities, 3) improving and expanding education and health services; and 4) deepening peace building and improving security. Vision 2040 is based on seven pillars, working towards a nation that is 1) educated and informed; 2) prosperous, productive and innovative; 3) free, just and peaceful; 4) democratic and accountable; 5) safe and secure; 6) united and proud; and 7) compassionate and tolerant.

Sovereign Risk Ratings

S&P Global Ratings	Fitch Ratings	Moody's Investors Service
-	-	-

Source: Trading Economics

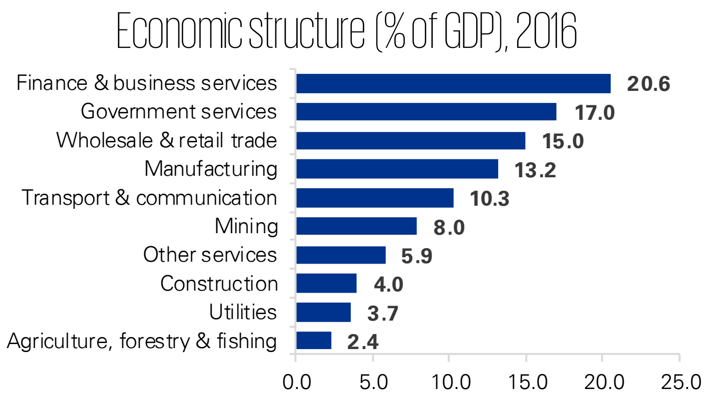
Sudan does not currently have a ratings from any of the three major rating agencies.

Finance & Banking

Central bank	Number of commercial banks	Bank branches per 100 000 adults	ATMs per 100 000 adults	Deposit accounts per 1 000 adults
Bank of South Sudan (BoSS)	22	1.4	0.76	63.97
Stock market	**Listed companies**	**Market capitalisation**	**Largest sectors**	**Weekly trading value**
No	N/a	N/a	N/a	N/a
Capital market	**Level of development**	**Maturity range**	**Municipal bonds**	**Corporate bonds**
No	N/a	N/a	N/a	N/a

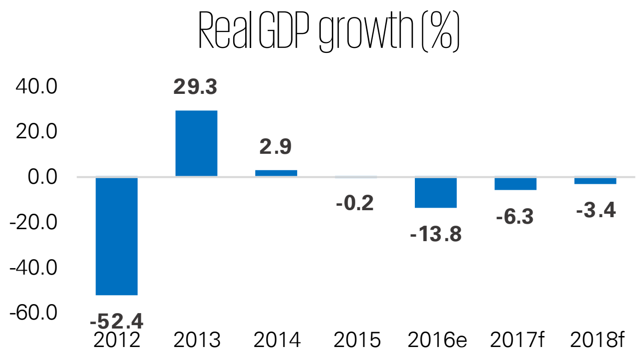
Sources: World Bank, African Alliance, Analyse Africa, KPMG research

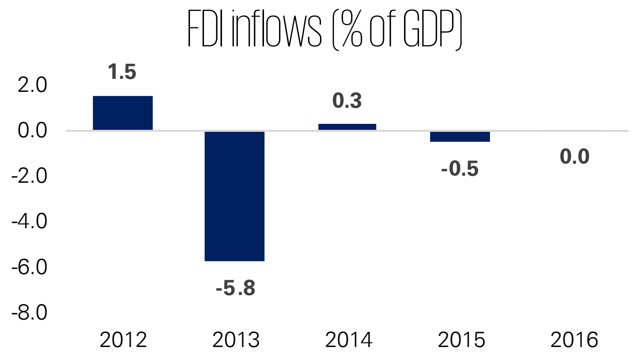
Macroeconomic overview



Source: African Economic Outlook (AEO)

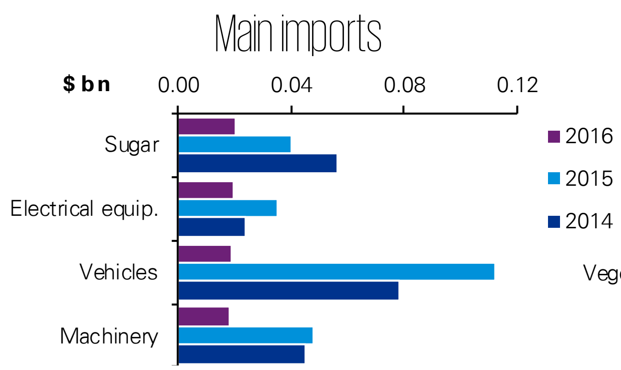
Economic growth - Only three months after the Transitional Government of National Unity (TGNU) was formed in April 2016, civil conflict erupted again in South Sudan. As a result, the country's economic conditions deteriorated rapidly in the second half of the year and failed to recover during 2017. A combination of internal conflict, weak global oil prices, the closure of oil fields and poor rains resulted in economic activity contracting by 13.8% in 2016 and a further 6.3% in 2017 – the latter was larger than initially expected. The IMF forecasted the country's recession to slow in 2018, with gross domestic product (GDP) projected to shrink by 'only' 3.4%. While an uptick in oil production is expected alongside slightly firmer oil prices, the country's population dynamics will make it impossible for the economy to grow. According to the United Nations, 6 million people (half the population) are severely food insecure, around 1.9 million people are internally displaced persons (IDPs) and nearly 2 million South Sudanese have fled to neighbouring countries.

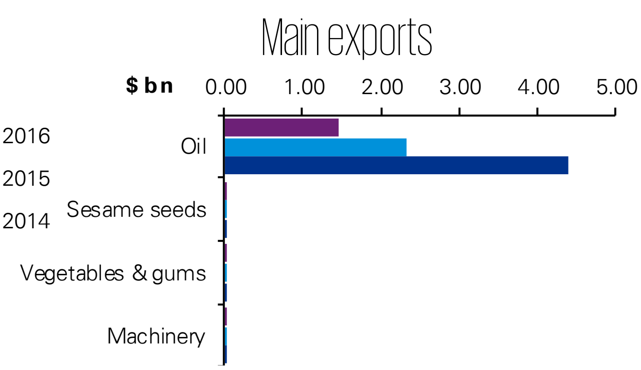




Sources: IMF, United Nations Conference on Trade and Development (UNCTAD)

Foreign investment – Foreign investment exited the country in 2015 and virtually no new inflows were recorded in 2016. One of the reasons behind this was the uncertainty caused by a government order in September 2014 that foreign workers must leave the country, followed shortly be a reversal of the order. In March 2017, the cost of foreign worker permits were also raised substantially, adding pressure to foreign nationals. 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. On a positive note, the recently released World Bank Doing Business 2018 report ranked South Sudan 66th out of 190 countries regarding the payment of corporate taxes. The number of payments, time involved and tax paid as percentage of profit are all lower than the Sub Saharan Africa average, with the total tax contribution being below the average calculated for Organisation for Economic Cooperation and Development (OECD) countries. South Sudan is also ranked 81st in terms of contract enforcement.

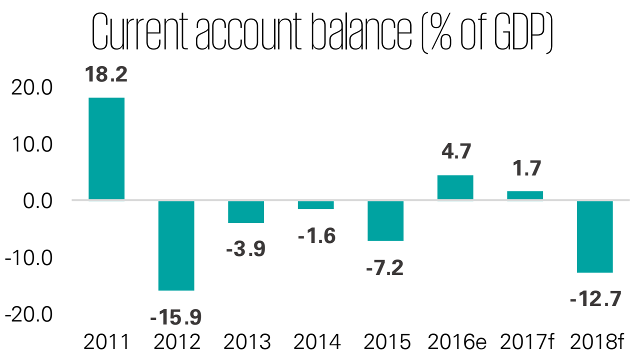


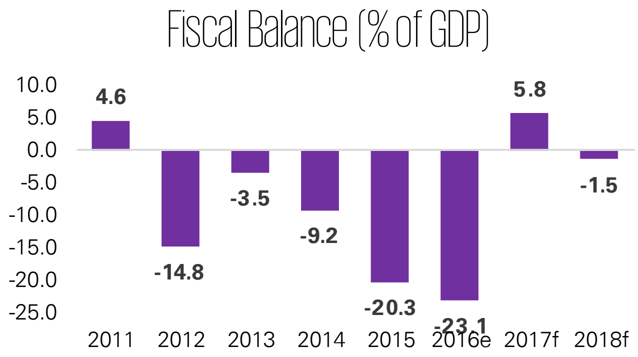


Main Imports: % share of total	2014	2015	2016	Main Exports: % share of total	2014	2015	2016
Sugar	7.1%	6.5%	11.7%	Oil	99.5%	99.5%	98.9%
Electrical equipment	3.0%	5.7%	11.6%	Sesame seeds	0.1%	0.4%	0.5%
Vehicles	9.8%	18.1%	11.1%	Vegetables & gums	0.0%	0.0%	0.3%
Machinery	5.7%	7.7%	10.6%	Machinery	0.0%	0.0%	0.2%

Source: Trade Map

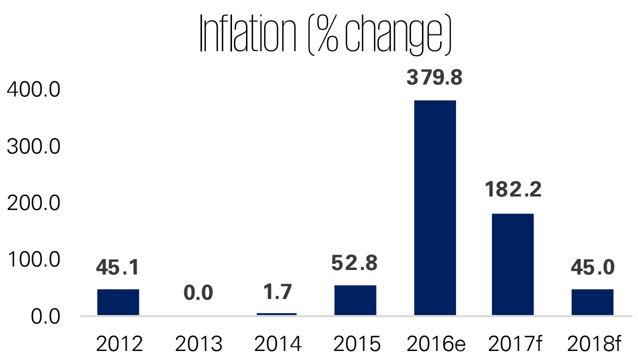
External trade – Oil accounted for over 99% of South Sudan's export revenues during 2014-2016 – sesame seeds is the only other export commodity of some significance. However, the country's oil production was on a downward trend during 2015-2017 as renewed conflict in the world's youngest country disrupted output and transport processes. Production fell from an average of 155 000 barrels per day in 2014 to around 110 000 barrels per day in 2017. However, output is expected to recover in 2018. Sudan and South Sudan signed an agreement in September 2017 to open direct trade along their border and increase production in the oil fields of South Sudan that are currently not functioning. The agreement will serve as an economic lifeline to both countries. Nonetheless, South Sudan's current account is expected to return to a large deficit in 2018. The country is destined to have a current account shortfall over the medium term.

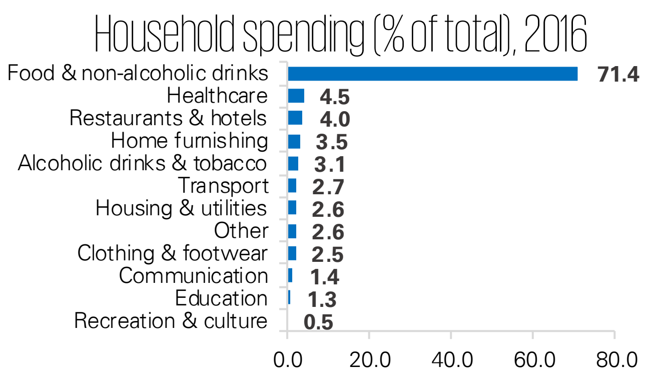




Source: IMF

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 23% of GDP in 2016. The central bank provided credit to plug the gap for the majority of the required financing. 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. This also included a significant moderation in money growth. 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. This could lead to a fiscal surplus during 2017, followed by a return to a deficit reading in 2018 as further reforms prove challenging.





Source: IMF, BMI, country statistics agencies

Monetary policy - Between September 2011 and December 2015, the South Sudanese pound was pegged to the US dollar at SSP2.96/$. However, this official rate became unrealistic soon after implementation, with a government shutdown of oil production in 2012 and a drop in oil prices during 2014. This led to a dearth of foreign currency inflows required to sustain the peg. As a result, the parallel market rate increased from SSP4/$ in mid-2014 to SSP17/$ by late-2015, according to financial media reports. The central bank finally liberalised the exchange rate in December 2015 to a de jure floating exchange rate system. According to data from Trading Economics, the pound depreciated to SSP80/$ by the end of 2016 and reached SSP130/$ in November 2017, with no reason to believe that the weakening trend would stop heading into 2018. The sharp depreciation in the currency placed significant pressure on imported consumer prices. Headline inflation peaked at 836% y-o-y in October 2016 and has subsequently been on a broadly downward trajectory. Inflation declined to 155% y-o-y in July 2017 before ticking up to 165% y-o-y in August – still the second-highest in the world after Venezuela. The IMF expects inflation to moderate from an average of 182% in 2017 to 45% in 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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