Addressing South Sudan’s Economic and Fiscal Crisis

By the Enough Project
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On December 14, 2015, South Sudan’s finance minister announced a major shift in the country’s money supply policy that has brought in some revenue (in the form of local currency) for the cash-strapped government but created severe hardships for most people that have not been mitigated. The policy change seemed to strike a heavy blow initially for some currency speculators but at the same time it created an inflation rate of 110 percent and intolerable conditions for ordinary South Sudanese people—notably consumers of food, fuel, and medical supplies and those with no income or low fixed incomes, including a large number of public servants and people in the military and security sectors. In the last several weeks, economic conditions have worsened, creating the potential for unrest in the population and in the state security forces as well as national bankruptcy. Amid these conditions, U.N. agencies say a quarter of the population urgently needs food assistance and at least 40,000 people face catastrophe.

Strong, concerted diplomatic engagement by international partners, and expert technical assistance and oversight at this critical time, could begin to stabilize and ease the worst fallout from South Sudan’s poorly managed fiscal and monetary policies. Such urgently-needed economic support, however, is directly tied to progress by South Sudanese leaders in implementing the terms of the peace agreement signed in August 2015. Implementation is delayed and has experienced crippling setbacks and impasses, prompting the former president of Botswana, Festus Mogae, who is tasked with overseeing the formation of the transitional government, to call on South Sudan’s leaders to “avoid ruin: Form the transitional government of national unity without further delay, restore stability, repair the damage that has been done before it is too late.” Those paying the highest price for a stalled peace process and international support are the average South Sudanese citizens and consumers. The South Sudanese government and the international community cannot afford to look away as living conditions deteriorate dramatically.

The parties have already missed the January 22 deadline for forming the government of national unity. The political stalemate is hurting the South Sudanese people at a time when economic difficulties, exacerbated by devaluation and insecurity along the borders, are affecting the inflows of commodities and essential medicines. A diplomatic surge by international leaders and donors, supported and led by the United States, can increase the pressure on South Sudanese parties to reach a compromise. The strong international and regional pressure exerted when the August 2015 peace agreement was signed is needed now at this critical stage.

To mitigate the shocks of devaluing the currency, food items and essential medicines entering South Sudan should be subsidized in the immediate term. Wage increases announced by the government are by themselves not sufficient as they mainly benefit those who have paid jobs. The vast majority of the...
South Sudanese population is unemployed and cannot afford the current high food prices, hence the necessity to subsidize food items.

The government’s spending is skewed in favor of security even in the face of the current urgent humanitarian crisis and growing concerns of potential widespread famine. Going forward, there is a need for South Sudanese policymakers to adjust the national budget and provide the necessary subsidies to ensure that the food crisis does not threaten the whole population.

The genesis of the crisis

In December, South Sudan’s finance minister announced that the currency rate of about 3 South Sudanese Pounds (SSP) to the U.S. dollar, which had been fixed at that same rate since independence in 2011 would now float according to the market value. The black market rate, which had grown to about five times the official rate, became one with the official rate, causing the value of the SSP to drop immediately by 84 percent.

The fallout for South Sudanese consumers and low-income workers who were already struggling with rising prices and inflation—has been swift and acute. Food prices have risen during a time of the year when they usually drop. Fuel prices have tripled—almost quadrupled—by some reports. Fuel shortages have been responsible for the deaths of some of the country’s most vulnerable people.

Economic winners, losers, and the implications of currency devaluation

The painful effects of the devaluation and floating exchange rate policy are made more acute by South Sudan’s heavy dependence on imports of basic commodities like food and medicine. Before the currency shift, taxes on imported goods were based on the official exchange rate of almost 3 SSP to the U.S. dollar. Devaluation caused customs duties on these commodity imports to increase by five or six times, though the government has also announced a reduction of customs taxes on imported food. Impoverished South Sudanese consumers have nonetheless paid the heaviest price for the country’s economic hardship.

News reports indicate that a 110-pound bag of wheat flour, which had sold for 300 SSP before the devaluation, now sells for 1,000 SSP. Sources in Juba tell Enough that a 110-pound bag of corn that cost 135 SSP in December 2013 now costs 700 SSP, two years later. Consumers must either pay five times as much for essential food items or purchase a fifth of the volume of food that they need. Many people cannot afford to buy food or other basic goods and services.

High fuel prices also provide some income for the government but also mean that many people cannot afford to move around for work or other purposes.

In late January 2016, the government increased the salaries of public servants by 300 percent in an effort to mitigate some of the effect of the currency devaluation. However, for many local residents, fixed or insufficiently increased salaries have been far outpaced by the soaring cost of living.

Some taxes are flowing into government coffers, but many South Sudanese consumers cannot afford to pay for their basic living expenses and the commodities that are available. For example, sources tell
Enough that those selling fuel for 6 SSP before the devaluation were able to sell 29,000 liters per day—for a total value of 174,000 SSP. Now, with fuel prices at 22 SSP per liter, fewer people can afford to buy and only 3,000 liters are sold per day—for a total value of 66,000 SSP—a sales decrease of more than 60 percent. Everyone loses. Buyers cannot buy; sellers cannot sell. Less tax revenue goes to the government. Non-perishable goods like fuel can be stored, but perishable materials, especially food, are lost or wasted.

Sources tell Enough there is price gouging and increasing insecurity in some border areas where the government is not in control of supply chains for goods. The border insecurity and high taxes are causing importers to charge exorbitant prices for fuel and commodities, which is compounding social tensions and heightening the risk that an economic crisis will become a humanitarian crisis.

Government subsidies that lower the fuel prices and further lower the taxes paid by consumers on essential items such as food and medicine would immediately ease some of the most acute economic hardships. The government must also much more significantly increase salaries for employees and increase support for unemployed people to prevent a full-blown criminalization of the state’s security sector. Crime rates are already rising.25 A private soldier with a gun who is unable to feed himself and whose monthly salary is the same as the cost of a daily meal for the policymakers behind the devaluation policy would likely resort to using his gun to get food. Thousands of soldiers and other security sector personnel face these potential needs if salaries and food prices are not adjusted to meet the dramatically increased costs.

The government faces a difficult choice. If it increases salaries significantly or taxes essential commodities lightly instead of heavily, it still faces a shortfall in revenues. To address this deficit, the government has two options: source loans from an external lender or print money. The latter option is undesirable, as it will drive up inflation.

However, if the government does not mitigate the effects of the devaluation on the population, it risks losing the little support it has. The economic damage at this point is so severe that even recent mitigating measures announced by the government—but not yet implemented—to counter the effects of the devaluation may not be enough to benefit those experiencing the greatest difficulty.

The costs of volatility in the local money supply

The South Sudanese money supply problems in the months leading up to December that prompted the floating of the SSP were complex. The South Sudanese government, which has depended for almost 100 percent of its revenue and foreign exchange on oil, had seen dramatic declines in production levels, quality, and the global price of oil since independence in 2011.

With diminished oil revenue, a good measure of national income being diverted from public coffers, and a ballooning fiscal deficit made worse by active conflict, the South Sudanese government has faced a critical shortage of cash. Despite government denials and claims to the contrary,26 rumors and warnings, including those by anonymous South Sudanese officials affiliated with the central bank, began to circulate that the government was printing money.27 The U.N.’s lead humanitarian official in South Sudan at the time, Toby Lanzer, warned in March 2015, “Printing money when there is nothing to back the value of that currency usually leads to hyperinflation.”28 Public denials of money printing notwithstanding, South
Sudan’s central bank records show sharp increases in the money supply, which more than doubled since April 2014.29

The government estimated that it would have $100 million per month in revenue for the 2015/2016 fiscal year.30 Sources anticipated that the Ministry of Finance would sell the dollars from this revenue to the Bank of South Sudan (central bank) at the new devalued rate of 18.5 SSP to the dollar, as opposed to the previous 2.96 SSP to the dollar. South Sudanese officials therefore calculated revenues would total 1.85 billion SSP—or $100 million. Half of that amount, officials estimated, would go to public spending and the other half would address the fiscal deficit and also cover domestic debt servicing for the banking sector, which is now about 16.5 billion SSP.31

Following South Sudan’s currency devaluation and exchange rate regime shift, the country’s central bank began auctioning off millions of U.S. dollars to South Sudanese commercial banks, with the dollars coming from South Sudan’s Special Drawing Rights at the IMF. The intent was to raise the value of the South Sudanese currency to offset the toll of devaluation. Pumping dollars into the market has allowed the South Sudanese government to buy up the local currency and increase its value. But there are at least two critically untenable dynamics at work undermining this approach and further exacerbating the economic situation.

First, there are early indications detected by some experts and analysts that the process of infusing dollars through the auction to the commercial banks has not caused dollars to reach an open market of buyers and sellers. Dollars have instead reached a closed market of insiders who have held on to that cash.

Second, through these dollar infusions, South Sudan’s foreign currency resources are being depleted much faster than they are being replenished. By some estimates the foreign currency will run out and be unable to support the interbank market for foreign exchange by the fourth week of February 2016.32

When South Sudan’s foreign currency stops flowing into the banking system, without free circulation of the dollars that have already been injected into the economy, inflation is inevitable—particularly if the South Sudanese government is unable to borrow more foreign currency. The government will be forced to print money to make payroll.

The floating exchange rate regime, which was implemented in part to unify the official and parallel exchange rates and to counter currency speculation and arbitrage, has failed. The current official exchange rate is 20 SSP to the dollar but on the black market, sources tell Enough, a dollar is worth 29 SSP. The exchange rate gap is widening once more. Cartels are engaging in insider trading and still benefiting disproportionately from the current interbank market for foreign exchange.

Loss of income and foreign currency

There are growing concerns about further deterioration of South Sudan’s economic situation with the risk of capital flight and the potential for an oil production shutdown.

Before the currency devaluation in December, hard currency shortages and rising inflation had begun to hurt sales for many national and internationally affiliated businesses in South Sudan. Devaluation meant an overnight loss of more than 80 percent of the value of the domestic currency held by everyone,
including businesses. The limited foreign currency auctions between the central bank and the commercial banks have now created incentives for the businesses that seek to cut their losses and leave South Sudan to exchange their local currency for the foreign currency and move their assets out of the country.

The drop in global oil prices has meant South Sudan is getting little to no revenue from its Dar blend oil and at a point had begun effectively paying more than it was receiving to export its oil. A barrel of Dar blend oil currently sells for approximately $20—$10 less than a barrel of the higher quality Brent crude oil. Out of the $20, Chinese, Malaysian, and Indian oil firms deduct their shares. Juba has also been paying a fixed fee of $24 per barrel to Khartoum—$9.1 in oil transit and transportation and $15 for a transitional financial arrangement—as part of an agreement signed in 2012. With the slump in global oil prices, South Sudan has been losing at least $4 on every barrel it exports, meaning it has little incentive currently to pump. Some of the fees could potentially be adjusted, if Sudan and South Sudan reach agreement on the terms, to ease South Sudan’s fee burden. Overall, however, the oil that was once a lucrative sole source of revenue for South Sudan is no longer generating revenue, and there is no alternative source of revenue or foreign currency readily available to replace it.

International economic life support hinges on progress toward peace

South Sudan’s macroeconomic and political difficulties are exacerbating one another, causing both sets of conditions to deteriorate for the people in South Sudan and also constraining the prospects for generous international support. Immediate, concerted international pressure on the leaders, and technical economic assistance with stabilizing the country’s monetary and fiscal situation, are both urgently needed to begin to restore function and confidence in the government and to ease the toll on the hardest-hit South Sudanese citizens. But the government and its opponents must first collectively prove themselves worthy of this external support and most of all of the South Sudanese public’s confidence—by putting the needs of the South Sudanese people first and implementing the critical initial provisions of the peace accord that both leaders signed in August 2015.

The signs of progress on this front thus far are not yet encouraging. Leaders have not yet begun to put the public interest above narrow interests in power and profit. The parties to the peace accord distrust each other, and the actions of the principal actors show a serious lack of will to implement the accord as well as a complete lack of appreciation for the economic challenges facing the country. Both sides are consolidating positions with their supporters. As the countdown to forming a transitional government continues, President Salva Kiir and Sudan People’s Liberation Movement-In Opposition (SPLM-IO) leader Riek Machar have dangerously promoted a large number of officials without having the means to pay them.

These moves are driven by fear, scarcity, and a zero-sum view on the country’s human, political, material, and financial resources. Impulses to consolidate critical masses of supporters to counterbalance opponents within government offices or strategic territories are prevailing. Both opposition and government leaders have made appointments in ministries designated under the control of the other. For example, in key ministries allocated to the SPLM-IO and the Former Detainees, such as the Ministry of the Interior and the Ministry of Foreign Affairs, President Kiir promoted numerous officials to consolidate his support base. Riek Machar has done the same with regard to the Ministry of Defense, which is awarded to the government; he promoted nearly 400 officers to the rank of general.
The rallying of supportive contingents to respective sides has extended beyond government appointments to unresolved heated demographic and land tenure issues that have stoked insurgencies and armed conflict before. President Kiir’s decrees in December 2015 to increase the number of states in South Sudan from 10 to 28 remain strongly contested by a host of South Sudanese opposition groups and international actors, including the international commission tasked with overseeing implementation of the peace agreement.\(^\text{39}\) The government has argued that the move to create 28 states out of the 10 that currently exist has popular support and does not violate the terms of the peace agreement because the power-sharing terms of the agreement can apply to a new configuration of states.\(^\text{40}\) The SPLM-IO disagrees with this position and argues that the government made the move unilaterally despite significant opposition.\(^\text{41}\) The SPLM-IO says it signed the peace agreement based on a 10-state structure.\(^\text{42}\) Each side insists that the transitional constitution reflect only the number of states it supports, creating an impasse. A late January 2016 report issued by the Joint Monitoring Evaluation Commission indicates, “Some of those in favour of one configuration of states over the other have threatened war if there is any reversal in policy, and vice versa.”\(^\text{43}\)

A languishing peace process beset by delays, setbacks, and impasses by the warring parties, combined with rapidly deteriorating economic and humanitarian conditions for the South Sudanese public caused in part by ill-advised monetary policies, have collectively created a toxic situation that cannot last. International help is available but it requires a commitment by both the international community and also by the South Sudanese warring parties—who must make difficult concessions, genuinely commit themselves to peace, and put the needs of the people ahead of their own.

Endnotes


2 For additional analysis of this impact on South Sudanese households in the immediate and more broadly on social indicators see Augustino Ting Mayai, “Poverty and Currency Floating in South Sudan” (Juba: The Sudd Institute, January 8, 2016), available at http://www.suddinstitute.org/assets/Publications/povertyMayai16.pdf.


In a May 2012 paper, researchers Christopher Adam and Lee Crawfurd argued, “the exchange rate regime currently sits uncomfortably between two regimes. The first is a fixed exchange rate anchored by a set of ‘currency board’ rules. Though broadly effective in a macroeconomic sense, this regime has been plagued by quite serious problems of rent-seeking and corruption more or less since its inception in July 2011. As pressures on the balance of payments increase, this arrangement appears to be giving way to a less robust ‘conventional’ fixed exchange rate regime that relies for its stability on a level of fiscal control that is becoming increasingly hard for the authorities to deliver and as such the parallel market premium is beginning to increase.” Christopher Adam and Lee Crawfurd, “Exchange Rate Options for South Sudan” (Oxford: University of Oxford and Oxford Policy Management Ltd., May 2012), available at http://users.ox.ac.uk/~cadam/pdfs/Adam_Crawfurd_Exchange%20Rate%20Options%20for%20South%20Sudan_Version2_1_May_2012.pdf.

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27 Sudan Tribune, “South Sudan depletes local currency reserves: official.”

28 Patinkin, “South Sudan economy on edge amid war, low oil production.”


30 A European Union memo seen by Indian Ocean Newsletter and referenced in a May 2015 Indian Ocean Newsletter article reportedly notes that the government of South Sudan “brings in only $60 million a month, coupled with $40 million a month in tax revenue,” according to figures from the IMF. Indian Ocean Newsletter, “In IMF view, a kleptocratic State bordering on bankruptcy, coupled with $40 million a month in tax revenue,” May 1, 2015; Sudan Tribune, “South Sudan seeks to generate non-oil revenues through economic diversification,” May 4, 2015, available at http://www.sudantribune.com/spip.php?article54828.

31 Enough Project interview with South Sudanese government source, January 2016.

32 Enough Project interview with South Sudanese government source, January 2016.


43 Ibid.