International Journal of Management and Commerce Innovations ISSN 2348-7585 (Online)
Vol. 10, Issue 2, pp: (268-274), Month: October 2022 - March 2023, Available at: www.researchpublish.com

Factors Promoting the Economic Outlook and Monetary Policies in South Sudan

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DOI: https://doi.org/10.5281/zenodo.7391589

Published Date: 02-December-2022

Abstract: **The main objective of the study was to find out the factors promoting the Economic Outlook and Monetary policies in South Sudan. Due to floods, locust invasions, and COVID-19, GDP decreased by 6.0% in 2020–21 compared to an increase of 13.2% in 2019–2020. As a result of activities over time that have impacted the industry sector, the world has implemented some containment measures. The study made use several methods Such as graphical representation to explain the economic outlook and monetary policies in South Sudan. Floods and the locust harmed the agricultural sectors on the supply side. Productions in the oil sector, which make up over 98% of the GDP and 80% of industrial value adds, decreased as several oilfields reached their capacity. Consumption by the public and the private sectors drives increases in supply and demand.**

Keywords: **Economic outlook, GDP, Macroeconomic theories, Business Cycle theories.**

1. INTRODUCTION

The economy of South Sudan is expanding and managed to grow by 3.2 percent in FY18–20. Nevertheless, high inflation rates that peaked at 170% in October 2019 continue to have an impact on the economy, according to the World Bank's most recent Economic Update for South Sudan. The study predicts that the GDP will expand by 7.9 percent and exports would increase by 23 percent in the 2019–2020 fiscal year. The assessments do, however, express a caution that any effort to undermine peace agreements may result in a recurrence of the recession around the same period. According to South Sudan Economic Update: Poverty and Vulnerability in a Fragile Environment, the main engine of development was the oil industry's amazing turnaround (World Bank 2020).

Economics Outlook of South Sudan

Four out of every five South Sudanese still live below the $1.90 per day international poverty line, making South Sudan one of the world's poorest countries despite recent economic progress Hyperinflation, a high debt load, market-based foreign currency rate distortions, challenges with budget execution, and intra-national conflict all exacerbate the issue. The South Sudanese economy has grown). Husam Abudagga, the South Sudan country manager for the World Bank, pointed out that substantial sums must be reinvestment in strengthening food security and the provision of critical services if growth is to have a significant impact on the lives of ordinary people.(World Bank,2022)

According to the research, South Sudan is capable of achieving its economic and social objectives by addressing the roots of war and re-establishing stability. A comprehensive macroeconomic reform program, including measures to harmonize exchange markets, control inflation, and diversify the economy, is also advised for South Sudan (Pedersen & Bazilian, 2014)

On July 9, 2011, the Republic of South Sudan became the 55th republic in Africa. Conflicts that flared up again in December 2013 and July 2016 worsened the humanitarian situation while undermining the advancements made in development since independence. South Sudan is still badly affected by fragility, economic stagnation, and instability ten years after gaining independence as a result (Lacher, 2012).

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Source: SUDAN, (2017)

Figure 1: South Sudan States

The September 2018 signing of a new peace treaty and the subsequent formation of the government in February 2020 have contributed in recovery and peacebuilding. Conflict-related incidents sharply decreased in 2019, which allowed several refugees who had been previously displaced in the region to return. The restart of oil production in oil fields that had previously been shut down due to violence also raised the possibility of an oil-driven resurgence. This is nicely depicted in Figure 1 below.

Source: SUDAN, (2017)

Figure 2: South Sudan Economic Outlook

South Sudan is still experiencing a severe humanitarian catastrophe today. Humanitarian aid will likely be required by 8.9 million people, or over two-thirds of the country's population, in 2022, an increase of 600,000.(Lieftinck, P. 1964). Across the nation, there are still extremely high levels of acute food insecurity, and the upcoming lean season is predicted to bring about severe food insecurity for 8.3 million people, including refugees. The humanitarian catastrophe has left over 4 million people homeless, including 2.3 million refugees in six nearby countries and nearly 1.6 million internal migrants (Lacher, 2012)

Due to lower oil exports, lower tax receipts, and harmed agricultural production, the economy declined by an estimated 5.4 percent in FY2020/21, and 4 in 5 people continued to live below the international poverty line. The FAO predicts that flooding resulted in losses of 38,000 tons of grains (3.6% of the world's cereal production in 2021) and 800,000 animals in the agriculture sector. These incidents had a detrimental effect on household wellbeing since flooding was concentrated in areas with high levels of food poverty (Munive, 2014).

Living conditions are still impacted by violence, forced migration, and climate shocks. Public funding on vital socioeconomic areas like agriculture, rural development, water and sanitation, health, and education is similarly limited. One of the demographic groups that is affected the most severely is internally displaced, and they experience significant service delivery gaps that reduce their quality of life. A sizable percentage of IDPs who experience severe food insecurity do not have proper access to sanitary facilities, safe water, or medical treatment. Despite the fact that healthcare services are widely accessible in IDP sites, discrimination and the limited availability of specific medications have been noted as significant barriers to providing the IDP population with high-quality healthcare. Indicators of food security, however, show that a sizable portion of these food consumption.

The core causes of the war and economic stabilization are the government's key priorities. Strengthening service delivery institutions, governance, and economic and public finance management systems will be vital as the country works to increase its resilience to impending shocks, acting as the cornerstone for a diversified, inclusive, and sustainable growth path. The government's capacity to promote the creation of sufficient high-quality jobs to accommodate a young and expanding labour force will be crucial to maintaining the momentum as the economy recovers from various shocks.

Monetary Policies in South Sudan

The South Sudan Economic Update series from the World Bank attempts to offer regular, thorough examination of the South Sudanese economy. The goal of the report is to promote constructive discussion on public policy among the leadership of the nation and important constituencies like the commercial sector, academics, development partners, and civil society.

Increased lending to the government is a major contributor to monetary growth. To combat inflationary pressure, the Bank of South Sudan increased the reserve ratio from 11% in 2010 to 12% in 2011. Additionally, in order to support exporters, it continues to run a premium exchange rate that is 4.77% higher than the official rate. However, the current exchange rate anchoring was seriously threatened in December 2011 when the open market rate was 50% higher than the official rate.

Due to decreased export earnings, continued external financing, and intervention to fix the exchange rate, Sudan's gross international reserves decreased from one month's worth of import coverage at the end of 2010 to less than 0.9 months' worth by the end of 2011. In the context of the Five-Year Strategic Plan, the government must adopt a more acceptable exchange rate regime in order to reduce inflation, encourage investment, and increase competitiveness (2012-17). The government kept up with its payments to banks to ameliorate the monetary situation, which led to a reduced ratio of non-performing loans to total loans outstanding in 2011 (17%) compared to 2010 (20%). However, growth in bank credit to the private sector is still modest, increasing by just 15% of nominal GDP growth, down from 19% in 2010.

2. THEORETICAL BACKGROUND

Introduction

Understanding changes in overall economic activity is one of the most difficult problems in applied macroeconomic study. The goal of business cycle theory is to inform policymakers on how to deal with cyclical fluctuations in macroeconomic variables and why these fluctuations occur around long-term growth paths.

Business Cycle Theories

The identification of major indicators that reflect the economic process gave rise to the idea of business cycles as a distinct phenomenon. The cumulative upward and downward motions that characterize this process, which is not constant, are said to exhibit some regularities, according to observers. "Whatever the case may be, business cycles are seen as a distinct phenomenon that requires explanation and analysis to be clearly understood" (Heubes. 1991, p. 28). This occurrence is not brand-new. Business cycles have been used to describe the "ups and downs of business" since the end of the seventeenth century (Vosgerau, 1984). Juglar was the one who first referred to the economic cycle as "a recurrent, if not necessarily uniform pattern of business cycle." first time in 1860 (Vosgerau, 1978).

Application of Business Cycle Theories

Business cycles were first thought of as a separate phenomenon. Understanding why economies around the world experience cycles of recession and recovery, or boom and bust, is one of the most important difficulties macroeconomic policy makers face today. To answer this question, various macroeconomic schools give contrasting points of view. Of fact, it is outside the purview of this study to provide a thorough historical account of all business cycle ideas. However, some key factors that contributed to the growth of business cycle theory will be discussed in this subsection, with a focus on the two central claims of these theories: which shocks are most crucial for upsetting the economy, and which economic structure is required for spreading these shocks.

A concise explanation of business cycle theory since Keynes is given in this subsection. It presents the major theories in a historical context, including Keynesian economics, monetarism, new classical economics, the real business cycle theory, and new Keynesian economics.

The General Theory, which contested the conventional belief that the supply of production components determines aggregate output in normal times, marked the beginning of Keynesian economics in 1936. Keynesian economics emphasizes the importance of aggregate demand in determining total output as well as the role that the government potentially play in stimulating demand in situations where output is low due to a lack of aggregate demand. The Hicks-Fleming- The multiplier-accelerator model of Samuelson (1939), the endogenous business cycle model by Kaldor (1940), the non-linear accelerator model by Goodwin (1951), and the simple growth cycle model by Goodwin (1967) are all examples of the Mundell model (Hicks's (1937) IS-LM model for the closed economy and Fleming's (1962) and Mundell's (1961, 1963) classic open economy version of the IS-LM model). In the late 1960s, Keynesian economics maintained its status as the preeminent macroeconomic school. In the 1960s, growing discontent with Keynesian neglect of supply-side factors began to emerge.

The monetarist counter-revolution, which M. Friedman led, restored the significance of the supply side. In reaction to the monetarist school of thought, a macroeconomic consensus that the average rate of total output is determined by supply side factors arose in the late 1960s. The monetarist counter-revolution, which M. Friedman led, restored the significance of the supply side. In response to the monetarist critique of Keynesian economics, a macroeconomic consensus that the average rate of aggregate output is determined by supply side factors arose in the late 1960s. Due to the relationship between aggregate supply (represented by a monetarist Phillips curve) and aggregate demand, aggregate production varies about the average level (represented by the Keynesian IS-LM system). The government is given a far reduced role under this macroeconomic accord compared to the original Keynesian theory.

At the beginning of the 1970s, new classical economics arose under Lucas' direction. Thanks to modern classical economics, reasonable expectations are now taken for granted in macroeconomics. It illustrates how expectations play a big part in how successful government projects are. Only unexpected demand policies, according to the new classical policy ineffectiveness proposition, have an effect on overall economic activity. Due in large part to the work of Finn Kydland, Edward Prescott, John Long, and Charles Plosser, business cycle theory saw major progress in the 1980s (1983). 33 The Keynesian models recommend the government adopt fiscal and monetary policies to stabilize the economy, and the Phillips curve outlines the main possibilities. being much less important than the original Keynesian idea.

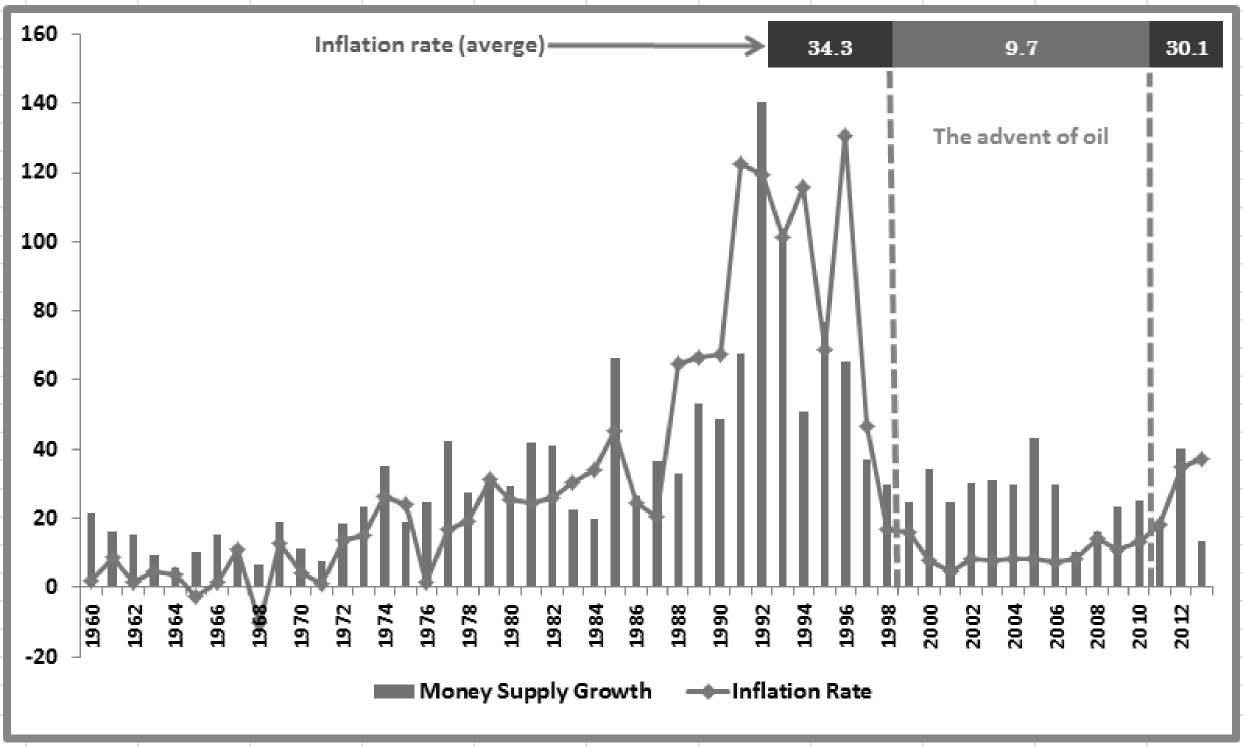
The real business cycle (RBC) theory is the name of the hypothesis. Since that time, RBC theory has served as the primary framework for analysing macroeconomic fluctuations and has largely evolved into the foundation of macroeconomic theory. The RBC method of studying the economic cycle reinstates the conventional notion that supply-side factors have a role in determining output. It shows that, in the presence of exogenous Adjusted variants of pure supply-side modes that are market-perfect can create output movements and co-movements of other macro variables that closely resemble the observed time series when total factor productivity varies. The RBC theory dismisses the need for any kind of effort to stabilize the economy because it views real output fluctuations, given external variations in total factor productivity, as the optimum outcome of businesses' and households' maximizing conduct under reasonable expectations. From a methodological standpoint, RBC theory firmly established the use of dynamic stochastic general equilibrium (DSGE) models as a major tool for macroeconomic analysis and forecasting.

The first-order conditions of the intertemporal problems that firms and consumers face were substituted for the behavioural equations that represented aggregate variables.

3. EMPIRICAL LITERATURE REVIEW

According to South Sudan's economic study, COVID-19, locust invasions, and floods caused the GDP to decrease by 6.0% in 2020–21 after growing by 13.2% in 2019–20. Containment measures for the pandemic limited traffic and business hours, adversely affected the sector of services. The agricultural supply was affected by the floods and the locusts. Production in the oil sector, which accounts for more than 75% of GDP and 80% of the value created in the industrial sector, dropped as some oilfields reached maturity. Public and private consumption were impacted by decreased economic activity in 2020 and 2020/21, which contributed to demand side growth in 2020. Due to tighter monetary policy, inflation was expected to decline from 33.3% in 2019–20 to 24.0% in 2020–21. Even if there is little competition in the banking industry Banking NPLs were below the statutory limit of 20% in September 2021, at 12% of all loans. As a result of fiscal consolidation, the budget deficit decreased to 6.7% of GDP in 2020–21 from 9.8% the previous year.

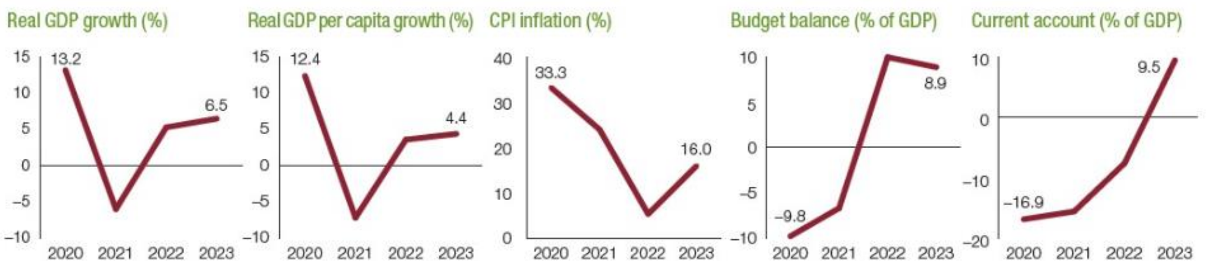
The majority of the funding came from oil-backed loans. After debt restructuring in 2020, the danger of public debt distress increased, moving from "debt distress" to "high risk" in 2021 Growth is predicted to accelerate to 5.3% and 6.5% in 2021–2022 and 2022–2023, respectively, due to increasing income from oil exports. Its primary drivers will be industry, private investment, and consumption. The increase in food supply is expected to lower inflation to 5.3% in 2021–2022, but a drought and higher food prices in Kenya and Uganda—two significant source markets—as a result of the conflict between Russia and Ukraine are expected to raise it to 16% in 2022–2023. Budget consolidation, the SDR allocation (approximately 3.8% of GDP), and higher oil prices will result in fiscal surpluses of 10.0% of GDP in 2021–2022, and 8.9% of GDP in 2022–2033 income. According to projections, the current account deficit will decrease to 7.6% of GDP in 2021–2022, before turning into a surplus of 9.5% in 2022–2023 due to increased oil prices export earnings. The greatest threats to growth are snags in the peace process, changes in oil prices, lingering COVID-19, and the effects of climate change. As seen in *Figure 3* below, the country's inflation rate is rising.



Source: Ayik et al., (2018)

Figure 1: Inflation Rates in South Sudan

Invasion of locusts, frequent floods, and droughts are just a few of the repercussions of climate change that South Sudan, which is ranked eighth on the 2021 GCRI, is extremely vulnerable to. As a result, GDP growth and agricultural production are reduced. A scarcity of water may exacerbate conflicts among communities between pastoralists and crop farmers. The most vulnerable have experienced internal relocation and socioeconomic hardship as a result of natural catastrophes and intercommunal conflicts brought on by climate change. It will be challenging to accomplish SDG 13's focus on climate action. This is effectively depicted in *Figure 4* below.



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. Data on the budget balance correspond to South Sudan's fiscal year, which runs from July 1 to June 30.

- Source: African Economic Outlook (AEO) 2022

Figure 2: South Sudan Economic Outlook in 2020

Emerging Issues and Way Forward

South Sudan is actively developing, according to analysis. It is crucial that South Sudan cooperate and form alliances with world leaders, particularly in the banking industry. The government should cooperate with major international financial institutions like the IMF and World Bank. Since the signing of the North-South Agreement in 2005 and the establishment of the independent Government of Southern Sudan, the World Bank has been involved. Following a break caused by a protracted conflict, engagement resumed in 2018 after the Revitalized Agreement to the Resolution of the Conflict in South Sudan was signed (R-ARCSS). The Country Engagement Note FY21-23 now serves as the WBG's strategic roadmap.

It is also important to note that the South Sudanese government must collaborate with a number of organizations to support the national response and vaccine deployment for COVID-19. This will assist in preventing, detecting, and responding to the threat that COVID-19 poses to the nation. By supporting the distribution of COVAX-received vaccinations and targeting various demographics with Covid-19 tailored risk communication, various organizations will support South Sudan's COVID-19 vaccination initiatives. communication. It is important that the to speed up national immunization efforts, the government should adopt the extra financing models that have been suggested.

4. SUMMARY AND CONCLUSION

Through the research, it is evident that South Sudan is experiencing environmental turbulence; as a result, it is crucial for policymakers to understand stock market operations, which are crucial to the health of the economy. Ideally, according to the literature, stock market performance might be influenced by a variety of economic factors, such as gross domestic product, changes in exchange rates, interest rates, changes in terms of trade, the availability of money, etc.

Such empirical study may have a number of practical repercussions for managers, investors, and policymakers. When considering investors, for instance, a comprehensive understanding of the interactions between economic factors helps to elaborate the information flow that significantly affects investment decisions. The analysis may help those who are formulating policies by revealing the stock market's efficiency. This may also provide a thorough understanding of how stock volatility developed in response to the variables.

The government's leaders, participants in politics, and authorities must make sure that the political will is carried out through implementing recommendations. It must be on point to ensure that they are making attempts to ensure a crucial element for peaceful resolutions despite numerous conflicts and wars throughout the entire country.

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