Advances in Social Sciences Research Journal – Vol.2, No.8
Publication Date: Aug. 25, 2015
DoI:10.14738/assrj.28.1395.
Elbeely, K. H. (2015). Policies to Mitigate the Socio-economic Impact of the Global Financial Crisis on Sudan. *Advances in Social Sciences Research Journal, 2(8)* 165-172.

Policies to Mitigate the Socio-economic Impact of the Global Financial Crisis on Sudan

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Abstract

This study aimed at examining the socio-economic impact of the global financial crisis (GFC) on Sudan; specifically its impact on: Balance of Payment performance (with emphasis on exploring its effect on both Foreign Direct Investment (FDI) and Remittances of Sudanese expatriates); inflation rates; Gross Domestic Product (GDP) growth rate; exchange rate; unemployment; and poverty. Moreover, the proposed policies to mitigate the negative impact which may take place as a result will be assessed critically. This study indicated that the GFC had an adverse effect on both the economic and social indicators, which had been examined. Accordingly, it lowered exports, caused FDI and remittances to drop, thus widening the balance of payments deficit. Furthermore, inflation and unemployment rates both rose to 12.1% and 18.7% in the years followed the crisis, with inflation recording 45.8% in 2012. In addition, GDP growth rates declined to 5.9% and 5.2% in the years 2009-2010 that followed the crisis, and even to 1.9% and 1.1% in 2011-2012 respectively. Moreover, the Sudanese pound lost 21.5% of its value immediately after the crisis, as well as almost 100% of its value during the period 2011-2012, while poverty rates loom high at 46.5%. A set of policies were proposed in order to contain the negative impact of GFC.

Keywords: Balance of Payment, Inflation Rates, GDP Growth Rate, Exchange Rate, Unemployment.

INTRODUCTION

The global financial crisis (GFC) is commonly believed to have started with the bursting of the housing bubble in the United States in 2007 when many home owners who had taken out sub-prime loans found they were unable to meet their mortgage payment, with large numbers of these owners defaulting on loans. Actually, American Banks such as Lehman Brothers, and the two giant mortgage companies "Fannie Mae and Freddie Mac" used to provide loans to their customers in order to purchase homes with soft conditions, i.e., the income of some of these customers might not be proportional to their home value, and thus to the monthly installment that should be paid. As a result banks had a liquidity crisis on their hands, and giving and obtaining loans became increasingly difficult as the fallout from the sub-prime lending bubble burst (1-3).

Indeed the GFC can be attributed to several factors such as a prolonged credit expansion leading to accumulation of debt; the emergence of new types of financial instruments; the inability of regulators to keep up (4); inefficiency of the financial infrastructure and their inadequate awareness with financial risk at all levels; lack of ethical and behavioral conduct; and the nature of the free market economy itself (5-6).

As a result of the GFC the world economy had faced a deep downturn, with global growth to slow from 3.5% in 2008 to about 0.5% in 2009 before recovering somewhat in 2010. In fact the GFC is more global than any other period of financial turmoil in the past 60 years. Accordingly, Africa and Sub-Saharan Africa and even the Arab Region (to which Sudan belongs) had been badly affected by the crisis. For instance Africa growth rate dropped down from 5.75% in 2008 to 2.9% in 2009, while Sub-Saharan Africa growth rate declined by 1.5% during the same period (7).

Arab Region as well had been severely hit by GFC despite the prevailing perceptions that the region is wealthy due to its oil riches and countries have plenty of foreign exchange reserves to tide them over. However, the impact varies across countries, with the rich Gulf States been badly affected by the crisis due to its major overseas investments, especially in the United States and Europe. This manifests itself chiefly as a sharp decline in the region's stock markets (between 20% and 60%), and the cancellation of major projects (8). Alternatively, other poor countries such as Sudan, Yemen, Mauritania, and Somalia had experienced less impact in this field due to their weakest link to the global financial market. Nevertheless, these poor countries beside other middle income ones (such as Jordan, Egypt, Morocco, and Tunisia) had suffered greatly from the sharp reduction in remittances of their workers who work abroad either in the Gulf States or United States and Europe. Actually, remittances account on average for 6% of the GDP of these countries; hence a decline in remittances could cause a decline in the economic growth rate of these countries. Furthermore, the demands for immigrant labor will slowdown as a result of the decline in the economic activity in the countries of employment leading to a rise in unemployment rate in the countries where the immigrant labor belongs. This situation is being confirmed by Arab Labor Organization which estimated the number of unemployed people in the region during the period 2009-2010 by 3.6 million (9).

Objectives of the Study

The aim of this study is to explore the socio-economic impact of the GFC on Sudan. The economic impact will explore the impact of GFC on certain economic indicators which include: balance of payments with special emphasis on the crisis effect on both Foreign Direct Investment (FDI) and remittances of Sudanese expatriates; inflation rates; GDP growth rates; exchange rate; unemployment. The social impact will focus mainly on examining the impact of the crisis on poverty as a major social indicator. Moreover, the proposed policies that aimed at mitigating the negative impact which may take place as a result of the crisis will be assessed critically.

Importance of the Study

The importance of this study stems from the fact that only few studies of the GFC and its impact on Sudan economy have been conducted. Even research conducted by Sudanese scholars on the GFC tends to focus mainly on examining the economic impact of the crisis with little or less reference to the social ones (10-12). No wider attention has been given to the social forces that might emerge as a result of the crisis. This study aims to overcome these shortcomings and to cover these areas, which have not been the subject of previous research; besides examining the proposed policies that aimed at containing the effect of the crisis.

METHODOLOGY

The methodology adopted in this study is a combination of comparative, descriptive, and analytical methods. The performance of the economy will be compared before and after the GFC, i.e., during the period 2006-2012. The study investigates the impact of the crisis on the following indicators: Balance of Payments; FDI and Remittances; inflation rates; GDP growth rates; unemployment; and poverty. The objective is to identify the likely effect of the crisis on the previous mentioned indicators. A variety of sources (mainly secondary) had been explored in order to discuss the expected economic and social impact; this may include Ministry of Finance and National Economy annual reports; Central Bank of Sudan annual reports; International Financial Institutions reports (mainly IMF); papers presented in workshops and seminars; Master Theses; as well as the World Wide Web.

Organization of the Study

This study is divided into four major parts; part two reviews the economic; and social impact of GFC. Part three explores the proposed policies that aimed at mitigating the negative impact (if any) that might occurred as a result of the crisis, while part four presents the conclusion of the study and its main findings.

THE SOCIO-ECONOMIC IMPACT OF THE GFC

This section explores the socio-economic impacts that associated with GFC, starting with examining its impact on the economy (basically on certain economic indicators), then followed by an examination of the GFC possible impact on the social field.

The Economic Impact of the GFC

This section focuses mainly on identifying the economic impact of the crisis during the period 2006-2012, specifically on the following key economic indicators: balance of payments components (with special emphasis on both the FDI and remittances); inflation rates; GDP growth rates; exchange rate; and unemployment.

Balance of Payments

The GFC has adverse effects on the Sudan balance of payments components, it lowered export remarkably since the crisis led to a sharp decline in the price of oil (from 140$ to 40$/barrel), where oil contributed with about 90% of the country export (before the secession of Southern Sudan). Moreover, the crisis has slowed down FDI, as well as remittances from Sudanese expatriates as indicated by table 1 below.

Table (1): Sudan Balance of Payments 2006-2012, Million Dollars

Item	2006	2007	2008	2009	2010	2011	2012
Current Account	(4,919.4)	(3,268.2)	(1,575.7)	(2,177.4)	254.8	143.2	(6563.3)
Exports (fob)	5,656.6	8,879.2	11,670.5	8,257.1	11,404.3	9,655.7	3,367.7
Imports (fob)	7,104.7	7,722.4	8,229.4	8,528.0	8,839.4	8,127.6	8338.0
Services, Income Transfer Account	(3,471.3)	(4,425.0)	(5,016.8)	(1,906.5)	(2,310.1)	1384.9	(1593.0)
Financial Account	4,690.9	2,425.6	1,307.7	3,116.9	610.2	948.5	4252.7
FDI (net)	3,541.4	2,425.6	2,600.5	1,816.2	2,063.7	598.8	2465.4
Loans	100.2	453.7	152.0	572.3	239.8	142.4	(1.5)
Errors & Omissions	19.9	61.1	289.1	1,441.5	(919.2)	(1736.2)	2310.2
Overall Balance	208.6	282.0	(21.1)	502.0	54.2	644.5	0.4

Source: Central Bank of Sudan Annual Report 2012.

Table (1) shows the sharp decline in Sudan exports in the years followed the crisis, i.e., exports reduced from $11,670.5 in 2008 to $8,257.1 in 2009 leading to a 29% reduction in the volume of exports during the period (2008-2009). As a result the deficit in the balance of payments increased to a record figure in 2009 of $502 million dollar. Alternatively, the rise in the volume of exports in 2010 to $11,404.3 can be attributed mainly to the rise of the price of oil associated with a remarkable increase in gold export during the same period, i.e., gold export increase from $403.4 to $1, 018.0 leading to a 152% increase in the volume of gold export during the period. The situation in trade balance even aggravated in 2012 (after the secession of the South Sudan in 2011), as a result the deficit in trade balance amounted to a record figure of 4,970.3 million dollar, where about 75% of Sudan oil revenue generated from Southern oil production.

Similarly, FDI reduced sharply immediately after the crisis, i.e., FDI dropped from $2,600.5 in 2008 to $1,816.2 in 2009 (a 30% reduction in the volume of FDI), although FDI showed a slight increase in 2010 (a 13% increase) but still lagging behind its volume during the period of 2006-2008, then FDI fell drastically in 2011 to record only 598.8 million dollar.

We should also note that in 2006 the government succeeded in restoring its economic relationship with most of the Arab Development Funds and governments leading to a notable increase in the amount of FDI by some Arab Countries (including Saudi Arabia; UAE, Egypt; and Jordan), mainly in the agricultural projects to produce wheat, maize, vegetable, fruits in certain states. Indeed, there were many factors behind the remarkable rise in the overflow of Arab investment to Sudan during the period of 2006-2010 as Ahmed explains:

"First, Arab countries were suffering from a huge food supply deficit; Sudan with its abundant fertile land, had always been regarded as the breadbasket of the Arab World. Second, there was mounting distrust and risk associated with Arab investment in US and Europe stock markets, with investors losing vast sums during the crisis. Third, there was a greater realization among Arab investors that investing in the real economy of Sudan and other Arab countries was safer and more rewarding, both materially and strategically, than investing in US government securities and toxic stocks in the West. Western governments have imposed political pressure on Arab governments to undertake serious and unpopular reforms, making them fearful about investing in these markets" (13).

Table 1 also shows that loans which came mainly from China and Arab and Islamic Funds such as Saudi and Kuwaiti Development Funds; Islamic Development Bank; Abu Dhabi Fund has witnessed a remarkable increase during the period 2008-2009, i.e., it increases from $152 to $572.3 (a 276% increase in the amount of loans during that period). Alternatively, the amount of loans started to decrease during the period 2010-2012 recording its lowest amount since 2006.

Regarding the impact of the GFC on remittances, one should note that no official data are available to show if remittances from Sudanese working abroad are declining after the crisis. A phenomenon stressed by Ahmed who argued that "historically, data on migration and return migration have not been available and/or consolidated by any specific national institutions. No monthly records are available in terms of number, category, gender and/or profession" (14) . The main reason behind the difficulty of recording remittances of Sudanese abroad can be attributed to the fact that most of these remittances came through the black market channels and outside official banking and public institutions channels. Reported remittances figures are therefore very low compared with the reality, so while the IMF estimated the amount of remittances by $ 433.1 million in 2008, the Ministry of Finance estimated their average by $1.02 billion during the period 2006-2010, and the International Organization for Migration indicated that formal remittances has been increasing since 1995, reaching a total of $1.9 billion in 2008. Nonetheless, remittances are expected to drop in the years 2009-2010 as a result of the crisis impact on the economy of the Gulf States where the majority of Sudanese expatriates are residing. In fact over half of the Sudanese migrants are concentrated in Saudi Arabia, with the rest in other Arab countries and a smaller proportion in Western countries (15).

Inflation Rates

The GFC had led to increases in the inflation rates during the period 2009-2012 due to a combination of factors, namely the increase in budget deficit; rise in government spending; the higher food prices that represents 53% of total basket; and the devaluation of the Sudanese Pound as indicated by table 2 below.

Table 2: Impact of GFC on inflation rates 2006-2010, Million Pound

Items	2006	2007	2008	2009	2010	2011	2012
Government Revenue	15,075	18,462	24,708	20,046	20,737.9	22,766.9	22168.1
Government Spending	18,253	20,971	25,986	24,941.1	28,324	32,193	29,821.5
Over All Balance	(3,178)	(2,509)	(1,278)	(4,89.5)	(7,586.1)	(9426.1)	(7653.4)
Inflation Rates	7.2%	8.1%	14.3%	11.2%	13.0%	18.1%	45.8%

Source: Central Bank of Sudan, Annual report 2012.

Table 2 shows the increase in both government spending and deficit in the years followed the GFC. Accordingly, government spending increases from SDG 21,736 million (on average for the period 2006-2008) to an average of SDG 26,632 million during the period 2009-2010 (recording a 22.5% increase in government spending in the years followed the crisis). Also, the budget deficit rises from 1,278 billion pound in 2008 to 4, 89.5 billion pound and 7,586.1 billion pound in 2009 and 2010 respectively, the same situation continued in the period 2011-2012. As a result inflation rates rise from 9.6% on average for the period 2006-2008 to an average of 12.1% during the period 2009-2010. The inflation rates even witnessed a sharp increase in 2012 (the year immediately following Southern Sudan secession) recording 45.8%.

Gross Domestic Product Growth Rates

The GFC had affected negatively the country GDP growth rates, as a result GDP growth rates declined from 10.9% in 2007 to 6.4%, 5.9%, and 5.2% in 2008, 2009, and 2010 respectively. The decline in GDP growth rates continued in the period 2011-2012, where it amounted to 1.9% and 1.1% respectively. The main reason behind the decline in GDP growth rates could be attributed to the huge drop in oil revenue, where the oil sector recorded a negative growth rate of 5.1% in 2010 and its contribution in GDP dropped from 9.5% in 2007 to only 8.3% and 7.5% in 2009 and 2010 respectively (16).

Exchange Rate

The combined effect of the decline in oil revenue (as a result of Southern Sudan secession), the fall in both FDI and Sudanese remittances abroad, coupled with the widening of balance of payments deficit (as outlined by the previous sections) had led to a decline in the value of the

Sudanese pound after the crisis. Consequently, the value of the pound dropped from SDG2.0913 against the dollar in 2008 to SDG2.3259 and SDG2.5417 in 2009 and 2010 respectively, i.e., the pound had lost about 21.5% of its value against the dollar in the period 2008-2010 (17). The Sudanese pound even witnessed a huge reduction in its value during the period 2011-2012, i.e., its value dropped to SDG 2,881 and SDG 5.6 respectively (approximately 100% decrease in its value).

Unemployment

The cumulative effect of the increases in both budget and balance of payments deficits, together with the drop in the number of immigrant labors in the Gulf States (the major host of Sudanese expatriates) has had an adverse effect on unemployment. Consequently, unemployment rate rises to 18.7% in 2009- 2010 compared with 16.7% in 2008 (18) .

The Social Impact of GFC

This section will focus mainly on examining the impact of GFC on poverty, since poverty is a multidimensional phenomenon, and an indication of deprivation in one or more aspect of the welfare of a person. However, data on poverty are scarce; a number of attempts were taken in the last two decades to quantify poverty in Sudan and to outline its causes. Nevertheless, these attempts were constrained by the limitations of data and the incomplete coverage of the survey on which they are based. A serious limitation was the unavailability of household budget survey on which to base the estimate of poverty, since only one survey was carried out in 1967/1968 and twenty years later the second one was conducted in 1978/1980. In 2009 a National Baseline Household Survey (NBHS) was conducted, considered as the first nationally representative household consumption survey. According to the NBHS, 46.5% of household in the northern states of Sudan live below the poverty line, where this represents approximately 14.4 million people . The survey also indicated that poverty rates are higher among the rural area, with 57.6%of household below the poverty line compared to 26.5% of the urban population (19).

In fact, the persistent poverty in the country can be attributed to several factors, the most important one include: the civil war in the southern, western, and eastern part of the country that diverted attention and resources from development to fighting wars; the concentration of socio-economic development in certain areas (mainly the urban areas); and a huge and unsustainable external debt which amount to 40$ million by 2012, coupled with long economic international sanctions which prevents the country to benefit from the debt relief initiatives such as HIPCs (20).

Although no recent data are available in order to show the effect of GFC on poverty, one would expect the same pattern of income distribution to continue as highlighted by 2009 NBHS, especially in the light of the continuation of the war in the western and eastern part of the country, together with the sharp decline in government revenues as a result of the negative impact of the GFC on oil prices (21).

THE PROPOSED POLICIES TO DEAL WITH THE VARIOUS IMPACT OF GFC

We should note that the policies to deal with the impact of GFC should vary from one country to another depending on the extent of the GFC impact and the level of economic activities prevailed in the country, as well as its close links to international financial markets. For example Sudan Stock Exchange Market has not been adversely affected by GFC due to its limited direct link to other regional and international financial markets. Nevertheless, other sectors of the economy were adversely affected by the crisis as outlined by the previous sections. In view of that a set of policies may be adopted in order to mitigate the negative impact of the crisis, this may include the following :

1. A strict regulation by the Central Bank of Sudan on the Banking System to ensure their compliance with the financial and accounting laws, as well as implementing strict measures to limit the power of bank directors when lending to financially unqualified and incredible investors, as this phenomenon is referred to by many scholars as the main reason behind the eruption of GFC (22).
2. Maintaining the stability of the external sectors through reducing the balance of payments deficit by increasing the contribution of non-oil products in exports (especially animal resources and agricultural products).
3. Reducing of the government budget deficit through reduction of government spending. Moreover, a tax system reforms including broadening of tax bases, strengthening of tax administration; and a simplified and more transparent tax codes (23).
4. Introduction of policies that directed to reduce poverty, including activation of the role of Zakat Chamber, as well as increasing the provision of social services (24).
5. Introduction of policies that directed to attract more FDI, especially the remittances of Sudanese expatriates in order to cover the deficit in government budget (25).
6. A former Governor of Sudan Central Bank wondered if the crisis indicates "the failure of the capitalist system to control economic activities" or if it reflects a problem within the capitalist system itself, which can be fixed". He further pointed out that "the Islamic economic system which forbids the use of usury and financial securitization that based on unreal assets may provide an answer to the capitalist system shortcomings that emerged clearly during the GFC" (26).

CONCLUSION

This study indicates that the GFC has an adverse effect on both the economic and social indicators, which have been examined. Accordingly, it lowered exports, caused FDI and remittances to drop, thus widening the balance of payments deficit. Furthermore, inflation and unemployment rates both rose to 12.1% and 18.7% in the years followed the crisis, with inflation recording 45.8% in 2012 (its highest value since 2000). Furthermore, GDP growth rates declined to 5.9% and 5.2% in the years 2009-2010 that followed the crisis, and even to 1.9% and 1.1% in 2011-2012 respectively. Moreover, the Sudanese pound lost 21.5% of its value immediately after the crisis, as well almost 100% of its value during the period 2011-2012, while poverty rates loom high at 46.5%.

We should note that in order for the proposed policies that mentioned in part three to succeed, their implementation must be part of a wider set of conditions, i.e., consistent and clear government's policy, especially in the political and economic arena, and efforts should be made to move away from this vicious circle of continuing crisis of political legitimacy.

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