



الوكالة الإسلامية الدولية للتصنيف  
Islamic International Rating Agency

# ECONOMIC & BANKING SECTOR OVERVIEW

**Sudan**

*October, 2021*

The Republic of Sudan ("Sudan" or "the country") is home to around 43.8mn people. With a nominal GDP of US\$33.6bn<sup>1</sup> during 2019 - which translates in per-capita GDP of US\$441.5<sup>2</sup> and GNI per capita of US\$590<sup>3</sup>, Sudan falls in the category of "lower income countries<sup>4</sup>" as per World Bank classification.

Structurally, the economy is driven in most part by consumption, with constrained contribution from investments and a negative external balance. Sudanese economy shrank by 2.5% in 2019 on the back of weak business environment. Compounded by the pressures of COVID-19, Sudan is estimated to have contracted by 8.4% during 2020. However, positive developments on the diplomatic front, lends optimism to improved prognosis for growth in 2021 as the full return of Sudan to the international community encourages investment and financial flows. Consequently, most recent IMF estimate for 2021 GDP growth points to 0.4% uplift. Sudan is deemed to command sizable untapped potential, comprising but not limited to 10% of the world's unused arable land, the waters of the Blue and White Niles, abundant extractive resources, including gold, and proximity to key markets such as the GCC.

In an effort to unify parallel currency markets, the Central bank has switched from its erstwhile fixed currency regime to a 'flexible managed float' and the SDG devalued to 375/US\$ in February 2021 from SDG 55/US\$. The devaluation has impacted the economy with further wave of inflationary pressures, at 422.8% in 2021. As of September 15, 2021, USD/SDG parity attained 445 denoting further depreciation of SDG following the regime change. However, we note that USD/SDG had been stable in the last few months mainly due to debt relief and hence inflation should subside in the year ahead barring any further sizable devaluation. In addition, fiscal policies, deficit financing, and money printing policies that led to inflation have ceased since the unification of exchange rate, which would support disinflationary trends going forward.

In the recent months, CBOS has been conducting regular FCY selling auctions with maximum amount of USD50mn to stabilize currency. Also, USD858mn provided by IMF without restrictions to mitigate the economic effects of the Corona-19 pandemic in August 2021 will be supportive. In addition, the reconnection of Sudanese banking system with the world would help remittances of Sudanese workers living abroad to flow through the banking system and support the foreign reserves of the Country.

At the end of June 2021, IMF and World Bank determined that Sudan has taken the necessary steps to begin receiving debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative with a total debt relief of USD23.3bn in present value terms and to be complemented by other debt relief initiatives tied to the HIPC initiative which will bring total debt relief to over USD50bn in net present value terms, representing over 90% of Sudan's total external debt if it reaches the HIPC Completion Point in about three years' time<sup>5</sup>. Altogether, Sudan's external debt burden is expected to decline from USD56bn (163% GDP) in NPV terms as of end-2020 to USD6 bn (%14 of GDP) once the Completion Point is achieved.

<sup>1</sup>Source: IMF

<sup>2</sup>Source: World Bank; Current US\$

<sup>3</sup>Source: World Bank; Atlas Method

<sup>4</sup>Source: World Bank (<https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>)

<sup>5</sup><https://www.imf.org/en/News/Articles/2021/06/29/pr21199-sudan-to-receive-debt-relief-under-the-hipc-initiative>

The Country is committed to strengthening economic stability; executing policies to reduce poverty; and putting in place a set of reforms focused on fiscal sustainability, exchange rate flexibility, expanding the social safety net, strengthening the financial sector and improving governance and transparency, in order to reach the HIPC Completion Point. The World Bank and the IMF will continue to provide the technical assistance and policy guidance needed to achieve these goals, including in the context of the new, 39-month IMF financial arrangement for Sudan in the amount of USD2.5bn. In addition, the Country will have access to around USD2bn World Bank grants for poverty reduction and sustainable economic recovery<sup>6</sup>. Separately, the Country made an agreement with the Kingdom of Saudi Arabia to establish an investment fund with USD3bn, to further increase to USD10bn with the aim of rehabilitating the infrastructure, in addition to the trend towards agricultural manufacturing for export<sup>7</sup>.

The Government is keen on tapping foreign investment to improve the infrastructure of the Country and harness the country's agricultural and mineral resources. Reforms to be introduced will comprise establishment of exchanges such as gold exchange so that smuggling may be reduced. In September 2021, Minister of Finance and Economic Planning issued a decision to form a steering committee to prepare for the establishment of the Sudan Agricultural Commodities Exchange.

### Banking Sector of Sudan

Sudan's banking sector comprises 37 banks all of which are Shari'a compliant and falling under the oversight of the High Shari'a Commission of Control on Banks and Financial Institutions ("HSCC" or "the commission") Government stake is discernible in a number of banks, as an offshoot of equity injections made in the past to recapitalize fragile banks. With recently announced constitutional changes on the anvil, entry of conventional banks may be expected in the near future. Operative in the country are 7 foreign-owned banks with ownership from Gulf States (UAE, Jordan, Saudi Arabia, and Qatar) and neighboring countries (Egypt, Lebanon, South Sudan and Ghana), which account for 23% of banking assets.

The banking sector of Sudan is concentrated with the 3 largest banks accounting for over 48% of total banking assets (2019: 43%). Total assets of the banking industry have been growing at a rapid rate and posted 3 years growth, 2017-2020, CAGR of about 67.1% to SDG 985bn at year end 2020. With surging inflation and sharp depreciation of currency in the year 2021, asset growth of the sector registered as 191% in the first five months of the year driven by 147% surge in deposits.

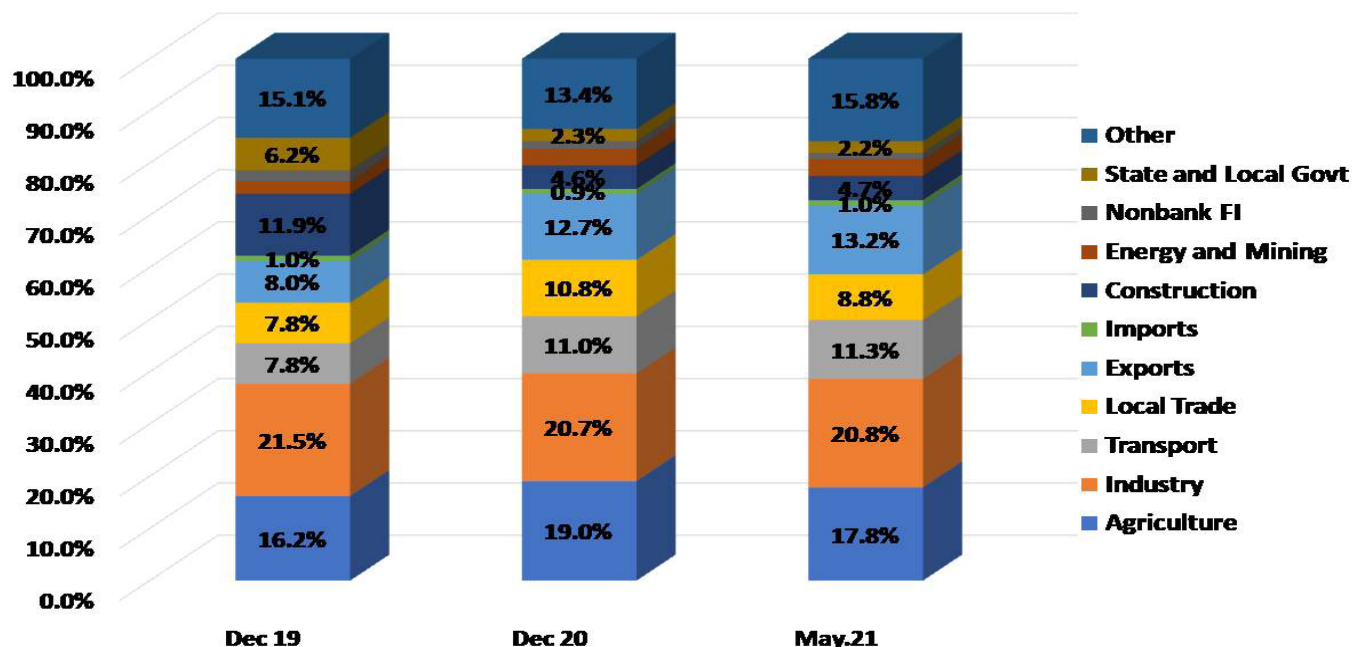
Devaluation of the SDG in the recent years had led to shift in balance sheet mix of the banks as the surge in assets was not accompanied by similar growth in financings given the lack of creditworthy deployment opportunities. Consequently, the asset mix tilted more towards liquid assets and the share of financing in balance sheet dropped to as low as 21% as of May 2021 (2020: 37%, 2017:49%). Similarly, financing to deposit ratio retreated to 35% at the end of May 2021 from 73% as of year-end 2017.

Under the supervision of World Bank and IMF, the banking sector is planned to undergo structural reforms to bring it at par with the international banking standards. Additionally, the merger and recapitalization of several weak banks is on the cards with an aim to bring efficiencies in the banking industry. Several players have already or are expected to introduce Visa payment systems.

<sup>6</sup><https://www.worldbank.org/en/news/press-release/2021/03/26/sudan-clears-arrears-gains-access-to-2-billion-in-new-world-bank-financing>

<sup>7</sup><https://suna-sd.net/read?id=721561>

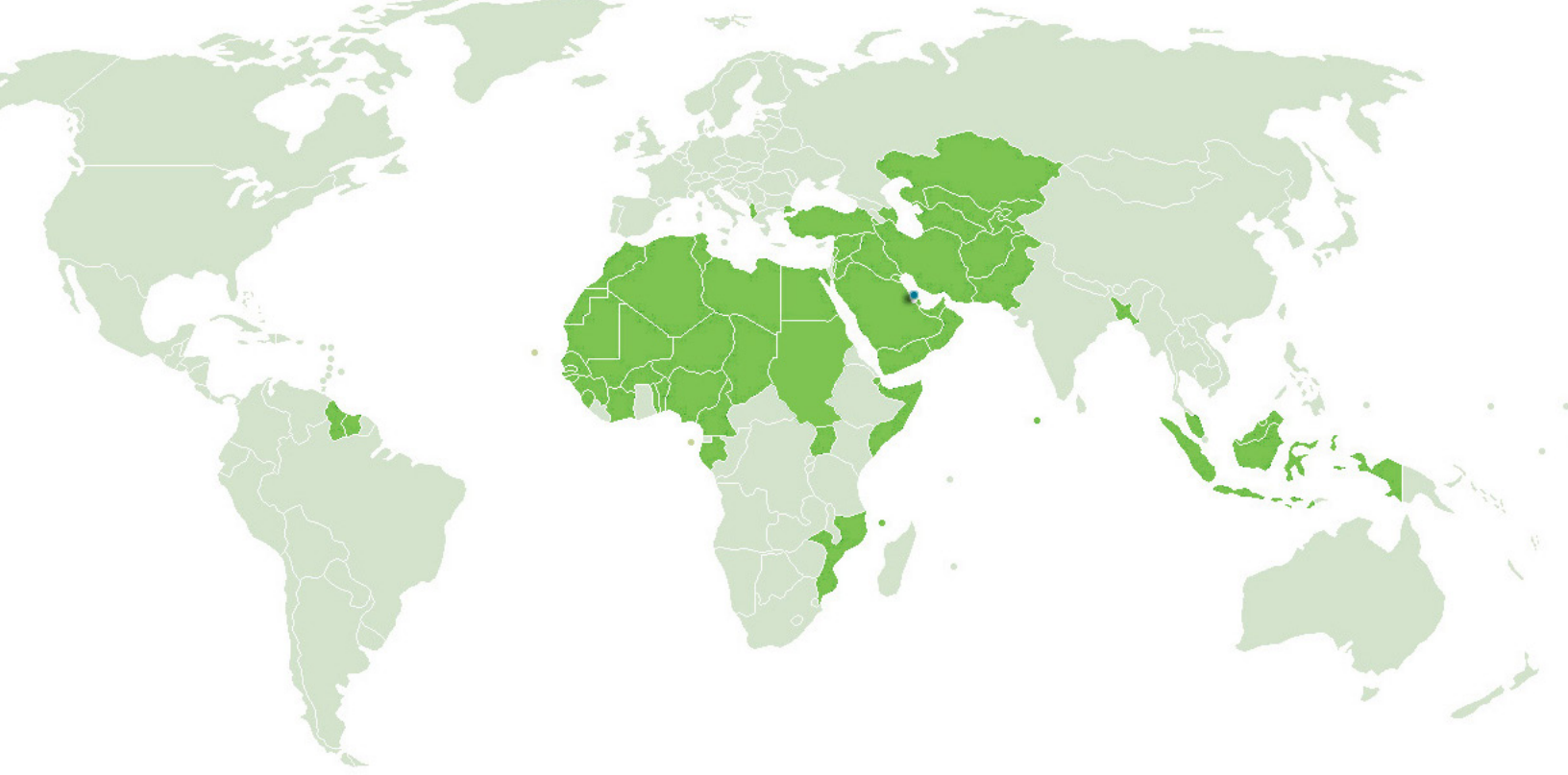
Figure 1: Breakup of Financing Portfolio for the Sudanese Banking Sector



Aggregate CAR of the Sudanese Banking Sector improved to 14.1% at the end of 2019 from 9.9% in 2018. However, capital framework requires upgrade for better alignment with international best practices as well as for a more comprehensive reflection of risks and risk buffers. Deposit access is cost effective with non-remunerative deposits accounting for 49.4% (2019: 51.4%) of total deposits. The banks have established a Liquidity Management Fund in 2014 as a collaborative effort to provide liquidity support to banks to facilitate liquidity management.

On the asset quality front, aggregate non-performance for the sector has edged up to 3.5% as of year-end 2019 (2018: 3.2%). Even though, the aggregate data is not available yet for the year 2020, bank specific data point to further deterioration given the exacerbated economic challenges. Meanwhile provision coverage reached 74% indicating 2pps improvement as against 2018.

Murabaha average profit margins have been on an uptrend rising to 15.7% in the year from 12.4% at the end of 2015. In the year 2020, profit margins converged towards 17% reflective of inflationary environment and reached 19.6% in the first five months of 2021.



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