

# Sudan and South Sudan Business Forecast Report Q2 2014

<https://marketpublishers.com/r/S136FFCD2CBEN.html>

Date: January 2014

Pages: 33

Price: US\$ 1,195.00 (Single User License)

ID: S136FFCD2CBEN

## Abstracts

### Core Views

While conflicts between various tribes and ethnicities were already ongoing in both countries, the descent into full-scale armed conflict in South Sudan has major negative implications for both countries, significantly curtailing growth and deteriorating the external accounts.

### Major Forecast Changes

We have downgraded our forecast for South Sudan's growth in 2014, from 21.1% to 10.6%, owing to the disruptions associated with the conflict.

We have made an upward revision to South Sudan's inflation for 2014 as shortages are expected to occur. We now see inflation rising to 24.2% year-on-year by end-2014, compared to our previous projections of 12.0%.

We have upgraded our forecasts for Sudan's budget deficit due to the latest data released by the IMF, and now expect the 2014 fiscal shortfall to equal 2.5% of GDP, compared to earlier estimates of 7.3%.

### Key Risks To Outlook

Political risk remains the most salient threat to our outlook, as a further deterioration of the security situation could further threaten the economic stability and long-term outlook for both countries. The price of oil represents another important risk to our forecasts, both positive and negative, given both countries are among Africa's top crude

producers.

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Table: Sudan – ECONOMIC ACTIVITY

South Sudan Economic Activity

Internal Conflict Spurs Steep Growth Downgrade

We have downgraded our growth forecasts for South Sudan owing to the widespread violence that is disrupting virtually all economic activity in the country. We are currently forecasting real GDP growth of 10.6% in 2014, down from our previous projection of 21.1%, and we believe that despite the revision, risks to this outlook remain to the downside.

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### Despite Tax Collection Gains, Deficit To Widen In 2014

The Sudanese budget, recently passed by parliament, is an effort by the government to regain the trust and support of the public following a series of painful policy changes which have led to widespread protests. We believe that contrary to the government's projections, Sudan's budget deficit will widen, and we are forecasting a fiscal shortfall equal to 2.5% of GDP in 2014, compared to the 2.3% deficit estimated for 2013.

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### Conflict To Hasten 2013's Inflationary Downtrend Reversal

South Sudan's price growth has been extremely volatile since the country's independence in 2011, and we believe that inflation will be in an upswing over the course of 2014, as the economy reels from political disputes and ethnic rivalries which have seen the country descend into a civil war.

### The Sudanese Economy To 2023

### Secession Poses Key Risk For Long-Term Growth

There is strong economic growth potential in the non-oil sector, but the uncertainties related to the secession of South Sudan generate risks for many variables, particularly the fiscal accounts. We see Sudan's economy (excluding South Sudan) expanding by an annual average 4.0-5.0% over 2015-2022.

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