Market Update: Depreciation of South Sudanese Pound (SSP)

HIGHLIGHTS:

• As South Sudan is a heavily import-dependent country, a depreciation of the South Sudanese Pound (SSP) leads to an overall reduction in the amount of cash (US dollars denominated), and hence drop in volumes of imports.

• The depreciation of the SSP in 2020 led to a rise in the cost of food basket, and consequently a rise in the share of food expenditure, leaving households little to no resources to cover non-food needs.

• Purchasing power is deteriorating because of the raise in prices. This may result in widespread poverty and potential additional people in need of food assistance.

SHORTAGE OF HARD CURRENCY IMPACTING ON THE ECONOMY, PLUMMETING EXCHANGE RATE IN THE PARALLEL MARKET

The reduction in output of oil production and low oil prices in the international markets have limited the already stretched foreign currency reserves in the country. Foreign exchange reserves enough to cover at least imports obligations of three months are considered the bare minimum. However, in late August, the Bank of South Sudan (BSS) announced the depletion of foreign exchange reserves. Following this announcement, the exchange rate in the parallel market dropped at an alarming rate.

As depicted in Figure 1, the exchange rate lost value from SSP 311 in September 2019 to SSP 520 in mid-September 2020, a 67% depreciation within one year. A 30% sharp drop in the exchange rate was marked from the first week to the third week of September 2020 (from SSP 400 to SSP 520).

As the SSP continued to lose its purchasing power against the US dollar, the supply of US dollar from the formal financial system became almost none. In light of these developments, the gap between the parallel and official exchange markets continues to widen, with the Bank of South Sudan rate revolving around 166 SSP/US dollar. The lack of US dollars hampered the ability of the BSS to protect the local currency, leading to its accelerated depreciation in the parallel market.
IMPACT OF SSP DEPRECIATION ON FOOD SECURITY

In South Sudan, markets are the major source of food across the country. In the FSNMS Round 25 analysis, markets also proved to be the primary source of food to most households in Northern Bahr el Ghazal and Upper Nile, while they also comprise more than one-third of food sources in Western Bahr el Ghazal, Central Equatoria and Western Equatoria, which is considered to be the food basket of the country.

Households with a high (65-75%) and very high (>75%) share of food expenditure are vulnerable to economic and market shocks such as the depreciation of SSP and consequent high food prices. Most states in South Sudan (except Lakes and Warrap) showed an extremely high (>65%) food expenditure in one or both of the two latest FSNMS rounds.

Markets were the major source of cereals for households in Upper Nile (48.3%), followed by Northern Bahr el Ghazal (37.6%), Western Bahr el Ghazal and Jonglei (28%), and Unity (23%). In Northern Bahr el Ghazal, Warrap and Upper Nile, markets were the major source of pulses (65%, 51% and 45% respectively). For industrial processed food such as sugar and vegetable oil, markets are the main source of food across states, as they entirely depend on imports.

On top of the above, variability and unstable food prices in the country hampered the predictability of market dynamics in medium to long term scenarios. Variability in prices increase uncertainty among market actors, which forces traders to continually adjust their selling prices upward, negatively impacting the purchasing power of poor and very poor households.

On the other hand, as relatively better off consumers tend to favour bulk purchases fearing further and continuous price rise over time, the demand on the existing supply of goods increases, leading to a further rise in food prices. Price volatility as measured by the coefficient of variation (below graphs) showed high values compared to standard. As the SSP continues to fluctuate and traders depend on parallel markets to access US dollars for imports of food commodities, the variability of prices will evolve accordingly. In South Sudan, especially in urban centers and overall during the lean season, households spend 67% (November 2019 data) of their income on food. The increase of food commodity prices caused by the sharp depreciation of the SSP is likely to reduce the purchasing power of households and push them into more extreme coping mechanisms to meet their food needs. This also is likely to result in a higher number of households requiring food assistance to meet their caloric requirements. If the depreciation of SSP continues at the current pace with no major monetary and fiscal policies introduced by the Government, the situation is likely to escalate to extreme scenarios.

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ON MICRO AND MESO LEVELS, THE DEPRECIATION OF SSP WILL HAVE THE FOLLOWING IMPACTS:

1. **Rise in cost of living:** The immediate impact of the depreciation of the SSP will be an increase in prices of food commodities, leading to high cost of food basket to meet daily energy requirements, specifically in urban areas. Figure 6 shows that the cost of basket in Juba increased by about 42% between August to mid - September 2020. Given that the income of many households is affected by the sustained economic crisis, an increase in cost of basket limits households’ access to basic food and non-food items.

2. **Rise in food prices:** Traders do access foreign currency, US $, from the parallel market at the exorbitant rate to import food items from the neighboring countries. As depicted in Figure 7, prices of white sorghum and white maize increased together with the exchange rate, indicating the strong positive relationship between the exchange and food prices. Correlation coefficient\(^1\), statistical measure of the strength of the relationship between the relative movements of two variables, is closer to the maximum value of one (0.95), suggesting the strong relationship between prices and exchange rate. When the SSP depreciates, traders automatically adjust their selling prices in local currency to enable future imports. However, appreciation of SSP is not directly related to the drop in food prices, rather lagged behind, as traders would like to confirm the sustainability of the changes.

3. **Increases in household vulnerability:** Deepening of economic crisis and depreciation of local currency will increase household’s vulnerability to food insecurity, increasing the need for humanitarian assistance to meet food and non-food needs.

4. **Increase in transport costs:** Following the liberalization of fuel imports, availability of fuel has been improved across markets. However, as the SSP depreciated, fuel stations have already started to adjust their selling prices, leading to hikes in transport costs. Fuel prices in the capital Juba increased by 13% (from SSP 230/L to 260/L), contributing to an increase in transport costs.

5. **Drop in terms of trade:** If the prices of livestock and wage rates do not increase at the same pace, the purchasing power of casual laborers and livestock herders is likely to drop due to the hike in prices of food commodities.

6. **Reduction in trade volumes:** The depreciation in SSP leads to the overall reduction in the amount of cash in the hands of traders (US dollars denominated), and hence drop in volumes of imports. It also brings challenges of competitiveness to small scale businesses (majority owned by nationals), making them less profitable.

7. **Loss to local staff paid in SSP:** Local staff (including government staff) who receive their payments in SSP are among the hardest-hit groups by the depreciation of the SSP.

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\(^1\) Correlation coefficient values range from -1 to 1. Correlation coefficient values closer to one show strong positive relationship between variables. As a rule of thumb, correlation coefficient above 0.60, shows strong relationship.
Although the depreciation of a local currency is normally expected to positively impact on a country’s ability to export, this does not appear to be the case for the current situation in South Sudan. As South Sudan exports are heavily dependent on the crude oil sector (currently depressed by the global situation), the country cannot benefit from the depreciation of the local currency, which would normally mean an increase in exports. Furthermore, the flow of foreign currency from crude oil exports in the country has been under huge criticism by international organizations, such as IMF, considering that the amount of outstanding short-term oil advances is estimated at US$338 million (7.3 percent of GDP) as of March 2019.

The deepening of the economic crisis is a matter of concern not only among humanitarian and development actors, but also among representatives from the business community and academia. Reversing this situation would require the implementation of financial and monetary laws, the enforcement of economic security agents, a ban on the black market and the strengthening revenue collection mechanisms. In addition, there is a need to strengthen oil management and increase transparency, and to put an immediate stop on contracting new oil-backed advances. A detailed and up-to-date crude oil production and export information should be published on the Ministry of Petroleum’s website, as stipulated by the Petroleum Act (2012), to further increase transparency and accountability, as also noted in a recent report by the International Monetary Fund (IMF).

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World Food Programme South Sudan—VAM Unit
Elliot VHURUMUKU, elliot.vhurumuku@wfp.org
Lia POZZI, lia.pozzi@wfp.org
Aschalew FELEK, aschalew.felek@wfp.org

3 Most available references show that, in South Sudan, oil accounts for more than 95% of total exports. According to the World Bank, South Sudan is one of the most oil-dependent countries in the world, with oil accounting for almost the totality of exports, and more than 40% of its gross domestic product (GDP).

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