Analysis of the Implications of Foreign Exchange Reforms on Food Prices in South Sudan
Background

- South Sudan is one of the most oil-dependent economies in the world - highly susceptible to external shocks. Oil accounts 97% of exports and 88% of government revenues.

- The pandemic in South Sudan impacted on the reduced fiscal space because of low oil prices in the global market

- Sharp and fast depreciation of SSP and government’s fiscal expansionary response resorted to high inflation for an import-dependent country

- The country is vulnerable to weather and conflict-related shocks
Economic context

Poverty rate - over 80%

Total debt - 40.8% of GDP

- High Risk of Debt Stress

FY 2019/2020, inflation - 35%

Exchange rate was massively overvalued

40% population - IDPs/Refugees

50% population require humanitarian assistance

Health/Education sectors are extremely weak/reliant on donors

limited fiscal capacity to absorb shocks
Exchange rate – drivers

South Sudan hit by the COVID-19 pandemic secondary effect - lowering international oil prices

Fall in foreign reserves:

- BSS declared the country was running out of reserves
- Government increased its borrowing and spending (Ceased borrowing 2021)
- Exchange rate depreciated and the general rise in prices
Wide divergence b/n official and parallel market exchange rate

Economic Crisis Committee established – to provide recommendations

IMF approved funds to help finance balance of payment needs, and provide critical fiscal space to maintain poverty reducing and growth-enhancing spending

IMF funds were auctioned in a bid to increase the supply of dollars - easing prices of imported goods and increasing the supply of the same.

Some gains noted to increase non-oil revenue. Recommendations were provided

The auction created a dollar supply that has contributed to a convergence between the parallel and official exchange rates.

Plus

Other factors

BSS introduced unified exchange rate (July 2021)
Exchange rate.....(Cont’d)

Other factors

- Collapse of effective demands
- Reduction in purchasing power
- Heavy reliance on development partners
- Decline in real economic activity
- Lower demand of imported goods
- Lower demand of foreign exchange
Impacts of the exchange rate appreciation

**Positively impacted**

Government - minimizes burden on government to cover salaries and other expenditures - reduces fiscal space for resources available for financing peace

Humanitarian organizations - channeling incoming foreign exchange through Central Bank will be in a better position - degree of the gain depends on the counterbalance

Traders - who had no access to official exchange rate and were competing with those who had access at official rate
  - removing the rent-seeking advantage and distortion in market prices, enhances markets competition

**Negatively impacted**

Households exchanged SSP to US $ (Sep 2020 - Mar 2021) and who converted $ into SSP at a disadvantaged rate to purchase items at the time when prices remained at elevated levels or even increased beyond

Parallel market operators – unified exchange rate and easy access to the US $ from banks minimize the roles of illegal traders
Impacts .......(Cont’d)

Consumers have not been benefited as expected, as prices remained stable at elevated levels

- Less confidence about the sustainability and continuity of the auction and disbursement of foreign currency.

- Traders maintained prices of food commodities at an elevated level. For how Long?
Impacts .....(Cont’d)

FSNMS Analysis

- >1/3 HHs depend on markets
- 37% of HHs income dropped
- 74% of HHs expenditure on food

High food prices/inflation rate
Increasing cereals gap

Who are affected most?

- HHs depend on fixed income
- Urban population who receive their incomes in local currency
- HHs heavily reliant on markets
- Gov’t employees
- Daily laborers
- Private company employees
- Hotel and restaurant employees
- Others in the same category
Policy recommendations

- Sustain peace – no recovery, let alone growth and development
- Work with partners to boost social overhead capital and the provision of public services
- Enhance and incentivize communities to expand and upgrade their facilities
- Sustain ongoing public financial management reforms - to maintain macroeconomic stability
- Rekindle local, small-scale economic activities
- Introduce administrative measures for the benefit of resource poor households
Conclusion

- Collapse of oil prices and gov’t increasing domestic borrowing were main triggers of inflation

- Without assistance from development partners, rate of inflation would have been significantly greater

- Major changes in food price expected only with an increase in food production/availability and overall sustained improvement in the macroeconomic environment

- Government should ensure transparency in the management and use of national and external resources to build trust

- Refrain from actions that impact on the economy and continue public financial management reforms
  - avoid unnecessary borrowing from the Central Bank
  - rationalize existing debt
  - rebuild reserves, and ensure public security
Thanks