

Executive Briefing

- The peace deal between South Sudan's two largest political forces is likely to hold over the coming year, preventing a return to large-scale civil conflict.
- A sharp slowdown in inflation and a potential normalisation of weather conditions will support private consumption and economic growth in 2022.
- South Sudan's first hydrocarbons licensing round was launched in June 2021, with the government seeking bids on an initial five blocks.
- The LAPSET road and rail corridor will offer improved transit routes between South Sudan, Ethiopia, Uganda and Kenya.

Macroeconomic Outlook

South Sudan's real GDP will expand by 1.7% in 2022, after an estimated 1.1% contraction in 2021. A sharp slowdown in inflation and a potential normalisation of weather conditions will support private consumption, offsetting the negative impact of insecurity and the Covid-19 pandemic. However, constraints on investment and government consumption will persist, while declining oil exports will act as a significant drag on growth.

Government spending will offer some support over the near term. Specifically, in October 2021 the government approved a USD10 million relief package (including food aid) for people affected by the floods, while the World Bank is expected to approve a further USD100 million grant for flood victims by June 2022.

South Sudan is one of the most oil-dependent economies in the world, with around 98% of the government's annual operating budget derived from oil. Oil is exported out of the country through a pipeline that flows to Port Sudan. Ongoing conflict, as well as falling global oil prices and the Covid-19 pandemic, have severely impacted South Sudan's economy in recent years. That said, South Sudan's first licensing round was launched in June 2021, with the government seeking bids on an initial five blocks. Strong uptake of the blocks would reverse the trend of declines in the country's oil output and boost its economic prospects. Real GDP growth will average 2.4% between 2022 and 2026.

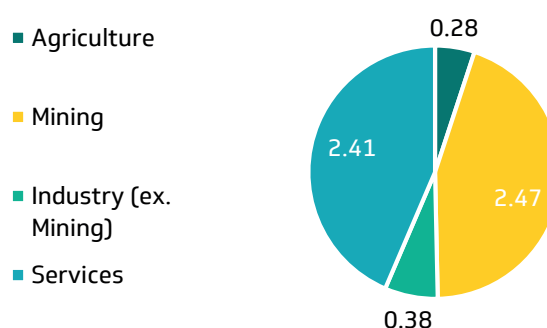
Key Macroeconomic Indicator	2019	2020	2021	2022	2022-26 ave	2022-31 ave
Population, mn	11.06	11.19	11.38	11.62	12.18	12.87
Real GDP Growth, % y-o-y	0.87	-6.74	-1.13	1.65	2.41	2.76
Real GDP per capita, USD	1136.14	1047.12	1018.20	1013.87	1021.45	1034.62
Inflation (%)	95.07	32.55	26.00	20.00	18.30	15.45
Fiscal balance, % of GDP	-0.93	-4.66	1.72	-0.92	-1.95	-2.24
Public debt, % of GDP	28.98	35.93	34.42	31.31	27.00	29.47
Current account balance, % of GDP	5.18	-8.05	2.05	-6.07	-10.15	-12.76
Exchange rate, SSP/USD, ave	158.00	165.91	245.00	327.05	360.37	394.62

Source: National Sources, Fitch Solutions

Political Climate

The peace deal between South Sudan's two largest political forces (SPLM-IO and SPLM) is likely to hold over the coming year, preventing a return to large-scale civil conflict. A transitional government has ruled South Sudan since the September 2018 Revitalised Agreement between President Salva Kiir and his long-time political opponent, Vice-President Riek Machar. The peace agreement followed years of civil war, and it envisages a transition to democratic elections planned for a yet-unspecified date in 2023. Meanwhile, regional protests will persist over the coming quarters, largely due to the absence of a unified national army that can guarantee security.

South Sudan - GDP by Output, USD billion (2022)



Source: World Bank, Fitch Solutions

The non-oil economy also has growth opportunities, particularly within the underdeveloped agricultural, mining and construction sectors, given government aims to diversify the economy. South Sudan has a young, growing population, which suggests there will be a sizeable labour force and significant domestic demand for businesses to capitalise on over the longer term. Furthermore, closer integration with countries in East Africa would strengthen trade ties and support long-term economic potential.

Business & Trade Climate

The government is keen to encourage greater levels of foreign investment into the economy, and it established the Ministry of Investment to become a 'one-stop shop' for potential foreign and domestic investors. Once an investment certificate has been granted to an investor, the Ministry of Investment supports the investor in obtaining the necessary licences and land clearances, while also highlighting any tax breaks and incentives for which it is eligible.

The end of large-scale fighting since the September 2018 Revitalised Agreement has somewhat improved the security situation in South Sudan and bolstered its investment appeal. In line with this, in 2021 telecom giant MTN Group announced plans to invest USD120 million in expanding the telecom infrastructure in South Sudan over the next three years, while in November 2021 South Africa's Central Energy Fund announced it would start investing USD1 billion in South Sudan's oil sector.

South Sudan is dependent on imported products to meet demand for essentially all consumer and capital goods. An uptick in domestic demand will support import growth over the coming year. South Sudan's largest import category was food and agricultural products in 2020, totalling over USD0.2 billion.

Market Risk

Risk Factor	Impact on Business
There is ongoing weakness in the country's security environment. The latest major attack took place in late January 2022, when gunmen killed 33 people and wounded 24 in Jonglei state.	The situation increases security costs for businesses and threatens personnel, assets and operations. Oil infrastructure in particular has been a major target during conflict and refineries may be vulnerable to attack in the event of future unrest.
South Sudan suffers from a shortage of skilled workers.	This increases hiring costs for businesses, particularly in the oil sector where there are labour shortages for technical positions at oil fields.
Widespread poverty, worsening living standards since the country's secession from Sudan in 2011, and government failure to ensure security all contribute to elevated social discontent. Furthermore, more than 800,000 people across eight states have been affected by floods since May 2021, and this adds to the two million people currently internally displaced within the country.	This could trigger localised protests and exacerbate criminal activity, threatening business activities and supply chains.

Investment Opportunities



Digital Infrastructure

South Sudan presents significant organic growth potential for operators to tap into, particularly through the upselling of low-cost, low-value basic services. The potential exists for stronger advanced services uptake in the longer term and will be supported by the ongoing deployment of advanced networks in the country. In line with this, it was announced in October 2021 that MTN will invest USD120 million in South Sudan over the next three years. MTN's announcement comes as part of a joint pledge with the government to improve connectivity in the country, particularly in rural areas. Most of the USD120 million investment will be allocated to enhancing MTN's digital infrastructure, as well as its newly approved mobile money services. Enhanced digital infrastructure will also support 3G/4G/5G growth across the country.



Renewable Energy

South Sudan has a low level of installed power capacity, low electrification rates and most areas are reliant on expensive diesel-run generators. These factors, coupled with the country's abundant solar resources, make renewable energy technology an increasingly viable option for meeting rising electricity demand. In line with this, the government and the South Sudan Electricity Corporation invited consultants to help develop a Renewable Energy Development Programme and a related tender mechanism in 2019. The launch of this regulatory framework provides significant upside to industry investment and expansion. Off-grid solar solutions are also gaining traction in South Sudan; in July 2021 OFGEN, a Nairobi-based solar power developer, and EPC commissioned an off-grid solar PV plant to power the UAP Old Mutual Equatoria Tower in Juba.



Upstream Hydrocarbons

South Sudan's first licensing round is underway, launched in June 2021, with the government seeking bids on five blocks, adding to the seven blocks already covered under exploration and production licences. Strong uptake would reverse long-term declines in oil output. The government has been publicising the round for several years and hopes that it will draw in fresh capital from experienced operators abroad. South Sudan has a large and underdeveloped resource base: new data studies were commissioned ahead of the round, off the back of which the Ministry of Petroleum has claimed that 90% of the country's oil and gas reserves remain unexploited. Several Asian companies are already currently active in the sector, including China National Petroleum Corporation (CNPC) and Malaysia's Petronas, while smaller regional companies like Oranto Petroleum and South Africa's Strategic Fuel Fund Association are also key players. The development of new discoveries – such as CNPC's 300 million bbl discovery in the Melut Basin in 2019 – could reverse long-term decline.

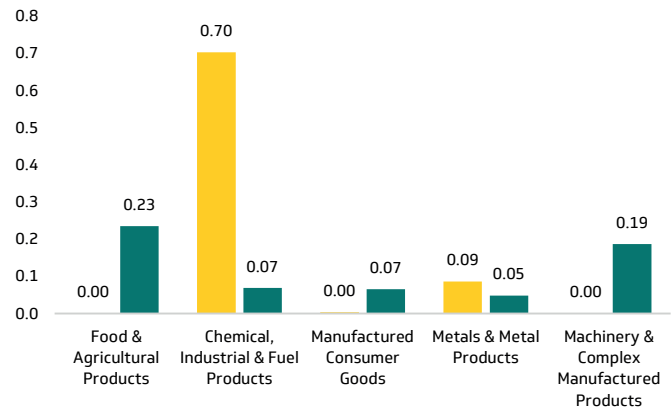


Transport Infrastructure

South Sudan offers potential value in transit trade, which can be tapped by countries with access to maritime trade routes. This is incentivising investment into South Sudan's transport network, notably into cross-border projects. The Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) corridor is an example of this. LAPSSET comprises numerous infrastructure projects, including roads and railways linking Lamu Port to Ethiopia and South Sudan, and oil pipelines from the port to Uganda, north-western Kenya and South Sudan. South Sudan's hydrocarbons and agribusiness export sectors stand to benefit most from the improved regional trade links.

Oil will continue to dominate South Sudan's exports, accounting for around 90% of the country's total exports. Despite incentives from higher oil prices, South Sudanese oil output will fall again in 2022, but the new licensing round provides upside to exports over the long term.

South Sudan Exports & Imports, USD billion (2020)



Source: UN Comtrade

For more information please contact:

Trade Intelligence Solutions, African Export-Import Bank [AFREXIMBANK], 72B El-Maahad El-Eshteraky Street, Roxy, Heliopolis, Cairo 11341, Egypt

afreximbank.com Tel: + 2 02 2456 4100/1/2/3/4 Email: trade.intelligence@afreximbank.com