ECONOMIC POLICIES AND DEVELOPMENT IN SUDAN (2000-2013)

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ABSTRACT

Economic policies have been played a vital role on development in Less Developed countries (LDCs). This study investigates from an empirical point of view the impact of economic policies on development in Sudan during the period 2000-2013. Economic policies represent by (Money supply, Interest rate, and Taxation and government expenditure) variables while gross domestic product (GDP) represents economic development. For this purpose data were collected from various sources namely Central Bank of Sudan, Central Bureau of Statistics, Taxation Chamber and ministry of Finance. By using e-views and applying ordinary less squares method to a linear form of the model, the obtained results showed that economic policies have significant impact and effect on development in Sudan during the period (2000-2013).

Key Words: Economic, policies, development, gross domestic product, data.

INTRODUCTION

Economic policy refers to the actions that governments take in the economic field. It covers the systems for setting level of taxation, government budgets, the money supply and interest rate as well as labor market, national ownership, and many of the areas of government intervention into the economy. Most factors of economic policy can be divided into either fiscal policy or monetary policy. Fiscal policy deals with government actions regarding taxation and spending, on the other hand monetary policy deals with central banking actions regarding the money supply and interest rates. International institutions like international monetary fund (IMF) or World Bank (WB) as well as political beliefs and the consequent policies of parties often influence such policies.

It is increasingly recognized that the financial system plays a crucial role in process of economic development. The government helps make this possible by adopting sound macroeconomic policies, including a sound fiscal as well as monetary policy, acting to establish financial markets where they do not yet exist, and providing prudential regulation of the financial system (Todaro and Smith, 2011).

LITERATURE REVIEW

In developed nations monetary and financial policy play a major direct and indirect role in government efforts designed to expand economic activity in times of unemployment and excess capacity (economic recession) and to contrast that activity in times of excess demand and inflation. Monetary policy works on two principle economic variables: the aggregate supply of money in circulation and the level of interest rate. The supply of money (currency in circulation plus commercial bank deposits) is thought to be directly related to the level of economic activity in the sense that a greater money supply induces expanded economic activity by enabling people to purchase more goods and services. This in essence is the so-called (Monetary Theory of Economic Activity). Its advocates argue that by controlling the growth of money supply through central bank operations, governments can regulate their nation's economic activity. On the other side of the monetary issue are the so-called Keynesian economists who argue that an expanded supply of money in circulation increases the availability of loanable funds. A supply of loanable funds in excess of demand leads to lower interest rates. Since private investment is assumed to be inversely related to prevailing interest rates, businesspersons will expand their investment as interest rate falls (Todaro, 1977).

The Less Developed Countries (LDCs) encounter greater limitations than Developed Countries in using monetary and fiscal policies to achieve macroeconomic goals. The banking system, often limited in its ability to regulate the money supply to influence output and prices in developed countries, is even more ineffective in LDCs. Usually the money market in developing countries is externally dependent, poorly organized fragmented and cartelized (Khalil, 1993). Also he said that, the most important taxation goal in LDCs is to mobilize resources for public expenditure.

According to the IMF, the amount of these resources is determined by GNP per-capita, the share of the mining sector in GNP, the share of exports in GNP and tax policy. It is describe to look at how tax policies affect public spending and the impact of taxes on stability of income and prices. However, achieving these crucial taxation goals must be viewed in light of other goals such as improved income distribution, efficient resources allocation, increased capital and enterprise and administrative feasibility. The LDCs governments must consider all of these goals when designing tax schemes to achieve rapid economic growth to improve the lot of the poor and to stabilize prices.

A widely spread belief among economists is that monetary policy has relatively short-lived effect on real variables such as unemployment. Previous studies indicate that monetary policy affects the output gap only at business cycle frequencies, but the effect on unemployment may

be more persistent in countries with highly regulated labour markets (Alexius and Holmlund, 2007).

Economic Development in Sudan

The Sudan's economy has witnessed major transformations during the last three decades. Full government control over economic activities characterized the period of the 1960s, while an inward-looking strategy dominated development policy during the early 1970s and mid-1980s. Economic difficulties assumed crisis proportions during the second half of the 1970s, following the ambitious development program launched at early 1970s. The failure of the investment boom to increase the economy's productive capacity has accelerated the crisis (Ali, 1985).

In 1979 Sudan became one of the first countries to adopt International Monetary Fund and World Bank macro-economic stabilization and structural adjustment programs. However, the economy continued to slide further through the 1978-84, which witnessed very active adjustment operations. Growth collapsed during this period to an average annual rate of -1.7% per capita, while macroeconomic policies continued to worsen. Inflation shot to more than 27% and for the first time inflation tax (at 6.2% of GDP) exceeded seigniorage revenue by more than 1% age point, indicating the increasing inefficiency of monetary policy. The reforms emphasized two central policies: successive devaluation and trade liberalization measures that shifted imports (and to some extend exports) from the official market to the free market. These reforms were also motivated by the emerging role of Sudan as a major labor-exporting country to the oil-surplus economies of the Middle-East. Remittance from Sudanese nationals working abroad averages more than three times the Dollar value of official export during 1983-84. These huge foreign exchange resources promoted the government to adopt reforms to unify the exchange rate. Having failed to attract further investment from the oil surplus economies in the Arab region, these reforms are aimed to mobilizing the resources of the remittances from these countries. However, these efforts were largely unsuccessful, and Sudanese nationals have continued to send the bulk of their remittances through the parallel foreign exchange market, attracted by its more depreciated exchange rate (Elbadawi, 1992).

The fiscal performance of the economy for 1978/79-1984/85 was weak. The share of total revenue to GDP remained stagnant with an annual average rate of 12%, while the share of expenditure to GDP increased from 15% in 1978/79 to 23% in 1883/84, mainly due to the increasing costs of the civil war in the southern part of the country. The poor fiscal performance resulted in large budgetary deficits. External finance and use of foreign aid counterpart funds covered about 60% of the overall deficit, leading to more dependency on foreign aid. There was a considerable increase in money supply, with the annual rate of monetary expansion reaching about 40% during 1981/82-1984/85. The average inflation rate for the same period was 27 %.(Hag Elamin and Elmak, 1997). They argued that in term of fiscal performance, the ratio of domestic revenue to GDP was about 8% in 1990-1992, but rose to 11% in 1993. There was a considerable improvement in the contribution of tax revenue, while rose from 122% in 1991/92 to 214% in 1992/93. The total expenditure as a share of GDP increased from 10% in 1990/92 to 17% in 1992/93. Despite these improvements, the budget deficit remains high and was mainly financed internally by Central Bank borrowing with no or little external finance. Money supply during the National Economic Salvation Program (NESP) increased fourfold, from (Sudan pound) Ls31.6 billion in 1990/91 to Ls55.5 billion in 1991/92 and an estimated Ls133 billion at the end of the program. The money supply grew at an average annual rate of 83%. This led to a high level of inflation, estimated at 114% in 1991/92, 106% in 1991/92 and 112% in 1992/93.

During the first half of the 1990s, a massive fiscal expansion financed chiefly through domestic borrowing, led to sharp increases in money supply and a three-digit inflation rate as well as an unprecedented deterioration in the exchange rate. To address mounting macroeconomic imbalances and instability, a program of economic reform was designed in 1997 and more seriously implemented since then. Among other measures, the programs involved tightening and reorienting monetary policy to lower the rate of inflation, elimination of most credit controls, and the introduction of new instruments for indirect monetary control. The program initiated a process of economic recovery that resulted in the unification and relative stability of the exchange rate, declining inflation rate and a doubled real output growth rate by 2001. Budget deficit was reduced from 3.8% of GDP in 1996 to 0.7% in 1998, due to cuts in government spending. Annual inflation was brought down to 8% by 2000, where excess liquidity in the market created in the period of high inflation was absorbed through two instruments: Government Musharaka Certificates (GMC) and Central Bank Musharaka certificates (CMC). In addition Sudan's balance of payments constraint was relaxed significantly, when its oil exports began in 1998, turning a 300$ million annual bill for petroleum product into a sources of revenue that could earn more than 3.7$ billion a year. Overall, the Sudanese economic fundamentals have improved, with the average real GDP growth of 4.7% in 1990 – 2000 compared to 1.2% in 1985 – 1990. In fact, over the past six years, with an average of 6.5%, the Sudanese GDP growth rate is among the highest rates in developing countries. However, Sudan still confronts some serious economic problems. Foreign dept still stands at 24$ billion, a huge figure for Sudan that has a GDP about 9$ billion. Furthermore, the armed conflict in Darfur and eastern Sudan mean that military spending remains high deposit the end of civil war in the South. In adequate infrastructure and limited sources of investment financing are major obstacles to the development of the Sudan economy (Elhiraika and Abu Ismail, 2005).

In Sudan, total deposits are dominated by demand

deposits with a share of over 70%, whereas saving and investment deposits remain relatively small. Kireyev (2001) argues that this phenomenon a reflection of the cash nature of the Sudanese economy where individual prefer to have instant access to their funds. This phenomenon also reflects the failure of the banking sector to offer investment opportunities that suit potential depositors. Deteriorating investment climate and creeping inflation led to highly negative profits rates on deposits in the 1990s, encouraging savers to invest heavily in property and other real assets. Even banks used to invest in the property sector until 1995 when the BOS prevented such practice.

The IMF (1977) diagnosed the causes of the crisis by noting that "over past few years a number of external developments affecting budgetary operations, credit expansion and cost-price relationships have resulted in structural disequilibria in the Sudanese economy; these are clearly indicated by the several imbalance in the budget and the balance of payments. In addition to taking steps to eliminate the causes of the imbalances, it has become necessary to take corrective action through depreciation of the Sudanese pound. A principal aim of such a reform is to accelerate the rate of growth by rationalizing the allocation of the resources so as to best utilize the Sudan's present and potential comparative advantage particularly in agriculture and agro-industries" (quoted in Ali, 1984).

Sudan was able to achieve and sustain high growth rates in the 1990s and 2000s within a framework of very tough self-imposed Structural Adjustment Programs (SAPs). The real gross domestic product (GDP) growth rate, on average, for the period 2000-2008, amounted to 7.7% annually, varying between 10.2% in 2007 and 6.1% in 2003. Growth is estimated at 4.9% in 2009 and projected to be around 5% in 2010. The sustained growth rates of GDP for the period 2000-2008 were achieved. Within a context of stable macroeconomic policies and relative controlled and carefully guided inflationary pressures (Ahmed, 2010). Also he continued saying that the government was able to stabilize prices and sharply reduce inflation from a record high of 130.6% in 1996 to a single digit by the end of the 1990s. Since 2000, oil and related sectors have been driving GDP growth, despite their relatively smaller shares in GDP composition. Agriculture (composed of irrigated, traditional rain-fed and mechanized crops, livestock and forestry sub-sectors) contributed more than 40% of GDP in the 1960s, 1970s and 1980s but declined to more than 36.2% and 35.9% in 2007 and 2008, respectively.

METHODOLOGY

Our model takes the following form:

$$Y = fi\ (G, T, M, R) \quad (1)$$

$$fi > 0 \quad (2)$$

(i) Is G, T, M, R)

Where:

Y is gross domestic product (GDP), G is government expenditure, and T is taxation as percentage from GDP. M is money supply defined as M2 and R is margin of profit represents interest rate (because of Islamic financial system in Sudan. In economic theory, economic policies impact positively on economic development, so that we expect positive signs of parameters. Taxation (T), government expenditure (G), money supply (M) and interest rate (R) represent economic policies variables used. The former two variables indicate to fiscal policy while latter two represent monetary policy. Economic development (Y) is measured by gross domestic product (GDP) and this is the dependent variable in the model. Data of the study is collected from various sources, namely the Taxation Chamber, Central Bureau of Statistic, Central Bank of Sudan and Ministry of Finance and National Economy.

Table 1: Taxation (T), Interest rate (R) (2000- 2013)

Year	T (as share of GDP)	R (%)
2000	3.0	20
2001	3.9	12
2002	4.0	12
2003	3.8	12
2004	3.9	10
2005	3.4	10
2006	3.6	10
2007	4	10
2008	3.3	10
2009	3.9	10
2010	4.0	10
2011	3.5	10
2012	6.2	12
2013	2.8	11

Source: Central Bureau of statistics, Central Bank of Sudan and Taxation Chamber

Table 2: Gross Domestic Product (Y), Government Expenditure (G), Money Supply (M) in Thousands SDG, 2000-2013

Year	Y	G	M
2000	33662.7	1845.1	3466.7
2001	40658.6	2615.1	4322.1
2002	47756.1	2915.6	5632.7
2003	55733.8	3334.0	7340.9
2004	68721.4	5736.9	9604.5
2005	85707.1	7916.9	14031.4
2006	98718.8	9906.5	17871.8
2007	114017.6	9635.2	19714.6
2008	127746.9	10810.8	22933.2
2009	135659.0	12102.1	28314.5
2010	162203.9	28324.0	35497.9
2011	186689.9	32193.0	41853.0
2012	243412.8	29821.5	58663.3
2013	267898.6	31195.2	65663.3

Source: Own Calculated based on data from table Central

Bureau of Statistics and Central Bank of Sudan

Note: the data of 2013 for table 1 and 2 are own estimation

CONCLUSIONS

By using E-views and applying ordinary least squares (OLS) technique to the data covering the period (2000-2013) on the variables mentioned above, we estimated the linear form of equation (1), The regression results are given in equation (3), where the figures inside the brackets are the t-ratios of the estimated parameters:

Y= 0.2G+ 6212.1T+ 3.6M+ 514.5R (0.3) (2.4)
(8.9) (0.7)

R2 = 0.99 F = 659.2 DW = 1.28 (3)

Equation (3) is statistically significant at the 5% level of confidence as indicated by the (F) ratio. The value of R2 suggests that 99% of the variation in development (Y) is explained by variations in the government expenditure (G), taxation (T), money supply (M), interest rate (R) which represents economic policies.

The Durbin-Watson statistic indicates the absence of serial correlation in the model at the 5% level. From above findings, the study concludes that economic policies have significant impact and effect on development in Sudan during the period (2000-2013).

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