The Impact of Macroeconomic Policies and Foreign Capital Transfers
On Sudan’s Currency Crises (1930 – 2012)
أثر السياسات الإقتصادية الكلية وتدفقات رؤوس الأموال الأجنبية في أزمات العملة بالسودان (1930 – 2012م)

Submitted in Fulfillment of the Requirements of PhD in Economics

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Date: 6 April 2016
بسم الله الرحمن الرحيم

(سورة طه)

أعوذ بالله من الشيطان الرجيم

بسم الله الرحمن الرحيم

"فَتَعَالََ اللَّهُ الْمَلِكُ الْحَقُّ وَلََ تَعْجَلْ باكلْقُرْأ نك مكن قَبْلك أَن يُقْضََٰ اِلَيْكَ وَحْيُهُ ۖ وَقُل رهب ك زك
دْنِك عكلْمًا (111)

... إنَّ اللَّهَ أَنْتَجِعُ فِيهَا وَلَا تَقُرِّ (118) وَأَلْكَ لَا تَظْمَأُ فِيهَا وَلَا تَضْحَىٰ (119)

صدق الله العظيم

(سورة الأسراء)

أعوذ بالله من الشيطان الرجيم

بسم الله الرحمن الرحيم

"وَلَيْن شَيْئًا لَنْتَذْهَبَنَّ بَالْذِي أَوْحَيْنَا إِلَيْكَ ثُُه لََ تََكدُ لَََ بكهك عَلَيْنَا وَككيلً (86)

صدق الله العظيم
Dedication

To:

All those calling for the Prosperity of all Human Souls via Real Scientific Researches

My Parents (Mercy upon Them)

My Great Professors

Highly Esteemed Scientific Ivory Elite: Professor/ Ali Abdalla Ali

Highly Adored Great Dean: Professor/ Mohamed Abd ElSalam
(At Sudan University’s Post-Graduate College)

Highly Honored Great Dr.: Khalid Hassan ElBeely
(At Sudan University’s Post-Graduate College)

My around the World Sudanese and Foreign Colleagues and Friends From all Economic Ideologies and Schools for their Fruitful Discussions and Back-ups

For All Them

This

Little Memory That Might Help During Heavy Rainy Days
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A learned experience and lesson for supporting and make scientific researches see light has been gained, with the support of highly cherished Dr.: Khalid H. Elbeely, from the highly adored Professor: Mohamed Abd ElSalam, Dean of Graduate College at The “Sudan University.” Allowing people’s efforts to go smooth and easy is a character of a deep-far-sighted thinking man that is rarely to be found in every generation. “Prof., I’ll never think about you otherwise. You are, definitely without too much discussion, one of the Great Remarkable Elites of this country.”

I would like to thank all those who have supported me during my research and the writing of this thesis.
Abstract

The subject of this research was motivated by the observation of sustainable devaluations of the Sudanese official pound’s exchange rate from LS 0.345 per dollar in 1957 to LS 0.394 per dollar in 1972 to LS 6,414 per dollar in 2015, while the many development plans and peace agreements remained dependent on net balancing capital inflows (NBKIs). As mentioned in the outline chapter, the available literature and reports considered devaluation to be a curing medicine for the Sudanese economy’s imbalances. That literature goes-on advising the same policy without mentioning whether these devaluations were due to currency crises (CCs) or not. This backdrop formed the research’s problem and its aim to find out if that is true.

As a result, the research’s hypothesis stresses that some of these NBKIs-dependent devaluations were the result of currency crises, mainly during 1930 – 2012 for unindustrialized undiversified economy (UUE). Dependence on NBKIs is actually a temporary anesthesia to unstable macroeconomic disequilibrium that ends in CCs. To test them, a predictive law-based nonlinear visual model. As revealed in chapters 4 and 5, the Sudanese exchange rate witnessed eleven CCs, of which two were achieved by aggressive internal devaluations. The fundamentals that led them were: the influential commodity’ international price’s (ICIP), adopted ERR, net international reserves to domestic money (NIR/DMS) ratio, and divergence between inflation (IR) and current account deficit (CAD) rates, which is equivalent to NBKIs, explain, robustly, the non-currency-crisis (CC) duration and the onset of CCs episodes. It is found that the crashing point is realized when CAD rate and Inflation rate (IR) diverge as NIR/DMS ratio in the negative trend.

The research concluded, implicitly, as based on the historical experiences of the now advanced and emerging economies, in chapter 3, that the fixed exchange rate regimes (ERRs) were the most appropriate ones for stabilizing rapidly the development of the Sudanese economy’s socio-economic structure. It also reached to the following main findings for Sudan: (a) the CC’s minimum threshold was 13.86% or above; (b) they took longer time to happen under fixed, relative to floating/flexible, ERR; (c) fiscal policies were crisis-transmitting channel, and (d) the deteriorated, economic structure, by 2011, with its strong ties to the historical structural trade-growth limiting parameter (H-STGLP), was the core reason for Sudan’s all types of financial crises.
In the end, the fading NBKIs-dependent *NIR/DMS ratio* was the core triggers for CCs with its substantial economic, and political costs. So, a rule of thumb is suggested to minimize exposures to CCs and heavy dependence on NBKIs. It states that the growth of export/import ratio to be at rates higher than NIR/DMS ratio. In addition, deep indispensable studies are sturdily recommended for changing drastically the prevailing underdeveloped economic structure, in line with improved macroeconomic policies, to limit exposure to currency crises.
ملخص البحث

كان الدافع وراء البحث في موضوع هذه الرسالة هو ملاحظة التخفيضات المستمرة لسعر الصرف الرسمي للجنيه السوداني الرسمي من 0.345 جنيه للدولار الأمريكي في عام 1956 إلى 0.394 جنيه للدولار الأمريكي في عام 2015م، وذلك رغم استمرار خطط التنمية وإتفاقيات السلام العديدة في الاعتماد على التمويل الدولي. فكما أشار في الفصل التالي، فإن الأدبيات والتقارير المتاحة تعتبر تخفيض سعر الصرف دواء لعلاج إختلافات الاقتصاد السوداني. وتستمر تلك الأدبيات في النصح بنفس السياسة دون التوضيح عما إذا كانت بعض تلك التخفيضات كانت نتيجة لوقوع سعر صرف الجنيه السوداني الرسمي في أزمة أم لا. هذه الخلفية أدت إلى تحديد مشكلة البحث وهدفه في كشف ما إذا كان ذلك حقيقة، الأمر الذي زاد من أهميته.

وبناءً على ذلك، افترض البحث على أن بعض تلك التخفيضات كان نتيجة لأزمات عملة، رغم استمرار الاعتماد على صافي التمويل الأجنبي، خاصة خلال 1930 – 2012م لاقتصاد غير صناعي أو متنوع. وأن الاعتماد على صافي التمويل الأجنبي هو تسكن مؤقت للاختلال التوازن الكلي الغير مستقر بما ينتهي إما بتخفيضات أو بأزمات عملة. وللتحقق من سلامة الفرضية، استخدمت النماذج المرئية غير الخطية للحصول تنبؤات تستند على قوانين الاقتصاد. وقد اتضح في الفصول الرابع والخامس، أن سعر صرف الجنيه السوداني، قد شهد أحد عشر ازمة عملة من بينهما اثنان تحقيقاً عبر التخفيضات الإيجابية. وقد تم تحديد الأساليب التي أدت إليها في الأسعار الدولية للسلعة المهيمنة، نظام سعر الصرف الثابت، نسبة صافي الاحتياطيات الدولية إلى عرض النقود المحلي، والتنبيقات بين التضخم والعجز في الحساب الجاري، والتي يعادل صافي تدفقات التمويل الدولي، حيث كانت هذه الأساليب من أهم العوامل التي فسرت وقوع، وعدم وقوع، الاقتصاد السوداني بفجوات زمنية مختلفة، في أزمات العملة.

وخلص البحث، استنادا على التجارب التاريخية للأقتصادات المتقدمة والناشئة، كما وضح في الفصل الثالث، أن نظام سعر الصرف الثابت كان الأكثر ملاءمة لاستقرار سريعة تغيير الهيكل الاقتصادي والاجتماعي المتخلف لبلادهم. أما فيما يتعلق بالسودان، توصل البحث إلى النتائج الرئيسية التالية: (أ) أن الحد الأقصى للوقوع في أزمة عملة هو 13.86%، فما فوق. (ب) أن فترة ما قبل الوقوع في أزمة كانت أطول في ظل نظام سعر الصرف الثابت، بمقارنة مع نظامه التعويمي (ج) أن السياسة المالية كانت قناة نقل الازمة، (د) تدهور الهيكل الاقتصادي، بحلول عام 2011، في ارتباط القوي بالمحدد التاريخي لعلاقة النمو بالتجارة الخارجية، كان السبب الجوهري لكلا أنواع الأزمات المالية التي مررت بالسودان. واخيراً، فإن تقليص نسبة الإحتياطى الدولي إلى عرض النقود المحلي المعتدمة على حصيلة صافي التمويل الأجنبي وحصيلة الصادرات، لدفع عان نظام سعر الصرف الكلي، كانت عامل التنبؤ الرئيسية بأزمات العملة ومفهومها بتكاليف إقتصادية وسياسية مرتفعة. ولذا، تم إقتراح معيار لتفاعلية السياسات الإقتصادية الكلية تنص على أن تنمو نسبة الصادرات/الواردات بمعدلات أعلى من نمو صافي الإحتياطيات الدولية إلى عرض النقود المحلي. بالإضافة إلى ذلك، تمت التوصية بضرورة إجراء الدراسات الحتمية لإحداث التغييرات الجذرية للهيكل الإقتصادي السائد، في إنشاق تام مع تحسين السياسات الإقتصادية الكلية، لتقليل تعرض لأزمات العملة، بصورة أساسية.
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<td>Global Financial Crisis</td>
</tr>
<tr>
<td>H-STGLP</td>
<td>Historical Structural Trade-Growth Limiting Parameter</td>
</tr>
<tr>
<td>ICIP</td>
<td>Influential Commodity’s or Cotton’s International Prices</td>
</tr>
<tr>
<td>IEIs</td>
<td>Internal and external Imbalances</td>
</tr>
<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IR</td>
<td>Inflation rate</td>
</tr>
</tbody>
</table>
KAB  ≡ Capital Account Balance  
MDGs  ≡ United Nation’s Millennium Development Goals  
NBKIs  ≡ Net Balancing Capital Inflows  
NBKOs  ≡ Net Balancing Capital Outflows  
NFA  ≡ Net Foreign Assets  
NIR  ≡ Net International Reserves  
S-JAM  ≡ South Joint Assessment Mission  
TED  ≡ Total External Debt  
TYP  ≡ The Ten Year Plan  
UDEs  ≡ Under-Developing Economies  
UUE  ≡ Unindustrialized Undiversified Economy  
USA  ≡ United States of America  
WWI  ≡ World War I  
WWII  ≡ World War II  
WB  ≡ The World Bank  
ΔNFA  ≡ Changes In Net Foreign Assets  
Δ  ≡ Rate of Change