

# Sudan Economic Brief: Recent Economic Developments 2<sup>nd</sup> Semester 2012

## I. Summary

**Sudan's economy is at a historic crossroads.** For the last decade, oil exports have fuelled strong economic growth: by 2010 the economy was more than twice the size it had been in 1999. But following South Sudan's secession in 2011, oil production has fallen by three quarters, revenues have more than halved and the economy is in recession. Tough choices need to be taken now if the economy is to be put onto a sustainable growth path in the future.

**Looking back at the oil boom of 1999–2010, Sudan missed a chance to build the foundations of a vibrant non-oil economy.** Oil reserves were not converted into equivalent public investments in education and infrastructure. During the oil boom, Sudan was heavily reliant on the oil sector and failed to diversify its economy. The value of oil extracted far outweighed the resources used for public investment. Once one adjusts for the value of oil depletion, environmental degradation and education expenditures, national net savings were highly negative, averaging -7.4 percent of GNI for the period 2000 – 2010, which means the country as a whole was consuming away a large fraction of its wealth. In short, the oil boom masked the fact that the economy was geared towards consumption and imports, rather than production and exports, an unsustainable growth path.

**The present serious economic crisis was triggered by the secession of South Sudan, and the associated loss of oil revenues and foreign exchange earnings, but has its roots in the unbalanced policies of the oil boom period.** The loss of oil had a ripple effect on the economy:

- **External Accounts.** The trade balance deteriorated, going from a substantial surplus to a large deficit of USD 700 million in the first quarter of 2012. The current account balance also recorded a deficit of USD 900 million in the same period.
- **Exchange rate.** The market exchange rate dropped first from 3 SDG/USD to around SDG 5 and then later to around 7.1 SDG/USD, after its slight appreciation following the official rate devaluation in June.
- **Prices.** Inflation skyrocketed, reaching over 40 percent since July



**World Bank**

**Sudan**

**Country Economic Brief**

**Issue No. 2012-02**

**December 2012**

*This is a series of short briefs on recent economic developments and economic policy issues in Sudan, published by the World Bank.*

### **Acknowledgements:**

The note relies on the following main data sources: Economic Brief (CBOS); and Foreign Trade Statistics Digest (CBOS). Updated information from the quarterly CBOS publication Economic and Financial Statistical review is currently not available.

**Authors:** Taehyun Lee, Michael Geiger,

Moslem Alamir, and Toru Nishiuchi

**Task Team Leader:** Moslem Alamir

**Lead Economist:** Paolo Zacchia

*Comments on the document should be submitted to: [mgeiger@worldbank.org](mailto:mgeiger@worldbank.org), [malamir@worldbank.org](mailto:malamir@worldbank.org), and [pzacchia@worldbank.org](mailto:pzacchia@worldbank.org)*



2012, driven by higher transportation costs and rising import costs for basic goods.

- **GDP.** The non-oil real GDP is projected to shrink by 5.1 percent in 2012 and by a further 1.4 percent in 2013. The productive sectors of the economy, in particular agriculture and industry, after a decade of neglect and unfavorable exchange rate and wages, were not able to offset the fall in oil production. Gold production and export almost tripled, but the relatively small overall size of the sector mean it is still very far to compensate for the loss of oil.

**Faced with the crisis, the government adopted, after some delays, painful, but necessary, fiscal and exchange rate policies.** Facing skyrocketing inflation and the plummeting market value of the local currency, the Sudanese Government finally announced a series of economic measures including tough fiscal austerity measures and the devaluation of the local currency in June 2012. The announcement marked a pronounced change in policy, since the government had, thus far, not been successful in providing effective policy counter-measures to address the economic shock and the worsening economic imbalances in late 2011 and early 2012. The response to the fiscal crisis saw deep spending cut in the revised 2012 austerity budget. Increasing shortages of foreign exchange finally led the central bank devalue its official exchange rate by 65 percent from SDG 2.6702 per USD to SDG 4.42 per USD on June 25. The decision to devalue its currency is a step forward to more flexible exchange rate regime. However, the devaluation delivered only a short relief to the market as the market prospect is still clouded by the uncertainties over the final outcome of the oil revenue deal.

**Without these adjustment policies the economy could have gone in free fall towards hyperinflation and a deeper recession.** Without the measure to control the high fiscal deficit, higher monetary financing of the budget would have translated into even higher price inflation and would have fed into the demand for foreign currency, with an even larger in depreciation of the currency. The devaluation is likely to have helped ease the external imbalances, reduce the speculative distortion implied by a large black market premium, and relieve pressures on dwindling international reserves. Finally, the signaling effect of the government taking strong economic policy was also important in shoring up the confidence in the economy. In the absence of these measures, the country would have likely experienced a stronger inflation-depreciation vicious cycle, a stronger loss of confidence, and a more extreme depletion of foreign reserves, which would have led to an even bigger economic recession and hardship.

**Looking forward, the shock of secession represents a unique opportunity to adopt economic and development policies that will rebalance Sudan's economy towards job-creating growth sectors.** In the short-term, severe economic adjustments are required with tough policy choices to be made, and the June 2012 austerity measures and devaluation are important steps along this difficult road. In the medium- to long-term, the lessons of the lost oil boom decade should be heeded. Oil reserves have not been depleted entirely, gold is providing an increasing source of revenues and foreign exchange, and South Sudan has recently agreed to pay \$3 billion in direct transitional financial assistance (TFA) to Sudan over the next three-and-a-half years. Sudan's would gain enormously if its remaining natural resource wealth was to be used efficiently.



**What sort of policies would put the economy on a more sustainable path?** There are a number of factors that have a large impact on translating natural resource wealth into sustained economic development. These include:

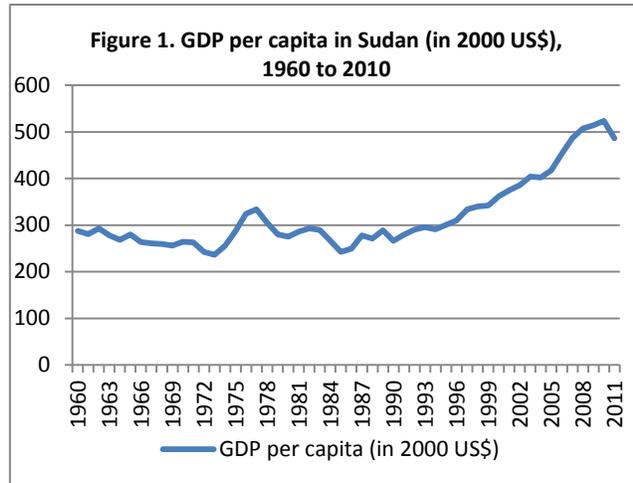
- **Macroeconomic policies:** The fiscal and monetary policies need to be set consistent with low inflation. In the short term, the widening gaps between the official exchange rate, the commercial bank rate and the parallel market rate, need to be closed by having the official exchange rate converge to the market rate. Over the longer-term, the exchange rate must be managed as to make agriculture, manufacturing and tradable services such as tourism, sustainably competitive on regional and global markets, as to generate the growth and jobs needed by the population.
- **Budget Policies:** Public Expenditures need to be geared towards diversification and stabilization of the economy, so that natural resources are transformed into alternative forms of capital for education, health, public infrastructure, natural resource exploitation and agricultural modernization. Ultimately, this implies that recurrent spending – in particular the very large public sector wage bill – will need to be reduced in order to create fiscal space for the sorts of public investments required to rebalance the economy over the medium- to long-term. This restructuring is required not only at federal level, but also among seventeen state governments since they are constitutionally responsible for delivering the investments in primary health care and education. Tax reforms need to ensure sufficient revenue mobilization for the budget and effectively capture resource revenues
- **Structural Policies:** Key to the success of macroeconomic policies will be to have a strong investment response from the private sector. This will require creating a much more level playing field for private businesses in Sudan, and removing the most important constraints to domestic and international investors. The overall regulatory policy in key sector will also need to be modernized.
- **Policies to protect the poorest.** While policies that promote low inflation and inclusive growth offer the best chance for the poor, the economic hardship accompanying the economic adjustment can be cushioned for the poorest segment of the population through making existing social protection mechanisms more efficient, and expanding them in a targeted way when needed. It is also important that public expenditure in key social and economic sector, such as education, health, agriculture are allocated in a way that ensure equity among all citizens.



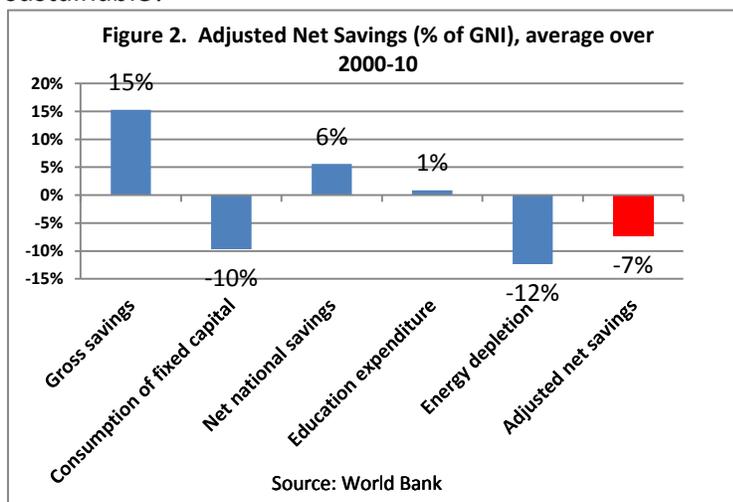
**II. After a decade of large revenues through oil production, but low adjusted net savings, Sudan needs to urgently transform into a less oil dependent economy**

*The decade-long oil boom: unsustainable policy choices*

Sudan has now come to the end of a decade-long oil boom that lasted from 1999 to 2010. During that time, the economy, measured by nominal gross national product, grew to six times its initial size—from US\$10 billion in 1999 to US\$60 billion in 2010. Per capita GDP (constant 2000 US\$), a summary measure of the living standard of average citizens, increased by around 55 percent from US\$334 to US\$524 in 2010. This is in sharp contrast to the pre-oil period, when real per capita income remained mostly within the \$200–300 range for four decades (Figure 1).



Vast oil revenues were raised as reserves were used during the oil boom. US\$83 billion (SDG252 billion in 2010 prices) worth of oil revenues were extracted between 1999 and 2011. Oil depletion was on average around 13 percent of gross national income (GNI) per year over the period.<sup>1</sup> That figure will almost be cut half in the coming years: South Sudan’s secession, coupled with lower projected oil prices and higher costs of production, means oil production will likely fall to less than 7 percent of GNI per year after 2013. A key question now is whether the gains in living standards that Sudan realized as a result of the dramatic depletion were sustainable?



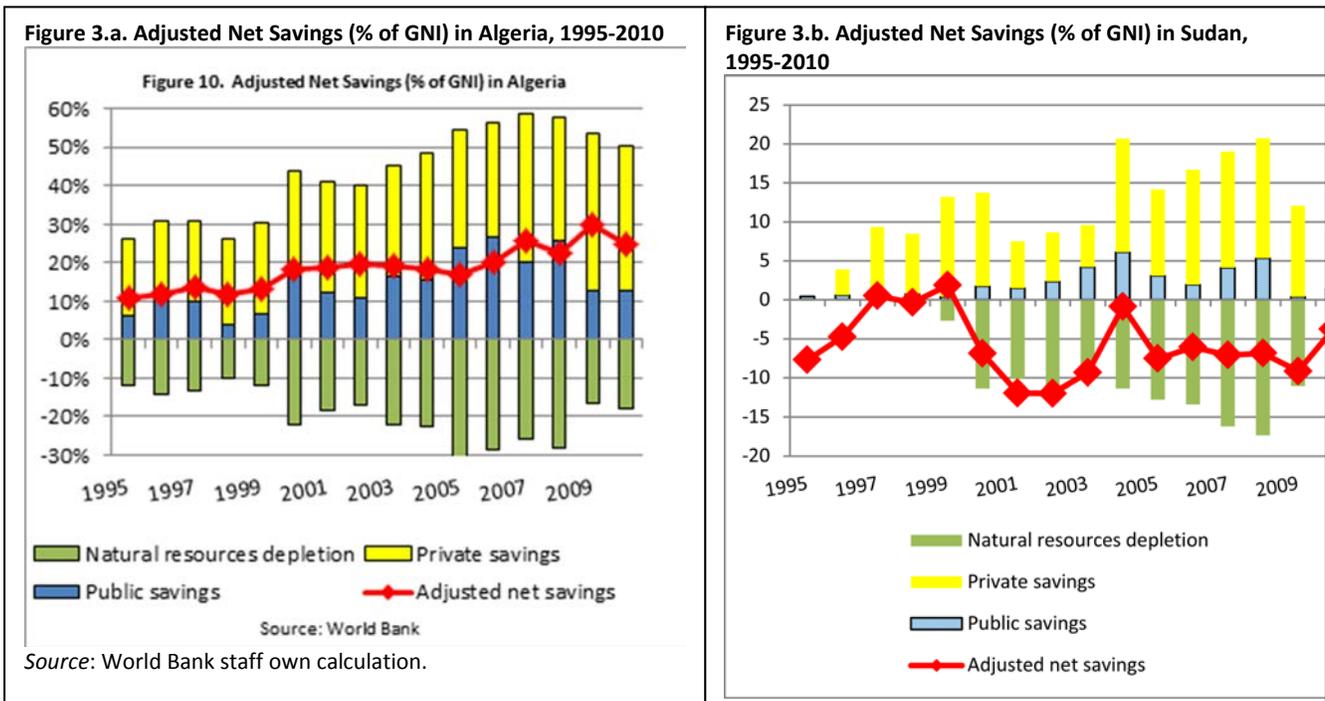
**The oil boom of 1999 - 2010 provided Sudan with the chance to build the foundations of a vibrant non-oil economy.** That chance was largely squandered however: the depletion of oil resources in Sudan was not used for equivalent public investment in human capital (e.g. education), infrastructure and social capital (e.g. health). Although Sudan enjoyed significantly higher GDP growth as a result of increased oil

<sup>1</sup> Calculated as the present discounted value of the future rents, divided by the number of remaining extraction period.



production, the economy remained heavily reliant on oil. Public investment did not grow fast enough to offset the depleted oil resources. Although gross national savings (GNS) were high – averaging 15.3 percent of GNI between 2000 and 2010 (Figure 2) – this does not provide the whole story. For this, one must examine adjusted net savings (ANS), defined as national net saving adjusted for the value of resource depletion and environmental degradation and credited for education expenditures (a proxy for investment in human capital). ANS were negative from 2000 to 2010, at -7.4 percent of GNI. The negative ANS indicates that Sudan depleted its oil reserves without replacing them with equivalent public investments. This, in turn, meant that the economy – even at the height of the oil boom – was never on a sustainable development path. Now, facing the fiscal crisis and the negative impact of the secession on economic activity in general, Sudan will struggle to maintain its standard of living.

**Other countries have shown that it is possible to convert natural resource revenues into public investments in support of a more sustainable economic development path.** For example, Algeria has been much more successful at converting oil revenues into public investments of comparable value. In Algeria, public investment has been equivalent to over 50 percent of oil depletion over the past 15 years. A closer comparator for Sudan (at 13 percent) is Congo, which recovered only about 20 percent of natural resource depletion. This in turn did not translate into the positive growth effects witnessed in Algeria. What is more, the low ratio of public investment to oil depletion in Congo made its economy even more heavily reliant on the oil sector. To sum-up, a country’s ability to convert oil revenues into public investment can be measured by the adjusted net savings rate (ANS): in Sudan, the ANS was negative throughout the decade-long oil boom (1999 to 2010). In contrast, in Algeria, it has been largely positive over the past 15 years (Figure 3).



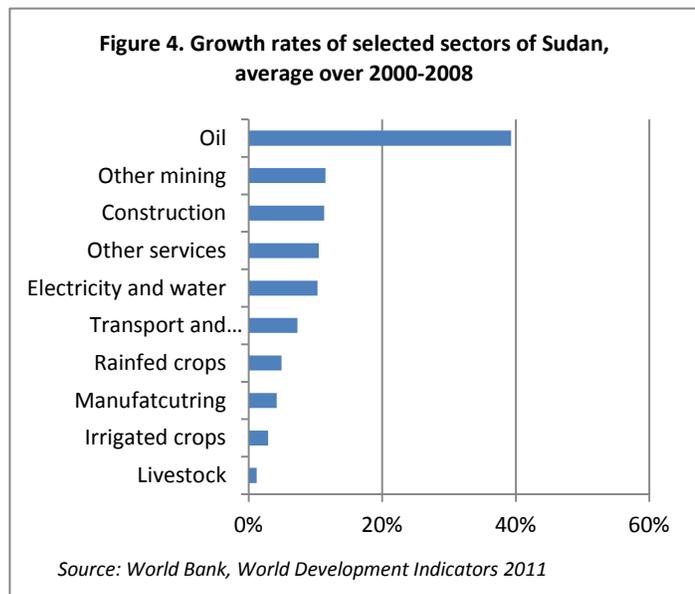
*The current crisis: an opportunity to invest*



**Looking forward, Sudan needs to learn the lessons from the past decade: revenues from natural resource activities must be channeled into public savings.** In this way, the federal and state governments could play a critical role in putting the economy onto a more sustainable growth path. This would require both the efficient collection of oil revenues and investment of public savings into education, infrastructure and social capital. With dramatically reduced economic reliance on the oil sector, and the development of new natural resource activities such as gold mining, it is critically important to effectively save and invest the remaining natural resource rents in Sudan.

**To achieve sustainable long-term economic development, Sudan must develop a strategy to invest its remaining resource revenues in alternative forms of capital.** Wealth accounting suggests that a number of factors have a large impact on translating natural resource wealth into sustained economic development. Among these are: Macroeconomic policies that encourage both public and private savings; reforms in tax administration to effectively capture oil revenues; and public resource funds for diversification and stabilization that transform oil resources into alternative forms of capital for education, health, public infrastructure, non-oil natural resource exploitation and agricultural modernization.<sup>2</sup>

**In Sudan, Agricultural modernization will be particularly important for inclusive growth because the agricultural sector employs more than 80 percent of the total population and contributes a third of GDP.** A third of the total land in Sudan is arable, but only 20 percent of this land is under cultivation. Sudan relies on food imports because total cereal production meets only 65 percent of annual grain consumption. The reliance on food imports hurts the poor and vulnerable, especially in rural areas. But to revive agriculture and hence diversify the economy, a new policy direction is needed that



emphasizes the tradable non-natural resource sectors, reversing the trends of the past (Figure 4). The challenge is to promote and facilitate more exports in areas such as agriculture as well as food-processing and manufacturing. To this end, these sectors would benefit substantially

<sup>2</sup> Sudan had the foresight to create such a fund, the Oil Revenue Stabilization Account (ORSA) to help smooth expenditure over time. But management has been poor, and so have been results. The World Bank's Country Economic Memorandum (CEM) of 2009 stated that "ORSA has not yet functioned as a disciplined mechanism to promote either fiscal or macroeconomic goals in the country." It found further that withdrawals from the account have been highly volatile and nearly equal to deposits on net. This fact shows the real lack of effectiveness in stabilizing expenditure. Maybe even more importantly, the CEM highlighted that there were heavy withdrawals when oil revenue was well above budgeted levels, again counteracting the anti-cyclical direction that the ORSA was originally designed for.



from public investments financed by the remaining natural resource depletion in Sudan – for example through improved transport infrastructure to reduce the cost of getting agricultural produce to markets.

**Gold exports may play a role in the transition to a more diversified economy, especially to finance temporary funding shortfalls** (section V of this brief analyzes gold exports in more detail). The prospect of rising gold exports, however, should not distract attention from the fact that natural resources revenues have not helped to build capital for the future – mainly because of the too low public savings rates. Sudan urgently needs to put in place a system that invests rents from oil, gold and other natural resources in long-term capital and the diversifications of its economy. The opportunity provided by the decade-long oil boom was largely missed: the current crisis presents an opportunity to address these structural challenges. The remaining natural resources will help to ease the transition, but they will not solve the immediate economic and fiscal problems facing Sudan.

### III. The short-term adjustment to the crisis: June 2012 austerity package

**The fiscal plan of June 2012 proposed a wide range of measures to narrow the federal budget deficit.** This was a somewhat belated response to the shortfall in oil revenues, which resulted both from delays in negotiations on the oil revenue sharing arrangement with South Sudan, and overly optimistic assumptions underlying the revenue projections. The austerity measures announced in the 2012 include adjustments to both the revenue and the expenditure sides of the budget.<sup>3</sup>

#### *Revenue prospects and measures*

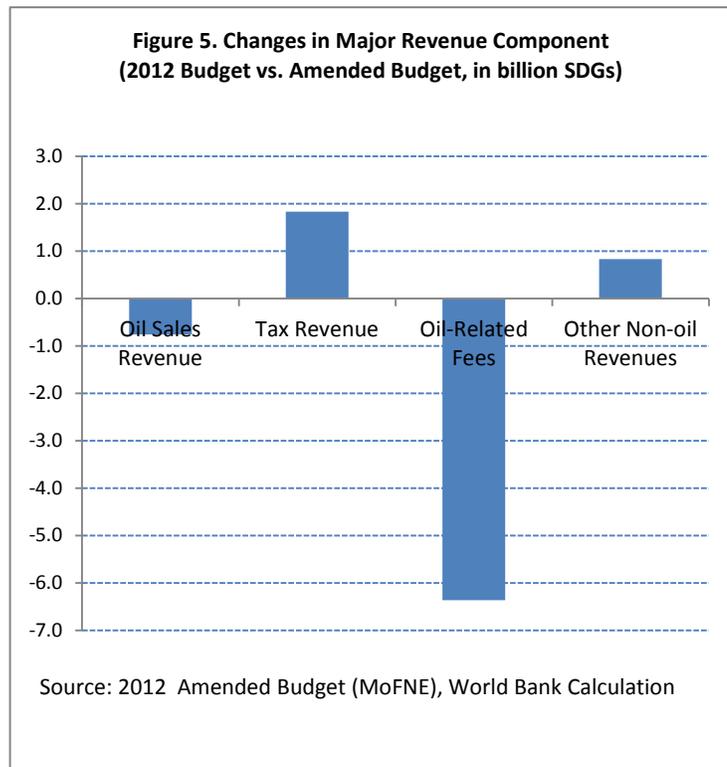
**The fiscal austerity measures are based on more realistic assumptions about oil revenues, an important step towards an acceptance of the new fiscal realities.** The amended budget removed very high assumptions on oil related fees from South Sudan, which were originally projected at SDG 6.6 billion (28 percent of total revenue of the original budget). Under the revised budget, total government revenue was projected to be 18.7 percent lower than in the original budget. Although the original 2012 budget considered the huge revenue losses from the secession of South Sudan, it compensated by making very optimistic assumptions regarding oil-related transit fees. Based on these assumptions, government expenditure was actually projected to *increase* by 7 percent, which would have even allowed for increases in development spending at both the federal and state levels (for more details, see [Sudan – Economic Brief, Issue No. 2012-01](#)). The revised austerity budget adjusted the original assumptions, making them more realistic (Figure 5):

---

<sup>3</sup> These measures are continued in 2013. But still the 2013 budget plans for a significant fiscal deficit of 3.5 percent of GDP (compared with 4 percent in 2012). Revenues are expected to increase by 30 percent, reflecting optimistic projections on oil, gold mining and customs collections. Total revenue is projected to reach 8.6 percent of GDP in 2013 (compared with 7.8 percent of GDP in 2012), while total expenditure is targeted at 11.9 percent of GDP in 2013 compared with 11.8 percent in 2012.



- **Tax revenue measures.** Under the revised budget, tax revenue were projected to increase by almost 20 percent compared with the original budget. The tax revenue boost was expected to be achieved through tax rate increases; this included VAT (from 15 to 17 percent), development tax on imports (from 10 to 13 percent), and business profit tax (from 15 to 30 percent).
- **Non-tax revenue measures.** The austerity package also announced measures to increase non-tax revenue, including the sale of public assets and the privatization of public companies.



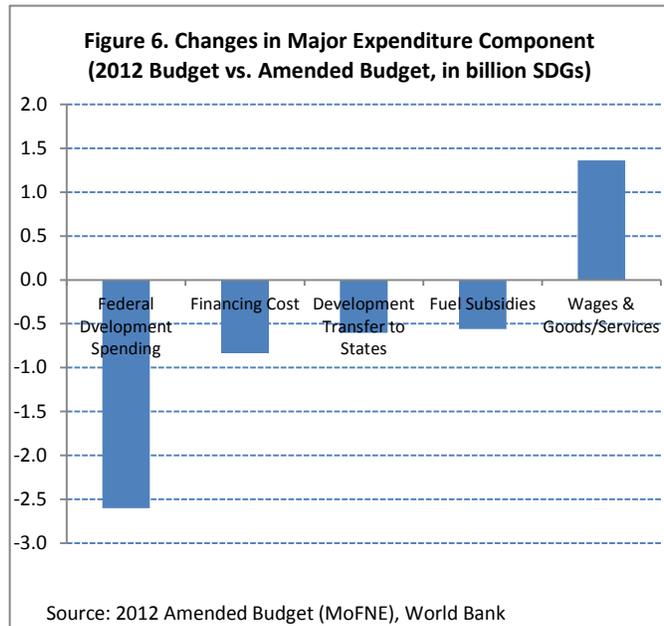
#### *Expenditure cuts*

**On the expenditure side, the austerity package cut government spending by 8.6 percent (SDG 2.6 billion) compared to the original budget, through a wide range of measures.** However, the spending cuts were not sufficient to offset revenue shortfalls, causing the projected fiscal deficit to increase to SDG 8.8 billion in the revised fiscal plan (from SDG 6.9 billion of the original projection). Given Sudan's highly limited access to external financing and fragile domestic financial market, the widening financing gap raised concerns regarding how much could realistically be financed, without the need to revert to inflation as a means of fiscal consolidation. The main changes on the expenditure side are as follows:

- **Expenditure cuts were heavily concentrated on development spending.** Most of the expenditure cuts were expected to come through significant reductions of previously unrealistic development spending plans, both at federal and state level, while the aggregate recurrent spending level was mostly kept unchanged. Federal level development spending was reduced by 50.9 percent (SDG 2.6 billion) and development transfers to state governments by 8.3 percent (SDG 0.6 billion). Meanwhile, recurrent spending on the compensation of federal employees (salaries and wages) *increased* by 9.5 percent and recurrent transfers to state governments remained at the level of the original budget (Figure6).



- **While it is clear that the previously unrealistic development budget plan needed to be revised, the magnitude of the cuts raised concerns regarding the fiscal space available for development spending in future.** Development spending must play a key role if the economy is to be put on a more sustainable growth path. Given the tight fiscal constraints Sudan currently faces, it will be extremely important to focus on the efficiency of the public investment management system as such. Promising areas of emphasis could be around proper project preparation (including project selection and appraisal procedures), and establishing monitoring and evaluation processes. A recent plan to establish a specialized unit in the Ministry of Finance and National Economy (MoFNE) in charge of project preparation is a step into the right direction. Likewise, efficiency savings within the recurrent portion of the budget will be an important source of fiscal space for much needed public investment.



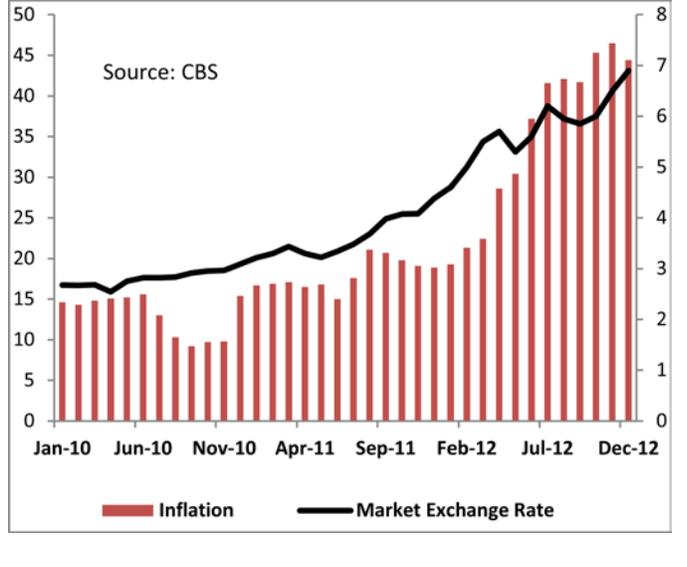
- **The fiscal austerity plan also envisioned a gradual phasing out of fuel subsidies, recognizing their regressive effects as well as cost.** The revised budget reduced fuel subsidies by 21.6 percent (SDG 0.6 billion). Given Sudan imports increasing volumes of refined petroleum to meet rising demand for fuel, this will be an ever more important form of fiscal consolidation. More market-driven fuel prices would contribute to a stronger fiscal position, as well as relieving the pressures arising from increased foreign exchange demand. However, this transition needs to be managed with caution. Recent experience in Nigeria and Mozambique shows that there are often powerful urban constituencies that support the maintenance of such subsidies.



**IV. Increased fuel prices and rising pressures on the local currency continue to push prices in the goods market to recent highs**

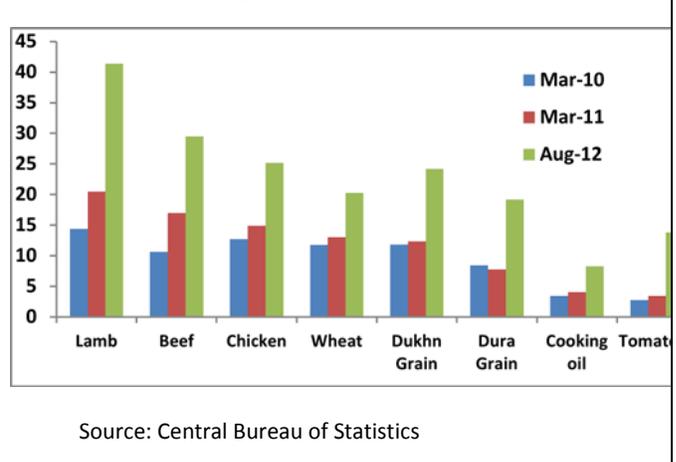
**Inflation has continued to increase for twelve consecutive months in 2012.** The annual inflation rate continued its alarming upward trend, which began in mid-2012, hitting 46.5 in November and 44.4 percent in December (Figure 7). The rates of November and December are thus twice the pace of inflation in early 2012. The skyrocketing inflation is mainly attributed to huge price increases in several basic food items such as beef, lamb, cereals, vegetables, milk, legumes, cooking oil, and fruit (Figure 8). This reflects higher transportation costs (due to the phasing out of fuel subsidies) and rising import costs for basic goods (due to the devaluation of the SDG vis-à-vis the US\$).

Figure 7. Sudan overall yearly inflation rate and market exchange rate, Jan 2010 – December 2012 (%)



Sudan’s rapid inflation underscores the need for an enhanced safety net program, given the already large socioeconomic challenges faced by the poor and vulnerable. The overall annual inflation hit 35 percent in 2012 compared to the targeted annual inflation rate for 2012 of 17 percent, a goal that was announced by the “Central Bank of Sudan Policies for the Year 2012”. In fact, it is more likely that inflation will stay at very high levels given the continued pressure on the local currency and the associated supply bottleneck on imported items.

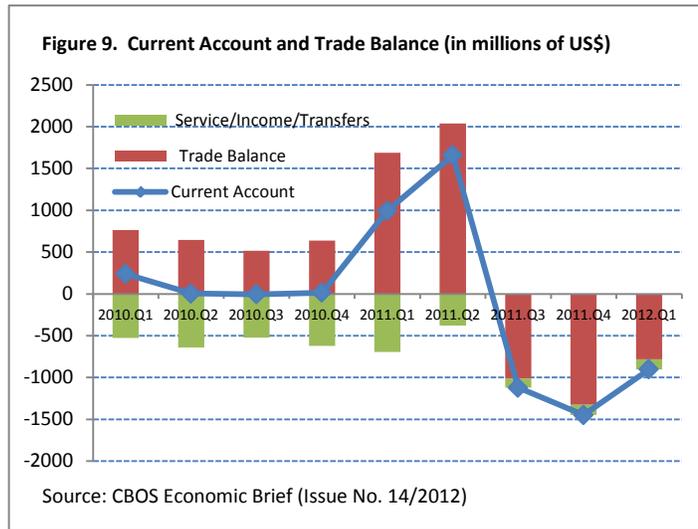
Figure 8. Sudan Food items prices have more than doubled since 2010, (SDG/Kg)



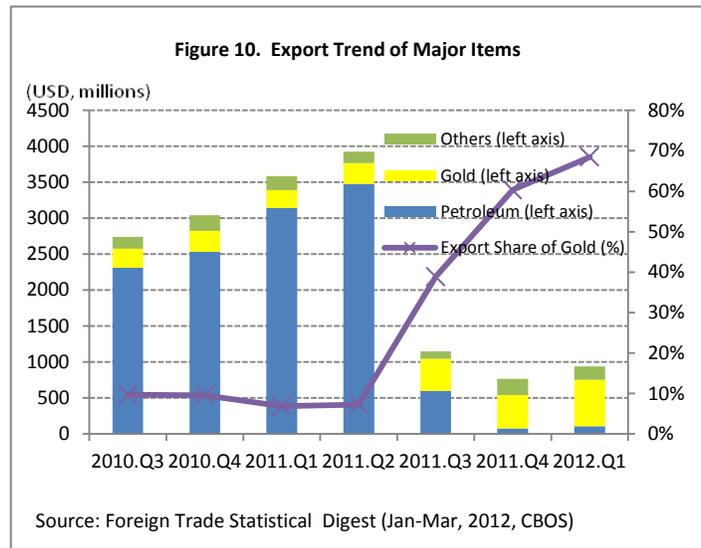


## V. The oil revenue shock is rapidly translating into heavy deficits in the external accounts

The secession of South Sudan has driven the trade balance from substantial surplus to a large deficit. The trade balance recorded a significant deficit of US\$ 0.7 billion in the first quarter of 2012 following the US\$ 2.6 billion deficit between July and December in 2011. The current account balance also recorded a deficit of US\$ 0.9 billion between January and March 2012; this continues the negative current account trend which started in mid-2011, when a stunning surplus of US\$ 2.7 billion in the first half of 2011 turned into an equally large deficit of US\$ 2.7 billion in the latter half of the year (Figure 9). These trends have been driven by sharply lower overall exports that cannot be compensated by rising gold exports, and decreasing imports as a result of the economic crisis:



- **Exports in the first quarter of 2012 (US\$ 940 million) showed a slight increase compared with the previous quarter (US\$ 769 million), but still remained less than one-fourth of the pre-secession level.** There have been no crude oil exports since the secession of South Sudan, which previously accounted for over 80 percent of total exports. Export of petroleum was at only US\$ 110 million during the same period, accounting for only 11.7 percent of total exports (Figure 10).

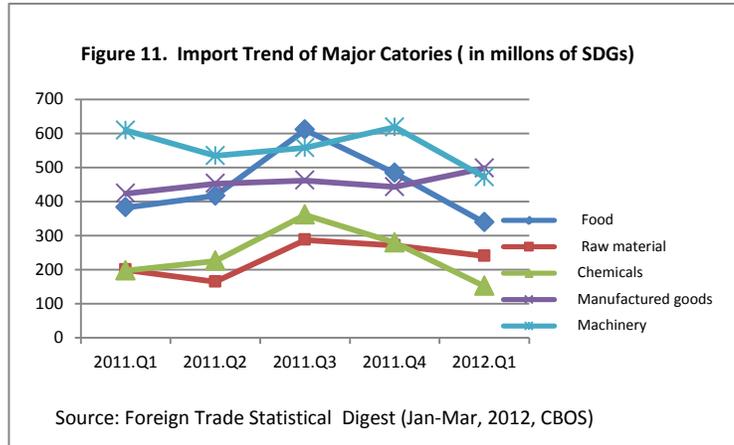


- **The dominance of gold in total exports is rapidly increasing.** Gold exports in the first quarter recorded US\$ 644 million, almost six times the size of petroleum export. The percentage share of gold exports in total exports also rose to a level close to 70 percent from less than 10 percent during the pre-secession period (Figure 10). The increasing significance of gold in exports seems to be inevitable as the Government pursues a strategy to use gold exports to compensate for the imminent shortfall of foreign exchange. However, boosting gold exports can only provide temporary and partial relief



to the current extreme external imbalances given the depth of the current economic crisis. On the contrary, a transition and long-term development strategy is needed, to create the more broad-based economy and diversified export structure that would allow for a new and sustainable economic development path. But non-gold exports, excluding petroleum products show a stagnant trend. In fact, non-gold exports declined by 18.1 percent, accounting for only around 30 percent of total exports.

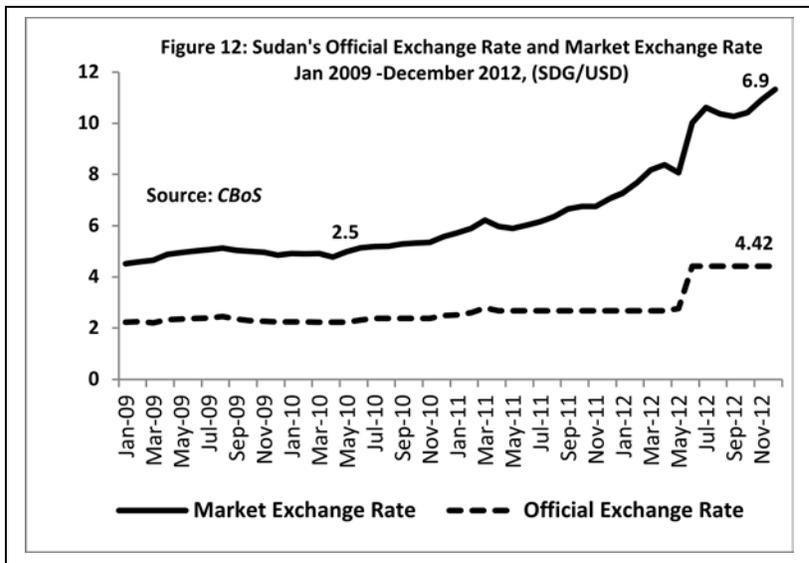
- **Total imports declined for two consecutive quarters.** In the first quarter of 2012, total imports were US\$ 1.95 billion, which significantly dropped by 18.7 percent compared to the previous quarter. This decline is across all categories, reflecting the aggravated shortage of foreign exchange so needed to pay for imported goods in demand. As a result



imports in the food category declined by 30 percent, machinery by 23.7 percent and for transportation equipment by 9.3 percent (Figure 11). Along with the very poor exports performance, weakening imports are likely to contract economic activities further by limiting the supply of goods necessary for business and consumption.

**VI. Growing pressure finally led to the devaluation of the Sudanese Pound, but the pressure to depreciate further still remains and market sentiment is fragile**

**Mounting depreciation pressures finally led to changes in the foreign exchange policy in May and June 2012.** Due to the increasing shortage of foreign exchange and uncertainty surrounding the finalization of secession negotiations, the exchange rate of the local currency in the prevailing parallel market hit over SDG 7.1 per US\$ in late December (Figure 12). The large gap between the market rate and the official exchange rate



made the Central Bank of Sudan (CBOS) adopt a series of exchange rate reforms. In May, the CBOS allowed licensed foreign exchange dealers and commercial banks to set the value of the



local currency closer to the parallel market rate. On June 25, the Central Bank devalued its official exchange rate by 65 percent from SDG 2.67 per US\$ to SDG 4.42 per US\$. The official exchange rate has been kept at SDG 4.398 per US\$ since July 9. Driven by positive expectations on the agreement on oil transit fees and compensation between Khartoum and Juba in September 2012 (see Box 1), Sudan's parallel market exchange rate had initially declined to SDG 5.5 per US\$, somewhat reversing the large depreciation over the previous months. However, significant pressures on the local currency resumed.

#### **Box 1: Recent Political Developments**

**Recent political progress promises to translate into economic progress in Sudan.** A Presidential Summit between the two parties in July 2012 broke the deadlock and led to an interim oil agreement on 3 August 2012. The agreement involves South Sudan paying oil transit fees of US\$9.48 per barrel. In addition, South Sudan will provide \$3.028 billion in direct transitional financial assistance (TFA) to Sudan over the next three-and-a-half years.

**The parties resumed negotiations in Addis Ababa on September 03. A presidential Summit between Presidents Al-Bashir and Silva Kir during the period of 22 to 27 September 2012 was successful** in brokering an agreement including on oil, four freedoms and the demilitarized zone, as well as issues related to trade, pensions, arrears, and economic cooperation. However, resolutions could not be reached with regard to Abyei and border issues for which a collaboration agreement has been signed.

**Despite recent changes, the exchange rate regime is still faced with uncertainty and devaluation pressures amidst the persistent overall negative market sentiment.** Gaps between the different exchange rates in Sudan are still significant: the deviation of the commercial bank exchange rate from the official rate is widening again even though commercial banks were given more flexibility in determining their exchange rate. The commercial bank rate in mid-September stayed around SDG 5.7 per US\$, which is almost a 20 percent premium vis-à-vis the US dollar compared to the official exchange rate. At the same time the commercial banks exchange rates still fell short of the prevailing parallel market rate, which in October 2012, again rose close to SDG 6 per US\$.

**Overall, the historic move of the authorities to devalue its currency is a step in the right direction and welcome news for export-led economic diversification, especially in the agriculture sector.** The devaluation is likely to help ease the external imbalances. Regaining price competitiveness in the international market for major export goods is likely to lead to an improvement in the trade balance. Allowing the devaluation of the local currency could also provide relief to mounting pressures on dwindling international reserves. On the other hand, devaluation will also put additional pressure on domestic prices through higher import bills, especially for food items. Finally, the again widening gaps between the official exchange rate, the commercial bank rate and the parallel market rate calls for granting even more flexibility to commercial banks in foreign exchange transactions and to move the official exchange rate closer to the market rate.