Revisiting the Contention of the FD/GDP Nexus of the Northern Sudanese Economy: A New Startling Empirical Result

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Abstract: Sudan, the largest continent in Africa, has been experiencing a critical internal crisis for several decades, leading to the split of the country between the south and the north. Following to this, can the economic prospects and prosperity of Northern Sudan aid in fostering its economic growth after the split? What is the position of the country’s financial development in fostering its GDP growth? To ensure this, we measure the short-run and long-run impact of financial development on the economic growth of the Northern Sudan, we also investigate whether the relationship between financial development and economic growth is monotonic or not. To do this we use time series data from 1980 to 2011, while the ARDL bounds-testing approach to cointegration and the U test methodologies were applied. Surprisingly, the findings of the study reveal that, among the three selected indicators of financial development, it is only the ratio of credit issued to the private sector by the banks to GDP that has a significant contributory impact in fostering the economic growth of the country in the long-run, while in the short-run, fixed capital formation and financial development make a significant contribution to the GDP. we also discovered that the relationship between financial development and GDP is non-monotonic, meaning there are too much finance in the economy due largely to the international sanctions that have triggered high rate of inflation.

JEL Codes: N27 • O16 • O47 • G29
Key words: U-test • Northern Sudan • ARDL bounds-test • Economic growth

INTRODUCTION

Sudan is the largest country in African in terms of land mass. This has meant it possesses significant potential to expand, develop, explore and exploit its natural resources and to attract high levels of foreign investment. That said, however and in contrast to what might be expected given the country’s size, the country has been seriously marred by an incessant internal crisis that has significantly crippled its ability to exploit its vast economic potential. The African Economic Outlook [1] notes that in 2012 there was a split in the country that saw the birth of Southern Sudan, which broke away from the former Northern Sudan. This split led to the loss by Northern Sudan to Southern Sudan of about 75% of its revenues from oil and other income-generating sources. The real GDP of Northern Sudan contracted by 0.6% in 2012, while inflation was 36.0% in 2012, up from 20.0% in 2011. This phenomenal increase in inflationary pressures, coupled with a high fiscal deficit (which is currently 4.4% of the national budget) in the face of continuing economic sanctions applied to Northern Sudan, have constricted the economy and have created a binding domestic and International borrowing constraint that has translated into economic and political instability and has reduced the potential for the country’s social and financial development. Another potential factor to reckon with is the dwindling natural resources (mainly oil and gold) of Northern Sudan, which will impact upon its medium-term economic growth. Further, the civil wars in Darfur, which cost the country extensive financial resources and in the border states of South Kordofan and Blue Nile have, combined to impair the growth prospects of Northern Sudan. A pioneering study by Mohamed [2] attempted to identify the nexus between financial development and economic performance of the Sudanese economy from 1970 to 2004. He argued that:

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