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. This led to the split of the country between the south and the north. As a result of this, it is pertinent to ask whether the existing economic prospects and prosperity of Northern Sudan could aid in fostering its economic growth after its split with Southern Sudan. Could the financial development of the country foster its GDP growth despite the country’s massive investment in its decade-long war? If not, what are the possible explanations for the country’s economic growth profile in the modern era? From empirical findings in this respect, what factors may impede on the overall growth prospects of the country’s economy in both the long run and the short run? To answer such questions, we measure the short-run and long-run impact of financial development on the economic growth of Northern Sudan and also investigate whether the relationship between financial development and economic growth is monotonic or not. The study uses time series data from 1980 to 2011 using the ARDL bounds-testing approach to cointegration and the U test of Mehlum and Sasbuchi. Surprisingly, this study reveals 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. The study also discovered that the relationship between financial development and GDP growth in the country is non-monotonic, meaning that there is too much finance in the economy due largely to the presence of international sanctions that have triggered a high rate of inflation.

JEL classification: N27; O16; O47; G27
Keywords: U-test, Northern Sudan, ARDL bounds-test, Economic growth.