
Country Report

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The Economist Intelligence Unit

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Executive summary

Highlights

August 2008

Outlook for 2008-09

- The political situation in Sudan remains uncertain, following the charges of genocide and crimes against humanity laid against the president, Omar al-Bashir, by the chief prosecutor of the International Criminal Court (ICC).
- The Darfur crisis is set to worsen and there are likely to be continued deep north-south tensions. Nevertheless, on balance, the Economist Intelligence Unit expects a continuation of the political status quo in 2008-09.
- The fiscal account is forecast to remain in deficit, at 0.8% of GDP in 2008, widening to 4.4% in 2009, as the government finds it politically difficult to cut spending despite lower than expected oil revenue.
- We have revised down our forecast for the average price of the benchmark dated Brent Blend, to US\$110/barrel in 2008 and US\$91/b next year.
- With output falling in ageing fields and little new oil due to come on stream, real GDP growth is set to decline to an average of around 5.9% in 2008-09.
- Consumer price inflation is expected to rise to an average of around 18% this year, before moderating slightly in 2009.
- As rising fiscal pressures weigh on the currency, we expect the Sudanese pound to depreciate further, to SP2.06:US\$1 in 2008 and SP2.13:US\$1 in 2009.
- The current-account deficit is projected to narrow to 3.7% of GDP this year, owing to high oil prices, before widening to 7.7% of GDP in 2009.

Monthly review

- The northern ruling National Congress Party (NCP) and southern Sudan People's Liberation Movement (SPLM) have announced a "Sudan People's Initiative" to resolve the Darfur conflict, in response to the ICC charges.
- The NCP and the SPLM have agreed on an administration for the disputed border region of Abyei and on a National Electoral Commission.
- The Islamic Movement has re-elected as its secretary-general Ali Uthman Mohammed Taha, the second vice-president.
- The chairs of the Southern Sudan public commissions and chambers have requested a budget increase in 2008 from the southern government.
- New data from the Ministry of Finance have shown a continued decline in oil output in 2008, to an average of 441,000 barrels/day in the second quarter.
- GIAD Automotive, a state-owned firm, has abandoned its attempt to float on the Dubai Financial Market because of difficulties in finding a broker.
- The national Dams Implementation Unit and the southern government have agreed to build three new dams in Southern Sudan and rehabilitate another.

Outlook for 2008-09

Political outlook

Domestic politics The political situation in Sudan remains uncertain, following the charges of genocide and crimes against humanity laid against the president, Omar al-Bashir, by the chief prosecutor of the International Criminal Court (ICC) in July. The Economist Intelligence Unit's central scenario is that a crisis will be averted in the short term, as the principal domestic actors seek to maintain national unity and the international community attempts to remain engaged with the Sudanese government. Mr Bashir is likely to pursue a policy of tactical co-operation with the UN and Western donors, and could make some new concessions to the leaders of the main northern and southern political parties in an attempt to form a common front against external threats. However, there are substantial downside risks, especially if an arrest warrant is in fact issued. If the government sees no further advantage in co-operation, it could take extreme measures to shore up its domestic position. A forced withdrawal of the international relief operation, combined with a resurgence of the rebel groups, could result in a sharp deterioration of the situation in Darfur. Nevertheless, we expect the northern ruling National Congress Party (NCP) to maintain its control of the capital, Khartoum, and the nearby states in 2008-09.

In the longer term, the response to the ICC charges will also increase the strains on the 2005 north-south Comprehensive Peace Agreement (CPA) between the NCP and the southern ruling party, the Sudan People's Liberation Movement (SPLM). SPLM leaders are likely to be divided over how to respond to the charges, as well as over how to address ongoing deficiencies in CPA implementation. There is a high risk of further clashes on the north-south border, including in the disputed oil-producing region of Abyei and the Nuba Mountains in Blue Nile state. Political miscalculations by northern or southern leaders could also cause violence to spread more widely. Salva Kiir, the president of the semi-autonomous Government of Southern Sudan (GOSS), has announced plans to stand for national president in the election scheduled for 2009, demonstrating his alignment with those SPLM factions that seek to expand the movement's support in the north, with the aim of becoming a genuinely national party. However, the majority are likely to back southern secession in a referendum due in 2011. They will therefore focus on entrenching SPLM dominance in the south, preparing for the possibility of renewed civil war.

Although national elections are officially due in mid-2009, there is a strong chance they could be delayed owing to political uncertainty. In the run-up to elections, the main political parties will seek to form new tactical alliances. However, the NCP is likely to crack down hard if its own position appears threatened. Mr Bashir will seek to secure his personal power base in the north by allocating financial resources and high-level positions to key interests in the party leadership, the business community, and the army and security services. Although the government has budgeted for sharp increases in allocations to the northern state governments, it remains reluctant to transfer real wealth and

administrative power, which have long been concentrated in Khartoum. There will therefore be increased dissatisfaction in outlying areas, which remain politically troubled and economically marginalised. In particular, the Darfur crisis is likely to deepen as government forces and *janjaweed* militias confront rebels emboldened by the ICC move, including forces backed by neighbouring Chad. In the absence of an effective peace process, we expect increased insecurity in Darfur. UN peacekeepers and aid workers may come under further attack, and international development efforts are likely to suffer from the increased tensions as a result of the ICC charges. The conflict could also spill over into neighbouring Southern Kordofan, exacerbating local causes of instability. Discontent in the impoverished east of the country is expected to grow over the outlook period—although in the absence of Eritrean backing, rebels will be largely ineffective. Fighting could also flare up again in the Nuba Mountains.

In focus

Darfur dialogue initiative

Efforts to reach a settlement in Darfur have gained new momentum, in advance of the possible issuing of an international arrest warrant against Omar al-Bashir, the Sudanese president. Only real progress towards peace is likely to stop the UK, France and the US from using their vetoes in the UN Security Council if China or Russia put forward a resolution (under Article 16 of the Rome Statute, which established the International Criminal Court, or ICC) to defer the likely indictment of the president. Otherwise, the European powers worry that such a move would undermine the court, and the US government—which has doubts about the ICC as an institution—is keen to take a tough line against Mr Bashir, partly because of pressure from the Save Darfur movement, a powerful domestic lobby. A deferred indictment would also ease the dilemma faced by the Sudan People's Liberation Movement (SPLM), allowing it to remain partnered with Mr Bashir in the national government without alienating vital international support. The SPLM has therefore strongly emphasised the need to focus on reconciliation in solving the conflict in Darfur. Other opposition parties are pushing a similar line—although there has been squabbling over which of them ought to lead the Darfur dialogue initiative.

The National Congress Party (NCP) has been unusually co-operative, emphasising its willingness to talk to all parties. It plans soon to announce a national Darfur Commission, to include all political parties (both in the national unity government and in the opposition), as well as Darfuri tribal leaders, representatives of the internally displaced persons living in camps, civil society spokesmen and all of the Darfuri rebel movements. The Sudanese government has also sought to improve relations with neighbouring Chad (which has periodically backed the Darfuri rebels). Finally, it has increased co-operation with UNAMID, the joint UN-African Union peacekeeping mission in Darfur, at last allowing it to use civilian airports in the area and launch night flights. There are fears, however, that Darfur can no longer be fixed. The rebels now have even less motivation to take talks seriously, with many apparently clinging to the poorly-founded belief that an ICC indictment might push the international community to solve all their problems by forcing regime change in Sudan. Moreover, insecurity on the ground has continued to rise.

Given the complexity of the situation in Darfur, it is difficult to see what verifiable benchmarks of progress the Sudanese government could offer that the international

community might accept. Immediate peace and security in the area remain far beyond its capability to deliver. Moreover, Mr Bashir's position is not so secure that he can afford to disown the hardliners within his regime. But if the government only offers more promises, the Western powers are unlikely to stay the ICC's hand, allowing the indictment against Mr Bashir to move forward. This would weaken both the Sudanese regime and the north-south peace agreement. It could also, however, undermine the credibility of the ICC itself. Sudan's Arab and African neighbours have so far rallied round Mr Bashir, and permanent Security Council members such as China and Russia have also expressed concerns. If an arrest warrant were to be issued and widely ignored, then the court—already damaged in recent weeks by a series of unrelated controversies—would risk becoming irrelevant.

International relations

The Darfur crisis, exacerbated by the threat of the ICC charges, is likely to prevent much improvement in Sudan's poor relations with the US and the EU in 2008-09. However, unless there is a sustained deterioration in political stability in Khartoum, the central government should retain access to financial and political backing from its Gulf Arab and Asian allies. In particular, China has large oil-related investments in Sudan, and has criticised the ICC charges as a danger to peace efforts.

Economic policy outlook

Policy trends

The government is officially committed to economic reform, and has promised to prioritise the repayment of domestic arrears, increase exchange-rate flexibility, restructure and strengthen the banking system and restore confidence in public financial management. However, in its June 2008 review of performance under the staff-monitored programme, the IMF noted a number of slippages and delays. Fiscal problems have continued to make monetary management difficult in early 2008, with the authorities struggling to manage falling reserves and a depreciating exchange rate. Moreover, progress with fiscal reform is likely to remain limited in 2008-09. Mindful of upcoming national elections and in an environment of rising inflation, the government will find it difficult to cut spending, particularly on subsidies and wages.

Sudan has substantial public debt arrears with traditional multilateral and bilateral lenders, and is unlikely to benefit under debt-relief programmes over the outlook period, in part because of the ongoing problems in Darfur. In May donors pledged an additional US\$4.9bn in aid, but disbursement via the multi-donor trust funds (MDTFs) could remain slow. The authorities will therefore continue to finance infrastructure projects and the fiscal deficit by taking on extra debt. Much of this new funding, which is expected to average almost US\$900m a year, will come from Gulf Arab countries, China and India.

Fiscal policy

We expect government revenue to rise strongly in 2008, by around 42%, to SP26.3bn (US\$12.8bn). This is largely attributable to a 60% increase in oil revenue (which accounts for two-thirds of total government earnings), as a sharp rise in international prices, especially for Sudan's poorer quality oil, offsets a decline in production. Prices are set to fall slightly in 2009, and production will decline further in maturing fields, bringing down oil revenue.

This will be only partly offset by a rise in tax receipts on the back of healthy economic growth and improved collection. Total government revenue is therefore projected to fall to around SP24bn. We also forecast that government spending will increase strongly this year, by around 28% (boosted by a public-sector salary rise and new infrastructure projects that will drive up capital spending). Social pressures are also likely to push spending up by around 11% next year, despite government efforts to balance the budget. Transfers to the state governments, especially in the north, and to the GOSS (which, under the CPA, is allocated one-half of net oil earnings from southern wells) will continue to rise. The fiscal deficit is therefore set to widen over the outlook period, from about SP1.1bn (0.8% of GDP) this year to SP6.3bn (4.4% of GDP) in 2009.

Monetary policy

The Bank of Sudan (the central bank) manages monetary policy largely through the issuance of Islamic financial certificates and exchange-rate manipulation. The central bank and the government will seek to balance the need to contain rising inflationary pressures in 2008-09 against the necessity of maintaining enough liquidity in the banking system to allow a recovery of credit to the private sector, which contracted sharply in 2006-07. This will be managed in part through the government's slow repayment of domestic arrears. The average *murabaha* rate (a sharia-compliant rate of return), which rose to 11.8% in 2007, is expected to decline to an average of 11.3% in 2008-09, reflecting efforts to increase credit to the private sector. The monetary authorities are also aiming to improve banking supervision, restructure the banking system and increase provisioning levels in an attempt to address high levels of non-performing loans. The GOSS will seek to enforce its prohibition on northern Islamic banks opening conventional windows in the south, opening up further opportunities for financial institutions from neighbouring African countries.

Economic forecast

International assumptions

International assumptions summary

(% unless otherwise indicated)

	2006	2007	2008	2009
Real GDP growth				
World	5.0	4.8	3.8	3.3
OECD	3.1	2.7	1.7	1.2
EU27	3.1	2.9	1.5	1.1
Exchange rates				
¥:US\$	116.2	117.8	105.5	101.8
US\$:€	1.256	1.369	1.540	1.520
SDR:US\$	0.680	0.651	0.616	0.619
Financial indicators				
¥ 3-month repo rate	0.28	0.61	0.73	0.88
US\$ 3-month commercial paper rate	5.03	5.06	2.60	2.75
Commodity prices				
Oil (Brent; US\$/b)	65.4	72.7	110.0	91.0
Cotton (US cents/lb)	58.6	64.8	78.3	86.5
Food, feedstuffs & beverages (% change in US\$ terms)	16.1	30.9	46.2	-1.7
Industrial raw materials (% change in US\$ terms)	49.6	11.2	5.1	-8.5

Note. Regional GDP growth rates weighted using purchasing power parity exchange rates.

We now expect global GDP growth (measured at purchasing power parity exchange rates) to slow sharply to 3.8% this year and just 3.3% in 2009, owing largely to the OECD economic downturn. International oil prices will therefore decline steadily as the outlook period progresses, although they are likely to remain volatile and could be pushed back up by ongoing political uncertainties in several large oil producers (particularly in the Middle East). The price of the benchmark dated Brent Blend is now expected to average just above US\$110/barrel this year (up from nearly US\$73/b in 2007), before falling to about US\$91/b in 2009. Food prices will also rise by over 22% in 2008, but should drop back next year.

Economic growth

Although agriculture still accounts for more than one-third of GDP and the expanding services sector contributes to the economy, oil is now the main driver of economic growth in Sudan. The petroleum sector accounts for the vast bulk of Sudanese exports and has a knock-on effect on consumption, owing to the contribution it makes to fiscal revenue. Rising export volumes caused by the coming on stream of new oil capacity kept real GDP growth high at around 10.2% last year, despite a mediocre harvest and constrained domestic demand (owing to fiscal pressures). Over the outlook period no major new oilfields are due to come on stream, and there will be a steady decline in output in the ageing fields in blocks 1, 2 and 4, more than offsetting a small rise in production in blocks 3, 5A, 6 and 7. High inflation, the global economic downturn and political tensions will also constrain non-oil sector growth. Real GDP growth is therefore expected to drop to an average of around 5.9% in 2008-09.

We expect private consumption to remain fairly healthy in 2008-09. Demand should also be boosted by continued foreign direct investment (FDI) concentrated around Khartoum and in the Nile Valley area—although inflows will remain well below the highs seen in late 2005 and early 2006. If the political situation remains stable, growth will also be sustained by a modest peace dividend, focused on the south of the country. Government consumption is set to increase, as commitments to promote regional economic development under recent peace agreements and preparations for the elections result in a rise in investment expenditure on infrastructure. However, these pressures towards stronger growth will be offset by the consequent steady import demand as well as the decline in oil exports.

Inflation

Consumer price inflation averaged 8% in 2007, according to the official data, although this figure concealed dramatic monthly variations. However, inflation rose sharply to an average of 17.3% in the first five months of 2008. With elections due in 2009, the government is likely to resist pressure to control the fiscal deficit by cutting food or fuel subsidies. Even so, rising international commodity prices in 2008 are expected to keep inflation high, at an average of 18% over the full year—sharply above the single-digit inflation target agreed by the Bank of Sudan and the IMF. Moreover, we project that it will moderate only slightly in 2009, to around 15.5%, owing to large salary increases and imported inflation driven by further currency depreciation.

Exchange rates The Bank of Sudan formally operates a managed float of the Sudanese pound (through foreign-currency purchases and daily limits on the trading band). However, given inflationary concerns, the authorities sometimes intervene to manage short-term volatility related to oil production and FDI flows. This is in contrast to the policy that was in place for much of 2007, when maintaining a *de facto* peg to the dollar at around SP2.01:US\$1 reduced foreign-exchange reserves to very low levels (an estimated 1.2 months of import cover at end-March 2008). The loosened constraints allowed the pound to fall to SP2.08:US\$1 by mid-August, and we expect further depreciation over the outlook period, as rising fiscal pressures and political concerns weigh on the currency. The pound is therefore projected to average SP2.06:US\$1 in 2008 and SP2.13:US\$1 in 2009.

External sector High international oil prices are forecast to boost export earnings by around 55% in 2008, to US\$13.8bn, despite a fall in oil output. This rise will be only partly offset by 25% growth in import spending, driven by climbing global prices and increased demand for capital inputs. The trade account should therefore show a surplus of around US\$4.1bn this year. However, this is expected to narrow sharply to US\$1.1bn in 2009, owing to a 20% drop in oil export revenue driven by a decline in international prices and a further fall in output, combined with a small rise in import spending.

Sudan's widening non-merchandise deficit will continue to offset the trade surplus. Growth in the oil sector is expected to boost foreign company profit repatriation and engineering services, driving up income and services debits on average over the outlook period. This will more than counterbalance a rise in current transfers credits (mostly workers' remittances). As a result, although the current-account deficit—estimated at US\$3.4bn last year—should narrow this year to US\$2.3bn (3.7% of GDP), it is forecast to widen again sharply in 2009 to about US\$5.2bn (7.7% of GDP).

Forecast summary

(% unless otherwise indicated)

	2006 ^a	2007 ^a	2008 ^b	2009 ^b
Real GDP growth	11.3	10.2 ^c	5.8	6.0
Oil production ('000 b/d)	337.5 ^c	484.5 ^c	461.6	453.1
Crude oil exports (US\$ m)	5,087	8,419	13,239	10,395
Consumer price inflation (av)	7.2	8.0	18.0	15.5
Government balance (% of GDP)	-4.3 ^c	-3.0 ^c	-0.8	-4.4
Exports of goods fob (US\$ bn)	5.7	8.9	13.8	11.0
Imports of goods fob (US\$ bn)	7.1	7.7	9.7	9.9
Current-account balance (US\$ bn)	-5.2	-3.4	-2.3	-5.2
Current-account balance (% of GDP)	-14.2 ^c	-7.2 ^c	-3.7	-7.7
External debt (year-end; US\$ bn)	28.2	29.4 ^c	31.1	33.0
Exchange rate SP:US\$ (av)	2.17	2.02	2.06	2.13
Exchange rate SP:¥100 (av)	1.87	1.71	1.95	2.10
Exchange rate SP:€ (av)	2.72	2.76	3.17	3.24
Exchange rate SP:SDR (av)	3.19	3.10	3.34	3.45

^a Actual. ^b Economist Intelligence Unit forecasts. ^c Economist Intelligence Unit estimates.

Monthly review: August 2008

The political scene

The government's diplomacy over Darfur buys time

On August 10th the ruling National Congress Party (NCP) and its partner in the national government, the southern Sudan People's Liberation Movement (SPLM), announced that they had agreed on the mechanisms and objectives of a "Sudan People's Initiative" to resolve the conflict in the western region of Darfur. The details and likely impact of this initiative remain unclear. However, the announcement is one of a raft of political and diplomatic measures that the government has taken since the prosecutor of the International Criminal Court (ICC), Luis Moreno-Ocampo, applied for an arrest warrant against the Sudanese president, Omar al-Bashir (July 2008, The political scene). In late July Mr Bashir paid a high-profile visit to Darfur, making a number of orchestrated public appearances and speeches intended to show that he is committed to resolving the Darfur conflict and that he has popular support in the area. In early August the defence minister, Abdel-Rahim Mohammed Hussein, also made a public visit to Darfur to review the security situation. Mr Hussein was accompanied by the interior minister, Ibrahim Mahmoud Hamed; the head of Sudan's National Intelligence and Security Service, Salah Abdullah Gosh; and the commissioner for humanitarian affairs, Hasabou Mohammed Abdullah. In addition, the government has sought to show that it is prepared to investigate any charges itself, obviating the need for ICC scrutiny. On August 5th the justice minister, Abdel-Basit Saleh Sabdarat, announced the appointment of Nimr Ibrahim Mohammed as a special prosecutor to investigate crimes in Darfur since 2003.

In parallel with these actions at home, the Sudanese government has continued its diplomatic campaign abroad to gather support in the face of the charges against Mr Bashir—with considerable success. The African Union (AU), the Arab League and the Organisation of the Islamic Conference, as well as individual governments (including those of Egypt and South Africa), have all voiced their support for Sudan and warned that the ICC charges risk destabilising the country. As a result of their pressure, when the UN Security Council passed a resolution at the end of July to extend the mandate of the joint UN-AU peacekeeping mission in Darfur (UNAMID), the resolution noted the "concerns" of Security Council members about the consequences of the ICC prosecutor's application, and their intention to "consider these matters further"—a reference to the calls from some quarters for the Security Council to use its power to suspend the ICC investigation. Meanwhile, in another effort to show its good intentions, on August 1st Sudan agreed to restore diplomatic relations with Chad, which were severed after it accused Chad of supporting an attack on the Sudanese capital, Khartoum, by the Justice and Equality Movement (JEM), a Darfuri rebel group, earlier this year (May 2008, The political scene).

Following the UNAMID resolution, the Security Council announced that the question of the charges against Mr Bashir would not be on its August agenda. This allows more time for Security Council members to determine whether the

Sudanese government's promises will translate into progress in Darfur, in terms of fostering the peace process, facilitating the deployment of UNAMID or improving security for displaced civilians. The ICC is unlikely to decide on whether to issue an arrest warrant against Mr Bashir for some months. Moreover, the Security Council is currently divided on the issue, with some members, such as Russia and China, backing a suspension of the case, and others, including the UK, France and the US, remaining broadly opposed to any interference.

Progress is made on CPA implementation

On August 8th the NCP and the SPLM resolved a number of outstanding issues related to the implementation of the 2005 north-south Comprehensive Peace Agreement (CPA). Most notably, they agreed on an administration for the disputed border region of Abyei and on a National Electoral Commission, as well as resolving other matters. The deal is significant, as it puts into effect some of the elements of the Abyei Roadmap Agreement, which was signed by the parties in June, after fighting in the area in May had led to the displacement of around 50,000 civilians and the loss of some 80 lives. Following the new agreement, Mr Bashir appointed Arop Moyak Monytoch of the SPLM as chairman of the Abyei Area Administration, and Rahama Abdel Rahman al-Nour of the NCP as his deputy. Although the new administration will be temporary, it should assuage some of the tensions that led to the recent crisis. It will also be backed up by new security arrangements. Joint Integrated Units (JIUs) drawn from the northern Sudan Armed Forces (SAF) and the Sudan People's Liberation Army (SPLA—the armed wing of the SPLM) have now deployed in Abyei, replacing separate SAF and SPLA units. A panel of five arbitrators from the Permanent Court of Arbitration at the Hague should also soon be formed to rule on the Abyei boundary dispute. This should prevent any immediate resumption of fighting in the area, which has long been a particular source of contention between the parties, threatening to destabilise the wider CPA.

In addition, at the meeting on August 8th the NCP and the SPLM reached a tentative agreement on forming a nine-member electoral commission, to be headed by Abel Alier, a southerner and former vice-president who is one of the south's elder statesmen. This commission has been much delayed, but is a key prerequisite for the holding of national elections at all levels, due in the first half of 2009, according to the CPA. The parties also agreed to set up a National Reserve Committee to resolve a dispute between the Bank of Sudan and the Bank of Southern Sudan (the national and southern central banks respectively) over the management of foreign-currency reserves. The timing suggests that the charges before the ICC have to some extent assisted the SPLM in its efforts to pressure the NCP to implement contentious elements of the CPA. For its part, the NCP will hope that this progress will help to persuade the international community of its good intentions. Implementation is therefore expected to continue in 2008-09, although there may be periodic crises, especially around the elections.

Islamic Movement re-elects Mr Taha as secretary-general

On August 9th the Islamic Movement—with the NCP, a successor of the National Islamic Front (NIF), which masterminded the coup that brought

Mr Bashir to power—re-elected as its secretary-general Ali Uthman Mohammed Taha, the second vice-president. The re-election of Mr Taha is both an indication of his own continuing political strength and a measure of the relative stability of the Islamic Movement, which appears to have overcome the internal rivalries that have intermittently threatened Mr Taha's leadership. The movement is also increasingly confident of its strength relative to the group of breakaway Islamic Movement members led by Hassan al-Turabi, the former leader of the NIF who was once Mr Taha's political mentor.

At a press conference following the convention, Mr Taha made a number of remarks illustrating the continuing rift between the Islamic Movement and Mr Turabi's Popular Congress Party (PCP). He stated bluntly that the PCP was not part of the Islamic Movement, and that the open-door policy of the Islamic Movement did not extend to the PCP. Mr Taha also blamed the PCP for escalating a "struggle between tribes" in Darfur into a "war against the state", accusing the party of sending members to support the JEM rebels—charges that the PCP rejects. In an interview on August 11th with *Al Sharq Al Awsat*, a regional daily Arabic-language newspaper, Ali al-Hag, a deputy secretary-general of the PCP and a former minister in the early 1990s, accused the government of committing "genocide, killing, dispersal and burning of villages in Darfur". Mr Hag, who is himself from Darfur and was a prominent figure in the NIF when it was led by Mr Turabi, also said that the Islamic Movement had "become a government organisation and is now colluding with it". Although such claims and counter-claims have no immediate effect, they are symptomatic of the persistent factional tensions among Sudan's Islamists.

Economic policy

Southern Sudan commissions seek budgetary help

At a meeting in the southern capital, Juba, on August 12th, the chairs of several Southern Sudanese public commissions and chambers complained to the vice-president of Southern Sudan, Riek Machar, that they had exhausted their 2008 budgets with more than four months of the fiscal year remaining, asking that their budget ceilings be raised. The commissions and chambers are part of the structure of the Government of Southern Sudan (GOSS), although they are separate from the core ministries. Most were mandated under the CPA, covering issues such as corruption, human rights, and disarmament, demobilisation and reintegration (DDR). According to a report in the *Sudan Tribune* (a France-based English-language online newspaper) most of the commissions requested additional budgets to cover the last four months of 2008. Some commissions, such as the Southern Sudan Anti-Corruption Commission, also complained that slow progress in passing new laws was holding up their work. Mr Machar responded by recommending that the organisations concerned discuss the matter with the GOSS Ministry of Finance and Economic Planning, and that they prepare their 2009 budgets early.

Budgetary shortfalls are commonplace in the south, and also affect many of the GOSS ministries. The budgets of the commissions are relatively small, amounting to at most a few million US dollars, although they have important roles to play in CPA implementation and in monitoring the conduct of the

GOSS. For example, since 2006 the Anti-Corruption Commission has been investigating allegations of corrupt government contracting, resulting in a number of high-level dismissals. The Southern Sudan Audit Chamber (SSAC) is one of the chambers that, along with the commissions, complained to Mr Machar about the current budgeting practices. (In October 2007 the SSAC signed an agreement with PKE, a British audit company, to audit the GOSS accounts.) It is likely the commissions will eventually receive some additional budgetary support, as high international oil prices mean that GOSS revenue this year is likely to be higher than budgeted. However, without a stronger endorsement from Mr Machar or from the president of Southern Sudan, Salva Kiir, the southern commissions and chambers will struggle to become more effective in monitoring the government.

Economic performance

Oil output drops sharply in the second quarter of 2008

New data from the Ministry of Finance and National Economy have shown a continued decline in Sudan's oil output in the first half of this year. Oil production fell by 11% in April-June 2008, to an average of 441,000 barrels/day (b/d). Most of the decline stemmed from a steady fall in production in the maturing fields in concession blocks 1, 2 and 4, on the north-south border, to 206,000 b/d from a high of around 265,000 b/d in the third quarter of 2006. This is a matter of concern given that the Nile Blend oil produced in these original concessions is the best-quality oil yet discovered in the country, trading at only a small discount to the benchmark dated Brent Blend. The fall also limits output from Block 5A, which must be kept at around 10% of the total travelling through the Nile Blend pipeline to Port Sudan, as it is of a slightly different composition.

Oil output

('000 barrels/day; period av)

	2006	2007				2008		% change
	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr	
Blocks 1,2 & 4	256	251	254	241	236	222	206	-19.0
Block 5A	23	27	24	23	21	22	22	-6.5
Blocks 3 & 7	174	157	178	193	185	192	187	5.5
Block 6	n/a	37	39	41	40	39	25	-36.5
Total	453	471	495	497	483	475	441	-11.0

^a Between second quarter of 2008 and second quarter of 2007.

Sources: Ministry of Finance and National Economy; Bank of Sudan; Economist Intelligence Unit.

There was a small 6% year-on-year rise in production from blocks 3 and 7, in the south, to around 187,000 b/d. However, the oil here is the much less valuable Dar Blend, which currently trades at a discount of around US\$30/b to Brent. Moreover, output has remained relatively static since mid-2007, dashing hopes of a dramatic increase in production from these concessions. Finally, output of the extremely poor-quality Fula Blend from Block 6, in the north, which is refined domestically, dropped sharply in the second quarter, although largely because of production problems in May, with expected output remaining at

around 40,000 b/d. Overall, in the absence of new discoveries, Sudan's oil production seems likely to maintain its slow decline.

GIAD abandons Dubai flotation

In early August it emerged that GIAD Automotive, a subsidiary of Sudan's state-owned GIAD Industrial City, was abandoning its attempt to float on the Dubai Financial Market (DFM) because of difficulties in finding a broker. GIAD had announced its plan for an initial public offering on the DFM last October. However, according to a report from the Dow Jones Newswires, at least two Middle Eastern brokerage firms had declined to take on the flotation because of concerns about the impact of US sanctions on Sudan. In May 2007 GIAD Industrial City was added to a list of Sudanese firms with which US firms and individuals are prohibited from doing business. Under these sanctions, non-US firms doing business with the blacklisted companies also risk being subject to US government scrutiny and being penalised in any transactions they make in the US.

GIAD Automotive is a manufacturer of cars, lorries and other vehicles. However, when GIAD Industrial City was formed in 1997, it was 24%-owned by Sudan's Military Industry Corporation, with the remaining 76% belonging to state-owned Sudan Master Technology, which is also now on the list of Sudanese companies subject to US sanctions. These connections mean that GIAD Automotive will probably continue to have trouble listing on foreign stock exchanges, although it is unlikely to abandon the objective of a part privatisation. Following the example of some other Sudanese state-owned companies, it may now seek to list on the Khartoum Stock Exchange, although the local bourse is much less liquid and has fewer traders.

In focus

The Khartoum Stock Exchange seeks to expand

The Khartoum Stock Exchange (KSE), which started operations in 1995, is governed by the 1994 Khartoum Stock Exchange Act. As is required of all financial activities in Northern Sudan, it operates in accordance with Islamic banking principles. Currently around 52 companies are listed on the exchange, most of them banks or insurance and investment companies. A small variety of share types and instruments are traded on the exchange.

In 2005 Sudatel, then the state-owned telecommunications company, was successfully cross-listed on the KSE and Gulf markets. Subsequently, investors from the Gulf and Saudi Arabia have helped the KSE to grow rapidly, and in March 2008 the KSE and the Dubai Financial Market agreed to encourage further dual-listings.

In 2006 regulatory control over the exchange was transferred from the Ministry of Finance and National Economy to the Bank of Sudan (the central bank), but in June 2007 the ministry took back control of the exchange—possibly in the belief that the government's programme to privatise more state-owned enterprises could benefit from the ministry's links with the exchange.

Despite these measures, at present the exchange remains small. In 2007 total market capitalisation was equivalent to about US\$4.7bn (an estimated 10% of GDP). Average trading volumes are low, typically ranging from around US\$500,000 to US\$2m per day. In 2007 Sudatel was by far the most traded company on the exchange, followed by the Bank of Khartoum and the Sudanese French Bank.

The government pledges funding for dams in the south

On August 5th the national Dams Implementation Unit (DIU) and the president of Southern Sudan, Mr Kiir, agreed to build three new dams in Southern Sudan, at Juba, Torit and Wau, and to rehabilitate another, at Maridi, which was built in the 1950s. According to the executive director of the DIU, Ussama Abdellah, the total cost of the four projects is projected at US\$600m, to come from the national rather than the southern budget. The three new dams are intended to provide electricity and clean water in the south, and the dam at Maridi will provide water for irrigation. The agreement is long overdue, as electricity-generating capacity in Southern Sudan is extremely low. In 2006 the GOSS awarded a letter of intent to Sithru, a Malaysian project development and management company, to carry out feasibility studies for at least one dam in the south, but there have been no reports of progress.

Meanwhile, in the north of the country, new complaints have been made about the arrangements for relocating people who are being displaced by the giant 1,250-mw Merowe Dam, construction of which is due to be completed in 2009. In early August a committee representing villagers from the Manasir area came to Khartoum to plead their case, saying that the new houses built for them by the government were too far from the river to sustain agriculture. A member of the committee, al-Rashid Taha, alleged that the dam gates had been closed, causing the premature flooding of 25 villages in Manasir and the displacement of "thousands of families" into tents. However, a DIU official denied that the dam gate had been closed and said that the flooding was only due to seasonal rainfall. With so much invested in the Merowe Dam (in terms both of finance and of power-generation plans), work on the dam is expected to continue.

Data and charts

Annual data and forecast

	2003 ^a	2004 ^a	2005 ^a	2006 ^a	2007 ^b	2008 ^c	2009 ^c
Gross domestic product							
Nominal GDP (US\$ m)	17,580 ^b	21,472 ^b	27,498 ^b	36,550 ^b	47,867	62,743	68,066
Nominal GDP (SP m)	45,884 ^b	55,397 ^b	67,094 ^b	79,314 ^b	96,524	129,163	145,208
Real GDP growth (%)	7.1	5.1	6.3	11.3	10.2	5.8	6.0
Expenditure on GDP (% real change)							
Private consumption	5.4 ^b	3.6 ^b	8.0 ^b	10.5 ^b	5.0	6.5	6.5
Government consumption	6.0 ^b	4.0 ^b	7.0 ^b	10.5 ^b	4.5	7.0	8.0
Gross fixed investment	20.0 ^b	22.5 ^b	18.0 ^b	17.0 ^b	9.0	12.0	10.5
Exports of goods & services	8.0 ^b	7.5 ^b	3.5 ^b	13.5 ^b	30.0	-4.0	-2.0
Imports of goods & services	12.0 ^b	18.0 ^b	26.5 ^b	13.0 ^b	5.0	5.5	6.0
Origin of GDP (% real change)							
Agriculture	5.2	3.5	7.2	8.3	6.0	7.0	6.5
Industry	10.5	31.0	7.6	9.0	22.0	-3.0	-1.0
Services	3.8	10.4	9.8	10.8	8.1	9.5	8.9
Population and income							
Population (m)	35.4 ^b	36.2 ^b	36.9 ^b	37.7 ^b	38.6	39.4	40.4
GDP per head (US\$ at PPP)	1,464 ^b	1,549 ^b	1,689 ^b	1,897 ^b	2,099	2,217	2,349
Fiscal indicators (% of GDP)							
Public-sector revenue	16.2 ^b	19.9 ^b	22.0 ^b	19.9 ^b	19.2	20.4	16.5
Public-sector expenditure	15.2 ^b	18.4 ^b	23.8 ^b	24.2 ^b	22.2	21.2	20.9
Public-sector balance	0.9 ^b	1.5 ^b	-1.8 ^b	-4.3 ^b	-3.0	-0.8	-4.4
Net public debt	168.5 ^b	133.8 ^b	103.7 ^b	119.6 ^b	105.9	84.2	79.8
Prices and financial indicators							
Exchange rate SP:US\$ (end-period) ^d	2.60	2.51	2.31	2.01	2.03 ^a	2.09	2.18
Consumer prices (end-period; % change)	8.3	7.3	5.6	15.7	8.8 ^a	17.5	13.6
Stock of money M1 (% change)	30.1	31.8	34.5	29.4	8.1 ^a	17.0	13.0
Stock of money M2 (% change)	30.3	30.8	43.5	29.7	10.3 ^a	15.7	12.6
<i>Murabaha</i> (profit) rate (av; %)	16.4	11.2	11.0	11.4	11.8 ^a	11.2	11.3
Current account (US\$ m)							
Trade balance	6	192	-1,122	-1,448	1,157 ^a	4,119	1,085
Goods: exports fob	2,542	3,778	4,824	5,657	8,879 ^a	13,771	10,974
Goods: imports fob	-2,536	-3,586	-5,946	-7,105	-7,722 ^a	-9,652	-9,889
Services balance	-794	-1,020	-1,731	-2,553	-2,555 ^a	-3,324	-3,519
Income balance	-869	-1,113	-1,362	-2,014	-2,253 ^a	-3,238	-2,719
Current transfers balance	702	1,071	1,201	816	204 ^a	127	-55
Current-account balance	-955	-871	-3,013	-5,199	-3,447 ^a	-2,316	-5,208
External debt (US\$ m)							
Debt stock	24,191	26,270	27,005	28,197	29,415	31,120	33,014
Debt service paid	185	219	212	177	308	427	481
Principal repayments	127	140	147	129	218	363	384
Interest	58	79	65	48	90	64	97
Debt service due	997 ^b	2,151 ^b	880 ^b	1,214 ^b	1,287	1,469	1,729
International reserves (US\$ m)							
Total international reserves	529	1,338	1,869	1,660	1,378 ^a	1,564	1,814

^a Actual. ^b Economist Intelligence Unit estimates. ^c Economist Intelligence Unit forecasts. ^d The Sudanese pound replaced the Sudanese dinar on September 1st 2007, at a rate of SD100:SP1.

Source: IMF, *International Financial Statistics*.

Quarterly data

	2006		2007			2008		
	3 Qtr	4 Qtr	1 Qtr	2 Qtr	3 Qtr	4 Qtr	1 Qtr	2 Qtr
Prices								
Consumer prices (2000=100; av)	165.8	166.0	158.9	160.8	172.1	182.2	185.9	n/a
Financial indicators								
Exchange rate SP:US\$ (av)	2.129	2.048	2.008	2.006	2.013	2.039	2.029	2.041
Exchange rate SP:US\$ (end-period)	2.089	2.013	2.005	2.005	2.038	2.053	2.030	2.057
M1 (end-period; SP m)	9,573	10,524	9,869	10,300	10,462	11,375	11,454	n/a
M1 (% change, year on year)	36.6	29.4	10.9	8.1	9.3	8.1	16.1	n/a
M2 (end-period; SP m)	17,524	17,872	17,684	17,868	18,280	19,715	20,286	n/a
M2 (% change, year on year)	42.0	29.7	10.2	3.8	4.3	10.3	14.7	n/a
Sectoral trends								
Crude petroleum production ('000 barrels/day) ^a	259.1	448.9	441.3	440.2	452.1	438.9	437.3	416.9
Balance of payments (US\$ m)								
Goods: exports fob	1,629	1,477	1,458	2,083	2,473	2,865	3,232	n/a
Goods: imports fob	-1,779	-1,852	-1,399	-2,279	-1,803	-2,242	-1,811	n/a
Merchandise trade balance fob-fob	-150.0	-374.1	59.0	-195.6	670.3	623.1	1,420.5	n/a
Services balance	-677	-759	-697	-647	-564	-647	-562	n/a
Income balance	-572	-569	-540	-455	-602	-656	-636	n/a
Net transfer payments	159	52	1	99	117	-13	n/a	n/a
Current-account balance	-1,241	-1,650	-1,177	-1,199	-380	-692	n/a	n/a
Reserves excl gold (end-period)	2,408	1,660	1,135	982	1,095	1,378	1,291	n/a

^a Excluding Block 6 output.

Sources: IMF; *International Financial Statistics*; Bank of Sudan; Ministry of Finance; *Government of Southern Sudan Oil Revenue Share* report.

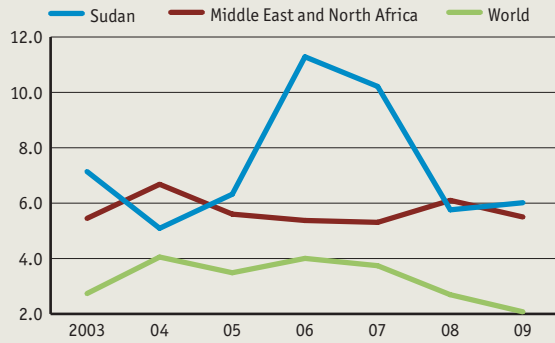
Monthly data

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Exchange rate SP:US\$ (av)												
2006	2.304	2.296	2.271	2.244	2.218	2.191	2.157	2.129	2.103	2.074	2.047	2.025
2007	2.010	2.007	2.006	2.005	2.006	2.006	2.005	2.006	2.027	2.052	2.031	2.034
2008	2.047	2.014	2.027	2.029	2.037	2.058	n/a	n/a	n/a	n/a	n/a	n/a
Murabaha (profit) rate (av; %)												
2006	11.5	11.4	11.2	11.0	11.0	11.2	11.4	11.5	11.6	12.7	11.5	10.4
2007	11.8	11.9	11.8	12.6	11.7	11.7	11.7	11.7	11.8	11.6	11.4	11.4
2008	11.8	11.5	11.7	11.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M1 (end-period; % change, year on year)												
2006	29.1	31.6	36.1	34.8	35.5	41.6	38.4	35.2	36.6	36.2	29.6	29.4
2007	22.8	21.4	10.9	10.3	9.2	8.1	3.5	8.2	9.3	6.7	10.0	8.1
2008	11.1	10.5	16.1	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
M2 (end-period; % change, year on year)												
2006	39.4	41.2	45.2	44.0	44.7	46.0	45.2	41.6	42.0	43.0	37.4	29.7
2007	20.2	18.5	10.2	8.3	4.7	3.8	0.2	3.3	4.3	3.7	7.9	10.3
2008	13.7	10.8	14.7	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Stock of domestic credit (end-period; SP m)												
2006	9,812	10,638	11,463	11,840	12,324	12,912	12,939	13,119	14,073	14,918	14,708	15,174
2007	14,855	15,173	15,474	15,497	15,597	15,732	15,595	15,987	16,319	16,713	17,243	17,750
2008	18,248	17,741	18,951	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Consumer prices (av; % change, year on year)												
2006	4.1	5.8	5.1	1.8	2.8	4.3	1.7	5.2	15.7	11.5	12.2	15.7
2007	12.8	8.7	8.1	9.4	8.3	8.6	8.2	1.8	1.8	12.0	8.5	8.8
2008	13.4	17.2	20.6	17.4	17.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Petroleum production (excl Block 6; '000 b/d)												
2006	264.2	247.6	251.5	248.7	255.0	239.4	254.0	262.0	261.3	458.2	447.1	441.4
2007	440.0	443.8	440.1	446.0	416.3	458.3	457.5	452.2	453.2	450.4	432.0	438.0
2008	448.1	432.9	430.7	424.9	420.8	405.0	n/a	n/a	n/a	n/a	n/a	n/a
Foreign-exchange reserves excl gold (end-period; US\$ m)												
2006	2,249	2,176	2,214	2,434	2,510	2,604	2,764	2,650	2,408	2,180	1,970	1,660
2007	1,485	1,256	1,135	988	896	982	1,157	1,623	1,095	1,330	1,216	1,378
2008	1,423	1,551	1,291	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a

Sources: IMF; Bank of Sudan; Haver Analytics.

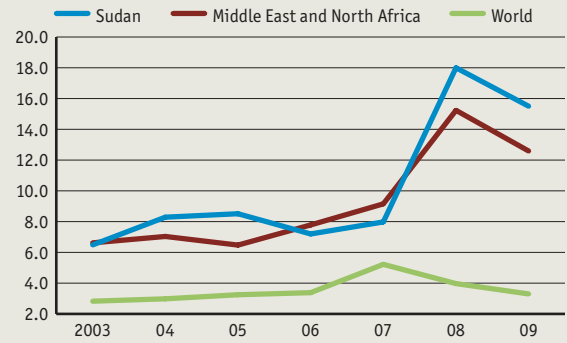
Annual trends charts

Real GDP growth
(% change)



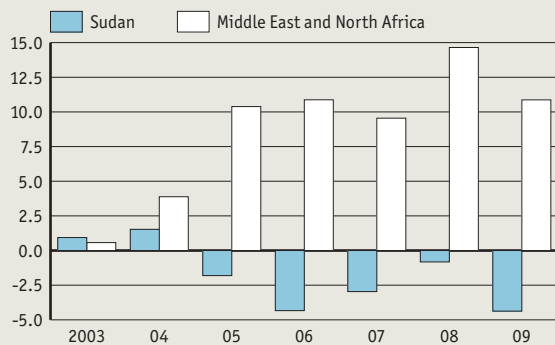
Source: Economist Intelligence Unit.

Consumer price inflation
(% change, year on year; av)



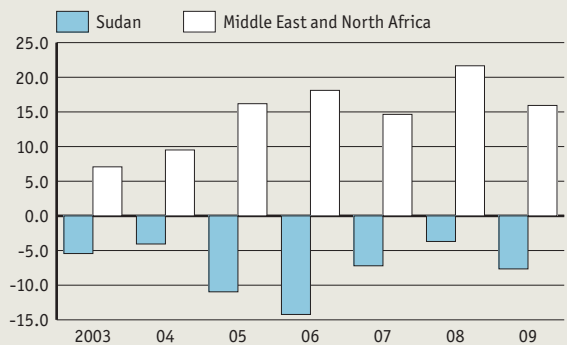
Source: Economist Intelligence Unit.

Budget balance
(% of GDP)



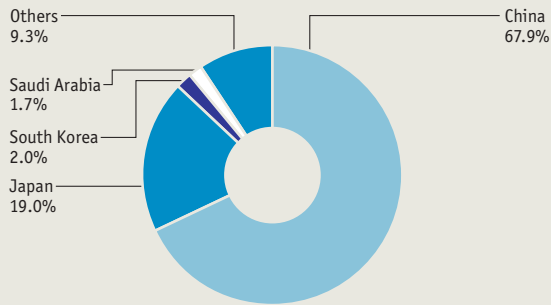
Source: Economist Intelligence Unit.

Current-account balance
(% of GDP)



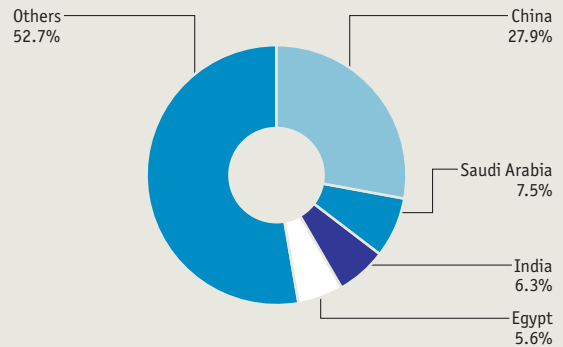
Source: Economist Intelligence Unit.

Destination of exports, 2007
(share of total)



Source: Economist Intelligence Unit.

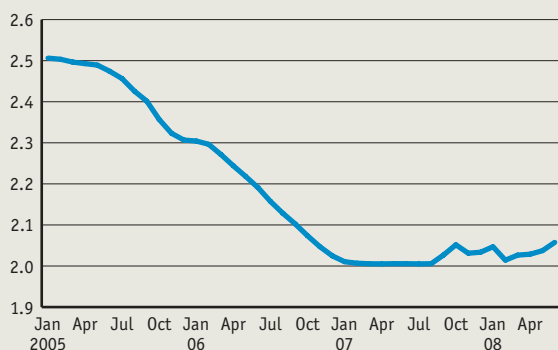
Origin of imports, 2007
(share of total)



Source: Economist Intelligence Unit.

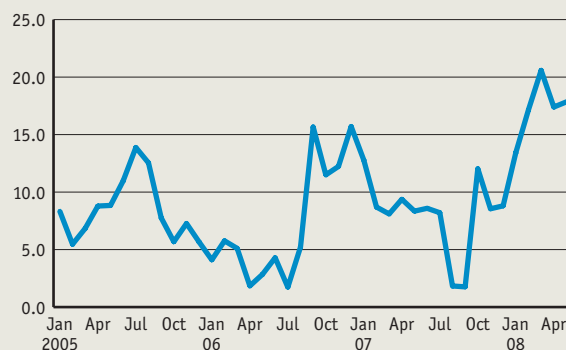
Monthly trends charts

Exchange rate
(SP:US\$; av)



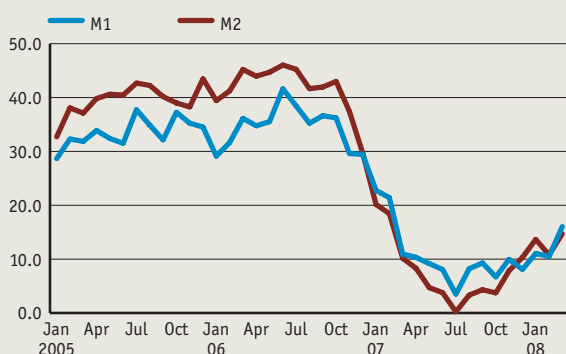
Source: Economist Intelligence Unit.

Consumer price inflation
(% change, year on year)



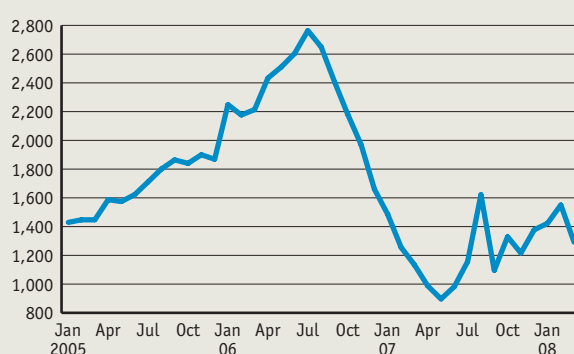
Source: Economist Intelligence Unit.

Monetary aggregates
(% change, year on year)



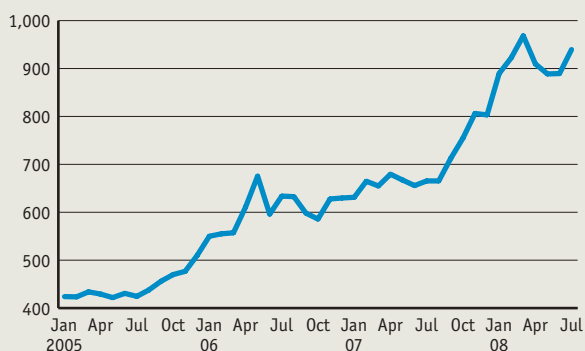
Source: Economist Intelligence Unit.

Foreign-exchange reserves
(US\$ m)



Source: Economist Intelligence Unit.

Gold: London price
(US\$/troy oz; av)



Source: Economist Intelligence Unit.

Oil: Brent crude price
(US\$/b; av)



Source: Economist Intelligence Unit.

Country snapshot

Political structure

Official name	Republic of Sudan	
Legal system	Sharia (Islamic law) applies in both civil and criminal cases in the north—although there are some special provisions for non-Muslims. The south has a non-Islamic legal system	
National legislature	The current National Assembly is wholly appointed, according to the power-sharing quotas agreed under the 2005 Comprehensive Peace Agreement. After the 2009 elections the bicameral parliament will have a 450-member National Assembly (with 60% of seats elected by majority voting in geographical constituencies and 40% by proportional representation, including 25% reserved for women), together with a Council of States composed of two representatives from each state	
National elections	December 2000 (presidential and parliamentary); next elections due by April 2009	
Head of state	Omar al-Bashir, who took office following a 1989 coup and was sworn in as president in October 1993; elected in March 1996 for a five-year term; re-elected in December 2000	
National government	The Council of Ministers, appointed by the president after consulting the vice-presidents	
Main political parties	The Government of National Unity consists primarily of the National Congress Party (NCP; until 1998 the National Islamic Front) and the Sudan People's Liberation Movement (SPLM), with representation from the National Democratic Alliance (NDA), an umbrella group. The Democratic Unionist Party (DUP), the Umma Party and the Popular Congress are northern opposition groups. The Eastern Front (EF) is an opposition movement in the east of the country, and the Sudan Liberation Movement (SLM) and the Justice and Equality Movement (JEM) have been fighting a guerrilla war in Darfur, in the west	
The cabinet	President	Omar al-Bashir (NCP)
	First vice-president	Salva Kiir (SPLM)
	Second vice-president	Ali Uthman Mohammed Taha (NCP)
	Assistant to the president	Minni Minnawi (SLM)
	Assistant to the president	Musa Mohammed Ahmed (EF)
Key ministers	Agriculture & forestry	Zubair Bashir Taha (NCP)
	Cabinet affairs	Pagan Amum (SPLM)
	Defence	Abdel-Rahim Mohammed Hussein (NCP)
	Education	Hamid Mohammed Ibrahim (NDA)
	Energy & mining	Zubeir Ahmed Hassan (NCP)
	Federal relations	Abdelrahman Said (NDA)
	Finance & national economy	Awad Ahmed al-Jaz (NCP)
	Foreign affairs	Deng Alor Kol (SPLM)
	Foreign trade	James Kock Rona (SPLM)
	Health	Tabita Sokaya (SPLM)
	Industry	Jalal al-Dugair (dissident DUP)
	Interior	Ibrahim Mahmoud Hamed
	Investment	Kosti Manibe (SPLM)
	Justice	Abdel-Basit Saleh Sabdarat (NCP)
	Labour	Alison Manani Magaya (NCP)
	Transport	Philip Thon (SPLM)
Central bank governor	Sabir Mohammed al-Hassan	