

Money Supply and Economic Stability in South Sudan: An Empirical Assessment

Daniel peter Lam¹, Dr Akashraj Devanga Pruthviraj²

¹Master of Science in Economics, University of Juba, South Sudan

²Professor, Department of Economics, University of Juba, South Sudan

Corresponding Author: Dr Akashraj Devanga Pruthviraj

Abstract—This study examines the impact of changes in money supply on economic stability in South Sudan, focusing specifically on inflation, currency stability, and the role of the banking sector. Using a mixed-methods approach that integrates macroeconomic data analysis, structured surveys, and key informant interviews, the study captures views from 155 respondents representing financial institutions, government ministries, private enterprises, and consumers. The findings reveal that expansion in money supply has significantly contributed to persistent inflation and currency depreciation. A majority of respondents reported a notable increase in money circulation over the past five years and experienced severe inflationary pressures, which reduced purchasing power and discouraged investment. Currency stability is critically undermined, with most respondents expressing low confidence in the South Sudanese Pound (SSP). The banking sector was also perceived as weak, constrained by liquidity shortages, high non-performing loans, poor public trust, and limited capacity to absorb monetary shocks. The study concludes that South Sudan's economic instability originates from structural vulnerabilities, institutional weaknesses, and inconsistent monetary policy. Strengthening macro-monetary governance, institutional capacity, and the financial system is essential to restoring economic confidence and achieving sustainable economic stability.

Keywords— Money Supply, Inflation, Currency Stability, Monetary Policy, Banking Sector, Economic Stability.

I. INTRODUCTION

Monetary policy remains a crucial tool through which governments influence economic stability. Among the various instruments of monetary policy, money supply stands as one of the most influential, especially in determining inflation levels, currency valuation, financial sector behavior, and the overall health of an economy. In fragile and post-conflict states like South Sudan, the influence of money supply on the economy becomes even more pronounced due to the lack of robust institutions, lack of economic diversification, and heightened exposure to external shocks.

Since achieving independence in 2011, South Sudan has endured chronic macroeconomic instability driven by internal conflict, oil revenue volatility, and institutional weaknesses. Heavy reliance on oil exports has made the economy vulnerable to global price fluctuations, while successive conflicts have disrupted production and weakened state capacity. These factors have contributed to large fiscal deficits, which are often financed through monetary expansion, resulting in inflation and currency depreciation (World Bank, 2020).

Inflation in South Sudan has risen sharply at various intervals, with hyperinflation recorded in 2016 where inflation exceeded 300% (Douglas & Ianjrvine, 2017). The continuous depreciation of the South Sudanese Pound has further eroded consumer and investor confidence, making monetary stability a pressing concern for policy makers.

Currency stability is also central to macroeconomic performance. According to international monetary theory, when money supply increases without corresponding economic output, the currency tends to lose value due to oversupply of liquidity and increased demand for foreign exchange (Mundell, 1963). South Sudan reflects this dynamic, with the SSP experiencing continuous depreciation due to monetary expansion, limited foreign exchange reserves, and high dependence on imports.

The banking sector plays an equally important role in maintaining economic stability. Strong financial institutions are essential for implementing monetary policy, channeling credit, and regulating liquidity. South Sudan's banking sector, however, faces significant limitations including high non-performing loans, internal inefficiencies, limited deposit mobilization, and widespread public mistrust (African Development Bank, 2021). These challenges further weaken the ability of the Central Bank of South Sudan to regulate money supply effectively.

This study therefore focuses on three major objectives on critical dimensions of monetary stability:

1. The relationship between changes in money supply and inflation rates.
2. The impact of money supply fluctuations on currency stability.
3. The role of the banking sector in managing changes in money supply and economic growth.

Understanding these relationships is essential for designing effective monetary reforms and safeguarding economic stability in South Sudan.

II. LITERATURE REVIEW

2.1 Money Supply and Inflation

Classical economic theory asserts that inflation is fundamentally a monetary phenomenon. The Quantity Theory of Money (QTM), as articulated by Friedman (2020), posits that inflation occurs when money supply grows faster than output. Empirical studies across developing countries support this relationship, particularly in economies where monetary policy is used to finance fiscal deficits.

In South Sudan, rapid monetary expansion has historically coincided with inflationary episodes. Declining oil revenues, political instability, and war-induced disruptions have severely weakened production capacity, making inflation particularly sensitive to money supply shocks (James & Kanbiro, 2024). Dingela & Khobai (2017) highlight that the relationship between inflation and money supply can be weakened by structural bottlenecks, yet in fragile economies, monetary expansion often passes quickly into prices due to low confidence and supply rigidities.

2.2 Money Supply and Currency Stability

Currency stability is influenced by exchange rate dynamics, foreign reserves, and market expectations. Mundell’s (1963) theoretical framework suggests that increased money supply reduces interest rates, triggers capital outflow, and depreciates the exchange rate. In fragile economies such as South Sudan, limited foreign exchange earnings magnify the impact of money supply changes on currency value.

The South Sudanese Pound (SSP) has depreciated consistently due to rising liquidity levels, constrained foreign reserves, and dependence on imports (IMF, 2019). Rodrik (2018) explains that currency depreciation in import-dependent countries leads to an inflationary spiral as import prices surge, further weakening the domestic currency. For South Sudan, this dynamic is particularly acute because almost all consumer goods and fuel are imported, making the currency extremely sensitive to monetary fluctuations.

2.3 Banking Sector and Monetary Management

A strong banking sector is necessary for effective monetary transmission. Ghosh (2010) states that institutional

stability is central to regulating liquidity and supporting economic growth. However, banking sectors in fragile states often lack adequate regulatory capacity, internal efficiency, and financial depth.

In South Sudan, banking operations are hampered by high non-performing loans, liquidity shortages, limited trust in financial institutions, and poor regulatory oversight (Bak et al., 2019). These structural weaknesses undermine the ability of banks to effectively manage money supply and channel credit to productive sectors. Michael et al. (2020) further argue that weak central bank capacity reduces the effectiveness of monetary tools such as reserve requirements or open market operations.

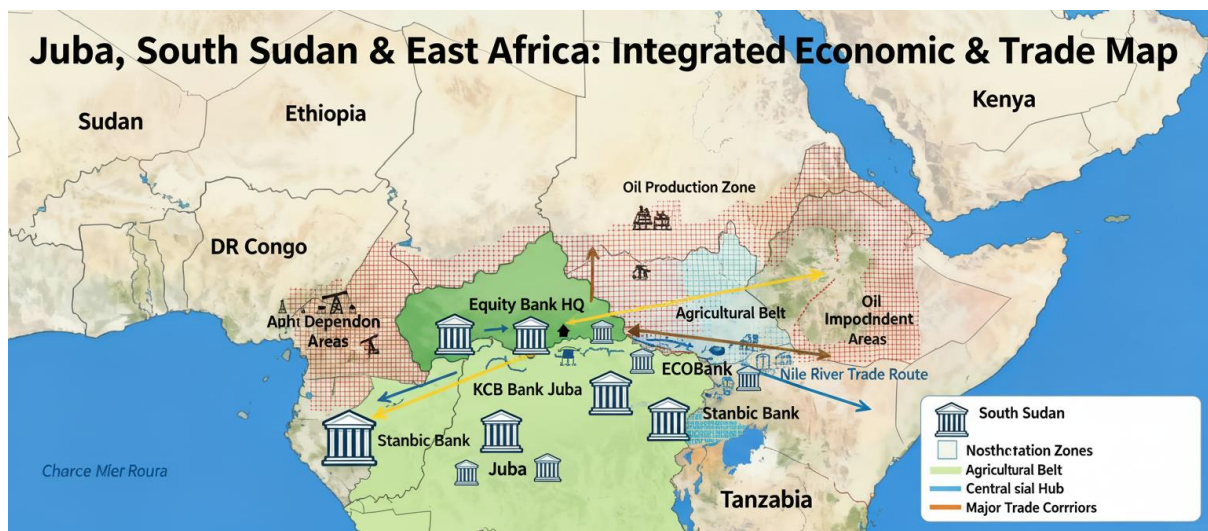
III. METHODOLOGY

3.1 Research Design

The study adopts a mixed-methods approach, combining quantitative macroeconomic analysis with qualitative perceptions gathered through surveys and interviews. This design ensures that both empirical data and real-world experiences inform the conclusions.

3.2 Survey Method

A structured questionnaire was administered to 160 respondents, of which 155 completed the survey (96.9% response rate). Stratified sampling ensured representation from the banking sector, government, business community, and consumers. Survey questions measured perceptions of inflation, currency confidence, money supply, and banking sector effectiveness.



3.3 Quantitative Approach

Quantitative data were sourced from the Bank of South Sudan, the National Bureau of Statistics, IMF, World Bank, and AfDB. Data included money supply aggregates (M2, M3), inflation rates, exchange rates, GDP growth, and consumer

expenditure patterns from 2011–2023. Descriptive statistics, correlation analysis, and regression models (OLS and ARDL) were applied using SPSS and R. Stationarity tests (ADF and Phillips-Perron) guided model selection.

3.4 Qualitative Method

Key Informant Interviews (12–15 participants) included central bank officials, senior commercial bank managers, economists from the Ministry of Finance, and academic researchers. The interviews offered deeper insight into policy challenges, institutional weaknesses, and macroeconomic risks.

IV. FINDINGS

4.1 Demographic Characteristics of Respondents

4.1.1 Age Distribution

The analysis revealed that a majority of respondents (67.7%) were below 40 years of age, indicating an economically active and youthful population. The remaining 32.3% were above 40, reflecting mature individuals with significant exposure to South Sudan’s economic conditions. This distribution suggests that the respondents had recent and practical experiences with inflation, currency depreciation, and money supply changes, making their responses highly relevant to the study’s objectives.

4.1.2 Gender Distribution

The gender composition shows that 60% of respondents were male and 40% female. Although slightly male-dominated, the presence of both genders ensures a balanced representation of perspectives on monetary conditions, banking sector performance, and consumer behavior under inflationary pressures.

4.1.3 Economic Role of Respondents

Respondents belonged to diverse economic categories: bank staff (51.6%), consumers/general public (22.6%), government officials (16.1%), and business owners (9.7%). This distribution is crucial for the study because the financial sector—bank staff and government officials—forms the largest share, ensuring informed perspectives on monetary policy, money circulation, interest rates, and economic stability.

4.1.4 Educational Attainment

Education levels were notably high: 90.3% of respondents held postgraduate degrees, 8.4% had tertiary education, and only 1.3% had secondary education. Such high educational attainment indicates that respondents possessed strong analytical ability to understand complex issues like inflation, currency fluctuations, and monetary policy.

4.1.5 Income Levels and Work Experience

Most respondents (88.4%) earned above 20,000 SSP per month, reflecting stable income groups likely employed within formal sectors. In terms of professional experience, 45.2% had 6–10 years of experience, 25.2% had 1–5 years, 19.4% had less than 1 year, and 10.3% had over 10 years of experience. These findings demonstrate that respondents had substantial exposure to South Sudan’s economic environment over time, making their assessments of inflation and currency fluctuations reliable.

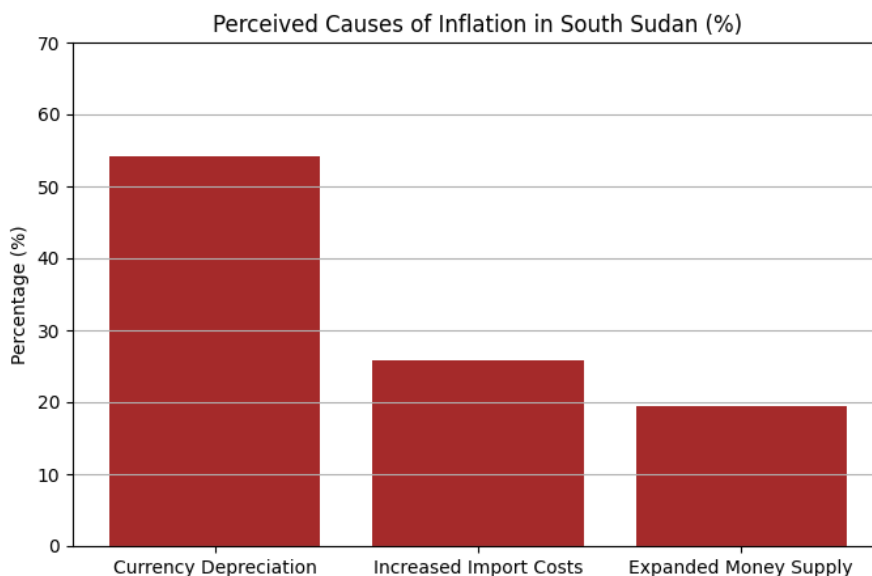
4.2 Money Supply and Inflation

4.2.1 Perceptions of Money Supply Growth

A significant 77.5% of respondents agreed or strongly agreed that the amount of money in circulation increased over the past five years. This observation aligns with South Sudan’s monetary trends, where government deficit financing and increased liquidity injections expanded the money supply. Only 8.3% disagreed or strongly disagreed, showing strong consensus on heightened liquidity levels.

4.2.2 Experience of Inflationary Pressure

A considerable majority (83.9%) personally felt the effects of inflation. Respondents reported a persistent rise in prices of essential goods, reduced purchasing power, and an overall increase in cost of living. This widespread experience reflects how inflation has become embedded within South Sudan’s economic landscape.



4.2.3 Causes of Inflation

Respondents identified currency depreciation as the leading cause of inflation (54.2%), followed by increased import costs (25.8%) and expanded money supply (19.4%). The dominance of depreciation as the primary cause underscores South Sudan’s heavy dependence on imports and vulnerability to exchange rate fluctuations.

4.2.4 Additional Components from Survey Data

More detailed findings show that perceptions of policy effectiveness were deeply divided: 32.3% strongly agreed and 32.3% strongly disagreed that the government had effective policies to control inflation. This polarization highlights the inconsistency and weak credibility of monetary policy.

Similarly, awareness about monetary policy was low: 38.7% believed the public was well-informed of money supply changes, while 48.4% disagreed or strongly disagreed.

Limited communication from institutions further aggravates inflation expectations.

4.2.5 Hypothesis Result (H1)

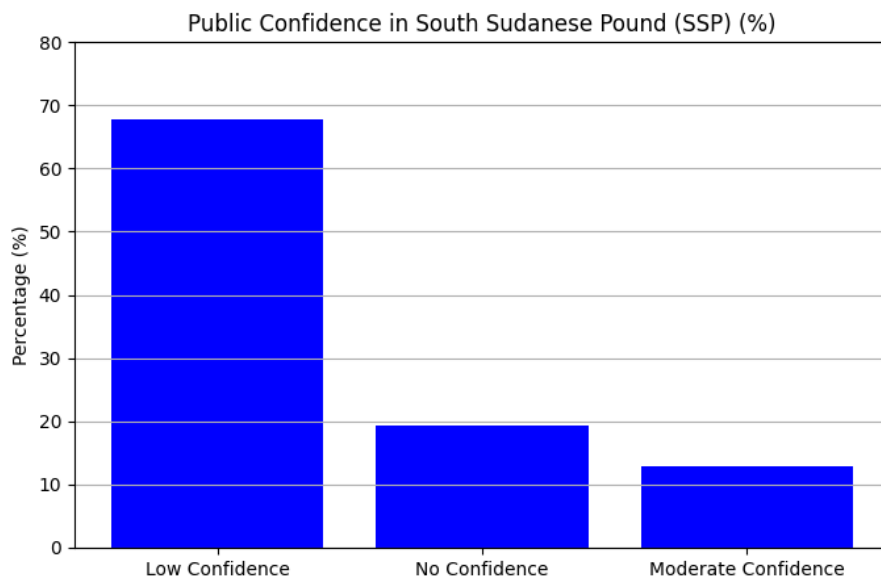
H1: Increases in money supply significantly increase inflation in South Sudan.

The findings strongly support this hypothesis. Respondents overwhelmingly experienced inflation and associated it with increased money supply and currency depreciation, confirming that monetary expansion contributes directly to rising price levels.

4.3 Money Supply Fluctuations on Currency Stability

4.3.1 Public Confidence in the South Sudanese Pound (SSP)

Confidence in the SSP was critically low. A total of 67.7% reported low confidence, and 19.4% reported no confidence at all. Only 12.9% indicated moderate confidence. This reflects widespread public mistrust caused by continuous depreciation and unstable monetary conditions.



4.3.2 Investment Behavior During Inflation and Depreciation

The study found that inflation and currency depreciation discouraged investment for 80.6% of respondents. Businesses delayed expansions, avoided purchasing new assets, and reduced long-term investments due to uncertainty in the value of the currency. This erosion of investor confidence hampers economic growth.

4.3.3 Changes in Household Consumption Patterns

Currency instability significantly affected consumption behavior. A majority (77.4%) adjusted their spending habits, focusing more on essential items while reducing non-essential purchases. Additionally, 57.4% engaged in bulk buying to protect themselves from future price increases, a common strategy in inflationary and depreciating currency environments.

4.3.4 Additional Components from Survey Data

Inflation's impact on basic goods was severe: 96.8% of respondents said inflation affected basic goods “very much.”

This indicates how currency instability translates directly into hardship for households.

Furthermore, limited credit availability was linked to currency instability by 80.6% of respondents, showing that depreciation reduces the ability of banks to lend and households to borrow.

4.3.5 Hypothesis Result (H2)

H2: Fluctuations in money supply significantly destabilize the SSP.

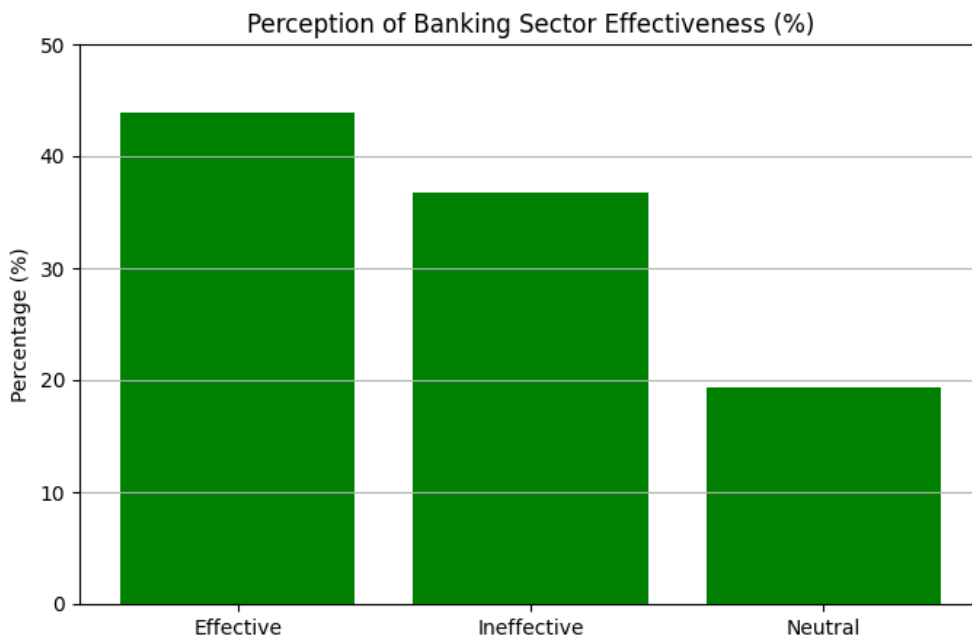
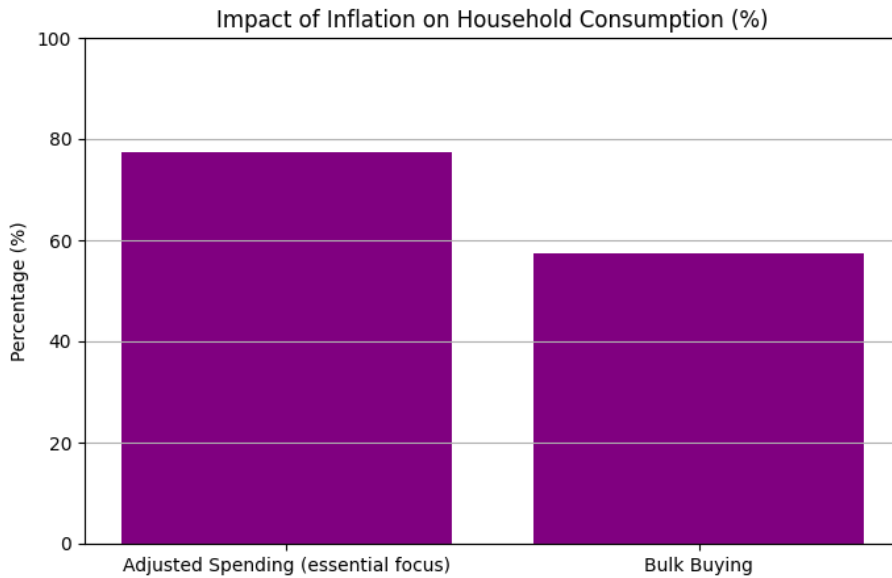
This hypothesis is fully supported. The data provide strong evidence that increases in money supply, combined with weak reserves and high import dependency, destabilize the currency and lower public confidence.

4.4 Banking Sector in Managing Money Supply and Economic Stability

4.4.1 Effectiveness of Commercial Banks in Managing Liquidity

The results showed mixed perceptions: 43.9% believed commercial banks were effective in handling inflation and liquidity problems, while 36.7% disagreed or strongly

disagreed. This reflects institutional weaknesses and limited capacity in the banking sector.



4.4.2 Credit and Loan Availability

Most respondents (80.6%) indicated that inflation and currency instability reduced credit availability. Liquidity shortages, high non-performing loans, and increased risks limit the ability of banks to lend, thereby weakening monetary policy transmission.

4.4.3 Satisfaction with Interest Rates

A substantial majority (78.7%) were dissatisfied with the interest rates provided by banks, stating that they did not

reflect the economic reality or inflationary pressures. High interest rates discourage borrowing, limit investment, and restrict business expansion.

4.4.4 Demand for Inflation-Protective Financial Products

An overwhelming 71% of respondents stated that banks should provide new products such as inflation-indexed savings accounts, flexible credit facilities, and hedging instruments. This highlights gaps in innovation and financial product development.

4.4.5 Additional Components from Survey Data

Only 6.5% strongly agreed that monetary policy from the central bank was effective, and 32.3% remained neutral. This indicates low institutional credibility and limited monetary policy transmission through banks.

4.4.6 Hypothesis Result (H3)

H3: The banking sector plays a limited role in managing money supply and stabilizing the economy.

Supported by the findings, the hypothesis reflects the banking sector's constrained capacity due to structural weaknesses, limited liquidity, and inadequate policy implementation tools.

V. CONCLUSION

This study examined the impact of changes in money supply on economic stability in South Sudan, focusing on inflation, currency performance, and the effectiveness of the banking sector. The findings reveal that monetary expansion—combined with persistent currency depreciation—has significantly intensified inflationary pressures. A large share of respondents reported a noticeable increase in money circulation and widespread inflation effects, which have reduced purchasing power, increased the cost of living, and discouraged investment. Public confidence in the South Sudanese Pound (SSP) remains extremely low, reflecting underlying weaknesses in external reserves, import dependency, and macroeconomic management. These patterns align with established economic theory, which posits that excessive money supply in fragile economies quickly translates into price instability and currency devaluation.

The study further concludes that the banking sector has limited capacity to manage fluctuations in money supply effectively. Reduced credit availability, dissatisfaction with interest rates, and a lack of inflation-protective financial products indicate structural and institutional constraints within the financial system. While respondents were largely educated and experienced, their divided views on the government's and central bank's policy effectiveness highlight ongoing challenges in policy implementation and communication. Overall, South Sudan's economic instability is rooted in both structural vulnerabilities and weak monetary governance, making it essential to strengthen financial institutions, improve policy coordination, and adopt more disciplined and transparent monetary frameworks.

Recommendations

1. Strengthen the monetary policy framework to regulate money supply more effectively and reduce inflationary pressures.
2. Implement urgent measures to address currency depreciation by increasing foreign exchange reserves, diversifying exports, and reducing import dependency.
3. Improve public confidence in the South Sudanese Pound through transparent communication, regular monetary updates, and consistent policy actions.
4. Introduce inflation-indexed savings products, investment incentives, and policies that encourage long-term economic planning.

5. Expand the range of banking products designed to protect households and businesses from inflation, including flexible credit facilities and hedging options.
6. Enhance communication of monetary and economic policies to reduce uncertainty and strengthen the credibility of the Central Bank and government institutions.
7. Invest in capacity building and training for banking professionals to improve financial management, risk assessment, and monetary policy implementation.

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