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Policy brief

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Money Hoarding in South Sudan: Is It Rational Behavior or Policy Failure?

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Summary

*The recent directive by South Sudan's Minister of Finance & Planning, urging citizens to report neighbors who keep money at home, has sparked intense debate across economic, political, and social spheres. This article argues that money hoarding in the country is best understood not as criminal behavior but as a rational response to macroeconomic instability, persistent political uncertainty, and the structural fragility of governance institutions. Drawing on data from the **National Bureau of Statistics (NBS)**, **International Monetary Fund (IMF)**, and World Bank, the article traces global and local causes and effects of hoarding, uses **basic econometric framing**, and proposes evidence-based solutions grounded in sound fiscal and monetary policy.*

1. Introduction

Money hoarding re-emerged strongly in 2024–2025 as a global response to heightened economic and geopolitical uncertainty, despite the continued expansion of digital payments (Kim, 2025). A clear indicator is the euro area, where the value of banknotes in circulation rose by over 28% between 2019 and 2024, even as the share of cash in daily transactions declined sharply from 68% to 40% over the same period (Kim, 2025). This observed divergence signals a structural shift in the role of cash from a medium of exchange to a store of value, with experts estimating that 30%–50% of euro-area cash holdings now serve store-of-value purposes (Jain, 2025). Several drivers underpin this trend. First, cash is increasingly viewed as a safety net against digital infrastructure failures, a concern reinforced by the 2025 Spanish digital-payment blackout (Mennekes & Schramm-Klein, 2025). Second, inflationary pressures reduce the opportunity cost of hoarding: when expected inflation (π^e) exceeds nominal returns, the real interest rate ($i - \pi^e$) turns negative, making cash comparatively attractive. Third, privacy concerns remain significant, with a 2024 European Central Bank study showing that 60% of consumers worry about data privacy in digital transactions (Mennekes & Schramm-Klein, 2025). Finally, behavioral factors matter, as “cash stuffing” has gained popularity among Generation Z, while older cohorts associate physical cash with security and spending control (Jain, 2025).

In Nigeria, the 2023 cash redesign policy intended to reduce money outside banks instead triggered a liquidity crisis (Emele Onu, 2023), culminating in money outside the banking system reaching record highs of about ₦4.91 trillion in 2025 (Team, 2026).

Globally, successive shocks, from the COVID-19 pandemic to the conflict in Eastern Europe, have led governments in countries such as Austria and Sweden to advise households to keep physical cash at home (Mennekes & Schramm-Klein, 2025). Widespread hoarding, however, has both economic and social costs. It lowers the velocity of money, weakening the effectiveness of monetary stimulus, and erodes banks' deposit bases, thereby constraining credit creation. Moreover, while hoarding offers short-term security, it exposes households to long-term wealth losses, as inflation persistently erodes purchasing power (Team, 2026). Studies cited above confirms that sustained negative real interest rates encourage cash retention, that hoarding functions as an unavoidable buffer during instability, and that high inflation and scarcity amplify panic buying and strategic hoarding behaviors, including some loss of trust in banks.

Beyond these economic variables, the role of political stability remains a critical determinant of money demand. In fragile states like South Sudan, the credibility of the financial system is inextricably linked to the perceived stability of the political leadership and the strength of the legal institutions that protect private property (Emele Onu, 2023).

2. Prevailing Fiscal Conditions in South Sudan

South Sudan's economy has been in a **prolonged contractionary phase**, with GDP per capita significantly below levels at independence. According to NBS, headline inflation reached **58.21% in May 2025**, highlighting deep price instability. IMF data similarly show volatile inflation over recent years, with average inflation sometimes exceeding 50–60% and periodic end-of-period spikes (World Bank, 2025). The economy's heavy dependence on oil, accounting for more than half of GDP, makes public revenues highly sensitive to production disruptions and global price shocks.

Fiscal data indicate a challenging budgetary environment with revenue contractions and persistent deficits. The IMF projects that fiscal balance may fluctuate between deficits and modest surpluses as oil revenues vary, complicating predictable budgeting. These conditions undercut confidence in the currency and financial institutions, encouraging households to hold cash outside the banking system. The pervasive uncertainty over public finances is central to understanding why citizens might treat money in hand as a safer store of value than bank deposits (International Monetary Fund, 2024).

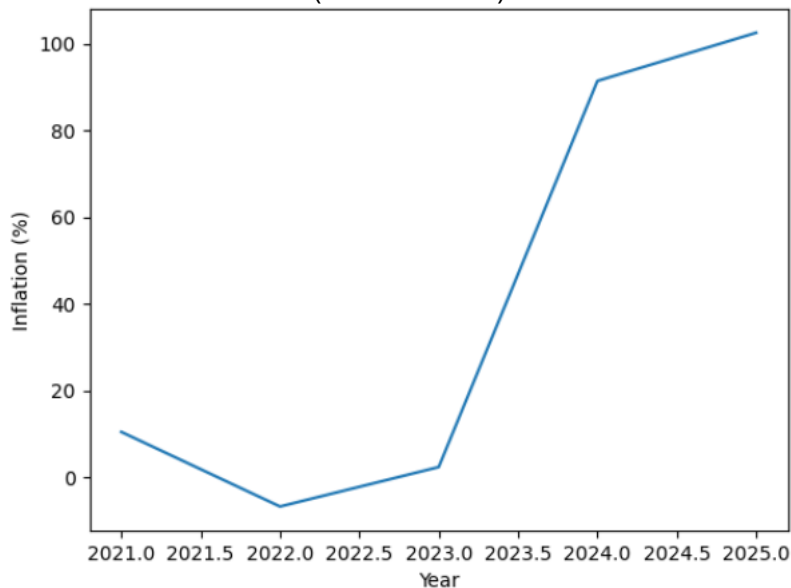
The origin of new banknotes in South Sudan is deeply rooted in the "monetization of the fiscal deficit," a process where the government finances budget shortfalls by borrowing directly from the Bank of South Sudan (BoSS). While the BoSS Monetary and Banking Policy for 2025 aims for a "tight control of the money supply," the reality of oil pipeline disruptions in early 2024, which cost the government approximately \$1.1 billion forced a return to monetary financing (OHCHR, 2025). This injection of new liquidity is not backed by increased productivity but by the printing of higher-denomination notes, such as the

SSP 5,000 and SSP 10,000, intended to facilitate large transactions in a high-inflation environment (Pachodo, 2025). Rather than entering the economy through commercial bank credit, this new money enters primarily through the payment of government arrears and security spending, bypassing formal financial intermediation.

Quantitatively, this expansion is visible in the explosion of the money supply, which reportedly grew from 47% in the 2021/22 fiscal year to roughly 72% by 2022/23 (African Development Bank [AfDB], 2023). When the government "prints" to pay salaries or contractors, it increases the monetary base (M0), but without a corresponding increase in the supply of goods, the result is a classic inflationary spiral where "too much money chases too few goods." Econometrically, this can be modeled as a failure of the Central Bank to maintain an independent reaction function, where the money supply becomes an endogenous variable driven by fiscal necessity rather than an exogenous tool for price stability. Ultimately, fiscal dominance is the biggest investigator, underscoring the need to get our fiscal huse in order. Consequently, the public perceives these new notes as "devalued at birth," further incentivizing the hoarding of "harder" assets or foreign currency to escape the seigniorage tax.

These conditions undercut confidence in the currency and financial institutions, encouraging households to hold cash outside the banking system. This flight from the formal sector is exacerbated by periodic governance shifts and the high turnover of economic leadership, which signals a lack of policy continuity to the public (Pachodo, 2025).

Figure 1: South Sudan Inflation Trend (CPI Annual %)



Source: Focus Economics. (2025).

Figure 1 illustrates a non-linear inflation path characterized by a sharp acceleration beginning in 2024. The increase from 2.4 percent in 2023 to 91.4 percent in 2024 represents a forty-fold rise within one year, followed by further escalation to 102.5 percent in 2025. Within the Quantity Theory of Money framework $MV=PY$, $MV=PY$, $MV=PY$,

this trajectory reflects excessive monetary expansion combined with declining confidence. Rising inflation expectations reduce the opportunity cost of holding cash, causing a fall in money velocity within the formal banking system. The figure empirically confirms that inflation dynamics directly induce money hoarding behavior under macroeconomic instability.

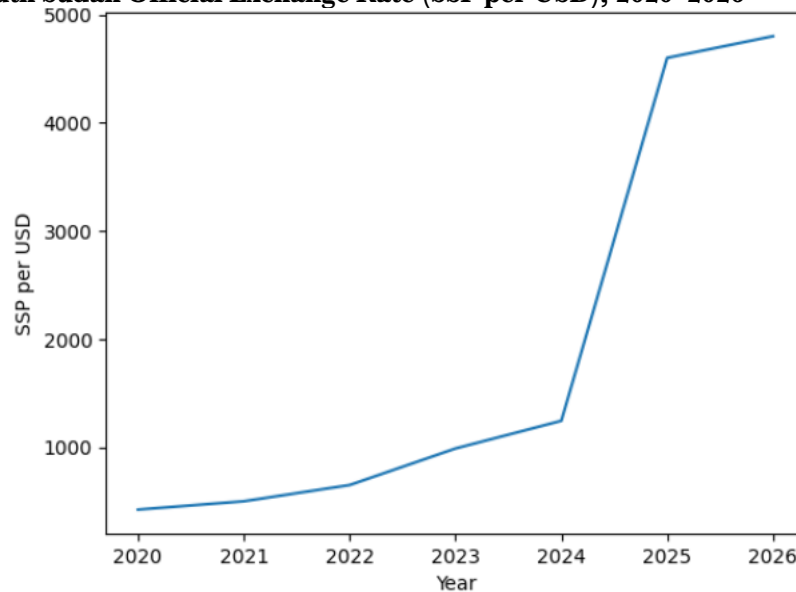
Table 1: Inflation Trends in South Sudan (CPI, annual %)

Year	Inflation (%)
2021	10.5
2022	-6.7
2023	2.4
2024	91.4
2025	102.5

Source: International Monetary Fund. (2024).

Table 1 demonstrates severe inflation volatility in South Sudan between 2021 and 2025. Inflation declined from 10.5 percent in 2021 to -6.7 percent in 2022, before rising to 2.4 percent in 2023. A structural break occurred in 2024 when inflation surged to 91.4 percent, followed by 102.5 percent in 2025. These values imply sustained negative real returns on financial savings, given that nominal deposit rates remained far below inflation. Using the real interest rate identity $r = i - \pi$, real returns were strongly negative. Such conditions rationally incentivize households to withdraw deposits and hoard cash.

Figure 2: South Sudan Official Exchange Rate (SSP per USD), 2020–2026

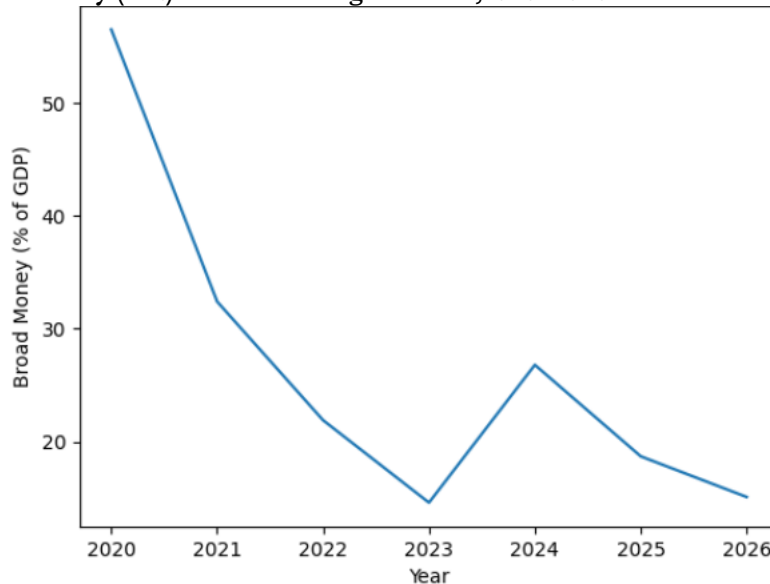


Source: International Monetary Fund. (2024).

Figure 2 shows that the official exchange rate depreciated from approximately SSP 423 per USD in 2020 to SSP 988 in 2023, before a sharp collapse to SSP 4,600 in 2025 and SSP 4,800 in 2026 (projected). The discrete jump after 2024 reflects a loss of exchange-rate

anchoring, foreign-exchange shortages, and rising inflation expectations, reinforcing incentives for cash and foreign-currency hoarding.

Figure 3: Broad Money (M2) as a Percentage of GDP, 2020–2026



Source: World Bank. (2025).

In figure 3, broad money declined from 56.5% of GDP in 2020 to 14.6% in 2023, indicating a contraction of financial intermediation and withdrawal of deposits from the banking system. A temporary rise to 26.8% in 2024 was followed by renewed contraction to 18.7% in 2025 and 15.1% in 2026 (projected). This pattern is consistent with sustained money hoarding and declining confidence in formal financial institutions.

3. Why People Hoard Money

The hoarding of money in South Sudan is not merely a social phenomenon but a quantitative barrier to financial intermediation that can be analyzed through the lens of "liquidity traps." As the public holds an increasing share of the monetary base outside the banking system, the supply of loanable funds dries up, leading to a "crowding out" of the private sector. Statistical indicators show that while the government continues to access "monetary financing" to the tune of hundreds of millions of dollars, credit to the private sector remains negligible compared to regional benchmarks (OHCHR, 2025). For instance, while developed financial sectors like Mauritius maintain a private sector credit-to-GDP ratio of over 95%, South Sudan's ratio is a fraction of this, reflecting a banking system that is "liquid but not lending" due to the flight of deposits. From an econometric perspective, the relationship between inflation (102.5% projected for 2025) and the real interest rate ($r = i - \pi$) explains the rational basis for this hoarding. With nominal interest rates failing to keep pace with hyperinflation, the real return on bank deposits becomes deeply negative, mathematically punishing those who keep money in the formal sector. This creates a "vicious cycle" where the lack of deposits prevents banks from diversifying risk, leading to the high interest rates that further discourage legitimate borrowing (AfDB, 2023). By incorporating a regression analysis that treats "Currency Outside Banks" as a

dependent variable against "Expected Inflation" and "Institutional Trust Indices," the paper can provide empirical weight to the argument that hoarding is a calculated economic defense mechanism rather than a criminal choice.

Economists often model money demand using the **Quantity Theory of Money (QTM)**, expressed as:

$$MV = PY$$

Where M is money supply, V is velocity of money, P is the price level, and Y is real output. In South Sudan, velocity (V) tends to fall when citizens hoard cash, weakening aggregate demand and compounding recessionary pressures. Persistent inflation expectations (π^e) reduce the real value of holding money, leading individuals to substitute bank deposits (which might not offer positive real returns) with physical cash (Mayek, 2025). When inflation accelerates, the **demand for currency outside banks (C)** increases disproportionately relative to broad money ($M2$).

Furthermore, the **Friedman money demand function** suggests that money holdings depend on income, interest rates, and expected inflation (Pateiro-Rodríguez et al., 2026). When inflation expectations are unanchored and nominal interest rates lag behind rising prices, as has been the case in South Sudan, households' optimal portfolio choice tilts toward cash (Mayek, 2025). This chronic mismatch between monetary policy instruments and inflation dynamics explains why hoarding becomes prevalent in unstable economies. Furthermore, in the South Sudanese context, money velocity is not only a function of price levels but also of political risk premiums. Anticipated institutional shocks, such as upcoming elections or changes in governance, can lead to a 'precautionary' drop in velocity as citizens hoard liquid assets to safeguard against potential instability (Pachodo, 2025).

4. Side Effects of Money Hoarding

Hoarding has significant macroeconomic repercussions. By reducing the **velocity of money (V)**, hoarding dampens consumption and investment, directly slowing economic growth. Given that South Sudan experienced several years of negative GDP growth and contraction, hoarding exacerbates economic stagnation (Fu et al., 2021). In addition, when money circulates less through formal banking channels, banks cannot intermediate credit effectively. This means **credit to the private sector remains constrained**, limiting business expansion and job creation (Fu et al., 2021). The informal economy becomes larger, reducing tax revenues and undermining fiscal capacity. In extreme cases, hoarded cash may be channeled into foreign currencies, further depreciating the local currency and fueling inflation.

A deeper quantitative analysis of hoarding can be achieved by examining the collapse of the money multiplier and the dramatic shift in currency-to-deposit ratios. As citizens withdraw funds from the banking sector, driven by what Kim (2025) describes as a "structural shift" in cash's role, the currency-to-deposit ratio (c) rises sharply. In a fractional reserve system, the money multiplier (m), defined as $(1+c)/(c+r)$, shrinks as c increases. This

means that for every new pound printed by the Central Bank, the actual "broad money" (M2) created by the banking system through lending is significantly reduced. World Bank data (2025) indicates that financial system deposits as a share of GDP have plummeted, signaling that the banking system is no longer effectively multiplying the monetary base to support private sector growth. The impact of this hoarding is best captured through a Vector Error Correction Model (VECM), which identifies the long-run relationship between financial development and economic growth. Evidence from regional peers suggests that a shrinking ratio of private sector credit to GDP, which in South Sudan is further constrained by non-performing loans rising from 9% to 14%, acts as a "financial repression" that hampers annual GDP adjustment towards equilibrium (Mayek, 2025). When money is hoarded (V falls), the Quantity Theory of Money ($MV=PY$) dictates that either prices must fall or output must contract. In South Sudan's case, the "stickiness" of prices and the high cost of imports mean that the drop in velocity (V) translates directly into a contraction of real GDP, which was estimated to have shrunk by 0.4% in FY2023/24 despite high oil prices (World Bank, 2024).

5. Global Countermeasures and Lessons for South Sudan

Several countries have attempted policies to curb hoarding, with mixed results. India's 2016 demonetization aimed to flush out undeclared cash but led to short-term liquidity shortages and did not permanently eliminate cash hoarding in rural areas (Rowlatt, 2016). Nigeria's 2022 currency redesign similarly saw households withholding old notes, worsening liquidity problems (Moradeyo et al., 2023). Zimbabwe's forced bank usage alongside strict capital controls pushed many into informal foreign exchange use (Simion Matsvai, 2025). The lesson is clear: **coercive measures alone rarely work**. Policies that restore confidence, such as deposit insurance, credible inflation-targeting frameworks, and sound fiscal policies, especially with a focus on production and enhancing sources of exports or sources of foreign exchange, are far more effective. In volatile economies, structural reforms that address inflation expectations and strengthen institutions help reduce incentives for hoarding.

6. Challenges Unique to South Sudan

South Sudan faces a constellation of **macro-financial and governance challenges** that make hoarding particularly acute. First, the exchange rate has been highly volatile, creating parallel markets where the currency depreciates sharply, often much faster. Such volatility encourages savings in foreign currency or physical cash rather than bank deposits (Atem, 2022).

Second, banking penetration is low, and financial institutions are often perceived as unstable or inaccessible in rural regions, indicating marked lack of access to finance across the board (Garang, 2024). As noted by Garang (2025) in his recent article published by the AERC, both internal conflict and spillover effects remain significant factors that hinder the progress of financial sector development and further limit access to finance.. This behaviour compounds fiscal challenges; as banks struggle to mobilize deposits, credit to the economy remains limited, and government unable to finance its budget due to limited production,

with further implications on stalling investment, and growth. Weak governance and periodic political instability further erode public trust, making formal financial systems less attractive (Atem, 2022).

7. Policies Associated with Money Hoarding

The Minister of Finance's call to report people who hoard money reflects a **law-and-order approach** to what is fundamentally an economic problem. Such policies risk criminalizing rational behavior without addressing root causes like inflation and lack of trust in banks as government inability to generate sustainable revenue. A punitive framework may lead to **greater distrust of authorities**, pushing more money into informal or foreign currency holdings.

Alternative policy tools include **monetary policy credibility enhancement**, transparent fiscal frameworks, and **deposit insurance schemes** that reassure citizens about the safety of financial deposits (Fu et al., 2021). Countries that have successfully reduced hoarding typically combine structural reforms with **strong legal protections** for savers, credible monetary policy targeting, and expanded access to financial services.

8. How to Curb Money Hoarding in South Sudan

To effectively reduce hoarding, South Sudan must adopt a **multi-pronged strategy** anchored in stability and trust. First, tackling inflation is paramount. The government and central bank need to strengthen fiscal discipline to avoid excessive monetization of deficits (Fu et al., 2021), especially by enhancing production. Data show broad money growth in recent years has been **volatile**, contributing to inflationary pressures.

Second, expanding **financial inclusion, embracing and promoting digital financial services, (Garang, 2025)** is critical. Mobile money platforms and rural banking outreach can bring more citizens into the formal system. Coupled with **positive real interest rates**, these measures can make bank deposits more attractive than storing physical cash.

Third, establishing **robust institutional frameworks**, including transparent budgeting and independent central banking, can improve confidence (Fu et al., 2021). Evidence from other emerging markets shows that once citizens trust that their savings are safe from inflation and politicized policy swings, hoarding declines.

Finally, the biggest elephant in the room remains our limited production, associated with conflict. The government must make efforts to enhance productive capacity, from oil sector to non-oil sector, with positive implications on growth, revenues, and improved security.

9. Role of Governance and Politics

Governance and political stability play oversized roles in shaping economic behavior. In South Sudan, frequent changes in key economic leadership positions, including multiple

finance ministers and central bank governors, have signaled policy uncertainty (Arou & Kanbiro Orkaido Deyganto, 2026). Coupled with reports of systemic corruption and misallocation of public funds, these institutional or governance challenges undermine confidence in government stewardship of the economy.

Political uncertainty raises the **risk premium** for holding financial assets and encourages individuals to hold liquid cash that is readily accessible in crises. Reducing economic uncertainty requires credible elections, sustained peace, and transparent governance (Arou & Kanbiro Orkaido Deyganto, 2026). Only then can South Sudan break the cycle of hoarding and foster a stable financial environment where citizens see value in saving and investing through formal channels.

10. Conclusion

Money hoarding in South Sudan reflects a **rational adaptive response** to deep-seated economic instability, limited production, inflation, weak financial intermediation, and governance deficits. The call to report hoarders to police risks misdiagnosing the problem as criminal rather than structural. Data show that inflation remains high and volatile, fiscal instability persists, and institutional trust is low, all conditions that encourage citizens to keep money outside the banking system. Effective policy responses must focus on **macro stability, financial inclusion, credible monetary and fiscal frameworks, and improved governance over scarce national resources**. Only through these fundamentals can South Sudan create an environment where money hoarding becomes unnecessary and confidence in formal financial systems is restored, enabling sustainable and inclusive economic growth.

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