

## International Monetary Fund

[Sudan](#) and the IMF

**Sudan:** Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

**Press Release:**

[Statement at the Conclusion of an IMF Mission to Sudan to Conduct the First Review under the Staff-Monitored Program](#)

May 9, 2014

June 26, 2014

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## Letter of Intent

Khartoum, June 26, 2014

Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Ms. Lagarde,

We would like to express our gratitude to the International Monetary Fund (IMF) for its support of our economic reforms at this critical time for our economy. The Staff-Monitored Program (SMP) for January 1–December 31, 2014 is providing us with the framework needed to maintain macroeconomic stability and implement our reform program in a challenging domestic and external environment.

In May 2014, together with the IMF mission that visited Khartoum, we assessed the economy's performance under the SMP as of end-March 2014. Owing to our determined efforts and the support of your staff, we have met most of the quantitative benchmarks and targets set for the first review of the program. However, we have missed two benchmarks related to: (i) net international reserves, partly because of shortfalls in both domestic oil production and oil-related revenues from South Sudan, and market sentiment factors owing to uncertainties arising from the conflict in South Sudan; and (ii) net domestic assets, by a small margin. We also missed two indicative targets related to: (i) social spending, because we could not undertake the January outlays because of delayed establishment of spending authorizations. Social spending resumed in February and remained on track in March; and (ii) the non-oil primary deficit. Revenue collection efforts are being intensified and will help us meet this target comfortably in the second quarter. As regards structural conditionality, we have made good progress as well. We have advanced in the implementation of the structural reforms agreed under the program, including revenue administration, public financial management, the financial sector, and the business environment reforms.

The tangible benefits of the program are already evident in its outcomes, most notably in the form of continued economic recovery, lower inflation, and fiscal stability. We consider the first results of this program as evidence of a track record of macroeconomic performance and policy implementation required to secure debt relief, which remains an utmost priority for us.

Nevertheless, we recognize that much remains to be done, and we will build on the progress already achieved in the months ahead. With that in mind, we have reached understandings with the mission on a revised macroeconomic framework for the remainder of 2014 and the medium term, and updated benchmarks and indicators for end-June, end-September, and end-December 2014. We

also confirmed the agreed structural benchmarks for end-June, end-September, and end-December 2014.

The attached memorandum of economic and financial policies (MEFP) updates the original March 2014 MEFP to reflect recent developments and highlights some of our key achievements. We believe that the policies set forth in the attached MEFP are sufficient to achieve the objectives of our program, but we will take any additional measures that may become necessary for this purpose. We will consult with the Fund staff in advance of any revision of the policies described in the MEFP, in accordance with the Fund's policies.

We intend to remain in close contact with Fund staff and provide timely information required for monitoring economic developments and implementation of policies under the SMP. In this context, to further improve monitoring of the program, we are requesting that the definition of net domestic assets be revised, and that the non-oil primary deficit be adjusted for the deviations in terms of oil transit fees and TFA. At the same time, we plan to improve governance by strengthening the current AML/CFT law. In this context, amendments to the AML/CFT law will be enacted by end-September 2014 (structural benchmark).

We authorize the IMF to publish this Letter of Intent, the attached MEFP, and the policy documents for the first review under the SMP.

Sincerely yours,

/S/

Badredin Mahmoud Abbas

Minister of Finance and National Economy

/S/

Abdulrahman Hassan Abdulrahman

Governor, Central Bank of Sudan

# Memorandum of Economic and Financial Policies for 2014

## I. Background

**1. This updated memorandum sets out the economic and financial policies and objectives of the Government of Sudan for the remainder of 2014.** These policies aim to improve Sudan's economic and financial conditions that deteriorated in the aftermath of the secession of South Sudan and will be implemented in the context of a Staff Monitored Program (SMP) approved by the IMF managing director in March 2014. These policies are in line with our Interim Poverty Reduction Strategy Program (I-PRSP) for 2012–14 and will provide an anchor for our new National Economic Program and a full PRSP for 2015–17 which we have started to prepare with assistance from donors.

**2. We are implementing the policies supported by the SMP in a changing political environment.** Several initiatives are under way aiming to lessen domestic political tensions, bring peace to the provinces suffering from armed struggles, and make the political process more inclusive. These include most notably: (i) a call by the president for a comprehensive national dialogue on political reforms, including a new constitution to replace the Interim Constitution that was adopted as part of the 2005 Comprehensive Peace Agreement with the South; and (ii) the initiation of peace talks with the Sudan People's Liberation Movement—North Sector.

**3. The South Sudan conflict is lingering and we are working toward peace.** Sudan continues to encourage both parties in the conflict to agree on a ceasefire and submit to international mediation. At the request of South Sudan, Sudan is providing technical assistance to repair some damaged oil fields and ensure continued oil production and exports. In addition, we continue to welcome and offer shelter to refugees (about 62,000 as of mid-May) from South Sudan who continues to cross into Sudan. We are working closely with the UN agencies and various NGOs to provide assistance to the refugees.

## II. Recent Macroeconomic Developments

**4. Preliminary data suggest that economic performance in the first quarter of 2014 is improving.** Twelve-month inflation fell to 35.7 percent at end-March, from 41.9 percent at end-December 2013, mainly reflecting lower food prices and tighter monetary conditions. Reserve money growth was contained at 3.2 percent at end-March and broad money grew by a mere 6.7 percent. The curb market exchange rate depreciated by 6 percent against the U.S. dollar in March, reflecting uncertainties related to the conflict in South Sudan. As a result, the gap between

the official and curb market exchange rates widened to close to 50 percent. Gross international reserves declined to US\$1.2 billion by end-February, from US\$1.6 billion at end-2013 but have subsequently rebounded to US\$1.5 billion at end-March. The fiscal performance is on track as envisaged in the SMP. With revenue exceeding by 40 percent from last year at the same period and constrained budget spending, the overall fiscal deficit during the first quarter dropped to 0.2 percent of GDP, compared with 0.5 percent of GDP in the same period of 2013.

**5. We have met most of the end-March 2014 quantitative benchmarks and indicative targets of the SMP.** However, we have missed two targets related to: (i) net international reserves partly because of shortfalls in both domestic oil production and oil-related revenues from South Sudan, and market sentiment factors owing to uncertainties arising from the conflict in South Sudan; and (ii) the net domestic assets by a small margin. We also missed two indicative targets related to: (i) social spending because we could not undertake the January outlays due to delayed establishment of spending authorization.<sup>1</sup> Social spending resumed in February and remained on track in March; and (ii) the nonoil primary deficit (NOPD) because of higher fuel imports triggered by unusual weather conditions and higher agricultural imports. Accordingly, we have taken corrective measures to enhance exchange rate flexibility and be able to meet the NIR target. In addition, we intend to remain within the second quarter ceiling for fuel subsidies to ensure that the NOPD target will be met.

**6. As regards structural reforms, we have made good progress as well with respect to end-June targets.** We have advanced implementation of the structural reforms agreed under the program, including revenue administration, public financial management, the financial sector, and the business environment reforms.

### **III. The Economic Program for the Rest of 2014**

**7. We remain committed to implement the agreed policy mix.** We will: (i) continue fiscal consolidation through revenue enhancement and fiscal retrenchment, while broadening social protection and allocating more resources to productive projects; (ii) continue with our tight monetary policy stance and improvements of the transmission mechanisms; (iii) address external imbalances by assuring greater exchange rate flexibility through a managed-float exchange rate system; and (iv) implement structural reforms, including a restructuring of the public sector.

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<sup>1</sup> In Sudan, the bulk of social spending is undertaken outside the government budget, including through a network of private institutions (e.g. Zakat Fund) and communities.

## A. Macroeconomic Policies and Reforms

**8. Our macroeconomic objectives remain unchanged.** We are committed to: (i) bringing inflation down to 18.1 percent, reflecting the combined effects of fiscal consolidation, monetary tightening, and the stabilization of the exchange rate; (ii) reducing the overall fiscal deficit to about 1.2 percent of GDP, reflecting both an improvement in revenue collection and a reduction in spending; and (iii) narrowing the current account deficit to 6.9 percent of GDP and financing it mostly by non debt-creating flows. We expect non-oil real GDP to grow by 2.5 percent as a result of a rebound in agriculture, continued improvement in export performance, and productivity gains in the economy as reforms take hold.

**9. Sudan's medium-term outlook remains favorable.** We continue to project: (i) an average non-oil real GDP growth rate of about 3.8 percent; (ii) a fall in inflation to single digits (8.6 percent) by 2016; (iii) an overall fiscal deficit of 0.6 percent by 2016 as the consolidation of public finances continues through the medium term; and (iv) sustained growth of exports and reduction of current account deficit.

### Fiscal Policy and Budgetary Reforms

**10. Fiscal adjustment remains the cornerstone of the program.** Based on the first quarter outcome, we retain our objective of reaching a tax revenue ratio to GDP of 6.5 percent. We also target a ratio of current spending to GDP of 11.5 percent, while improving public financial management (PFM) in line with IMF recommendations. We are pressing ahead with the implementation of a set of revenue-enhancing measures envisaged in the March 2014 MEFP. In particular, progress is underway to rationalize tax exemptions and strengthen taxpayer compliance management by introducing a framework that uses risk-based audit and non-audit interventions and the audit manual will be ready by end-September 2014 (structural benchmark). To achieve these goals, we have established a Tax and Customs Reform Committee in March 2014 that comprises not only government officials from relevant ministries but also experts from the private sector and academia and NGOs. At the same time, we are containing the wage bill and assuring improvements in operations of the state-owned oil company and the electricity sector. In this vein, we have established a joint working group between the ministry of oil and the ministry of finance to review the subsidies.

**11. Fund TA will be crucial to help us meet our objectives.** As we continue with our reform efforts, we have requested in an April 2014 letter technical assistance from the Fund in several areas, including public financial management, cash management, the Treasury Single Account, tax

collection and revenue mobilization, and energy subsidy and social safety net.<sup>2</sup> This will help us: (i) improve revenue collection, including through a review of tax and customs exemptions; (ii) strengthen public financial management, with a focus on strengthening budgetary execution and monitoring and helping make the budget as a key management tool; and (iii) strengthen anti-corruption and AML/CFT efforts to enhance transparency and efficient use of public resources (end-September 2014 structural benchmark).

### **Monetary Policy and Financial Sector Reforms**

**12. We will continue our tight monetary stance to keep inflationary pressures in check.** In this context, we project reserve money growth at 14.7 percent and limit monetary financing of the fiscal deficit to 0.5 percent of GDP. At the same time, we continue to strengthen CBOS independence and improve the transmission mechanism of monetary policy by: (i) improving coordination between monetary policy and fiscal policy; (ii) promoting an interbank market for GMC and Government Investment Certificate (GIC) securities; and (iii) expanding the auction system to provide commercial banks with the opportunity to recycle their unused cash balances.

**13. We are pursuing improvements in the operation of the banking sector.** We have discontinued direct and subsidized credits, and begun efforts to raise the microfinance portfolio to 12 percent of the total portfolio supporting regulated and supervised micro finance institutions (MFIs). We are working to implement best practices in bank supervision, inspection and enforcement; update the risk-based manuals for offsite and onsite supervision; terminate the direct ownership of banks by CBOS; and upgrade the legal, regulatory, and institutional framework of the sector. We are seeking TA from partners to support our efforts. Last but not least, plans to restructure Omdurman National Bank in line with the recommendations of the independent audit (end-June 2014 structural benchmark) are under way.

### **Exchange Rate Policy and Reforms**

**14. A continuation of the tight monetary stance and enhanced exchange rate flexibility should reduce the gap between the official and curb market exchange rates.** The persisting gap between these two rates reflects the stance of our monetary policy, uncertainty in the oil sector as the South Sudan conflict lingers, insufficient foreign exchange supply, lack of visibility of our economic policies and limited exchange rate flexibility. We fully recognize the urgent need to reduce

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<sup>2</sup> A mission from the IMF Fiscal Affairs Department visited Khartoum in March 2014 to provide technical assistance on energy subsidies and social safety nets.

the gap. In this context, we prepared a set of corrective measures that enhances flexibility in the foreign exchange transactions. Specifically, commercial banks and foreign exchange bureaus will be allowed to set the exchange rate they quote to customers freely within the trading bands according to the managed float regime, while exporters are allowed to sell their proceeds of any importer. At the same time, starting on June 25<sup>th</sup>, 2014, the indicative rate (weighted average of exchange rates of the foreign exchange market) will be flexible with a view to achieving a gradual convergence between the official and a curb market rate. In addition, we introduced new incentive, regulation and guarantee to attract remittances and the repatriation of export proceeds, improve the non-oil exports, and rationalize the uses of foreign exchanges to improve the functioning of the foreign exchange market. These measures will also help us strengthen the FX market and rebuild our net international reserves for the remainder of 2014. We are requesting technical assistance from the IMF to help us implement all these measures.

## B. Other Structural Reforms

**15. We remain committed to improve the business environment, strengthen our social policies, and upgrade debt management.**

### Business Environment

**16. An appropriate business environment is critical to enhance the growth prospects of the country.** Together with our efforts to assure macroeconomic stability, the reform agenda will continue to focus on lowering the cost of doing business to attract increased domestic and foreign investments. We are also taking action to improve governance and strengthen anti-corruption efforts within the administration.

### Social and Employment Policies

**17. We will continue our efforts to improve the human capital and reduce poverty.** In addition to increased assistance to the most needy, we are also allocating more funds to education and health to improve the human capital. We are pressing ahead with our plans to support a network of SMEs through development of the micro-finance sector. At the same time, we are looking at enhancing employment opportunities in agriculture, through the implementation of different production plans in the real sectors, in cooperation with the private sector.

### External Debt and Debt Relief Prospects

**18. Resolving the unsustainable debt burden remains the government's utmost priority.** As part of our efforts to secure debt relief, we have satisfied key technical requirements, including a

long track record of economic performance with the IMF through 13 successful SMPs, a finalized I-PRSP, and a reconciliation of our external debt stock. We believe that this progress will help bring debt relief and avoid the triggering of the “zero option” clause, as an extension of the deadline will also impact on all the other components of the bilateral agreement between Sudan and South Sudan. In the interval, with the deadline for the “zero option” fast approaching, we are therefore planning to: (i) continue our technical work; and (ii) step up, through the Tripartite Committee (Sudan/South Sudan/African Union), our joint outreach efforts towards international creditors to secure debt relief. At the same time, we are committed to: (i) minimize non-concessional borrowing, and borrow on as favorable terms as possible; and (ii) continue cooperation with the IMF on policies and payments. We are also working closely with the World Bank’s Debt Reduction Facility in preparation of our strategy for debt relief. We remain hopeful that the international community will recognize our track record, as evidenced by our performance under the current SMP, and take concrete action on debt relief equal to that provided to other countries.

**19. We will further upgrade our investment planning and debt management capacity.** We plan to establish a unit within the ministry of finance to oversee our development strategy, coordinate on investment projects, and manage foreign and domestic development financing sources in an integrated manner. We have set up a committee to prepare for the establishment of this unit.

### C. Program modalities and monitoring

**20. We will continue to closely monitor the implementation of our program.** The understandings between the Sudanese authorities and the Fund staff regarding the quantitative benchmarks and structural benchmarks are further specified in the attached Technical Memorandum of Understanding (TMU). To further improve monitoring of the program, we are requesting a revision to the definition of net domestic assets (NDA), and that the nonoil primary deficit be adjusted for the deviations in terms of revenues from oil transit fees and the Transitional Financial Arrangement (TFA). At the same time, we plan to improve governance by strengthening the current AML/CFT law. In this context, amendments to the AML/CFT law will be enacted by end-September 2014 (structural benchmark). The government will continue to make available to Fund staff all data as specified in the TMU.

**21. We formed an Inter-Ministerial Committee to monitor implementation of the SMP.** This committee is working closely with the resident representative office.

**22. We will continue our cooperation on payments with the IMF.** In this context, we will continue making regular quarterly payments totaling at least US\$10 million in 2014, and further increase them as Sudan's payment capacity improves.

Table 1. Sudan: Quantitative Targets, 2013-14

	2013	2014 1/					
	December	March			June	September	December
		Program	Adj.	Actual	Revised Program	Revised Program	Revised Program
<b>Quantitative Benchmarks</b>							
Domestic financing of the central government (ceiling; in SDG million) 2/	5,596	1,059	1,149	-220	1,199	2,518	3,737
CBOS net credit to the central government (ceiling; in SDG million)	13,503	14,249	14,249	13,140	13,690	13,988	15,572
CBOS net domestic assets (ceiling; in SDG million) 3/	51,699	53,297	53,297	53,341	38,206	39,269	41,518
Net international reserves (floor; in millions of U.S. dollars) 2/	355	405	390	267	307	377	452
Contracting or guaranteeing of external long term nonconcessional debt by the government or the central bank (ceiling, in millions of U.S. dollars) 4/	600	600	600	47	600	600	600
Central government budget domestic expenditure arrears accumulation (ceiling, in SDG million)	0	0	0	0	0	0	0
Payments to the Fund (in millions of U.S. dollars)	6	2.5	2.5	2.5	5.0	7.5	10.0
<b>Indicative Targets</b>							
Tax revenue (floor; in SDG million)	19,427	5,295	5,295	5,746	11,562	18,173	25,509
Social spending (floor; in SDG million)	580	368	368	296	688	1,080	1,473
Reserve money (ceiling; change in percent)	20.3	6.0	6.0	3.2	6.2	9.0	14.7
Nonoil primary deficit (ceiling; in SDG million) 2/	8,377	1,743	1,743	1,930	4,122	6,172	7,431

1/ Cumulative from the beginning of the year.

2/ Subject to an adjustor to take account of oil-related fees and TFA from carrying crude oil of the RSS being different than assumed in the program.

3/ Calculated using program exchange rate. The definition of NDA has been revised for end-June target and onwards; see Technical Memorandum of Understanding (Attachment II).

March 2014 NDA is SDG37,091 million under the revised definition.

4/ Continuous benchmark.

Table 2: Prior Actions and Structural Measures Under the 2014 SMP

Benchmarks	Target Date	Macroeconomic Rationale	Status
<b>Prior Actions for Request of SMP</b>			
1. Adopt a 2014 budget in line with SMP.		Support fiscal consolidation.	Met.
2. Unify the CBOS exchange rates.		Eliminate distortions in the foreign exchange market and ensure flexibility going forward.	Met.
<b>Structural Measures</b>			
<b>Tax policy</b>			
1. Reduce VAT exemptions.	Jun. 2014	Boost tax revenue	Committee set up in March is reviewing the issue and will submit a report.
<b>Revenue administration</b>			
2. Complete and adopt the manual for risk-based audit and non-audit interventions.	Sep. 2014	Enhance VAT and income tax productivity.	Audit manual is ready to be rolled-out and appropriate IT system is being established.
3. Strengthen the penalty procedures for non-compliant tax payers.	Quarterly	Enhance tax administration.	Ongoing. Tax procedure code, including penalty system was finalized and submitted to the committee for review.
<b>Expenditure policy</b>			
4. Develop, with Fund TA, a flexible fuel pricing mechanism.	Dec. 2014	Improve the efficiency and targeting of current spending.	Authorities are reviewing the March 2014 TA report raising the issue.
<b>Public financial management</b>			
5. Extend the GFSM 2001 compatible economic classification to the six remaining states, and monitor the quality and consistency of classification applied at the state level.	Sep. 2014	Improve budget classification and fiscal reporting.	Remaining states are in the process of adopting the classification.
6. Develop a medium-term fiscal framework (MTFF) that provides three-year aggregate fiscal targets and projections of revenue and expenditure by main economic categories.	Dec. 2014	Enhance budget planning and preparation.	The first draft of MTFF template has been shared with authorities by resident advisor.
7. Close all central government accounts in commercial banks (except in areas with no CBOS branch).	Jun. 2014	Improve cash management.	Finance Minister issued directive on this issue in January 2014.
<b>Financial sector</b>			
8. Prepare a time-bound restructuring plan for Omdurman Bank in line with the recommendations of the independent audit.	Jun. 2014	Reduce risks stemming from the financial sector.	
<b>AML/CFT</b>			
9. Enact the amended AML/CFT Law based on the recommendations of the December 2013 IMF Technical Assistance on AML/CFT.	Sep. 2014	Support anti-corruption efforts, improve financial sector stability and integration into the global financial system.	

## Technical Memorandum of Understanding

- 1.** This technical memorandum of understanding (TMU) sets out the framework for monitoring the performance of Sudan under the 2014 Staff-Monitored Program (SMP). It specifies the quantitative benchmarks, indicative targets, and structural benchmarks on the basis of which the implementation of the SMP will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to assess program implementation and performance.
- 2.** The SMP relies on seven quarterly quantitative benchmarks and four indicative targets for end-March 2014, end-June 2014, end-September 2014, and end-December 2014.
- 3.** The quantitative benchmarks are:

  - (i) Ceiling on domestic financing of the central government;
  - (ii) Ceiling on the CBOS net credit to the central government;
  - (iii) Ceiling on net domestic assets of the central bank;
  - (iv) Floor for the buildup of net international reserves of the CBOS;
  - (v) Ceiling on new nonconcessional external loans contracted or guaranteed by the government or the central bank;
  - (vi) Ceiling on central government budget expenditure arrears; and
  - (vii) Floor for payments to the Fund.
- 4.** The indicative targets are:

  - (i) Floor for tax revenue;
  - (ii) Ceiling on reserve money growth;
  - (iii) Floor for social spending; and
  - (iv) Ceiling on non-oil primary deficit.
- 5.** Some of these targets are subject to adjustors. The definitions of these variables and the adjustors are set out below. All the quantitative benchmarks and structural benchmarks are displayed in Tables 1 and 2 of the MEFP.

## Definitions

**6.** Central Bank of Sudan (CBOS) net domestic assets (NDA) are defined as reserve money minus CBOS net foreign assets (NFA), minus revaluation accounts. CBOS Net foreign assets (NFA) are defined as foreign assets minus foreign liabilities. Foreign assets comprised of active accounts and other foreign assets of the CBOS. Foreign liabilities comprised of the following items: CBOS use of Fund credit, overdue Fund charges, liabilities to other international organizations, short-term liabilities, and other foreign liabilities. Revaluation accounts are as noted in the balance sheet of the CBOS.

**7.** CBOS net credit to the central government (NCG) is defined as CBOS credit to the central government minus total central government deposits. Central government deposits include all accounts of line ministries and agencies controlled by the government;

**8.** CBOS credit to the central government includes temporary advance, plus CBOS's acquisition of Government Musharaka Certificates (GMCs) and Government Investment Certificates (GICs), plus CBOS long-term claims on the central government;

- The central government comprises all accounts of line ministries and agencies controlled by the government (corresponding to Group no. 11, Group no. 12, and some accounts of the Group no. 19 in the CBOS general ledger), the Zakat funds (recorded under Group no. 13), and margin deposits placed with the CBOS by the central government against letters of credit issued by the CBOS. The definition includes all oil-related accounts controlled by the government (e.g., OSA).

**9.** Net international reserves (NIR) are total gross official foreign reserve assets on active accounts minus official short-term liabilities. The gross reserve assets include assets maintained on accounts with overseas correspondent banks, foreign exchange banknotes in the vaults of the central bank, monetary gold, and SDR holdings. Short-term liabilities include the foreign liabilities, net of barter and payment agreements and non residents' time liabilities, as reported in the balance sheet of the CBOS.<sup>1</sup>

**10.** To evaluate program targets, the guinea equivalent values of foreign exchange denominated items in the balance sheet of the CBOS will be calculated at the program exchange rate of SDG 5.672 per U.S. dollar, and SDG 8.708 per SDR. For currencies other than SDR and U.S. dollar, cross program exchange rates against the U.S. dollar will be fixed as of end-March 2014.

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<sup>1</sup> These liabilities are related to government debts dating back to the 1970s and 1980s and that were not repaid.

**11.** Domestic financing of the central government is defined as total net domestic borrowing by the central government, including net borrowing from the banking system (including GMCs and GICs), net sales of GMCs and GICs outside the banking system, promissory notes (i.e., standing orders, letters of guarantees,<sup>2</sup> sanadats, etc.), revenues from privatization (net of new acquisition of financial assets), revenues from leasing, buildup of domestic government arrears, and drawdown in government cash deposits at the CBOS.

**12.** Non-oil primary fiscal balance of the central government (NOPB) is defined as non-oil revenues<sup>3</sup> minus non-oil expenditures<sup>4</sup> excluding net interest payments (interest payments minus interest receipts) cumulatively since the beginning of the calendar year.

- The floor on the NOPB set in Table 1 will be lowered by the excess in project loans or budget loans relative to program assumptions. The floor on the NOPB set in Table 1 will be raised by the shortfall in project loans relative to program assumptions.

**13.** Debt is defined for program purposes in accordance with Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

- For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
  - (i) Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral

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<sup>2</sup> These guaranties are issued by the government to finance capital and current spending and may, in some instances, be countersigned by the CBOS.

<sup>3</sup> Oil revenue include royalties, oil income taxes, oil-related profit transfers, income from state equity in the oil sector (including national oil company dividends), oil export taxes, receipts from granting exploration rights, and signature bonuses.

<sup>4</sup> Oil expenditures include government investment in the oil sector and any associated recurrent spending, other current oil spending, and transfers to national oil companies.

from the buyer in the future (such as repurchase agreements and official swap arrangements);

- (ii) Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
  - (iii) Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessee or retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

**14.** A non-concessional external debt ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents with original maturities of one year or more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector.

- The public sector comprises the central government, the central bank, nonfinancial public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget, and other official sector entities.
- For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any a shortfall incurred by the debtor.

**15.** For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of

payments of debt service due on this debt. The degree of concessionality of debt will be calculated using 5 percent discount rate. The concessionality calculator is available via the Internet at [www.imf.org](http://www.imf.org).

**16.** Central government budget expenditure arrears are defined as budgeted central government payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods.

**17.** Broad money is defined as the sum of local currency circulating outside of the banks, banks' demand, and time and savings deposits. It also includes transferable deposits and margin deposits against letters of credit placed by state and local governments, nonfinancial public enterprises, and the nonbank private sector with the CBOS.

**18.** Reserve money is defined as the sum of local currency circulating outside of the banks, total reserves (required and excess) for banks, and deposits at the CBOS included in broad money.

**19.** The program sets a floor on priority social spending of the central government. For the purpose of the program, priority social spending of the government is defined as the central government's spending on social benefits program that includes cash transfer, spending on health insurance, on primary health care, and students support.

**20.** Transitional financial arrangement (TFA) is defined as in the September 2012 agreement between Sudan and South Sudan and consists of financial transfers paid by South Sudan and totaling \$3.028 billion over 3½ year. These payments are expressed in per barrel terms (\$15/barrel), based on South Sudan's projection of an average of 152,000 barrels/day of oil production. If production is higher, payments will be made at the agreed rate until cumulative payments reach \$3.028 billion.

**21.** Oil transit fees are defined in the September 2012 agreement as the fees paid by South Sudan for exporting its oil using Sudan's pipeline and oil infrastructure. These fees (i) average \$9.6/barrel, of which only \$5.6/barrel accrue to the government and the rest to oil companies; and (ii) will apply for the whole 3½ year period and will be renegotiated thereafter.

## Adjustors

**22.** An adjustor will be applied for the oil transit fees and TFA accrued from carrying crude oil from South Sudan. The gross programmed government revenue is based on the program's assumptions about oil transit fees and TFA from South Sudan. Accrued revenue is the cumulative government revenue inflows based on actual shipments at current international prices (f.o.b. Port Sudan).<sup>5</sup> The local currency equivalent of the dollar difference between the programmed and accrued oil transit fees and TFA, needed to calculate the adjustor, will be obtained by multiplying the dollar difference by the average of the monthly exchange rates prevailing during the period in question.

The programmed value for the oil transit fees is SDG 2,078 million in 2014 (SDG 519.5 million quarterly), and the TFA is SDG 2,731 million in 2014 (SDG 682.8 million quarterly). The adjustor will work as follows:

- If the accrued oil transit fees and TFA falls short of the programmed value, the program targets on domestic financing of the central government and nonoil primary deficit will be increased by 25 percent of the local currency equivalent of the difference between the accrued and programmed value. The program target for NIR will be reduced by 25 percent of the difference between the accrued and programmed value.
- If the accrued oil transit fees and TFA exceeds the programmed value, the program targets on domestic financing of the central government and nonoil primary deficit will be reduced by the local currency equivalent of the difference between the accrued and programmed value. The program target for NIR will be increased by the difference between the accrued and programmed value.

**23.** The payments to the IMF are defined as a minimum quarterly payment of US\$2,500,000.

## Program Monitoring

**24.** The Sudanese authorities established a program-monitoring committee composed of senior officials from the Ministry of Finance, the Ministry of Petroleum, the CBOS, and other relevant agencies. The IMF Resident Representative has an observer status on this committee. The committee is responsible for monitoring the performance of the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting

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<sup>5</sup> As compiled monthly by the Ministry of Finance and National Economy (MOFNE).

materials necessary for the evaluation of benchmarks. The committee shall provide the IMF with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

### **Data Reporting**

**25.** The following table contains the agreed reporting framework. To the extent possible, the data will be submitted in both printed and electronic form to the IMF local office.

<b>Reporting Agency</b>	<b>Type of Data</b>	<b>Description of Data</b>	<b>Frequency</b>	<b>Timing (within period specified)</b>
Central Bank of Sudan	CBOS balance sheet	Detailed CBOS balance sheet	Monthly	15 days after the end of each month
	Monetary survey	Banking system balance sheet and consolidated balance sheet of commercial banks	Monthly	30 days after the end of each month
	Cash flow of foreign exchange	Cash flow data of foreign exchange, including sales and purchases by the dealing room at the CBOS	Monthly	1 week after the end of each month
	Banking indicators	Capital adequacy; asset composition and quality including non-performing loans; profitability; liquidity; open FX positions; and compliance with prudential norms	Monthly	30 days after the end of each quarter
	Balance of payments	Detailed composition (exports, imports volume and values, invisible transactions, quarterly BOP tables).	Quarterly	2 months after the end of each quarter
	External debt	Contracting or guaranteeing of medium- and long-term external debt of the government, the CBOS, and state owned companies	Quarterly	30 days after the end of each quarter
Disbursements and repayments, (i) scheduled, and (ii) actual interest and principal on debt of the government, the CBOS, and state-owned companies, by creditor		Monthly	30 days after the end of each month	
Ministry of Finance and National Economy	Central government operations	Revenues, expenditures, and financing as in GFSM 2001 format	Monthly	30 days after the end of each month
	Central government domestic debt	End-month stocks, and monthly issuances and repayments, of all domestic debt instruments: GMCs, GICs, loans and advances from the banking system, sanadat, letters of guarantee, standing orders, accounts payable (including arrears) and amortization schedule	Monthly	30 days after the end of each month
	Social spending	Spending on education, health and training	Monthly	30 days after the end of each month
	External support	Disbursement of grants, disbursement and repayment (principal and interest)of	Monthly	30 days after the end of each

		loans by donor, breakdown of foreign budget and project grants		month
Central Bureau of Statistics	CPI	Including detailed data and inflation for imported products	Monthly	1 week after the end of each month
Ministry of Finance and National Economy / Ministry of oil	Oil transit fees/TFA, from South Sudan	Shipment data, listing by blend specifying date, quantity, prices, and values in US\$ and in guinea	Monthly	30 days after the end of each month
	Crude oil	Production by block; share of Sudan and foreign partners; prices and values (\$ million), investment and production costs by block	Monthly	30 days after the end of each month
	Sales to refineries	Sales listing by refineries specifying date, quantity, prices, and values in US\$ and in guinea	Monthly	30 days after the end of each month
	Refineries	Volumes and prices of production, consumption and imports of gasoline, gasoil, fuel oil, jet oil, kerosene, and LPG (see attached template).	Monthly	15 days after the end of each month
	Net operating income transfers to the treasury	Net income of SPC (including those derived from exports of petroleum products), see template.	Monthly	15 days after the end of each month