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# **Sudan:** Letter of Intent and Technical Memorandum of Understanding

November 21, 2014

The following item is a Letter of Intent and a Memorandum of Economic Policies of the government of Sudan. It is being made available on the IMF website by agreement with the member as a service to users of the IMF website. This memorandum describes the policies that Sudan is implementing in the framework of a staff-monitored program. A members's staff-monitored program is an informal and flexible instrument for dialogue between the IMF staff and a member on its economic policies. A staff-monitored program is not supported by the use of the Fund's financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

# Letter of Intent

Khartoum, November 21, 2014

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

Dear Ms. Lagarde,

We appreciate the support received from the International Monetary Fund (IMF) through the Staff-Monitored Program (SMP), on which we embarked to achieve our dual objective of addressing the macroeconomic imbalances created by the secession of South Sudan and advancing our reform program in a challenging domestic and external environment, while at the same time garnering international support for debt relief. This letter updates our March and June 2014 Letters of Intent and Memorandums of Economic and Financial Policies (MEFP), which remain valid, and revises the technical memorandum of understanding (attached) to reflect the recent agreement with oil companies in South Sudan.

We have met all the end-June quantitative benchmarks and targets set for the second review of the SMP, except the indicative target on reserve money growth which was missed but will be achieved by year-end through corrective measures described below. We have also made good progress on structural conditionality by advancing implementation of the reforms agreed under the program, most notably in the areas of revenue administration, public financial management, and anti-money laundering and combating the financing of terrorism (AML/CFT).

The tangible benefits of the program are already evident, most notably in continued economic recovery and greater fiscal stability, although we need to continue our efforts to bring inflation down. We consider these results evidence of a track record of macroeconomic performance and policy implementation required to obtain debt relief, which remains an utmost priority for us.

Economic growth continues broadly as expected, performance in gold extraction has been very good, and we expect a bountiful harvest thanks to ample and timely rains. Twelve-month inflation has begun to decline from 46 percent in August to 39 percent in September, and this is expected to continue as the impact of the one-off effect of last year's energy price hikes, the exogenous events that led to the depreciation of the curb market exchange rate in the first half of the year, and seasonal factors begin to dissipate. The depreciation pressures in the curb market have eased and the gap with the official exchange rate declined from 65 percent in August to 47 percent in mid-November. Reserve money grew by 8 percent over the first six months of the year, exceeding the 6.2 percent target for June. Gross international reserves increased to US$1.6 billion and net international reserves exceeded the June target. Fiscal performance in the first half of the year was strong: with revenue rising by more than 60 percent relative to the same period last year and expenditure in line with targets, the budget deficit dropped to 0.4 percent of GDP (against 1.2 percent last year). In parallel, the central bank's net credit to the government declined over the first six months of the year.

Much remains to be done, though, and in the months ahead we will build on the progress already achieved. With this in mind, we have reached an understanding with the IMF staff on a revised macroeconomic framework for the remainder of 2014 and the medium term, updated quantitative benchmarks and indicative targets for end-December 2014, and re-phased the structural benchmark on the restructuring plan for the Ommdurman Bank, as the preparation of the plan will take longer than previously envisaged (Tables 1 and 2).

We remain committed to implementing the agreed policy mix aimed at achieving macroeconomic stability. 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 our tight monetary policy stance and improve the monetary transmission mechanism; iii) address external imbalances by assuring greater exchange rate flexibility through a managed-float exchange rate system; and (iv) enhance the capacity of the financial public sector.

Our macroeconomic objectives for 2014 remain broadly in line with the first review projections. We expect non-oil real GDP to grow by 2.9 percent as a result of a rebound in agriculture, gold extraction, continued good performance in manufacturing, robust export performance, and productivity gains as reforms take hold. We are committed to: (i) bringing inflation down to about 30 percent by year-end, reflecting the combined effects of fiscal consolidation and further monetary policy tightening, as well as the dissipation of the base effect from last year's energy price adjustments; (ii) limiting the overall fiscal deficit to 1.0 percent of GDP, reflecting improved revenue collection and contained spending; and (iii) narrowing the current account deficit to 6½ percent of GDP, reflecting improved exchange rate flexibility.

Owing to our adjustment efforts, the medium-term outlook remains favorable despite being weighed by the difficult domestic and external environment, the absence of significant foreign financing, the unsustainable debt burden, and the adverse impact of sanctions on the domestic economy, cross-border transactions, and foreign investment. The outlook has been further clouded by the widespread negative effect of the sanctions against an international commercial bank involved in transactions with Sudan, which are taking a heavy toll on our economy and, ultimately, on the poor.

Fiscal adjustment remains the cornerstone of the program. On the revenue side, we are pressing ahead with the implementation of the revenue-enhancing measures outlined in the March and June MEFPs. In particular, progress is underway to rationalize tax exemptions, strengthen taxpayer compliance, and advance a framework that uses risk-based audit and non-audit interventions. The committee on tax and customs reform has advanced its work; its report was finalized by October and its recommendations will be incorporated in the 2015 budget. On the expenditure side, we continue to be committed to the SMP targets for the year despite some overruns on goods and services and on fuel subsidies due to exceptionally warm weather, and we are strengthening public financial management as outlined in the March and June MEFPs. We are containing the wage bill and ensuring improvements in operations of the state-owned oil company and the electricity sector. We have extended the GFSM 2001-compatible classification to the six remaining states, and have closed all central government accounts in commercial banks except in areas with no Central Bank of Sudan (CBOS) branches.

We will further tighten our monetary policy stance to keep inflationary pressures in check. In this context, we will maintain our reserve money growth target of 14.7 percent for the year, despite the overshooting in the first half of the year, and will limit monetary financing of the fiscal deficit to 0.4 percent of GDP. To achieve this, we will reduce the injection of liquidity in the economy as we will contain domestic gold purchases at the curb market rate, even though gold exports constitute an important source of foreign exchange. At the same time, we will continue to strengthen the central bank's independence and improve the transmission mechanism of monetary policy by: (i) improving the coordination between monetary and fiscal policies; (ii) promoting an interbank market for commercial banks; (iii) expanding the open market operations to provide commercial banks with the opportunity to recycle unused cash balances; and (iv) relaxing restrictions on commercial banks' holdings of government and central bank securities to help develop a market for such securities and reduce excess liquidity.

To improve the operation of the banking sector, we are working to implement best practices in bank supervision, inspection and enforcement; update the risk-based manuals for offsite and onsite supervision; limit the direct ownership of banks by CBOS; and upgrade the legal, regulatory, and institutional framework of the sector. We will finalize a plan to restructure Omdurman National Bank in line with the recommendations of the independent audit by December 2014. To strengthen our governance framework, we have enacted an amended AML/CFT law.

A continuation of the tight monetary policy stance, lower fiscal deficits, and enhanced exchange rate flexibility should reduce the gap between the official and curb market exchange rates. The persistent gap between those two rates reflects insufficient foreign exchange supply and limited exchange rate flexibility, together with absence of international financial support. We fully recognize the urgent need to reduce this gap, and have introduced measures to enhance flexibility in foreign exchange transactions. Specifically, commercial banks and foreign exchange bureaus have been allowed to set the exchange rate freely within the trading bands of the managed float regime, while exporters have been allowed to sell their proceeds to any importer at an agreed price. From end-June, we have begun a gradual adjustment of the indicative rate with a view to achieving convergence between the official and the curb market rates. As part of our commitment to enhance flexibility, we adjusted the official exchange rate by 3 percent to narrow the gap between the two rates. This will be followed by regular adjustments as needed, depending on market developments to preserve our limited foreign exchange reserves and the economy's competitiveness.

We remain committed to improving the business environment, strengthening our social policies, and upgrading debt management. The reform agenda will continue to focus on lowering the cost of doing business in order to attract increased domestic and foreign investment. We are also taking action to improve transparency and governance. We will continue our efforts to improve the human capital and reduce poverty within the framework of the I-PRSP, and we will finalize a full PRSP with support from external donors. Specifically, in addition to increased assistance to the most needy, we are also allocating more funds to basic social spending, which has already increased in line with targets.

Resolving the unsustainable debt burden remains the government's utmost priority. In this regard, we are profoundly disappointed that none of our efforts have been matched by the creditors or the international community so far. Indeed, we have satisfied key technical requirements, including a long track record of economic performance that spans 13 successful SMPs, finalized our I-PRSP, and reconciled our external debt records with creditors. We urge creditors, donors, and the international community to recognize our efforts and commitment, as evidenced by our track record of performance under the current and past SMPs, and to take concrete and positive action towards awarding debt relief on an equal footing with other countries. In the meantime, we are committed to: (i) minimizing non-concessional borrowing, and to borrowing on as concessional terms as possible; and (ii) continuing to make regular quarterly payments to the IMF totaling at least US$10 million in 2014, and further increasing them if Sudan's payment capacity improves.

The deadline under the "zero option" elapsed in September 2014, and according to the agreement, the external debt would have been apportioned between Sudan and South Sudan since creditors, donors, and international community have not provided firm commitments to deliver debt relief. This failure by the international community to move toward granting debt relief has come at great socio-economic cost to Sudan, and has stifled our attempts to spur economic growth and reduce poverty. Nevertheless, in light of recent events in South Sudan and in order to give time to the Tripartite Committee (Sudan/South Sudan/African Union) to carry out its outreach strategy, the parties have agreed to extend this deadline to September 2015. Moreover, we intend to: (i) continue our technical work; (ii) step up, through the Tripartite Committee, our joint outreach efforts towards the international community to secure debt relief; and (iii) supplement the joint outreach with bilateral outreach to intensify the process, while reporting all efforts in this regard to the Tripartite Committee.

The government of Sudan is committed to a comprehensive national dialogue to achieve sustainable peace in Sudan, as envisaged in the agreement signed in Addis Ababa on September 4 under the auspices of the African Union High-level Implementation Panel.

We believe that the policies set forth herein and in the above-mentioned MEFPs are sufficient to achieve the objectives of our program, and we stand ready to take any additional measures that may become necessary for this purpose. We will consult with Fund staff in advance of any revision of the policies described here and in the March and June MEFPs, in accordance with the Fund's policies. We will remain in close contact with Fund staff and provide timely information required for monitoring economic developments and implementation of policies under the SMP.

We authorize the IMF to publish this letter and the policy documents related to this second review under the SMP.

Sincerely yours,

| | |
|---|---|
| /s/ | /s/ |
| BadrEldein Mahmoud Abbas<br>Minister of Finance and National Economy | Abdelrahman Hassan Abdelrahman Hashim<br>Governor, Central Bank of Sudan |

Table 1. Quantitative Targets, 2013-14

| | 2013 | 2014 1/ | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | December | March | | | June | | | September | | December |
| | | SMP request | Adj. | Actual | 1st Review | Adj. | Actual | 1st Review | Actual | Revised Program |
| **Quantitative Benchmarks** | | | | | | | | | | |
| Domestic financing of the central government (ceiling; in SDG million) 2/ | 5,596 | 1,059 | 1,149 | -220 | 1,199 | 1,198 | 579 | 2,518 | ... | 3,868 |
| CBOS net credit to the central government (ceiling; in SDG million) | 13,503 | 14,249 | 14,249 | 13,140 | 13,690 | 13,690 | 13,131 | 13,988 | ... | 15,249 |
| CBOS net domestic assets (ceiling; in SDG million) 3/ | 51,699 | 53,297 | 53,297 | 53,341 | 38,206 | 38,206 | 38,205 | 39,269 | ... | 41,562 |
| Net international reserves (floor; in millions of U.S. dollars) 2/ | 355 | 405 | 390 | 267 | 307 | 307 | 374 | 377 | ... | 445 |
| 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 | 147 | 600 | 147 | 600 |
| Central government budget domestic expenditure arrears accumulation (ceiling, in SDG million) | 0 | 0 | 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 | 5.0 | 5.0 | 7.5 | 7.5 | 10.0 |
| **Indicative Targets** | | | | | | | | | | |
| Tax revenue (floor; in SDG million) | 19,427 | 5,295 | 5,295 | 5,746 | 11,562 | 11,562 | 11,891 | 18,173 | ... | 26,676 |
| Social spending (floor; in SDG million) | 580 | 500 | 500 | 296 | 688 | 688 | 695 | 1,080 | ... | 2,000 |
| Reserve money (ceiling; change in percent) 3/ | 20.3 | 6.0 | 6.0 | 3.2 | 6.2 | 6.2 | 8.0 | 9.0 | ... | 14.7 |
| Nonoil primary deficit (ceiling; in SDG million) 2/ | 8,377 | 1,743 | 1,743 | 1,930 | 4,122 | 4,121 | 3,462 | 6,172 | ... | 6,496 |

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 |
|---|---|---|---|
| **Prior Actions for Request of SMP** | | | |
| 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. |
| **Structural Measures** | | | |
| **Tax policy** | | | |
| 1. Reduce VAT exemptions. | Jun. 2014 | Boost tax revenue | The report of the Review by Tax and Customs Committee was finalized in October. |
| **Revenue administration** | | | |
| 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 distributed to the departments in June. Training on the manual started in September. |
| 3. Strengthen the penalty procedures for non-compliant tax payers. | Quarterly | Enhance tax administration. | The report of the Review by Tax and Customs Committee was finalized in October. |
| **Expenditure policy** | | | |
| 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. |
| **Public financial management** | | | |
| 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. | Met. |
| 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. | Designing MTFF is in progress with TA from METAC in August 2014 |
| 7. Close all central government accounts in commercial banks (except in areas with no CBOS branch). | Jun. 2014 | Improve cash management. | Met. |
| **Financial sector** | | | |
| 8. Prepare a time-bound restructuring plan for Omdurman Bank in line with the recommendations of the independent audit. | Dec. 2014 | Reduce risks stemming from the financial sector. | Under preparation. |
| **AML/CFT** | | | |
| 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. | Met. |

# 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. [1]

**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.

**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

[1] These liabilities are related to government debts dating back to the 1970s and 1980s and that were not repaid.

orders, letters of guarantees,[2] 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[3] minus non-oil expenditures [4]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 from the buyer in the future (such as repurchase agreements and official swap arrangements);

[2] These guaranties are issued by the government to finance capital and current spending and may, in some instances, be countersigned by the CBOS.

[3] 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.

[4] Oil expenditures include government investment in the oil sector and any associated recurrent spending, other current oil spending, and transfers to national oil companies.

(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.

**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 the government of South Sudan and totaling $3.028 billion. 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 from South Sudan government are defined in the September 2012 agreement as the fees paid by South Sudan government for exporting its oil using Sudan's pipeline and oil infrastructure. These fees (i) average $9.1/barrel, of which only $6.9/barrel accrue to the government (including government's share in the pipelines and processing facilities) and the rest to oil companies; and (ii) will apply for the whole 3½ year period and will be renegotiated thereafter.

**22.** Oil transit fees from oil companies are defined as the government's share in the fees paid by oil companies operating in South Sudan for exporting their oil using Sudan's pipeline and oil infrastructure.

## Adjustors

**23.** An adjustor will be applied for the oil transit fees from South Sudan government and oil companies 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).[5] 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 and the TFA are as shown in the Table below.

| | 2014 | | | |
|---|---|---|---|---|
| | Q1 Actual | Q2 Actual | Q3 Program | Q4 Program |
| | *(in USD millions, cumulative from beginning of the year)* | | | |
| Oil transit fees from South Sudan government and oil companies | 73.0 | 151.9 | 247.5 | 343.1 |
| TFA | 114.0 | 237.2 | 348.6 | 460.0 |
| Total (oil transit fees + TFA) | 187.0 | 389.1 | 596.1 | 803.0 |

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 non-oil 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 non-oil 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.

[5] As compiled monthly by the Ministry of Finance and National Economy (MOFNE).

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

## Program Monitoring

**25.** 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 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

**26.** 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.

| Reporting Agency | Type of Data | Description of Data | Frequency | Timing (within period specified) |
|---|---|---|---|---|
| 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 ban king 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 loans by donor, breakdown of foreign | Monthly | 30 days after the end of each month |

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| | | budget and project grants | | |
| 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 |