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SUDAN

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STAFF MONITORED PROGRAM—STAFF REPORT; PRESS RELEASE; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SUDAN

In the context of the Staff Monitored Program for Sudan, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 24, 2014, following discussions that ended on February 13, 2014, with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 7, 2014.
- A **Press Release** for Sudan.
- A **Statement by the Executive Director** for Sudan.

The following document has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Sudan*
Memorandum of Economic and Financial Policies*
Technical Memorandum of Understanding*

*Also included in Staff Report

The publication policy for staff reports and other documents allows for the deletion of market-sensitive information.

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Washington, D.C.

SUDAN

STAFF-MONITORED PROGRAM

March 24, 2014

EXECUTIVE SUMMARY

Context: Sudan is a fragile state mired in a heavy debt burden, international sanctions, and volatile domestic and regional political environments. These problems, together with limited revenue mobilization, are constraining Sudan's growth prospects and poverty reduction efforts. The economic situation worsened following the secession of South Sudan in 2011, resulting in the buildup of large economic imbalances. The authorities have embarked on a stabilization program and are expecting that a return of peace in South Sudan will ensure continuation of oil flows, which are crucial for sustaining the government renewed adjustment process resumed last September.

Focus of the Staff-Monitored Program (SMP): In the attached Letter of Intent, dated March 7, 2014, the authorities requested a new SMP covering the period January–December, 2014. The objective of the SMP is to restore macroeconomic stability, strengthen social safety nets, and develop the required reforms to refocus the economy on its non-resource sector and lay the groundwork for sustainable economic growth.

Risks to the SMP: Risks are mainly tilted to the downside. The social unrest that followed the announcement of the policy measures in September 2013 has abated, but the situation remains fragile. Security conditions remain volatile in several parts of the country, and the current standoff in South Sudan may hinder the flow of oil to Port Sudan. Furthermore, the forthcoming presidential elections in 2015 is already fueling political uncertainty, and complicating the economic policy-making process.

Policy recommendations: The main recommendations from the 2013 Article IV consultation were: (i) a fiscal adjustment in the context of the 2014 budget framed in a medium-term strategy, including a gradual phasing-out of fuel subsidies, and a strengthening of social safety nets; (ii) a tighter monetary stance to contain inflation and lessen exchange rate pressures; (iii) further exchange rate flexibility to improve external competitiveness; and (iv) improvement of the business environment to boost private sector-led growth.

Debt relief prospects: Relief is predicated on reaching out to creditors, normalizing relations with international financial institutions, and establishing a track record of cooperation with the IMF on policies and payments.

Arrears to the Fund: Sudan has been in arrears to the Fund since July 1984. As of end-February 2014, those arrears amounted to SDR 981.5 million.

Approved By
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Prepared By
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Discussions were held in Khartoum during October 27–November 7, 2013 and February 4–13, 2014. The staff team consisted of Messrs. Gemayel (head), Bessaha, Ms. Shi, (all MCD), Mr. Kim (FAD), Mr. Xiong (SPR), and Mr. Sumlinski (FIN). Ms. Dougherty-Choux (MCD) joined the November mission. Mr. Mazarei joined part of the February mission. Mr. Todani (OED) participated in the discussions during both visits. The mission was assisted by Messrs. Erasmus, IMF Resident Representative in Sudan and Amin Yasin, local economist. The missions met with Vice President Hassabo Mohamed Abdulrahman, Minister of Finance and National Economy Badredin Mahmoud Abbas and his predecessor Ali Mahmood Mohamed Abdelrasool, Minister of Petroleum Makawi Mohamed Awad, and Governor of the Central Bank Abdulrahman Hassan Abdulrahman and his predecessor Kheir Ahmed Elzubeir, other government officials, representatives of civil society, and development partners.

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CONTEXT

1. **In the past thirty years, Sudan has developed two major economic vulnerabilities**: an unsustainable external debt and a marked dependency on oil.

- **The external debt buildup dates back to the 1980s.** At end-2013, external debt was estimated at about US$45.4 billion—most of which was in arrears (including to the IMF)—and is unsustainable.[1] The unresolved arrears continue to hinder Sudan's access to most sources of external financing, including concessional borrowing.
- **The economy has been dependent on oil since the late 1990s.** As a result, fiscal and exchange rate policies were heavily influenced by the oil sector. The latter provided sizeable budget revenues which allowed the government to conduct a procyclical fiscal policy while maintaining a low tax burden on the economy; at the same time, it also covered most of the country's needs in foreign exchange and allowed the authorities to maintain an overvalued exchange rate.

2. **The last SMP with Sudan expired at end-2010**. It was implemented in the aftermath of several shocks that hit Sudan, starting with the food and fuel crisis of 2008, the global financial crisis, and the political and economic uncertainties in the run-up to the January 2011 referendum on South Sudan secession. Performance under this SMP was broadly satisfactory.

3. **In 2011, the reform process came to a halt with the secession of South Sudan.** The secession created significant economic problems, including the emergence of sizeable macroeconomic imbalances. Sudan lost 75 percent of its oil output, almost 60 percent of fiscal revenues and about two-thirds of the country's current account payment capacity. Economic conditions deteriorated considerably, as evidenced by declining growth, rising inflation, widening fiscal and external accounts, and large pressures on the exchange rate.

4. **There has been recognition of the need to formulate a comprehensive response to the political and economic impact of the secession of South Sudan in July 2011.** In this context, the government adopted a three-year emergency plan (2012–14). The plan was centered on: (i) consolidating public finances to address the loss of fiscal revenue, including by enhancing tax revenue, streamlining transfers to states, and phasing out fuel subsidies by end-2017 while strengthening the existing social protection schemes; (ii) reforming the exchange rate regime; and (iii) laying the groundwork for sustained and inclusive economic growth and economic diversification.

5. **As part of their three-year emergency plan, the authorities adopted a first package of corrective measures in June 2012.**[2] Nevertheless, the outcome for 2012 was mixed while the

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[1] See recent DSA for the 2013 Article IV consultation (September 5, 2013).

[2] See the 2012 Article IV consultation (IMF Country Report No. 12/299; September 7, 2012) for an elaborate discussion.

reform process was interrupted in 2013 with the adoption of a budget void of any significant reform measures in support of the needed fiscal consolidation. This came on the back of protracted discussions with South Sudan on oil transit fees as well as other economic issues.

6. **In September 2013, the authorities adopted a second package of corrective measures (Box 1).** Measures implemented immediately included, among others, increases in domestic petroleum products prices, a step exchange rate devaluation, and the unification of all official exchange rates (prior action). The adoption of these measures was made possible by the warming of relations with South Sudan and the resumption of oil production; however, the announcement of these measures was met with civil unrest and violence resulting in the loss of many lives. Several opposition parties criticized these measures and called for their reversal; these parties were joined by a splinter group from within the ruling party. Nonetheless, the government refused to backtrack.

7. **A government shake-up took place in early December**. President Omar al-Bashir replaced his two vice presidents and unveiled a partially new cabinet. He also appointed a new governor of the Central Bank of Sudan. The reshuffle came at a time when: (i) there is discontent in the street regarding the government's economic policies, particularly the recent hike in fuel prices; and (ii) the ruling party (National Congress Party) has become increasingly divided over the vision for the future of the party, in the face of mounting pressure from the armed and political opposition.

8. **Following the recent government reshuffle, the president made an overture to the opposition.** He called for a comprehensive participation in a national dialogue on political reforms, including preparation of a new constitution to replace the Interim Constitution that was adopted as part of the 2005 Comprehensive Peace Agreement with the South. Opposition parties cautiously welcomed this initiative, and called for a transitional government to prepare for the 2015 presidential elections and the new constitution. Against this background, the government, in mid-February, under the auspices of the African Union High Level Implementation Panel (AUHIP), participated in discussions with the Sudan People's Liberation Movement—North Sector (SPLM–N) in Addis Ababa to halt the fighting in the Blue Nile and South Kordofan states.

9. **An armed conflict erupted in mid-December in South Sudan.** Although the conflict itself is not expected to pose significant security issues, it will nonetheless delay efforts to improve bilateral relations. The conflict has resulted in a large number of South Sudanese being internally displaced or becoming refugees in neighboring countries, including in Sudan. The conflict has also impacted oil production in South Sudan, although production in the largest field continued at a moderately lower level. Given a potentially significant impact on Sudan, the government's position has been to encourage both parties to the conflict in South Sudan to agree to a ceasefire and to submit to international mediation, particularly through the African Union and Intergovernmental Authority on Development (IGAD). At the request of South Sudan, the Sudanese government also agreed to provide technical assistance to ensure continuation of oil production. A prolonged conflict presents serious risks for the successful implementation of the adjustment efforts.

Box 1. Key Reforms Adopted in September 2013

On September 22, 2013, the authorities announced a package of corrective measures to address the rising economic imbalances. While the price increases in domestic petroleum products and the exchange rate policy measures were implemented immediately, some specific tax and spending measures were taken in the context of the 2014 budget. The composition of this package is as follows:

Fiscal revenue measures

- Increase the prices of domestic and imported gas-oil, gasoline, and LPG.

Sudan: Price Increase of Domestic and Imported Fuels
(In SDG)

	Price before reform	Price after reform	Percent increase
Gas-oil (per liter)	1.78	3.11	74.7
Gasoline (per liter)	2.78	4.67	68.0
LPG (per 15.2 kg cylinder)	15.0	25.0	66.7

Source: Sudanese authorities and Fund staff calculations.

- Increase in the production tax rate to 10 percent on production of nonessential goods.
- Additional custom duty rate on cars and other goods.
- Increase in custom fees between 10 to 40 percent.

Expenditure measures

- Average increase in public sector salaries of about 24 percent.
- Increase in minimum wage from Sudanese guinea (SDG) 165 to SDG 425.
- Increase coverage of social support programs to 500,000 families who will receive SDG150 per month.

Exchange rate policy measures:

- Unification of the CBOS official exchange rates by eliminating subsidized fuel, wheat, and customs exchange rates.[1/]
- Devaluation of the CBOS official exchange rate by 29 percent to align it with the commercial bank exchange rate of SDG5.70 per US dollar.

Sudan: Exchange Rate Unification

	Previous exchange rate	New exchange rate
Customs	4.42	5.70
Wheat Importation	2.90	5.70
Commercial Banks	5.55	5.70
Government Transactions	4.42	5.70

Source: Sudanese authorities.

1/ Until the implementation of this measure, CBOS used three rates: (i) a central rate of SDG 4.42 that applied also to the importation of fuel products, the payment of government obligations, and valuation assessment at customs; (ii) a subsidized rate for wheat of SDG 2.9 per U.S. dollar; and (iii) a commercial bank rate that applied to all other transactions.

RECENT ECONOMIC DEVELOPMENTS

10. Economic conditions through end-2013 were mixed. The 12-month consumer price inflation fell to 29.5 percent by end-September before accelerating to 41.9 percent at end-December, reflecting the September exchange rate devaluation and the increase in the pump prices of domestic petroleum products. In the fiscal area, revenue performance exceeded budget projections on account of an improvement in tax and customs collection and higher imports. Wage spending reached 4.3 percent of GDP, slightly above the target. Accordingly, the overall fiscal deficit is estimated at 2.1 percent of GDP, against a budget target of 3 percent of GDP. The gap between the official and curb market rates remained wide at about 35 percent, mainly owing to the recent conflict in South Sudan, the uncertainty surrounding implementation of the oil agreement with South Sudan, the prevailing macroeconomic imbalances, and the lack of visibility with the government reform agenda. Reserve money growth was contained at 20.3 percent since end-2012, largely reflecting the drop in gold purchase by the central bank, while broad money grew by 13.2 percent. Gross international reserves stood at US$1.62 billion, a decline of US$75 million from end-2012.

THE SMP FOR 2014

A. The 2014 Program

11. The new SMP aims at providing a comprehensive framework for strengthening the policy mix to engineer a much-needed economic turnaround. Consistent with the policies outlined in the emergency three-year strategy, the SMP, which will cover the period January-December 2014, has two key objectives: (i) restoring macroeconomic stability while strengthening social safety nets; and (ii) developing the required reforms to revamp the economy and lay the groundwork for sustainable economic growth. If appropriately implemented, the SMP will allow for the strengthening of Sudan's cooperation with the Fund on policies and payments, and may, in due course, support the authorities' request for arrears clearance and debt relief.

Macroeconomic framework

12. 2014 will be a very challenging year for Sudan, with weak growth prospects, as the country continues to adjust in a context of a difficult domestic and external environments. Nonoil real GDP is expected to grow by about 2½ percent, as the projected strong recovery in agriculture and oil production and productivity gains are expected to be partially offset by a reduction in domestic absorption consistent with the program's fiscal and monetary tightening. The consumer price inflation is expected to ease to about 18 percent, down from 41.9 percent in 2013 (Table 1). The current account deficit is projected to narrow to 8.3 percent of GDP, down from an estimated 10.6 percent of GDP in 2013 (Table 2), and the overall fiscal deficit is to fall to about 1.3 percent of GDP, as a result of better revenue intake and expenditure restraint (Table 3).

13. The macroeconomic situation is expected to improve over the medium term. Real GDP growth rate is expected to gradually increase to 5 percent by 2018. Inflation will gradually come down to about 6 percent by 2018, while both the fiscal and external deficits are expected to decline to sustainable levels.

The path to fiscal sustainability

14. Strengthening fiscal sustainability will be at the core of the SMP to address the fiscal gap. The improved revenue mobilization and streamlined expenditure will reduce the non-oil primary deficit (NOPD) by 0.8 percentage points of GDP and bring down the overall fiscal deficit to 1.3 percent of GDP in 2014, from 2.1 percent of GDP in 2013. Reflecting the improved fiscal stance, central bank financing of the fiscal deficit will thus fall to 0.6 percent of GDP in 2014, from 0.8 percent of GDP in 2013.

15. The fiscal program under the SMP will focus on stepping up revenue mobilization (MEFP, ¶16). Thus, the program aims to raise non-oil tax revenue to 6.4 percent of GDP, compared with an estimated 6.1 percent of GDP in 2013. This objective reflects the full-year effect of the measures introduced in September[3] as well as the yield expected from additional measures taken in the context of the 2014 budget, including reducing tax exemptions (end-June structural benchmark), reforming the taxation of gold-related activities, and improving the efficiency of revenue collection agencies.

16. On the expenditure side, the program will aim at streamlining expenditure (MEFP, ¶18 and ¶19). To this end, the program contains measures to rationalize government spending while significantly increasing social spending. Current spending is projected at 11.5 percent of GDP, on account of a reduction in the wage bill and petroleum product subsidies. At the same time, public investment outlays are expected to increase by 0.4 percentage points and social spending by 0.2 percentage points of GDP in an effort to mitigate the negative impact of ongoing subsidy reforms.

17. The authorities reiterated their intention to phase out fuel subsidies by 2017. The September measures will bring down fuel subsidies to 1.5 percent of GDP in 2014, compared with 1.7 percent of GDP in 2013.[4] It is unlikely that further increases in domestic petroleum prices take place this year, as this would likely trigger renewed social discontent and violence that would harm the already fragile social fabric. The authorities, nonetheless, proposed to review the prices of domestic petroleum products and develop by end-2014 a flexible pricing mechanism (end-December structural benchmark) that would facilitate the elimination of fuel subsidies by 2017 (MEFP, ¶18). The authorities' recent subsidy reform has been more ambitious than envisaged by Fund

[3] It is estimated that the September 2013 measures would yield additional tax revenues on a full-year basis of about 0.3 percentage points of GDP.

[4] The small drop in 2014 in the subsidy bill is attributable to the offsetting effect of last September's exchange rate devaluation, the adjustment in international oil prices, and the increase in consumption of oil products.

staff in terms of price adjustment but less ambitious regarding the protection of the welfare of lower-income groups and the reduction in the inflationary impact of the rise in petroleum products prices.[5] IMF advised that measures to protect the most vulnerable should be implemented at the same time as the fuel prices increase. The measures include public information campaign, designing a comprehensive and integral social safety net especially with targeted cash transfers and fee waivers for health and education for poor households. It also recommended designing and implementing training and public works programs. In this context, and in line with recent discussions with the authorities, further technical assistance (TA) from the Fund and the World Bank is planned to start in March 2014, with a particular focus on a strategy for further roll-outs, communication to the public, and better targeting of social safety nets.

18. The 2014 budget provides for specific measures and programs to strengthen the existing social safety net (SSN) (MEFP, ¶34). With poverty at almost 47 percent, the increase in fuel prices requires a strong social policy to better protect the poor segments of the population and preserve social stability. The current SSN is based on prevention, protection, and promotion; but the lack of a unified framework hinders efficient delivery of services due to the lack of coordination among various government agencies, including the education and health services. The budget aims at addressing these weaknesses by increasing the resources allocated to each component of the SSN and improving the targeting and the functionalities of the mechanisms in place. For prevention of poverty, the key program of SDG100 (US$18) in cash transfer will be extended to the poorest 500,000 households.[6] Also, the government has in place a savings bank, overseen by the Ministry of Welfare, which provides micro-finance to the working poor in the informal sector; funding to this bank will be doubled in 2014. For protection, the government has a health insurance scheme[7] and pension funds in place, for which funding will also be doubled in 2014. Other actions to bolster the efficiency of the SSN include enhancing over the medium term its overall consistency and improving at the same time the targeting of the various mechanisms through an updated household survey currently in the works with support from the African Development Bank. The World Bank is also working with the authorities to enhance the consistency of the current SSN mechanisms.

19. Sudan's lack of access to external financing and the limited domestic resources severely constrain budget financing. In the post-secession period, deficits were covered by some non-concessional external borrowing and to a limited extent by domestic resources, including sukuks and central bank financing. The shrinking of the government's revenue base has placed further constraints, exacerbating the authorities' already narrow fiscal space. For 2014, the lower deficit will be financed mainly by domestic resources amounting to about 1.1 percent of GDP, down from

[5] "Reducing Fuel Subsidies and Expanding Social Assistance: The Way Forward." FAD TA Report, June 2012.

[6] Currently, only 100,000 households benefit from it.

[7] At present, 11.8 million Sudanese are enrolled in the health insurance scheme, 32 percent of these are civil servants, 44 percent are poor, and 24 percent operate in the informal sector. All medical services for enrollees are covered at 100 percent, while medicines are covered at 75 percent.

1.8 percent of GDP in 2013.[8] In addition to the central bank financing which will be capped at 0.6 percent of GDP, these domestic resources will also include commercial banks financing and non-bank financing. The available space in the commercial banks, which hold free excess reserves, amounts to 2.9 percent of GDP at end-2013. In the event of a revenue shortfall, the authorities should stand ready to introduce contingency fiscal measures.

20. The government will continue to benefit from Fund TA. New TA will help the authorities improve gold taxation, streamline tax incentives, and enhance efficiency of the tax system over the medium term (MEFP, ¶17). TA will continue to support major efforts to improve public financial management, including the closure of all central government accounts in commercial banks, the sweeping of the revenue accounts in the Central Bank of Sudan (CBOS) on a daily basis, the consolidation of the expenditure accounts, and the completion of the banking infrastructure that will support the transfer of funds to the Treasury Single Account, and the development of a medium-term fiscal framework (MEFP, ¶19).

Monetary policy in supporting fiscal consolidation and curbing inflation

21. The monetary program aims at containing inflation which is high. Fiscal dominance has weakened monetary conditions, with increasing monetization of the budget deficit, and ultimately, the acceleration of inflation to about 50 percent by mid-2013. To bring inflation under control, the 2014 monetary program targets reserve money growth at 16 percent, consistent with the decision of the CBOS to limit the government's access to central bank financing. Accordingly, growth of credit to the economy is projected at about 14.7 percent. Reflecting these projected trends, broad money growth is expected to increase by 17 percent (MEFP, ¶22).

22. Under the program, inflation is expected to drop to about 18 percent in 2014, down from 41.9 percent at end-2013. Inflation in Sudan has four key determinants: the exchange rate, reserve money, fiscal monetization, and wages.[9] To meet the inflation objective, the program aims at reducing reserve money growth (-4.3 percentage points), the wage bill (-0.2 percentage points of GDP), and the monetization of the fiscal deficit (-0.2 percentage points of GDP). The program also

[8]The financing includes the clearing of domestic payment arrears representing the retroactive effect to January 1, 2013 of last September wage increase. This increase will be paid over the next three years.

[9] "Sudan's Inflation Problem: Some Lessons from the Past 30 Years." (See IMF Country Report No. 12/299; September 10, 2012). This study indicates that central bank financing of the fiscal deficit and the government wage bill have been identified as key determinants of inflation in Sudan. It also highlights that: (i) the exchange rate is another influential element of the dynamics of domestic inflation in view of the openness of Sudan's economy and also the role of the exchange rate in the formation of inflationary expectations; and (ii) most importantly the central role of reserve money in times of high inflation.

calls for further exchange rate flexibility (see below paragraph 27), which would help reduce domestic demand and contain inflationary expectation.

23. The CBOS intends to improve the transmission mechanism of monetary policy and use reserve money as the anchor for monetary policy. The transmission mechanism is weak because of the cash-based nature of the economy, the large excess liquidity in the banking system, and an underdeveloped money market. The shift to reserve money comes from its role as a key determinant of inflation. In the same vein, to improve coordination between monetary and fiscal policies are being completed with plans to: (i) promote an interbank market for Government Musharaka Certificate (GMC) and Government Investment Certificate (GIC) securities; and (ii) expand the auction system to provide commercial banks with the opportunity to recycle their unused cash balances (MEFP, ¶24). The expansion of the auction system will require sufficient progress in mopping up excess reserves.

24. Control over inflation hinges on greater independence of the CBOS. In this context, the CBOS will: (i) cap temporary advances that are provided to the government in the first half of the year at SDG2.3 billion; (ii) refrain from providing direct credit to public enterprises or acquiring GMC securities in the primary market; and (iii) cease the rescheduling of overdue temporary advances to the government (MEFP, ¶23).

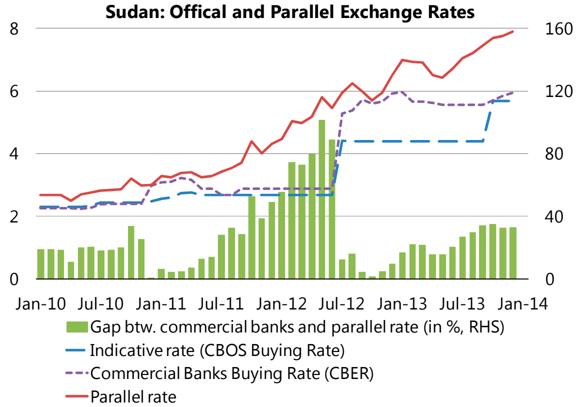
25. Reforms are also envisaged to restructure and modernize the banking sector. Staff highlighted the need for further reforms to improve the sector's competitiveness, efficiency, and resiliency and enhance its development. In that respect, staff agreed with the authorities to undertake a comprehensive evaluation of the banking sector and will build on the findings of the recent Fund staff Financial Sector Review.[10] Priority will be given to reforms seeking to: (i) make further progress towards best practices in bank supervision, inspection, and enforcement; (ii) update the risk-based manuals for offsite and onsite supervision; (iii) terminate the direct ownership of banks by CBOS; and (iv) upgrade the legal, regulatory, and institutional framework of the sector to enhance financial deepening. The authorities also intend to continue efforts to reform the domestic payment system and continue modernizing central bank operations with technical assistance from donors (MEFP, ¶26).

[10] See IMF Country Report No. 13/320; September 5, 2013.

Exchange rate flexibility

26. Further reforms are needed to reduce the large gap between the official and curb market exchange rates.[11] This gap, which stands currently at 35 percent and reflects insufficient availability of foreign exchange in the banking system, is driven by weak economic fundamentals, including a large current account deficit, low level of international reserves, and continued monetization of budget deficit, albeit at lower volumes. Staff reiterated that the existing gap weakens export and import incentives and distorts relative prices, while diverting legal private transactions, including remittances, to the curb market. Using various methods, staff estimated that the transactions diverted to the curb market may broadly account for 10 to 30 percent of total imports.[12] This, in turn, generates more pressures on CBOS's international reserves (Box 2).

Sudan: Offical and Parallel Exchange Rates



27. Exchange rate flexibility will be paramount. The authorities are aware of the need to take steps in that direction, including through: (i) setting the official reference rate on a daily basis as a weighted average of the buy and sell exchange rates of the commercial banks and exchange bureaus; and (ii) gradually removing the current restricting band (±4 percent) to allow commercial banks and exchange bureaus to set freely the exchange rate quotes to customers (MEFP, ¶29). CBOS's interventions in the foreign exchange market should be limited to counteracting erratic fluctuations without resisting sustained trends, which could lead to loss of reserves. Occasional intervention could be justified to resisting sharp exchange rate movements given the shallowness of the foreign exchange market. The CBOS will also need to enhance foreign exchange regulations and strengthen prudential regulations on exchange rate risks (MEFP, ¶30). In this context, CBOS is planning to seek technical assistance from the Fund to ensure that it builds the needed operational capacity to effectively implement the planned prudential regulations on exchange rate risks.

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[11] The Fund has granted approval through September 20, 2014 for Sudan's retention of the following measures subject to Fund approval under Article VIII, Sections 2(a) and 3: i) an exchange restriction arising from the government's limitations on the availability of foreign exchange and the CBOS' allocation of foreign exchange to certain priority items; ii) a multiple currency practice arising from the establishment by the government of a system of multiple exchange rates used for official and commercial transactions, which gives rise to effective exchange rates that deviate by more than 2 percent; iii) a multiple currency practice and exchange restriction arising from the channeling of market participants to the parallel market due to the CBOS' establishment of exchange rates that do not reflect market conditions and the limitations on availability of foreign exchange; and iv) an exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports. The Fund will revisit the further retention/approval of these measures in the context of the upcoming Article IV consultation.

[12] In the absence of solid data, these estimates need to be interpreted with caution as the margin of error of the estimates is likely large.

28. Steady progress towards unification of the foreign exchange markets is crucial for improving foreign exchange management. The above-mentioned reforms, together with a steady implementation of the government's macroeconomic policy mix, are expected to stabilize the exchange rate and help rebuild international reserves. In this vein, the program targets an accumulation of net international reserves of US$250 million, which would bring back gross reserve coverage to about 2 months of imports by end-2014 (MEFP, ¶28).

Box 2. Sudan: Estimating the Size of the Curb Market

Annual foreign exchange transactions in the curb market are estimated to account somewhere between US$1billion and US$3.5 billion (or 10 to 30 percent of imports of goods and services).[1]

The size of the curb market for foreign exchange has expanded recently. As the gap between the official and the curb market widened, some sellers of foreign exchange moved to the curb market to take advantage of the price differential. At the same time, a growing number of FX buyers, faced with shortages of currency in the official market, were forced to resort to the curb market to cover their foreign exchange needs.

Staff estimated the size of curb market using three different methods:

- **The remittances method**. More and more Sudanese working abroad, especially those located in the Gulf countries, chose to transfer their earnings back to Sudan through informal channels which priced FX at a premium. A comparison between the average amount of remittances transferred in 2006-10 (a period during which official channels were used extensively) and those transferred in 2012-13 suggest that an important amount of about US$1billion of FX may have shifted to the curb market. This is likely a partial measure for the size of the curb market.
- **The errors and omissions method.** The rise in the size of errors and omissions could reflect the size of BOP transactions that have moved away from regular channels.
- **Difference between identified FX needs and the identified FX supply.** Sudan needs about $11billion of FX annually to cover official imports of goods and services. The supply sources financing these imports include: (i) central bank sales of FX; (ii) export earnings deposited in the banking system; (iii) receipts from exports of services; (iv) current transfers, including net remittances and official transfers; and (v) net external loan disbursements. The identified supply sources fall short of identified needs. The remaining FX need is assumed to be met by the parallel market.

Table. Sudan: Estimating the Size of the Parallel Market

	Estimated parallel market size		2006-2010 average	2012	2013
			(US$ million)		
Approach 1	967	(8.9 percent of imports)			
Remmitances			2,003	903	1,169
Approach 2	1,837	(16.9 percent of imports)			
Errors and omissions			-434	1,289	1,515
Approach 3	3,469	(31.8 percent of imports)			
Import of goods and services					10,896
FX supply through official channels					7,427
CBOS FX supply					3,543
Export earnings (exl. fuel and gold)					1,961
Services receipts (exl. oil and travel)					753
Current transfers					1,241
Net external loan disbursements					217

Sources: Sudanese authorities; and IMF staff calculations.

1/ In the absence of solid data, these estimates need to be interpreted with caution as the margin of error of the estimates is likely large.

Debt Issues

29. The joint IMF/WB debt sustainability analysis conducted at the time of the 2013 Article IV discussions classified Sudan as being in debt distress. This situation underscores the importance of arrears clearance and debt relief in order to bring Sudan's external debt to a sustainable level and to facilitate the country's access to external concessional financing. Reaching out to creditors will build broad support for debt relief and needs thus to remain a top priority for the authorities.

30. Minimizing nonconcessional borrowing is essential to restoring external stability. Non-concessional borrowing—which in most cases is needed to fund crucial infrastructure and development projects—represents the major source of financing for Sudan whose access to international financial assistance remains very limited. In 2013, nonconcessional borrowing reached US$602 million, mostly on semi-concessional conditions to finance agriculture, energy, and industrial development projects. Creditors included China, some Gulf countries, and Arab multilateral development institutions. The weighted average grant element was 28 percent for all loans in 2013. Looking forward, staff pressed the authorities to avoid excessive external borrowing to secure debt relief and ensure a sustainable situation post-debt relief. For 2014, the authorities are committed to limit nonconcessional borrowing to US$600 million. They also indicated that they will continue to secure from their creditors the most favorable terms as possible, and will limit the use of such resources only to finance priority investment with positive returns. Staff pointed out that any new borrowing will eventually need to be treated as part of any comprehensive debt relief workout that would return Sudan to a sustainable external debt position. Finally, while recognizing Sudan's difficult foreign exchange situation, staff encouraged the authorities to avoid selective debt servicing as this may complicate reaching agreement with creditors on a debt resolution strategy.

Sudan: External Debt Contracted in 2013

Total new debt (in US$ million)	**618**
Concessional	16
Nonconcessional	602
By creditor (in percent)	
Multilateral	48
Non-Paris Club bilateral	52
Average grant element (in percent)	**28**
By sector (in percent)	**100**
Agriculture	38
Energy	47
Industrial Development	6
Other	10

31. Sudan is under pressure from some private debt holders. Several lawsuits were brought against Sudan in 2013 by private debt holders. Court orders were executed in Bahrain and Dubai resulting in the freezing of foreign assets. The lawsuits were brought by four entities—Africa Alpha Fund, Habib CBOS Bank, Pomgrad Split, and Namco Anstalt. The total amount of money sought by them is about US$160 million. In one of these cases, a recent court ruling was favorable to the authorities. Staff advised the authorities to engage legal and financial advisors to help them address these lawsuits.

32. Fund and Bank staffs organized the 7th Sudan Technical Working Group on External Debt at the margins of the 2013 Annual Meetings. The ministers of finance from Sudan and South Sudan, as well as President Thabo Mbeki, chair of the African Union High Level Implementation Panel (AUHIP) attended. Creditors welcomed the new joint outreach approach and underscored the importance of handling the "zero option" deadline in a flexible way.[13] They also called on Sudan to maintain the reform momentum, continue the technical work, including the establishment of a track record of policy reforms with the IMF, and step up outreach efforts towards creditors.

33. The authorities have developed a joint outreach approach with South Sudan and the AUHIP. This is being done in the context of a tripartite committee (Sudan, South Sudan, and AUHIP) that will provide the framework for reaching out to creditors. As part of this effort, the government also intends to consult with the multilateral institutions, including the IMF, the World Bank, and the African Development Bank on modalities for eliminating arrears to those institutions, as a preliminary step towards comprehensive debt relief through the HIPC Initiative (Box 3).

[13] Under the "zero option" agreed in September 2012, Sudan retained the entire external debt, provided that the international community gives firm commitments for delivery of debt relief within 2 years to Sudan. Absent such a commitment, Sudan external debt would be apportioned with South Sudan based on a formula to be determined.

Box 3. Sudan: Path to Debt Relief

Sudan is eligible for debt relief under the HIPC initiative, but has not yet met all the qualifications. As of now, Sudan meets the following conditions for the HIPC initiative:

- Face an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; and
- Has developed an Interim Poverty Reduction Strategy (I-PRSP) document. Sudan's I-PRSP was recently assessed by the staffs of the Fund and the World Bank and was discussed by both Boards last September.

To reach the Decision Point, Sudan would still need to undertake the following:

- Obtain assurances that the bilateral official and commercial creditors are willing to consider providing debt relief;
- Obtain assurances of support for HIPC debt relief from a large majority of creditors representing at least 70 percent of HIPC-eligible debt;
- Establish with the IMF an adequate track record of strong policy performance in the period leading up to the Decision Point, under a SMP judged by the Executive Board to meet the policy standards associated with upper-credit tranche arrangements; and
- Clear its arrears with the Fund, and have a fully financed plan and a timetable to clear arrears with the World Bank and the African Development Bank in order to restore its eligibility to borrow from these sources.

The resources required for the IMF's participation in the HIPC Initiative have not yet been identified. As the costs to the Fund for providing debt relief to Sudan were not included in the original costing estimates for the HIPC initiative, additional financing will need to be secured when Sudan is ready to clear its arrears and embark on the HIPC initiative.

B. Medium-Term Outlook and Structural Reforms for Growth

34. Sudan's economy needs more investment and enhanced productivity. Until debt relief is granted and sanctions are lifted, Sudan will rely on its own limited resources to create the conditions for broad-based and inclusive growth, higher employment, and reduced poverty. This strategy will require: (i) better-targeted investment projects; (ii) a boost to export activities, notably in the agricultural sector; (iii) closer links with South Sudan; (iv) an improved business environment; and (v) better governance.

35. The medium-term outlook remains broadly in line with the adjustment scenario presented in the 2013 Article IV staff report. Under that scenario, macroeconomic conditions are expected to improve gradually over the medium term, with inflation dropping below 6 percent and nonoil growth picking up to about 5 percent by 2017. On the fiscal side, continued efforts to increasing fiscal revenues and containing non priority spending will help bring the overall fiscal deficit to 0.2 percent of GDP by 2017. The improvements in growth prospects are expected to result from the revitalization of agriculture, increased mining production,[14] and non-resource exports.

36. In the structural area, it is important to gradually improve competitiveness and productivity of the economy. To that end, the authorities concurred with staff on the need to improve the business climate—especially facilitating cross-border trading, accelerating financial sector development, investing in infrastructure to reduce production and distribution costs, and improving governance, political stability and overall security. Particular focus should be given to the legal framework for private investment as well as trade policies and regional integration, including enhancing economic cooperation with South Sudan (MEFP, ¶36). As part of this approach, bilateral committees are being set up to propose reforms in the payment systems, transportation, and trade links.

37. The authorities have completed the Interim-Poverty Reduction Strategy Paper (I-PRSP), which aims at accelerating poverty reduction in Sudan. While the authorities could start implementing some of the short-term policies identified in this strategy, its full implementation will necessitate financing beyond Sudan's current means.

C. Program Modalities and Monitoring

38. The SMP will be monitored through quarterly reviews, including prior actions, quantitative and structural benchmarks (MEFP, ¶40 and MEFP, Tables 1 and 2). The prior actions included adoption of a 2014 budget in line with the fiscal program agreed upon with staff during the SMP discussions and the unification of all official exchange rates of CBOS. The first review will be based on end-March 2014 targets. Quantitative targets reflect the program's main policy objectives (MEFP, Table 1). Structural benchmarks for the second review include actions to increase budgetary revenues, strengthen tax administration, improve cash management, and reduce risks stemming from the financial sector (MEFP, Table 2). The program will include an adjustor on the oil transit fees and TFA accrued from carrying crude oil from South Sudan.

39. Implementation of the SMP faces significant risks. These risks include the domestic political instability ahead of the 2015 presidential elections, as well as the unsettled regional civil conflicts that could step up pressure on military spending and undermine the reform process. An intensification of the conflict in South Sudan could sharply cut down on oil transit through the country's pipelines and lower budgetary revenues. Equally, delays in reaching the HIPC Decision Point could activate the apportionment of Sudan's external debt under the "zero option" agreement, and ultimately create renewed tensions with South Sudan. On the upside, the recent renewed momentum for reform stemming from the formation of a new government could help smooth the adjustment process.

[14] Gold production has been increasing significantly since 2008.

40. A new institutional framework will facilitate the monitoring and implementation of the SMP. The new framework will comprise the key decision makers on economic and financial matters, including the Vice-President, the Minister of Finance, the Petroleum Minister, and the Governor of CBOS. They will set the overall reform strategy and the action plan to implement the reforms. They will also be assisted by a Technical Committee (TC) in charge of executing the action plan. This TC will comprise officials from the Finance and Petroleum Ministries, the CBOS, the Statistics Office, and other institutions that are key to executing the program (MEFP, ¶41).

41. Sudan's arrears to the Fund totaled SDR 981.5 million at end-February 2014. Sudan made payments totaling SDR 3.96 million Since January 2013 against obligations falling due of SDR 2.79 million. The authorities reiterated their willingness to continue cooperation with the Fund on payments, and intend to make quarterly payments totaling at least US$10 million in 2014 (MEFP, ¶42), and increase them as their payment capacity improves.

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42. The secession of South Sudan in July 2011 inflicted a permanent shock on Sudan's economy. As a result, Sudan lost some three-quarters of its oil production, half of its fiscal revenues, and about two-thirds of its international payment capacity. Adjusting to this shock remains a daunting challenge.

43. Following three years of interruption, Sudan is taking steps to resume its track record with the IMF under a new SMP. Staff welcomes steps taken to strengthen cooperation and believes that the new SMP, which builds on the authorities' three-year emergency program, will help Sudan to: (i) stabilize the economy and improve growth prospects while re-establishing a track record of satisfactory policy implementation; and (ii) in due time, help in securing the necessary support for arrears clearance and debt relief.

44. The interruption of the adjustment process during most of 2013 has not served Sudan well. Macroeconomic conditions deteriorated, with growth weakening, inflation accelerating sharply, fiscal and external accounts widening, and pressure on the exchange rate persisting. While the regional and domestic environments remain fragile and the spillovers from the recent armed conflict in South Sudan could justify a cautious approach, there should, however, be no room for complacency or delayed comprehensive policy response to address the prevailing economic challenges.

45. The introduction of a package of corrective measures last September is a welcome step in renewing the adjustment process and addressing the existing imbalances. If implemented adequately, this package will lay the ground for fiscal discipline and a viable external position while creating the necessary fiscal space to build much-needed infrastructure that supports growth and poverty reduction programs.

46. Adequate execution of the 2014 fiscal program will be critical for laying the foundation for fiscal sustainability. This is critical as Sudan enters into an important presidential election year in 2015. The path for fiscal consolidation requires efforts to step up revenue mobilization while streamlining non-priority expenditures and ramping up much-needed social outlays. In order to ensure fiscal discipline and control nonpriority spending, staff encourages the authorities to improve tax administration and strengthen public financial management.

47. Enhancing the efficiency of the current social safety net in a context of difficult reforms will be crucial to protect the most vulnerable and lay the foundations for inclusive growth. Staff encourages the authorities to seek assistance from the World Bank and other donors to identify target populations and provide support to those in need. Equally important is building the coherence of all the mechanisms in place to enhance their efficiency.

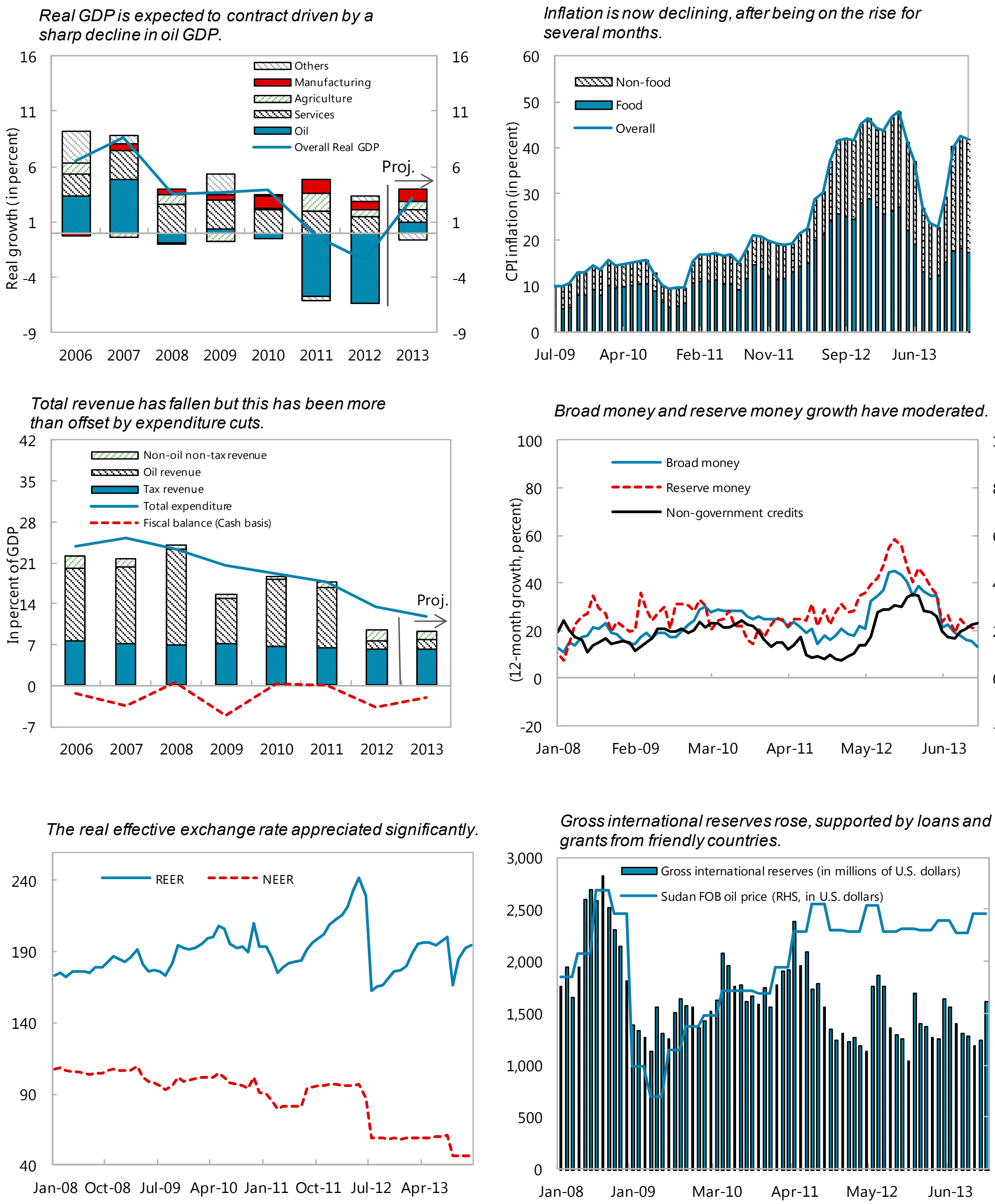
48. Containing inflation will also require strengthening the central bank independence to end fiscal dominance and enhance monetary policy efficiency. Heavy reliance on central bank financing for the budget deficit has in the past fueled inflation and weakened the monetary policy framework. A successful disinflation process will require, inter alia, a more independent central bank and an enhancement in the transmission mechanism of monetary policy. These reforms should be accompanied by reforms in the banking sector, along the lines of the recommendations of the recently conducted IMF Financial Sector Review.

49. Exchange rate flexibility is key to rebuilding reserves and ensuring external competitiveness. Staff welcomes the recent unification of the official exchange rates. Continued exchange rate policy reform is critical for eliminating the gap between the official and curb market exchange rates. Staff calls upon the authorities to remove the remaining restrictions, enhance foreign exchange regulations, and strengthen prudential regulations on exchange rate risks.

50. The debt overhang weighs heavily on the country's development needs. Staff welcomes the significant progress made by the authorities in reconciling debt data, adopting an I-PRSP, and putting in place an institutional framework for a joint approach for approaching debtors. However, further efforts are needed to resolve the debt issues, including close cooperation with South Sudan in reaching to creditors to avoid the fall-back position of apportioning the debt in the context of the zero option, minimizing non-concessional borrowing, and continuing cooperation with the IMF.

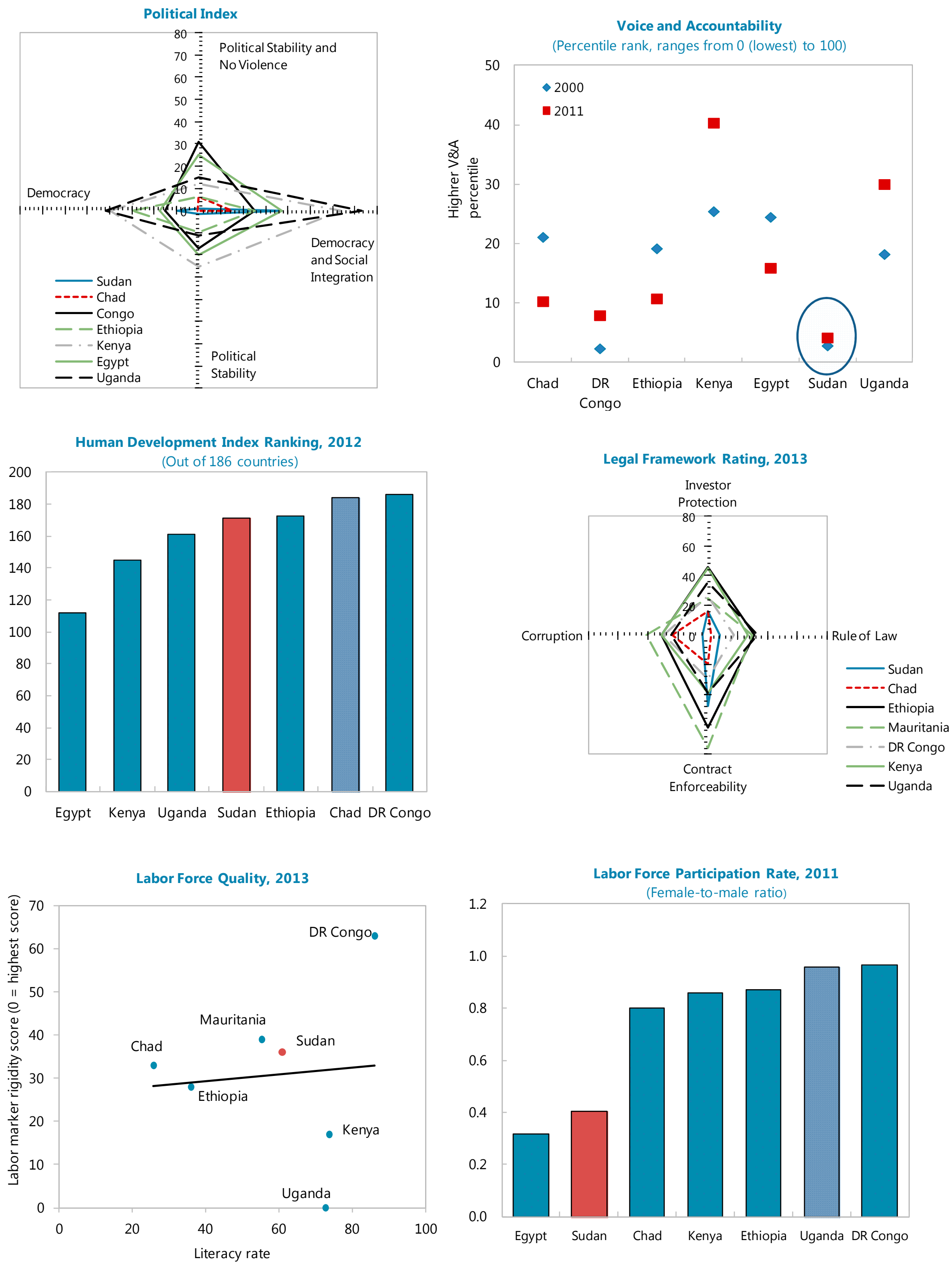
51. Staff believes that the SMP meets the standard of upper-credit tranche conditionality, except for the non-concessional borrowing. The SMP is a valuable tool to support the momentum for reform and contains important measures to restore fiscal discipline, promote financial sector development, and create the conditions for private sector-led growth. Nevertheless, the SMP is subject to downside risks, including the protracted domestic political transition, a volatile social and security environment, and a fragile regional context.

Figure 1. Sudan: Selected Economic Indicators



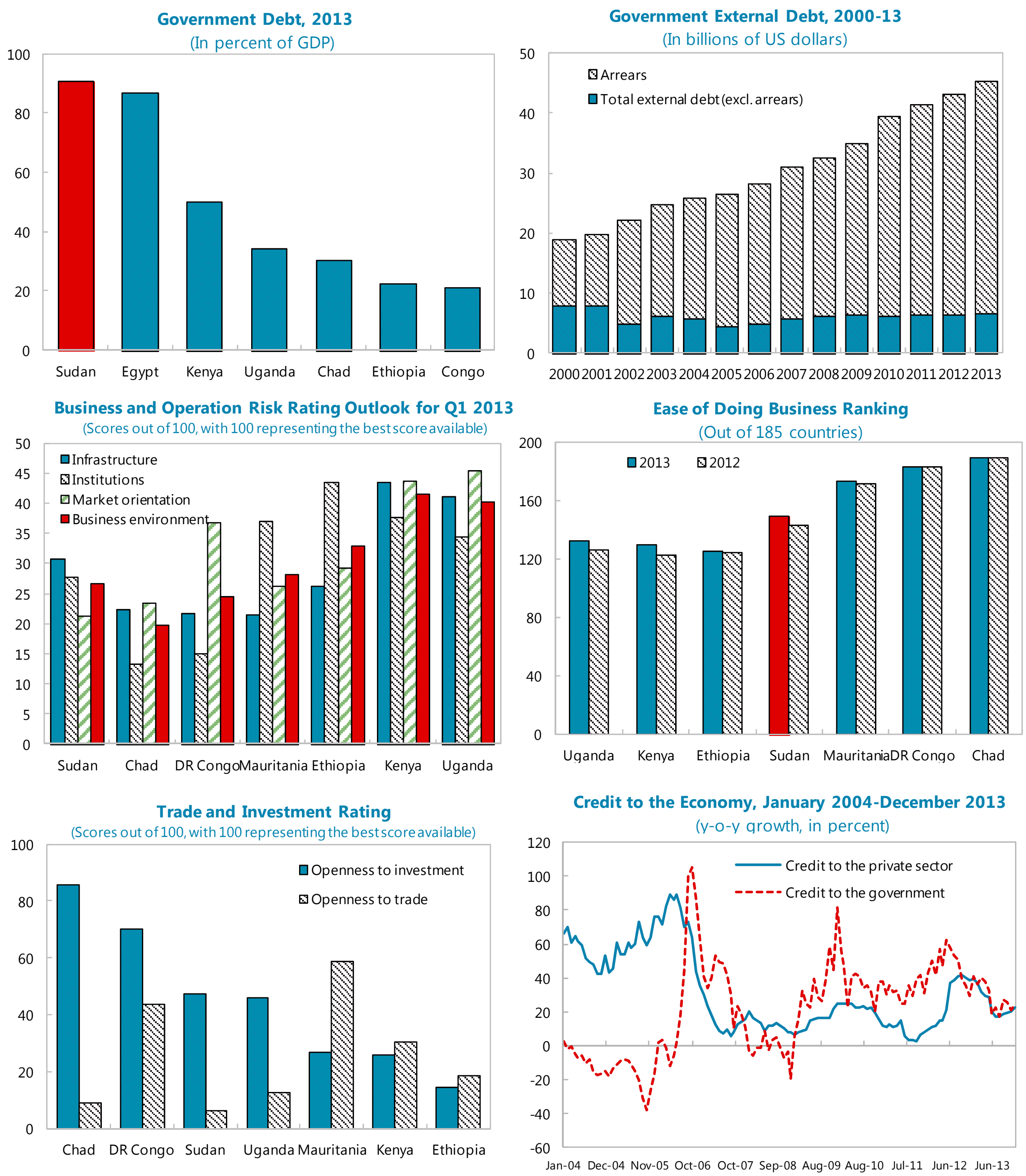
Sources: Sudanese authorities; and Fund staff estimates and projections.

Figure 2. Sudan: Selected Political and Social Indicators



Sources: Worldwide Governance Indicators; Global Competitiveness Indicators; UNDP Human Development Indicators; World Bank Development Indicators; and Business Monitor International.

Figure 3. Sudan: Selected Economic and Financial Indicators



Sources: Worldwide Governance Indicators; Business Monitor International; IFC Doing Business Rankings; Sudanese authorities; and IMF staff estimates.

Table 1. Selected Economic Indicators, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.	Prel.		Projections			
Output and prices			(Annual changes in percentage)						
Real GDP (at factor costs) 1/	4.0	-0.3	-2.4	3.2	2.6	4.2	5.2	4.5	5.0
Oil GDP 1/	-3.9	-36.0	-62.4	30.2	3.2	17.0	21.8	3.4	3.3
Nonoil GDP 1/	5.7	6.8	4.7	2.0	2.5	3.5	4.1	4.6	5.2
Consumer prices (end of period)	15.4	18.9	44.4	41.9	18.1	12.0	8.6	6.5	5.7
Nonoil GDP deflator	13.8	15.2	32.6	36.0	20.5	14.4	9.5	7.1	5.9
Oil GDP deflator	60.9	62.0	28.2	25.4	32.2	13.9	-0.7	1.6	7.9
Investment and saving			(In percent of GDP, unless otherwise specified)						
Gross disposable income	95.4	97.5	97.5	97.1	97.7	97.9	98.1	98.5	98.9
Gross domestic expenditure	97.5	98.0	108.0	107.7	106.0	105.1	104.4	103.6	103.2
Final consumption	77.4	78.9	89.3	87.7	88.3	87.0	85.9	84.7	83.9
Gross capital formation	20.1	19.1	18.7	20.0	17.7	18.1	18.5	18.9	19.3
Gross Savings	18.0	18.6	8.3	9.4	9.4	10.9	12.2	13.8	15.0
Government operations									
Revenue and Grants	19.3	18.0	9.8	9.9	11.7	11.9	12.1	12.5	12.8
Revenues	18.7	17.7	9.4	9.3	11.2	11.0	11.3	11.6	11.9
Tax revenue	6.6	6.4	6.2	6.1	6.4	6.6	6.9	7.2	7.5
Total expenditure	19.0	17.8	13.6	12.0	13.0	13.1	12.7	12.7	12.9
Current expenditure	16.5	16.1	12.0	10.9	11.5	11.3	10.5	10.0	9.7
Wage bill	5.0	5.4	4.8	4.3	4.1	3.9	3.7	3.5	3.3
Subsidies	0.6	1.5	1.8	1.7	1.9	1.5	0.9	0.5	0.3
Transfers	7.7	6.1	2.6	2.2	3.0	3.1	3.1	3.0	3.0
Capital expenditure	2.6	1.7	1.5	1.1	1.5	1.8	2.3	2.7	3.2
Overall balance	0.3	0.2	-3.8	-2.1	-1.3	-1.2	-0.6	-0.2	-0.1
Overall primary balance	1.4	1.4	-2.3	-0.7	-0.2	0.1	0.7	1.3	1.6
Nonoil primary balance	-3.8	-4.1	-3.8	-2.7	-1.9	-1.8	-1.3	-0.9	-0.9
In percent of nonoil GDP	-4.5	-4.7	-3.9	-2.8	-2.1	-1.9	-1.4	-1.0	-0.9
Monetary sector			(Annual changes in percentage, unless otherwise specified)						
Broad money	24.9	17.7	40.3	13.2	17.0	15.6	15.3	15.5	13.5
Reserve money	17.2	27.8	46.7	20.3	16.0	14.1	11.4	9.4	9.5
Credit to the economy	16.4	8.0	34.1	23.1	14.7	17.4	18.4	22.4	22.0
Velocity (Non oil GDP/M2 ratio, eop)	3.6	3.7	3.7	4.5	4.8	4.9	4.9	4.7	4.7
Ratio of Money to Broad Money	69.5	70.9	71.4	71.1	71.1	71.1	71.1	71.1	71.1
Net claims on government as a ratio to Nonoil GDP	10.9	11.7	11.0	9.8	9.2	8.0	7.2	6.5	5.9
Credit to the economy as a ratio to Nonoil GDP	16.9	14.9	14.5	12.8	11.9	11.7	12.1	13.2	14.4
External sector			(In percent of GDP)						
Exports of goods (in US$, annual percent change)	57.0	-12.9	-53.7	-6.7	18.3	13.0	14.4	12.2	7.7
Exports of oil	16.3	12.4	2.8	2.6	3.8	4.3	4.3	4.1	3.9
Imports of goods (in US$, annual percent change)	3.1	-7.5	2.6	4.3	-1.8	3.0	4.4	4.2	4.2
Merchandise trade balance	5.7	4.1	-5.4	-5.9	-4.9	-4.0	-3.0	-2.2	-1.7
Current account balance	-2.1	-0.4	-10.4	-10.6	-8.3	-7.2	-6.3	-5.1	-4.3
Ext. debt service (in percent of exp.of G&S.)									
Commitment basis	22.7	24.4	50.6	49.5	39.8	35.1	31.1	28.4	26.8
Cash basis	2.9	2.4	4.7	3.2	3.3	3.0	2.6	2.6	2.8
Total external debt	62.2	59.4	81.6	78.5	77.9	75.5	72.7	70.3	67.4
Total external debt (in US$ billion)	39.5	41.4	43.2	45.4	46.9	48.5	50.2	51.9	53.6
Gross international reserves (in millions of US$)	1,566	1,317	1,693	1,618	1,868	2,243	2,572	2,894	3,195
In months of next year's imports of G&S.	1.8	1.5	1.8	1.8	2.0	2.3	2.5	2.8	2.9
Memorandum items:									
Nominal GDP (in millions of SDGs)	151,348	179,519	225,202	316,102	393,197	472,321	546,341	613,213	686,099
Nominal nonoil GDP (in millions of SDGs)	127,717	156,088	215,885	301,087	370,423	440,142	504,249	567,126	633,477
Nominal GDP (in $US million)	65,632	67,321	63,029	70,159	63,063	65,663	69,129	73,039	78,278
Exchange rate (SDG/US$, end of period)	2.48	2.68	4.42						
Exchange rate (SDG/US$, period average)	2.31	2.67	3.57						
NEER (2007=100, percent change, period average)	-1.3	-16.0	-12.2	...	...	...	...	...	...
REER (2007=100, percent change, period average)	7.8	-4.8	8.1	...	...	...	...	...	...

Sources: Sudanese authorities; and staff estimates and projections.

1/ Growth rates since 2011 exclude South Sudan.

Table 2. Balance of Payments, 2010–18
(In millions of U.S. dollars)

	2010	2011	2012	2013	2014	2015	2016	2017	2018
		Est.	Prel.	Projections					
Current account balance	-1,348	-288	-6,579	-7,414	-5,212	-4,740	-4,346	-3,719	-3,382
Current account balance (on cash basis)	295	1,345	-4,966	-5,832	-3,601	-3,137	-2,750	-2,128	-1,796
Trade balance	3,711	2,751	-3,405	-4,110	-3,073	-2,600	-2,076	-1,582	-1,358
Exports, f.o.b.	12,700	11,063	5,122	4,781	5,655	6,389	7,312	8,204	8,836
Oil exports	10,991	8,679	2,012	1,939	2,670	3,092	3,318	3,315	3,343
Crude oil	10,702	8,378	1,755	1,823	2,415	2,798	3,002	2,999	3,024
Petroleum products	289	301	257	116	254	294	316	316	318
Non-oil products	1,709	2,384	3,110	2,842	2,985	3,297	3,994	4,889	5,494
Of which: Gold	1,018	1,442	2,158	881	833	934	998	1,099	1,254
Imports, f.o.b.	-8,989	-8,312	-8,528	-8,890	-8,728	-8,989	-9,388	-9,787	-10,194
Foodstuffs	-2,128	-1,699	-1,844	-2,029	-1,809	-1,779	-1,797	-1,813	-1,827
Petroleum products	-385	-662	-947	-1,420	-1,499	-1,392	-1,302	-1,215	-1,059
Machinery and transport equipments	-3,215	-2,892	-2,707	-2,419	-2,430	-2,631	-2,871	-3,126	-3,424
Manufactured goods	-1,832	-1,610	-1,761	-1,728	-1,727	-1,871	-2,039	-2,207	-2,394
Other	-1,429	-1,450	-1,268	-1,295	-1,263	-1,316	-1,379	-1,426	-1,490
Services (net)	-2,063	-1,389	-1,615	-1,287	-708	-739	-957	-1,065	-1,185
Receipts	259	764	419	833	1,373	1,404	1,282	1,268	1,246
Of which : Oil fees charged to South Sudan	0	0	0	194	390	368	255	224	197
Of which: TFA transfers	...	0	0	248	520	514	428	374	326
Payments	-2,321	-2,153	-2,033	-2,120	-2,081	-2,143	-2,239	-2,334	-2,431
Income (net)	-5,127	-2,763	-2,422	-2,946	-2,595	-2,684	-2,729	-2,648	-2,578
Receipts	138	108	14	27	27	36	49	148	245
Non-oil payments	-1,932	-1,886	-2,220	-2,703	-2,284	-2,299	-2,317	-2,337	-2,360
Public interest due 1/	-1,716	-1,701	-1,676	-1,669	-1,664	-1,660	-1,659	-1,659	-1,661
Of which: interest cash payments	-72	-67	-64	-87	-53	-57	-62	-68	-74
Other payments	-217	-185	-544	-1,034	-620	-639	-658	-678	-699
Oil related expenses 1/	-3,333	-985	-216	-271	-338	-421	-462	-459	-463
Current transfers (net)	2,131	1,112	863	929	1,164	1,283	1,416	1,577	1,738
Private	940	439	445	521	607	703	811	931	1,065
Official	1,191	673	418	407	557	580	605	645	673
Capital account and Financial Account	-1,451	-1,000	4,061	4,911	3,676	3,381	2,986	2,357	2,011
Capital account	174	162	320	297	235	214	215	238	272
Financial account (net)	-1,625	-1,161	3,741	4,614	3,441	3,167	2,771	2,119	1,739
Disbursements	569	606	376	344	377	392	413	436	467
Amortization	-485	-445	-402	-430	-405	-347	-286	-305	-317
O/w: Cash payments	-309	-216	-198	-90	-182	-173	-157	-183	-206
Net foreign assets of banks (increase -)	-429	313	-61	-59	-61	-63	-65	-68	-72
Investors' net income-cost oil	-1,641	-1,362	-731	-518	-771	-772	-771	-772	-772
Foreign direct investment and portfolio (net)	2,900	2,666	2,466	2,968	2,351	2,145	2,150	2,381	2,718
Other net capital flows	-2,539	-2,938	2,092	2,309	1,950	1,812	1,331	447	-285
Public	-1,289	-1,388	556	519	614	694	794	891	960
Private	-1,250	-1,550	1,536	1,790	1,336	1,118	537	-444	-1,245
Errors and omissions	-1,718	-708	1,289	0	0	0	0	0	0
Overall Balance	-4,517	-1,996	-1,229	-2,503	-1,536	-1,359	-1,361	-1,362	-1,372
Overall Balance (on cash basis)	-2,697	-134	588	-581	298	418	365	352	326
Financing	4,517	1,996	1,229	2,503	1,536	1,359	1,361	1,362	1,372
Change in net international reserves (increase -)	-290	192	-547	300	-260	-390	-345	-339	-321
Gross reserves	-195	249	-376	76	-250	-376	-329	-321	-301
Gross usable reserves (increase -)	-195	249	-376	76	-250	-376	-329	-321	-301
Gross earmarked and other reserves (increase -)	0	0	0	0	0	0	0	0	0
Short-term foreign liabilities (increase +)	-83	-51	-164	230	0	0	0	0	0
IMF (net)	-11	-5	-7	-6	-10	-14	-16	-18	-20
Disbursements	0	0	0	0	0	0	0	0	0
Repayments	-11	-5	-7	-6	-10	-14	-16	-18	-20
Exceptional financing	4,807	1,804	1,776	2,203	1,796	1,749	1,706	1,701	1,693
Of which : Change in arrears	4,807	1,804	1,776	2,203	1,796	1,749	1,706	1,701	1,693
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:				(In percent of GDP)					
Current account balance (accrual basis)	-2.1	-0.4	-10.4	-10.6	-8.3	-7.2	-6.3	-5.1	-4.3
Current account balance (cash basis)	0.5	2.0	-7.9	-8.3	-5.7	-4.8	-4.0	-2.9	-2.3
Excluding official transfers (cash basis)	-1.4	1.0	-8.5	-8.9	-6.6	-5.7	-4.9	-3.8	-3.2
Non-oil current account (on cash basis)	-10.6	-8.4	-9.2	-8.9	-7.6	-7.3	-6.6	-5.5	-4.9
Current transfers (net)	3.2	1.7	1.4	1.3	1.8	2.0	2.0	2.2	2.2
Of which: Private transfers	1.4	0.7	0.7	0.7	1.0	1.1	1.2	1.3	1.4
Gross International reserves (in US$ Million)	1,566	1,317	1,693	1,618	1,868	2,243	2,572	2,894	3,195
In months of next year's imports	1.8	1.5	1.8	1.8	2.0	2.3	2.5	2.8	2.9
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net repayment of external debt	-187.2	-322.1	-115.2	-167.1	-141.3	-161.7	-193.6	-185.5	-187.0
			(Annual changes in percent, unless otherwise specified)						
Exports of goods (value)	57.0	-12.9	-53.7	-6.7	18.3	13.0	14.4	12.2	7.7
Non-oil exports of goods (value)	67.5	39.5	30.4	-8.6	5.0	10.4	21.1	22.4	12.4
Imports of goods (value)	3.1	-7.5	2.6	4.3	-1.8	3.0	4.4	4.2	4.2
Nominal GDP (in millions of U.S. dollars)	65,632	67,321	63,029	70,159	63,063	65,663	69,129	73,039	78,278
Crude oil exports (volume, in millions of barrels)	151.3	87.5	18.6	19.2	26.6	31.1	36.3	37.6	38.9
Sudanese crude oil price (U.S. dollars per barrel)	70.7	95.8	94.6	95.2	90.7	90.1	82.6	79.8	77.8

Sources: Sudanese authorities; and staff estimates and projections.

Table 3. Government Operations, 2010–18
(In millions of SDGs)

	2010	2011	2012	2013	2014		2015	2016	2017	2018
				Prel.	Budget	SMP				
Revenues and grants	29,245	32,357	22,077	31,161	46,207	46,131	56,234	66,283	76,698	87,840
Revenues	28,270	31,739	21,103	29,325	43,675	43,982	52,064	61,503	71,280	81,945
Tax revenues	10,008	11,426	13,879	19,427	21,974	25,059	31,264	37,886	44,322	51,142
Income, profits and capital gains	1,136	1,061	1,433	1,714	1,773	2,106	2,628	3,191	3,768	4,420
Property	14	36	47	19	87	87	107	129	155	187
Goods and services	5,966	6,877	7,703	11,017	13,085	14,535	18,135	22,040	25,828	29,891
International trade and transactions	2,882	3,443	4,688	6,620	6,941	8,243	10,284	12,391	14,408	16,451
Other	10	10	9	58	88	88	110	135	162	194
Oil revenues	17,336	18,686	3,338	5,005	7,355	4,761	5,029	7,875	10,587	13,670
Domestic sales	5,025	7,668	3,320	4,819	…	4,471	4,634	7,220	9,788	12,727
Oil exports revenues	12,311	11,018	18	186	…	290	395	656	798	943
Other nontax revenues	925	1,627	3,886	4,894	14,346	14,163	15,771	15,742	16,371	17,133
Property income	504	879	437	1,034	1,515	1,420	1,772	2,131	2,565	3,065
Administrative fees	405	708	500	733	1,038	1,038	1,356	1,709	2,114	2,598
Transit fees	0	0	0	876	2,362	2,441	2,648	2,019	1,881	1,727
Other (including TFA)	16	41	2,950	2,251	9,431	9,265	9,996	9,883	9,811	9,743
Of which: TFA	n.a.	0	0	1,115	3,149	3,244	3,697	3,385	3,136	2,861
Grants	976	618	974	1,836	2,532	2,149	4,170	4,780	5,418	5,895
Total expenditure	28,815	31,979	30,528	37,783	51,694	51,076	61,967	69,634	77,729	88,277
Expense (current expenditure)	24,915	28,947	27,046	34,452	45,844	45,225	53,233	57,182	61,120	66,436
Wages 1/	7,516	9,763	10,730	13,670	16,012	16,012	18,302	20,033	21,475	22,764
Goods and services	2,417	2,603	2,032	2,929	4,919	3,803	4,519	5,073	5,421	5,752
Interest due	1,669	2,210	3,364	4,334	4,061	4,061	6,399	7,415	9,115	11,248
Foreign interest due	167	179	227	394		336	410	503	597	704
Domestic interest due	1,502	2,031	3,137	3,940		3,726	5,989	6,912	8,518	10,544
Subsidies	845	2,712	4,164	5,479	6,500	7,527	7,214	5,056	3,200	2,109
Fuel subsidies	755	2,290	4,112	5,425	5,000	6,027	5,484	3,155	1,180	0
Other subsidies	90	422	52	54	1,500	1,500	1,730	1,901	2,020	2,109
Transfers	11,655	11,037	5,785	7,065	12,439	11,909	14,504	16,872	18,677	20,742
States	5,755	6,187	5,720	6,921	12,290	11,760	14,343	16,705	18,508	20,571
Current	3,843	4,278	4,222	4,515	7,846	7,846	8,617	8,786	8,368	7,904
Capital	1,912	1,909	1,498	2,405	4,444	3,914	5,726	7,918	10,140	12,668
Other transfers	27	29	65	144	149	149	161	168	169	171
Other expenditures	814	623	971	975	1,913	1,913	2,296	2,732	3,231	3,822
Net acquisition of NFA (capital expenditure)	3,900	3,032	3,482	3,331	5,850	5,850	8,734	12,451	16,609	21,841
Operating balance (accrual basis)	4,330	3,410	-4,969	-3,291	363	906	3,000	9,100	15,578	21,404
Overall accrual balance	430	379	-8,451	-6,622	-5,488	-4,945	-5,733	-3,351	-1,031	-437
Overall accrual balance (including discrepancy)	430	379	-8,451	-6,622	-5,488	-4,945	-5,733	-3,351	-1,031	-437
Nonoil primary balance 2/	-5,737	-7,331	-8,494	-8,377	-14,658	-7,659	-8,317	-7,116	-5,799	-5,904
Financing (accrual basis)	-430	-379	8,451	6,622	5,488	4,945	5,733	3,351	1,031	437
Foreign financing	599	1,038	639	1,147	1,145	708	1,055	1,419	1,454	1,538
Disbursements	1,311	1,615	1,345	1,551	…	1,844	2,303	2,664	2,990	3,345
Principal repayment (-))	713	577	706	404	…	1,136	1,248	1,245	1,536	1,807
Domestic financing	-1,029	-1,416	7,812	5,596	5,050	4,237	4,678	1,932	-423	-1,100
Bank financing	3,536	4,053	2,862	4,139		3,073	94	94	94	95
Of which: OSA	-330	0	0	0		0	0	0	0	0
Nonbank financing	-3,085	-4,505	5,150	-2,116		3,275	5,626	2,879	-267	-946
Accounts payable (net arrears accumulation)	-1,480	-965	-200	3,573		-2,111	-1,042	-1,042	-250	-250
Accumulation of arrears	0	0	0	3,750		0	0	0	0	0
Repayment of arrears (-)	1,480	965	200	177		2,111	1,042	1,042	250	250
Financing Gap	0	0	0	0	0	0	0	0	0	0
				(In percent of GDP)						
Revenues and grants	19.3	18.0	9.8	9.9	11.8	11.7	11.9	12.1	12.5	12.8
Revenues	18.7	17.7	9.4	9.3	11.1	11.2	11.0	11.3	11.6	11.9
Tax revenues	6.6	6.4	6.2	6.1	5.6	6.4	6.6	6.9	7.2	7.5
Oil revenues	11.5	10.4	1.5	1.6	1.9	1.2	1.1	1.4	1.7	2.0
Other nonoil nontax revenues	0.6	0.9	1.7	1.5	3.6	3.6	3.3	2.9	2.7	2.5
Grants	0.6	0.3	0.4	0.6	0.6	0.5	0.9	0.9	0.9	0.9
Total expenditure	19.0	17.8	13.6	12.0	13.1	13.0	13.1	12.7	12.7	12.9
Expense (current expenditure)	16.5	16.1	12.0	10.9	11.7	11.5	11.3	10.5	10.0	9.7
Wages	5.0	5.4	4.8	4.3	4.1	4.1	3.9	3.7	3.5	3.3
Goods and services	1.6	1.5	0.9	0.9	1.3	1.0	1.0	0.9	0.9	0.8
Interest	1.1	1.2	1.5	1.4	1.0	1.0	1.4	1.4	1.5	1.6
Subsidies	0.6	1.5	1.8	1.7	1.7	1.9	1.5	0.9	0.5	0.3
Transfers	7.7	6.1	2.6	2.2	3.2	3.0	3.1	3.1	3.0	3.0
Other	0.5	0.3	0.4	0.3	0.5	0.5	0.5	0.5	0.5	0.6
Net acquisition of NFA (capital expenditure)	2.6	1.7	1.5	1.1	1.5	1.5	1.8	2.3	2.7	3.2
Operating balance (accrual basis)	2.9	1.9	-2.2	-1.0	0.1	0.2	0.6	1.7	2.5	3.1
Overall accrual balance	0.3	0.2	-3.8	-2.1	-1.4	-1.3	-1.2	-0.6	-0.2	-0.1
Nonoil primary balance as a ratio to Nonoil GDP	-4.5	-4.7	-3.9	-2.8	…	-2.1	-1.9	-1.4	-1.0	-0.9
Financing (accrual basis)	-0.3	-0.2	3.8	2.1	1.4	1.3	1.2	0.6	0.2	0.1
Foreign financing	0.4	0.6	0.3	0.4	…	0.2	0.2	0.3	0.2	0.2
Domestic financing	-0.7	-0.8	3.5	1.8	…	1.1	1.0	0.4	-0.1	-0.2
O/w: Net accumulation of arrears	-1.0	-0.5	-0.1	1.1	0.0	-0.5	-0.2	-0.2	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items										
Change in external arrears (SDG million)	11,084	4,809	6,347	9,926	…	11,197	12,577	13,482	14,283	14,835
Change in external arrears (percent of GDP)	8.7	3.1	2.9	3.3	…	3.0	2.9	2.7	2.5	2.3

Sources: Sudanese authorities; and staff estimates and projections.

1/ The retroactive effect of the September 2013 wage increase will be spread over 3 years starting in 2014. The total amount is SDG1.2 billion, of which SDG 550 million will be reflected under current transfers

2/ Nonoil balances exclude oil revenues, grants, transfers to South, oil related transfers to Northern states and pipelines fees paid by the government.

Table 4. Monetary Survey, 2010–14
(In millions of SDGs)

	2010	2011	2012	2013	2014			
				Prel.	March	June	September	December
					Projections			
Net foreign assets	-4,187	-5,876	-7,275	-12,680	-11,825	-11,735	-11,590	-12,069
Bank of Sudan	-6,429	-7,590	-10,375	-15,415	-14,650	-14,649	-14,593	-15,163
Commercial banks	2,242	1,713	3,100	2,735	2,825	2,914	3,004	3,093
Net domestic assets	39,799	47,790	66,067	79,203	81,175	83,910	86,591	89,896
Net domestic credit	35,483	41,536	54,892	67,978	69,909	72,635	75,175	78,111
Net claims on general government (NCGG)	13,951	18,272	23,685	29,564	30,836	31,956	33,076	34,044
NCGG excluding IMF	10,166	14,217	16,980	20,967	21,886	22,653	23,420	24,034
Bank of Sudan (Central Government)	6,186	8,173	9,861	13,503	14,249	14,842	15,435	15,876
Commercial banks (central government)	3,980	6,044	7,120	7,464	7,637	7,811	7,984	8,158
Claims on nongovernment sectors	21,532	23,264	31,207	38,414	39,073	40,679	42,099	44,067
Public enterprises	2,810	2,821	3,170	4,004	4,022	4,141	4,259	4,477
Private sector	17,959	19,427	26,966	32,998	33,614	35,077	36,354	38,078
Other sectors	763	1,016	1,071	1,411	1,436	1,461	1,487	1,512
Other items (net)	4,316	6,254	11,175	11,225	11,265	11,275	11,415	11,785
Broad money	35,612	41,914	58,792	66,523	69,349	72,175	75,001	77,827
Money	24,748	29,729	42,006	47,309	47,748	50,067	52,787	55,347
Currency in circulation	10,068	12,850	16,751	19,178	19,947	20,715	21,484	22,252
Demand deposits	14,680	16,879	25,254	28,130	27,802	29,352	31,303	33,095
Domestic currency	9,840	12,000	14,242	16,487	15,461	16,315	17,569	18,664
Foreign currency	4,840	4,879	11,012	11,643	12,340	13,037	13,734	14,431
Quasi-money	10,864	12,185	16,786	19,215	21,601	22,108	22,214	22,480
Domestic currency	10,380	10,894	13,969	15,471	17,698	18,046	17,994	18,100
Foreign currency	484	1,291	2,817	3,743	3,902	4,061	4,220	4,379
	(In percent of beginning of the period broad money stock)							
Money	18.6	14.0	29.3	9.0				12.1
Quasi-money	6.3	3.7	11.0	4.1				4.9
Net foreign assets	3.6	-4.7	-3.3	-9.2				0.9
Net domestic assets	21.3	22.4	43.6	22.3				16.1
Net claims on government	13.5	12.1	12.9	10.0				6.7
Credit to the economy	10.6	4.9	18.9	12.3				8.5
Nonfinancial public enterprises	1.8	0.0	0.8	1.4				0.7
Private sector	8.6	4.1	18.0	10.3				7.6
	(Changes in percent, end of period)							
Broad money	24.9	17.7	40.3	13.2				17.0
Money	27.3	20.1	41.3	12.6				17.0
Currency in circulation	24.8	27.6	30.4	14.5				16.0
Demand deposits	29.0	15.0	49.6	11.4				17.7
O/w: Public enterprises	31.5	28.6	37.1	15.0				5.4
Private enterprises	24.0	11.9	42.1	12.6				5.4
Quasi-money	19.8	12.2	37.8	14.5				17.0
O/w: Public enterprises	23.3	-13.7	0.6	-1.7				5.4
Private enterprises	19.5	8.3	27.7	13.3				5.4
Deposits	24.9	13.8	44.6	12.6				5.4
Domestic currency	23.2	13.2	23.2	13.3				15.0
Foreign currency	31.7	15.9	124.1	11.3				22.3
Net foreign assets	-19.7	40.3	23.8	74.3				-4.8
Net domestic assets	18.0	20.1	38.2	19.9				13.5
Net claims on government	38.0	31.0	29.6	24.8				15.2
Credit to the economy	16.4	8.0	34.1	23.1				14.7
Nonfinancial public enterprises	22.9	0.4	12.4	26.3				11.8
Private sector	15.8	8.2	38.8	22.4				15.4
Memorandum items	(Ratios in percentage)							
Ratio of Money to Broad Money	69.5	70.9	71.4	71.1				71.1
Ratio of Currency in Circulation to M2	28.3	30.7	28.5	28.8				28.6
Ratio of Private sector deposits to M2	63.0	59.9	60.7	60.4				54.4
Net claims on government as a ratio to GDP	9.2	10.2	10.5	9.4				8.7
Net claims on government as a ratio to NHGDP	10.9	11.7	11.0	9.8				9.2
Credit to the economy as a ratio to GDP	14.2	13.0	13.9	12.2				11.2
Credit to the economy as a ratio to NHGDP	16.9	14.9	14.5	12.8				11.9
Velocity 1 (GDP, eop)	4.2	4.3	3.8	4.8				5.1
Velocity 2 (NHGDP, eop)	3.6	3.7	3.7	4.5				4.8
CBOS's gross foreign assets/M2 ratio	11.3	8.8	13.1	14.3				18.5
Foreign currency deposits/M2 ratio	14.9	14.7	23.5	23.1				24.2
Reserve money growth (annual changes, pa)	17.2	27.8	46.7	20.3				16.0
Money multiplier (average)	2.2	2.2	2.0	1.9				1.8

Sources: Sudanese authorities; and staff estimates and projections.

Table 5. Summary Accounts of the Monetary Authorities, 2010–14
(In millions of SDGs)

	2010	2011	2012	2013	2014			
				Prel.	March	June	September	December
					Projections			
Net foreign assets	-6,429	-7,590	-10,375	-15,415	-14,650	-14,649	-14,593	-15,163
Gross foreign assets	4,040	3,672	7,722	9,492	11,442	12,593	13,799	14,380
O/w: Gross international reserve	3,887	3,526	7,485	9,175	9,967	11,053	12,194	12,710
o/w: SDR holdings	480	515	854	1,094	1,065	1,115	1,165	1,211
Foreign liabilities	10,470	11,261	18,097	24,906	26,092	27,242	28,392	29,543
O/w: Short term foreign liabilities	3,097	3,202	4,561	7,160	7,544	7,893	8,242	8,591
O/w: IMF-related liabilities	4,466	4,786	7,917	10,152	10,573	10,995	11,417	11,839
Net domestic assets	22,530	28,192	40,629	51,699	53,297	54,741	56,186	57,478
Net domestic credit	12,376	15,056	20,014	25,909	27,442	28,823	30,204	31,432
Net claims on general government (NCGG)	9,971	12,228	16,565	22,100	23,199	24,146	25,092	25,886
NCGG excluding IMF	6,186	8,173	9,861	13,503	14,249	14,842	15,435	15,876
Claims	10,563	12,984	17,419	23,107	24,053	25,000	25,946	26,892
O/w: Government Musharka Certificates	1,565	2,217	3,375	4,798	4,798	4,798	4,798	4,798
IMF on lent	3,785	4,055	6,704	8,597	8,950	9,303	9,656	10,010
Deposits	591	755	854	1,006	854	854	854	1,006
Of which: OSA	0	0	0	0	0	0	0	0
BOS claims on public enterprises	346	397	724	792	802	812	821	831
BOS claims on banks	1,997	2,372	2,663	2,831	3,255	3,680	4,104	4,529
Money market instruments (CICs)	63	58	62	186	186	186	186	186
Other items (net)	10,154	13,136	20,615	25,791	25,854	25,918	25,982	26,046
Reserve money	16,164	20,661	30,316	36,471	38,647	40,092	41,592	42,315
Currency outside banks	10,068	12,850	16,751	19,178	20,662	21,414	22,222	22,252
Reserves of commercial banks	5,448	6,365	10,864	13,897	14,454	15,010	15,567	16,124
Required reserves	1,356	1,537	3,442	3,975	4,134	4,294	4,453	4,612
Excess reserves	4,092	4,827	7,422	9,922	10,319	10,717	11,114	11,512
Cash in vault	829	810	1,118	1,234	1,284	1,333	1,383	1,432
Excess reserves on deposits	3,263	4,017	6,303	8,687	9,035	9,383	9,732	10,080
Deposits at BOS included in broad money	648	1,446	2,701	3,395	3,531	3,667	3,803	3,939
Memorandum items								
Gross international reserves (GIR, US$)	1,566	1,317	1,693	1,618	1,668	1,768	1,868	1,868
Net international reserves (NIR, US$)	318	121	662	355	405	505	605	605

Sources: Sudanese authorities; and staff estimates and projections.

Table 6. Summary Accounts of the Commercial Banks, 2010–14
(In millions of SDGs)

	2010	2011	2012	2013	2014
				Prel.	Proj.
Net foreign assets	2,242	1,713	3,100	2,735	3,093
Gross foreign assets	3,494	2,489	4,894	4,731	5,489
Gross foreign liabilities	1,252	776	1,793	1,996	2,395
Net domestic assets	23,555	26,626	37,453	42,759	46,812
Reserves	5,831	6,838	13,134	14,440	17,556
O/w: Cash in vaults	829	810	1,118	1,234	1,432
Required reserves	1,318	1,646	3,775	4,029	4,675
Other reserves	3,400	3,950	7,988	9,098	11,449
Net claims on central government	3,980	6,044	7,120	7,464	8,158
Claims	4,907	6,132	7,277	7,590	8,290
O/w: GMCs	4,907	6,132	7,277	7,590	8,290
Deposits	927	88	157	126	132
Claims on state & local government	145	613	758	966	966
Claims on non-government sectors	21,040	22,254	29,724	36,655	43,236
Private sector	17,959	19,427	26,966	32,998	38,923
Non-financial Public enterprises	2,464	2,424	2,446	3,213	3,789
Non-bank financial institutions	618	403	312	444	524
Other items, net	-7,441	-9,123	-13,284	-16,766	-23,104
Unclassified assets	7,690	8,179	11,262	13,097	18,048
Unclassified liabilities	7,602	8,195	13,668	16,657	22,953
Capital accounts	7,478	9,036	10,831	13,149	18,120
Other (incl. discrepancies)	52	70	48	57	79
Deposits	24,896	27,623	39,340	43,950	49,906
Demand deposits	14,117	16,159	24,753	27,537	31,268
Domestic currency	9,278	11,280	13,741	15,893	18,047
Foreign currency	4,840	4,879	11,012	11,643	13,221
Quasi-money deposits (Time & saving)	10,778	11,459	14,586	16,413	18,637
Domestic currency	10,380	10,893	13,969	15,471	17,568
Foreign currency	398	566	617	942	1,069
Liabilities to BOS 1/	902	721	1,213	1,544	1,730
Memorandum items					
Deposits with commercial banks	25,823	27,711	39,497	44,076	50,038
Central government	927	88	157	126	132
Other sectors	24,896	27,623	39,340	43,950	49,906
State and local government deposits	412	521	1,756	1,744	1,981
Demand deposits	350	371	1,302	1,173	1,332
Time and savings deposits	62	150	454	571	649
Public enterprises deposits	2,037	1,995	1,896	2,011	2,284
Demand deposits	712	852	746	880	999
Time and savings deposits	1,325	1,143	1,150	1,131	1,284
Private sector deposits	22,446	25,107	35,687	40,194	45,642
Demand deposits	13,056	14,942	22,705	25,484	28,937
Time and savings deposits	9,390	10,165	12,982	14,711	16,704
Time deposits	2,297	3,165	4,397	5,449	6,188
Savings deposits	7,093	7,001	8,585	9,262	10,517
			(Ratios in percentage)		
Banks' credit to deposits ratio	85.1	82.8	77.5	85.6	88.6
Bank reserves as a ratio to bank deposits	21.1	23.0	27.5	31.5	32.3
Reserve requirements as a ratio to bank deposits	5.2	5.5	8.7	9.0	9.2
Excess reserves as a ratio to bank deposits	15.8	17.4	18.8	22.5	23.1
Banks' cash to deposit Ratio	3.2	2.9	2.8	2.8	2.9
GMC as a ratio to Bank reserves	90.1	96.3	67.0	54.6	51.4
GMC as a ratio to Bank excess reserves	119.9	127.0	98.0	76.5	72.0

Sources: Sudanese authorities; and staff estimates and projections.

1/ The difference between commercial banks' liabilities to BOS and BOS's claims on banks is due to misclassification of government guarantees.

Table 7. Medium-Term Macroeconomic Outlook, 2010–18

	2010	2011	2012	2013	2014	2015	2016	2017	2018
			Est.	Prel.	Projections				
Production and prices									
Nominal GDP (billions of SDGs)	151.3	179.5	225.2	316.1	393.2	472.3	546.3	613.2	686.1
Nominal GDP (billions of US$)	65.6	67.3	63.0	70.2	63.1	65.7	69.1	73.0	78.3
Nonoil GDP billions of US$)	55.4	58.5	60.4	66.8	59.4	61.2	63.8	67.5	72.3
Nonoil GDP (percent of total GDP)	84.4	86.9	95.9	95.2	94.2	93.2	92.3	92.5	92.3
	Annual changes in percent								
Real GDP growth	4.0	-0.3	-2.4	3.2	2.6	4.2	5.2	4.5	5.0
Oil Sector	-3.9	-36.0	-62.4	30.2	3.2	17.0	21.8	3.4	3.3
Non-oil sector	5.7	6.8	4.7	2.0	2.5	3.5	4.1	4.6	5.2
GDP deflator	20.0	20.3	29.4	35.7	21.2	14.6	8.9	6.7	6.1
Nonoil GDP deflator	13.8	15.2	32.6	36.0	20.5	14.4	9.5	7.1	5.9
Oil GDP deflator	60.9	62.0	28.2	25.4	32.2	13.9	-0.7	1.6	7.9
Income, expenditure and saving	In percent of GDP								
Gross national income (GNI)	92.2	95.9	96.2	95.8	95.9	95.9	96.1	96.4	96.7
Gross disposable income (GDI)	95.4	97.5	97.5	97.1	97.7	97.9	98.1	98.5	98.9
Gross domestic expenditure (GDE)	97.5	98.0	108.0	107.7	106.0	105.1	104.4	103.6	103.2
Final consumption	77.4	78.9	89.3	87.7	88.3	87.0	85.9	84.7	83.9
Gross capital formation	20.1	19.1	18.7	20.0	17.7	18.1	18.5	18.9	19.3
Gross Savings	18.0	18.6	8.3	9.4	9.4	10.9	12.2	13.8	15.0
Central government operations									
Total revenue and grants	19.3	18.0	9.8	9.9	11.7	11.9	12.1	12.5	12.8
Revenue	18.7	17.7	9.4	9.3	11.2	11.0	11.3	11.6	11.9
o/w: Oil revenue	11.5	10.4	1.5	1.6	1.2	1.1	1.4	1.7	2.0
Grants	0.6	0.3	0.4	0.6	0.5	0.9	0.9	0.9	0.9
Total expenditure	19.0	17.8	13.6	12.0	13.0	13.1	12.7	12.7	12.9
Current expenditure	16.5	16.1	12.0	10.9	11.5	11.3	10.5	10.0	9.7
Capital expenditure	2.6	1.7	1.5	1.1	1.5	1.8	2.3	2.7	3.2
Overall balance	0.3	0.2	-3.8	-2.1	-1.3	-1.2	-0.6	-0.2	-0.1
Money and banking	Annual changes in percent, unless otherwise specified								
Broad money	24.9	17.7	40.3	13.2	17.0	15.6	15.3	15.5	13.5
Reserve money	17.2	27.8	46.7	20.3	16.0	14.1	11.4	9.4	9.5
Credit to the economy	16.4	8.0	34.1	23.1	14.7	17.4	18.4	22.4	22.0
Credit to the economy as a ratio to NHGDP	16.9	14.9	14.5	12.8	11.9	11.7	12.1	13.2	14.4
Velocity (Non oil GDP/M2 ratio, eop)	3.6	3.7	3.7	4.5	4.8	4.9	4.9	4.7	4.7
External sector	In percent of GDP, unless otherwise specified								
External trade balance	5.7	4.1	-5.4	-5.9	-4.9	-4.0	-3.0	-2.2	-1.7
Exports, f.o.b.	19.3	16.4	8.1	6.8	9.0	9.7	10.6	11.2	11.3
Non-oil exports	2.6	3.5	4.9	4.1	4.7	5.0	5.8	6.7	7.0
Imports, f.o.b.	-13.7	-12.3	-13.5	-12.7	-13.8	-13.7	-13.6	-13.4	-13.0
Current account balance	-2.1	-0.4	-10.4	-10.6	-8.3	-7.2	-6.3	-5.1	-4.3
Gross useable reserves (in months of imports)	1.8	1.5	1.8	1.8	2.0	2.3	2.5	2.8	2.9
Public debt	73.1	70.5	94.5	90.9	89.7	86.2	82.2	78.5	74.3
External debt	62.2	59.4	81.6	78.5	77.9	75.5	72.7	70.3	67.4
Domestic debt 1/	10.9	11.0	12.9	12.4	11.8	10.7	9.5	8.2	6.9
Total debt in US$ billion	46.1	48.8	50.0	50.7	51.7	53.2	55.2	58.1	61.3
Memorandum item:									
Crude oil export price (U.S. dollars per barrel) 2/	70.7	95.8	94.6	95.2	90.7	90.1	82.6	79.8	77.8
Crude oil production (million barrels per year)	168.5	106.1	37.6	48.1	50.8	59.4	72.1	74.6	77.0
Crude oil exports (million barrels per year)	151.3	87.5	18.6	19.2	26.6	31.1	36.3	37.6	38.9

Sources: Sudanese authorities; and staff estimates and projections.
1/ Staff estimates and projections
2/ Sudanese oil blends. Projections are based on the latest WEO assumptions (based on future prices).

Table 8. Financial Soundness Indicators for the Banking Sector, 2006–13

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13
	(In percent, unless otherwise indicated)										
Capital Adequacy											
Regulatory capital to risk-weighted assets 1/	19.7	22.0	10.5	7.1	10.0	13.0	12.0	-	14.9	14.9	16.6
Regulatory Tier I capital to risk-weighted assets 1/	17.4	20.0	8.7	6.1	8.9	11.0	10.5	-	13.6	13.6	21.1
Asset composition and quality											
Loans to nongovernment to total assets	46.3	50.7	51.1	52.3	51.8	-	-	-	-	-	-
Gross NPLs to gross loans	19.4	26.0	22.4	20.5	14.4	12.6	11.8	11.3	10.4	9.9	8.4
NPLs net of provisions to gross loans	17.0	22.0	17.9	17.9	10.4	7.6	7.5	7.5	5.8	5.7	3.8
NPLs net of provisions to capital	63.7	85.0	71.0	74.8	43.7	33.3	36.5	33.3	43.7	42.5	16.7
Loans provisions to NPLs	14.0	15.0	20.0	23.9	31.7	39.8	33.5	30.5	25.5	26.9	53.6
Foreign currency loans to total loans	26.0	13.2	15.8	20.4	13.7	9.0	15.7	13.2	11.8	10.8	11.8
Deposits and investment accounts to total assets	60.0	55.5	57.4	63.2	63.9	63.5	63.4	64.5	65.1	63.5	62.2
Foreign currency deposits to total deposits	22.0	21.4	21.2	19.2	22.0	18.7	27.0	26.9	24.9	24.3	31.9
Off- balance sheet commitments to assets	33.0	32.5	34.4	28.0	31.5	29.8	32.2	29.9	28.9	27.8	30.1
Liquidity											
BOS deposits to total assets	8.0	8.6	9.1	12.7	10.8	13.1	17.5	17.3	18.1	18.3	16.5
Required reserves to total assets	4.0	3.0	2.9	2.1	3.2	3.5	5.5	5.6	5.6	5.5	5.0
Required reserves to total reserves	39.0	34.8	26.0	14.5	25.5	23.9	28.6	28.9	28.0	27.7	27.8
Cash in vault to total assets	1.0	2.5	2.2	2.0	1.9	2.1	2.0	2.6	2.6	2.0	1.9
Liquid assets to total assets	25.0	25.6	28.0	34.2	35.3	36.3	41.7	39.6	39.8	39.2	39.5
Liquid assets to total short-term liabilities	75.0	75.0	85.0	97.0	98.2	93.8	102.5	96.3	96.7	98.3	99.5

Source: Central Bank of Sudan.

1/ Data for December 2006 refer only to 27 of the 30 existing banks (exclude Sudanese Argiculture Bank, Capital Bank, and Industrial Development Bank).

Appendix I. Letter of Intent

Khartoum, March 7, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
700, 19th Street N.W.
Washington, D.C. 20431

Dear Ms. Lagarde:

As you know, Sudan's economy has suffered significant setbacks during the past three years on account of the secession of South Sudan in July 2011, the ensuing rising economic imbalances, civil regional conflicts, continuing U.S. sanctions, and an unsustainable external debt position. In response to these challenges, we adopted a three-year emergency plan covering 2012–14, with the task of addressing the post-secession challenges and laying the ground for a reconstruction of our economy. This undertaking is complex, but we believe that, absent debt relief and the support of the international community, it will be difficult to reach our economic potential.

Consistent with our three-year emergency plan, we adopted in June 2012 a package of corrective measures to restore macroeconomic stability and establish a framework for adjusting the economy to its new potential. In March 2013, with support from the international community, we signed an implementation matrix of the Cooperation Agreement that was reached with South Sudan in September 2012. This enabled resumption of oil production in South Sudan and its transit trough our territory to the benefit of both economies. The September 2013 summit with South Sudan has created a favorable momentum to intensify bilateral economic cooperation.

Against this background, we decided to resume our adjustment process. In this context, we implemented by late September a second package of corrective measures to address the remaining macroeconomic imbalances. This package contains a significant adjustment of domestic petroleum prices as well as a unification of the official exchange rates. Recognizing the need to alleviate the impact of these measures on the most vulnerable segments of the population, the package included significant increases in social expenditure.

We recognize that the achievement of a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth will not be possible without the clearing of Sudan's arrears vis-à-vis the international financial institutions and other creditors and the financial support of the support of the international community. In view of this, and building upon the recent Article IV consultation which was successfully completed and the recently announced measures, the Sudanese government is committed to designing and implementing an economic and financial program during 2014 with a view to restoring credible macroeconomic and financial management, and to accelerating structural reforms. This program will be monitored by IMF staff and should facilitate our dialogue with multilateral and bilateral creditors and the eventual resolution of Sudan's unsustainable external debt.

The policies and measures set forth in the attached memorandum (MEFP; Attachment I) reflect the understandings reached with IMF staff during the November 2013 and February 2014 missions, which we believe can achieve the objectives of the program. We will, however, take any additional measures that may become necessary for this purpose. We will remain in close consultation with IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP. The government will provide IMF staff with all information that it requests to assess the implementation of the staff-monitored program. A Technical Memorandum of Understanding (TMU) defining the indicative targets of the staff-monitored program and the data to be reported is also attached (Attachment II).

Very truly yours,

/s/
Badredin Mahmoud Abbas
Minister of Finance and National Economy

/s/
Abdulrahman Hassan Abdulrahman
Governor, Central Bank of Sudan

Attachment I. Memorandum of Economic and Financial Policies for 2014

1. **This memorandum sets out the economic and financial policies and objectives of the Government of Sudan for January 1-December 31, 2014.** These policies will be implemented in the context of an IMF staff-monitored program (SMP) to improve Sudan's economic and financial conditions that deteriorated in the aftermath of the secession of South Sudan and launch reforms to restructure the economy in line with its new potential.

A. Background

2. **Sudan's economic conditions have deteriorated since the secession of South Sudan**. Non-oil real GDP growth has slowed markedly, average annual inflation soared, fiscal and external imbalances widened, and pressures on the exchange rate intensified. Aware that the deterioration of the economy could turn into a self-sustained process that would trigger a generalized economic and financial crisis, the government adopted a first package of reforms in June 2012 to address the situation. The difficult regional and domestic environments interrupted the reform process in the context of the 2013 budget. The economic situation would have been worse had it not been for the remarkable increase in the gold production and exports, which contributed significantly to the non-oil GDP growth and eased the impact of the external shocks.

3. **In late September 2012, we reached a comprehensive economic cooperation agreement with South Sudan, including on debt, assets, trade, pensions, and oil transportation.** Revenue from the oil-sharing agreement covers a period of 3½ years, starting from the date of the resumption of oil production in South Sudan. It includes a transitional financial arrangement (TFA)—in the form of a transfer fee from South Sudan—and pipeline and facilities-related fees.

4. **This agreement is now being implemented**. It follows the milestone signature in March 2013 of the implementation matrix and the decisions of the September 2013 summit between Presidents Bashir, Kiir, and Mbeki, chair of the African Union's High Level Implementation Panel. The summit cleared the way for a full implementation of the bilateral agreement, including the continued production of oil. As a result, oil production has resumed, border tensions have abated, and bilateral cooperation is under way in several areas, including in the economic area under the aegis of a Tripartite Committee (Sudan/South Sudan/African Union). More importantly, it will pave the way for renewed efforts at jointly tackling the significant challenges we are facing. In the context of the joint outreach process, the presidents of the two countries signed a joint letter to the creditors, the Sudan Technical Working Group on external debt (TWG) and the international community asking them to grant Sudan debt relief under the HIPC initiative. The Tripartite Committee on the Joint Approach held its inaugural meeting to develop modalities and a work program for approaching the international community, thereby symbolizing the high level of cooperation that has been established between the two countries.

5. **The eruption of a civil conflict in South Sudan in mid-December 2013 did not endanger our bilateral agreements**. We have been in continuous contact with our South Sudanese

counterparts since the beginning of the conflict supporting, alongside efforts of the Intergovernmental Authority on Development (IGAD) in Eastern Africa, a negotiated resolution of the conflict. Those joint efforts have succeeded and resulted in the signing of a truce between forces loyal to President Kiir and those loyal to his adversary Mr. Machar. In parallel, we have provided technical assistance so that South Sudan can continue operating the oil wells and assure the flow of oil to the benefit of both of our economies. We look forward to the lasting resolution of the conflict; in the meantime, we are providing support to an estimated 24,000 refugees who entered Sudan as of end-January, which is creating a burden on our budget without any support from the international community, which is creating a burden on our budget. We do not expect that the conflict in South Sudan will have had a significant direct impact on our non-oil economy, because economic linkages between the two countries are limited.

6. **Nevertheless, significant challenges lie ahead, particularly stabilizing the economy and sustaining recovery**. There is a need to reconstruct the economy to foster broad-based and inclusive growth, create jobs, and reduce poverty. This would include actions in favor of regional integration with neighboring countries, mainly South Sudan to enhance economic opportunities.

7. **The proposed SMP will cover January 1–December 31, 2014**. It consolidates progress achieved last year and lays the groundwork for an ambitious program of economic reform and transformation aimed at restoring macroeconomic stability, reducing the economy's dependence on oil and mobilizing the country's economic potential. In the past, Sudan established a good track record with the Fund through 13 successful SMPs during the period 1997-2010. Nevertheless, this SMP will allow us to establish a track record of strong policy and performance with the goal of reaching the decision point by September 2014.

B. Recent Macroeconomic Developments

8. **Sudan's economic performance in 2012 encountered some challenges, despite the introduction in June 2012 of a package of reforms**. Non-oil real GDP growth slowed to 4.7 percent, reflecting a broad-based slowdown in economic activity. Inflation reached 44.4 percent at end-year, driven by the monetization of the fiscal deficit and a weakening exchange rate, among other factors. The gap between the official and curb market exchange rates, despite dropping from a peak of almost 100 percent after the June 2012 depreciation, remained at about 20 percent by end-December 2012. The overall fiscal deficit peaked at 3.8 percent of GDP, mostly on account of a significant fall in oil revenues in the aftermath of the secession. The external current account deficit is estimated to have reached 10.4 percent of GDP, reflecting the large drop in oil exports, and was mainly financed by a combination of foreign direct investment, grants and loans from official sources. Gross international reserves increased to 1.8 months of prospective imports.

9. **Economic conditions through end-December 2013 were mixed**. The 12-month consumer price inflation which fell to 22.9 by end-August from a high of 47.9 percent in March and rose to 41.9 percent through end-December, in the aftermath of the devaluation of the domestic currency and the rise in the prices of domestic petroleum products. The rebound was caused by an increase in

food and transportation prices.[1] In the fiscal area, revenue performance exceeded budget projections on account of an improvement in tax collection as well as higher imports. Wage spending is estimated at 4.3 percent of GDP, slightly above the budget target. The overall fiscal deficit is estimated at 2.1 percent of full-year GDP, against a budget target of 3.0 percent of GDP. The gap between the official and curb market rates reached 35 percent, because of the recent conflict in South Sudan as well as the prevailing macroeconomic imbalances. Reserve money growth was contained at 20.3 percent since end-2012, largely reflecting the drop in gold purchase by the central bank. Private sector credit rose by 22.4 percent while central bank credit to the government rose by 24.1 percent. Overall, broad money grew by 13.2 percent. Gross international reserves stood at US$1.62 billion, a decline of US$75 million from end-2012.

10. **We adopted a new and ambitious package of reforms in September to signal our commitment to resuming our adjustment efforts to address the economic and social challenges.** The implemented measures comprise: (i) a weighted-average increase in domestic petroleum prices at the pump of about 68 percent, including increases in the prices of gasoline, gasoil, and LPG; (ii) a step devaluation of about 29 percent of the official exchange rate; (iii) an increase in the customs exchange rate to align it with the official level; and (iv) varied tax and custom duty increases applied on certain goods. The other new measures seek to increase revenues and cut nonpriority spending and are the core of the 2014 budget. In addition, the reform package included some measures to shield the most vulnerable from the social impacts of these reforms.

C. The Economic Program for January–December 2014

Overview

11. **Our new policy framework is being put in place**. In this context, we will (i) continue fiscal consolidation through revenue enhancement and fiscal retrenchment, while broadening social protection and allocating more resources to productive projects; (ii) tighten the monetary stance and improve the transmission mechanisms of monetary policy; (iii) address external imbalances, by measures that include greater exchange rate flexibility through a managed-float exchange rate system; and (iv) implement structural reforms, including a restructuring of the public sector to develop a non-oil economy and support private sector investment.

12. **Public finance consolidation and bank restructuring will remain at the core of the program**. In this context, policies will focus on (i) continuing tax reforms; (ii) rationalizing spending; (iii) reforming state finances; (iv) accelerating the privatization program; and (v) improving financial intermediation while promoting private sector development and financial inclusiveness.

13. **The implementation of this package is expected to engineer a gradual recovery**. For 2014, we will aim at: (i) reaching a non-oil real GDP growth rate of 2.5 percent, on account of a rebound in agriculture, improved export performance, and productivity gains related to the proposed fiscal and monetary adjustments; (ii) bringing inflation down to 18.1 percent, reflecting the combined effects of fiscal consolidation, monetary tightening, and the stabilization of the exchange

[1] These items represent about 61 percent of the household consumption basket.

rate; (iii) reduce the overall fiscal deficit to about 1.3 percent of GDP, reflecting both an improvement in revenue collection and a reduction in spending; and (iv) narrowing the current account deficit to about 8.3 percent of GDP, which will be financed mostly by non debt-creating flows.

14. **For the medium term, the outlook is expected to improve.**The continuation of our reform efforts will allow macroeconomic conditions to continue improving gradually throughout 2016. Our main objectives are: (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 we anticipate that the consolidation of public finances will continue through the medium term; and (iv) a current account deficit of about 6.3 percent of GDP by 2016.

Macroeconomic Policies and Reforms

Fiscal Policy and Budgetary Reforms

15. **We intend to continue our fiscal adjustment efforts under the SMP, with an equal focus on stepping up revenue mobilization and streamlining expenditure.** With respect to revenue mobilization, our goal is to raise non-oil tax revenue to 6.4 percent of GDP in 2014, compared with an estimated 6.1 percent of GDP in 2013. On the expenditure side, our objective is to contain current spending to 11.5 percent of GDP, while improving public financial management (PFM) in line with IMF recommendations.

16. **We note that the country's low ratio of budgetary revenue to GDP reflects both a weak tax intake and low efficiency in revenue collection.** In addition to the measures introduced in late September 2013, we intend to introduce additional measures that would generate additional revenues of about 2 percent of GDP and enable us to target a revenue to GDP ratio of 11.2 percent. These measures include the following:

- Reduce VAT exemptions (end-June 2014 structural benchmark);
- Coordinating tax legislation between the federal government and states to eliminate legislative overlap;
- Strengthening the penalty procedures for non-compliant tax payers (quarterly structural benchmark). The monitoring of this benchmark will be conducted through quarterly reviews by the SMP review missions with technical assistance from the METAC;
- Rationalizing customs duties exemptions;
- Reviewing the tax exemptions granted to the contracted employees in line with the personal income tax reforms under way. Reforming the taxation of gold-related activities, including

enforcing the tax regime for the newly licensed gold companies,[2] effective January 1, 2014, and subjecting traders to business profit tax (BPT);

- Ensure that all gold royalties and the government profit share accrue directly to the budget, starting with the 2014 budget law; and

- Improving the efficiency of revenue collection agencies, by increasing the taxpayer population, and preparing compliance management work plans for all large taxpayers.

We will strengthen taxpayer compliance management by introducing a framework that uses risk-based audit and non-audit interventions. A draft manual is already in place and will be completed and adopted in 2014 (end-September 2014 structural benchmark).

17. **The government will request technical assistance from the Fund** to help improve gold taxation and undertake a comprehensive tax expenditure review. Such review will allow us to streamline tax incentives and preferences and identify the policies that will enhance the efficiency of the tax system over the medium term.

18. **In 2014, the government's expenditure policy will be guided by the need to restore medium-term fiscal sustainability**. To this end, the 2014 budget contains structural adjustment measures to rationalize government spending while significantly increasing social spending. Current spending is projected at 11.5 percent of GDP, to enable a shift of resources from nonpriority current spending to productive capital in support of sustained economic growth and diversification. In this context, the government will:

- Contain the wage bill to 4.1 percent of GDP;

- Continue the gradual lifting of the fuel subsidies;

- Undertake a comprehensive restructuring of the Sudan Petroleum Corporation (SPC) and the electricity companies (EC), and improve corporate governance in their operations. In particular, SPC and EC will:

    - Prepare quarterly reports that include detailed operating accounts and financial statements that clearly indicate the sources of their revenues, the main components of their expenditure, and the size of their financing gap as well as the various sources of financing this gap. The government will request Fund technical assistance to that effect; and

    - Be audited annually by the auditor general.

19. **We will pursue our reforms to improve public financial management**. Consistent with the recommendations from the recent IMF TA missions in August 2012 (by the Fiscal Affairs

[2] The key features of the new regime include: (i) a 7 percent royalty on total production; (ii) 18-30 percent free share of total production; and (iii) a 15 percent business profit tax.

Department) and April 2013 (by METAC), the government will strengthen budgetary execution and monitoring. In particular, we will:

- Close all central government accounts in commercial banks (end-June 2014 structural benchmark), except in areas where there is no branch of the CBOS;

- Complete the Treasury Single Account (TSA) reform, by endorsing its legal and regulatory foundation, and finalizing its organizational aspect;

- Develop a medium-term fiscal framework (MTFF) that provides three-year aggregate fiscal targets and projections of revenue and expenditure by main economic category (end-December 2014 structural benchmark);

- Design a commitment control for all in-year commitments and multiyear investment projects, the former being subject to the annual financing plan and the latter consistent with the MTFF (with the budget documents showing the full cost of the planned investment and the scheduling of expenditures over the life of each project);

- 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 (end-September 2014 structural benchmark);

- Prepare quarterly cash-flow tables based on the fiscal program targets to ensure that expenditure commitments remain consistent with available resources; Review development spending with a view to focus on priority projects; and

- Set up a fiscal policy unit at the Minister of Finance and National Economy in the first quarter of 2014 that would be responsible for preparing a rolling three-year medium term fiscal framework.

20. **Strengthening anti-corruption and AML/CFT efforts with technical assistance from the Fund is essential**. As part of the government's plan to strengthen budgetary management and monitoring, we will undertake the following reforms:

- Reaffirm the exclusive use of guarantees—which will not exceed SDG 1.8 billion on a net basis—to the financing of investment expenditure;

- Establish a comprehensive list of outstanding guarantees by type of guarantees (local currency, foreign currency), including arrears related to these guarantees if any, by end-June 2014;

- Incorporate in the annual budget the medium- and long-term domestic debt maturities falling due during the year;

- Establish an indicator to monitor the government's overall financing requirements (GOFR). The GOFR will include (i) the overall fiscal balance; (ii) the cash payment for the amortization of the external debt; (iii) the amortization of the GMCs maturities falling due; and (iv) the amortization of the medium- and long-term domestic debt maturities falling due;3 and

- Promote the use of GICs instead of guarantees for mobilizing domestic resources to finance that portion of the government's investment program that is not covered by external financing or budgetary resources.

21. **Looking forward, we will pursue public finance consolidation as it is crucial to achieving and maintaining macroeconomic stability**. Given our unsustainable external debt position, we envisage, over the medium term, anchoring our fiscal policy on an overall budget balance of about 1.1 percent of GDP while ensuring a steady improvement in nonoil revenue. Starting in 2014, we will conduct (i) a comprehensive tax policy review to assess and reform the current system and improve the fiscal regime of the oil and mineral industries; and (ii) take all preparatory steps for a census of the civil service. We intend to request assistance from the Fund for the former and that of the World Bank and other donors for the latter.

Monetary Policy and Financial Sector Reforms

22. **We are determined to pursue our efforts to improve monetary conditions and contain inflation.** Monetary conditions have steadily weakened on account of the uncertainty prevailing since the beginning of the year. As the budgetary situation continued to be tense, this led to a continued increase in the monetization of the budget deficit, and ultimately to the amplification of inflation beyond 40 percent by mid-year. In 2014, our monetary program seeks to contain reserve money growth to 16 percent, consistent with the decision of the CBOS to limit monetary financing of the fiscal deficit to temporary financing. Accordingly, growth of credit to the private sector is projected at about 15.3 percent. Broad money growth is projected at 17 percent.

23. To **achieve this objective and consolidate this disinflationary process, the role of the CBOS will be enhanced and its independence reinforced.** Within this framework, the CBOS will:

- Cap temporary advances that are provided to the government during the year at about SDG 2½ billion, in line with the Central Bank of Sudan's Act;

- Refrain from providing direct credit to public enterprises and acquiring Government Musharaka Certificate (GMC) securities in the primary market; and

- Cease the rescheduling of overdue temporary advances to the government in line with the Central bank of Sudan's Act.

24. **We intend to improve the transmission mechanism of monetary policy**. We are planning to: (i) improve coordination between monetary policy and fiscal policy; (ii) promote an interbank

[3] These maturities include GIC maturities as well as the maturities covered by the CBOS guarantees.

market for GMC and Government Investment Certificate (GIC) securities; and (iii) expand the auction system to provide commercial banks with the opportunity to recycle their unused cash balances.[4]

25. **We are determined to improve banking conditions to support an expansion of non-oil activity and back microfinance and poverty reduction efforts.** Accordingly, we have decided to discontinue direct and subsidized credits which led to a misallocation of resources across sectors and impaired state-owned banks' lending activity. At the same time, we will continue to support the micro-finance sector which plays a critical role in poverty reduction, and gradually enhance the banking microfinance portfolio to reach 12 percent of the total portfolio via regulated and supervised micro finance institutions (MFIs) which will spearhead the sector. This is to be accomplished mostly through the newly established Wholesale Guarantee Agency acting to guarantee finance from banks to MFIs.[5]

26. **The government will undertake in 2014 a comprehensive review of the banking sector**. Using the recently published Financial Sector Review prepared by the IMF in the context of the 2013 Article IV consultation, we have identified areas of reforms for the next few months. We intend to: (i) continue making headway towards best practices in bank supervision, inspection and enforcement; (ii) update the risk-based manuals for offsite and onsite supervision; (iii) take steps to terminate the direct ownership of banks by CBOS;[6] and (iv) upgrade the legal, regulatory, and institutional framework of the sector; and (v) remove all impediments to financial deepening. Lastly, we intend to complete the reform of the domestic payment system and modernize the central bank. We will request technical assistance from donors to proceed with the implementation of these reforms.

27. **We will continue preparing a restructuring plan for Omdurman National Bank** in line with the recommendations of the independent audit (end-June 2014 structural benchmark). In the context of the restructuring program, the CBOS will prepare a comprehensive restructuring plan that will include a gradual phasing out of the CBOS shares in Omdurman National Bank.

Exchange Rate Policy and Reforms

28. **Further reforms are needed to improve exchange rate policy**. The signing of the implementation matrix for the oil revenue-sharing agreement with South Sudan and reforms introduced in September 2013 are expected to lessen the pressure on the exchange market and reduce the gap with the curb market. We are determined to pursue the reforms to continue improving and enhancing the functioning of the FX market with the objective of gradually eliminating the gap between the official and curb rates. With increased exchange rate flexibility, we

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[4] In July 2012, the CBOS increased the reserve requirement (RR) ratio from 13 percent to 18 percent with a view to mopping up banks' excess reserves and stabilizing the exchange rate of the SDG in the curb market. In view of the high level of bank's excess liquidity, this policy has produced only limited results.

[5] The murabaha rate subsidy is defined as the difference between the prevailing average market murabaha rate and the rate actually paid by the recipient of the microfinance loans, which is set by the monetary authorities.

[6] The CBOS interventions are kept to the minimum, except in cases of extreme necessity. Moreover, a committee mandated to gradually phase out the CBOS shares in the commercial banks.

expect to further build up our net international reserves (NIR) by about US$250 million by end-December 2014.

29. **We have unified all official exchange rates at the currently prevailing commercial bank rates**. To further improve the functioning of the FX market, we will implement the following measures in 2014: (i) set the reference rate on a daily basis as a weighted average of the buy and sell exchange rates of the CBOS, commercial banks, and exchange bureaus; (ii) use the reference rate as an indicative rate in the foreign exchange market next day; and (iii) allow commercial banks and exchange bureaus operating in the foreign exchange market to gradually set the exchange rates they quote to customers freely.

30. **We will upgrade the legal framework of the FX market**. In order to safeguard the stability of the banking sector and ensure proper management of exchange rate risks, the CBOS will strengthen its prudential regulations related to exchange rate risks, These regulations will include, among others, the development of the newly-introduced net open foreign currency position for banks and the restriction of lending in foreign currency by authorized dealers to foreign exchange earners.

Other Structural Reforms

31. **Sudan's economy needs to be restructured to respond to the post-secession challenges**. For this purpose, we will implement far-reaching reforms to (i) encourage investment in order to promote broad and inclusive growth; (ii) promote exports of goods with a higher value added; and (iii) strengthen efforts in support of trade liberalization so as to benefit from closer integration with the regional and global economy, external financing, investment and technology transfers.

32. **We are determined to continue improvements of the business environment**. We are determined to continue to remove obstacles to doing business in Sudan. Our macroeconomic reforms aiming at, inter alia, lower inflation, development of foreign exchange and money markets, banking, and supporting growth will lower uncertainties regarding the future stability of the economy and thus provide incentives for increased investments. In addition, we will continue to improve the regulatory environment for business in order to remove constraints that businesses face and lessen the cost of doing business. We expect that those efforts will be evidenced by improvements in the international rankings of Sudan's business environment and will result in increased domestic and foreign investments.

Social and Employment Policies

33. **Poverty is widespread with the last household survey completed in 2008 (before the secession of South Sudan) showed that 47 percent of the population lives below the poverty line.** In line with our I-PRSP, we will continue to shield the most vulnerable from the effects of the crisis. Sudan faces challenges in achieving the Millennium Development Goals (MDGs), especially reducing poverty. Sudan's social indicators compare unfavorably vis-à-vis the regional comparators. The introduction of the September package has highlighted the need to ramp up social spending, despite the difficult fiscal situation. At the center of our social safety net is the Zakat program which targets 4.5 million households. In addition, the Ministry of Finance runs a cash transfer program which currently assists 500,000 families providing 150 SDGs per month. In addition, the government

is committed to performing a new national household survey in 2014 and consequently preparing a full fledged PRSP, which is expected to be launched to the national and international development partners in 2015, in coordination with the new three-year government plan (2015-17).

34. **We are committed to providing additional assistance for the most needy**. To this end, we will: (i) expand the coverage of the programs in place to target 500,000 families in 2014, and (ii) increase health insurance coverage for the poor; (iii) improve primary healthcare; and (iv) expand the supporting social activities. We also intend to improve our social policies. Consequently, it is essential that we set up, with support from the World Bank and other donors, a comprehensive targeted social safety net.

35. **Unemployment in Sudan is high.** In 2011, it was estimated at 18 percent of the labor force. We expect that our growth-supporting reforms will lead to increased employment opportunities. We will continue our work aimed at providing access to primary education for the whole population under the Education-for-All initiative in line with the MDGs. In addition, we will develop vocational and technical training programs including development of the professional education infrastructure to improve entry-level skills and on-the-job training. Additionally, we plan to continue our support for SMEs through development of the micro-finance sector including a country-wide network of savings banks overseen by the Ministry of Welfare. This sector has grown sevenfold since 2007 and we expect it to become an effective way to increase employment, especially for the youth and women. Additional employment opportunities can be explored in agriculture, through the implementation of different production plans in the real sectors, in cooperation with the private sector.

Regional Integration

36. **We are committed to continue efforts to deepen our regional cooperation especially with South Sudan**. The recent summit has provided momentum to strengthen and expand relations with South Sudan. Joint committees are already working to strengthen cooperation in the financial, trade, monetary, banking and security areas. With these in place, we are now working on adopting policies and institutional arrangements that will facilitate trade between our two countries, including reducing non-tariff barriers. In this connection, we are determined to strengthening transportation and customs infrastructure between the countries, for which we are seeking support from the international community.

D. External Debt and Relief Prospects

37. **Sudan is in debt distress.** Our stock of external debt at end-2013 is estimated at $45.4 billion,[7] of which 86 percent in arrears. The debt challenges facing Sudan are aggravated by several commercial debt litigation cases, which would lead to freezing and possibly confiscation of Sudan's assets. Resolving the unsustainable debt burden is critical to our development efforts, especially those associated with our poverty reduction and MDGs targets. Currently, we continue to accumulate arrears as our resources for debt service do not allow us to clear outstanding obligations or to meet obligations falling due. Foreign financing is necessary for continued operation and construction of the critical infrastructure and development projects in Sudan.

38. **At this stage, our debt strategy focuses on assuring the flow of critical financing for these projects by partially servicing the debt of those creditors who are still disbursing.** We strive to secure this financing at the most concessional terms possible. We recognize that any new borrowing will eventually need to be treated as part of any comprehensive debt relief workout that would return Sudan to a sustainable external debt position. In 2013, we were only able to meet 70 percent of the planned interest payments and 24 percent of the planned principal payments. 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. Looking further to resolve the debt issues, we will continue to: (i) reach out to creditors with a view to seek a fast-track debt relief process; (ii) minimize non-concessional borrowing; and (iii) continue cooperation with the IMF. The government also intends to consult with the multilateral institutions, including the IMF, World Bank, and African Development Bank on modalities for eliminating arrears with those institutions, with a view to eventually seeking comprehensive debt relief through the HIPC process.

39. **We have made progress in these areas, and we remain hopeful that the international community will recognize our track record, and take concrete action on debt relief comparable to that provided to other countries.** Prior to the secession, we agreed with South Sudan on a "zero option" clause, under which we would shoulder the entire external debt, provided that the international community provides firm commitments to the delivery of debt relief within two years, after we jointly conduct outreach efforts for debt relief. The two-year period ends in September 2014, and despite our having satisfied all technical requirements, little progress was achieved in debt relief delivery. With the deadline fast approaching, we are planning to step up our joint outreach efforts, with the goal of gaining commitment for debt relief and thereby avoiding the fall-back position of apportioning the debt.

[7] Subject to changes based on results from the annual debt reconciliation exercise.

E. Program Modalities and Monitoring

52. Performance under the program will be monitored through quarterly reviews, starting in March 2014. The program has two prior actions, seven quarterly quantitative benchmarks, four indicative targets and eight structural benchmarks. The quarterly quantitative benchmarks and indicative targets are described in Table 1, and the prior actions and structural benchmarks in Table 2. The understandings between the Sudanese authorities and the IMF regarding the quantitative targets and structural benchmarks are further specified in the technical memorandum of understanding (TMU) dated March 7, 2014. The government will make available to Fund staff all data appropriately reconciled and on a timely basis, as specified in the TMU.

53. We will set up an institutional framework to monitor program execution and improve data collection. The institutional framework will comprise the key decision makers on economic and financial matters, notably the Vice-President, the Minister of Finance, the Petroleum Minister and the Governor of CBOS who will set the overall reform strategy and the action plan to move forward with the reforms. They will be assisted by a Technical Committee (TC) that will monitor execution of the SMP and report on a regular basis. This TC will comprise senior officials from the Finance and Petroleum Ministries, the Central Bank of Sudan (CBOS), the Statistics Office, and other institutions that are key to ensuring adequate execution of the program.

54. We will continue to strengthen 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 increasing these payments as Sudan's payment capacity improves.

55. We appeal to the international community to support our reform program, recognize our accomplishments and work toward a rapid resolution of Sudan's debt and arrears problem. Because of the latter, Sudan continues to suffer from limited access to concessional loans. As a low-income and fragile country, it needs concessional lending to develop and diversify its economy. Our infrastructure, reconstruction, and social development projects, which require critical external funding, are an essential component of our strategy to boost non-oil GDP growth in the aftermath of South Sudan's secession. In recent years, we have had to resort to non-concessional financing, but remain mindful of the risks to debt sustainability and the concerns of other creditors. We will seek to limit the contracting of such borrowing to an annual amount of US$600 million for specific and well-identified projects.

Table 1. Sudan: Quantitative Targets, 2013-14

	2013	2014 1/			
	December	March	June	September	December
Quantitative Benchmarks					
Domestic financing of the central government (ceiling; in SDG million) 2/	5,596	1,059	2,118	3,178	4,237
CBOS net credit to the central government (ceiling; in SDG million)	13,503	14,249	14,842	15,435	15,876
CBOS net domestic assets (ceiling; in SDG million)	51,699	53,297	54,741	56,186	57,478
Net international reserves (floor; in millions of U.S. dollars) 2/	355	405	505	605	605
Contracting or guaranteeing of external long term nonconcessional debt by the government or the central bank (ceiling, in millions of U.S. dollars) 3/	600	600	600	600	600
Central government budget expenditure arrears accumulation (ceiling, in SDG million)	0	0	0	0	0
Payments to the Fund (in millions of U.S. dollars)	6	2.5	5.0	7.5	10.0
Indicative Targets					
Tax revenue (floor; in SDG million)	19,427	5,295	11,111	17,722	25,059
Social spending (floor; in SDG million)	580	368	737	1,105	1,473
Reserve money (ceiling; change in percent)	20.3	6.0	9.9	14.0	16.0
Nonoil primary deficit (ceiling; in SDG million)	8,377	1,743	3,706	5,671	7,659

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/ Continuous benchmark.

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

Benchmarks	Target Date	Macroeconomic Rationale	Status
Prior Actions			
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.	
Revenue administration			
2. Complete and adopt the manual for risk-based audit and non-audit interventions.	Sep. 2014	Enhance VAT and income tax productivity.	
3. Strengthen the penalty procedures for non-compliant tax payers.	Quarterly	Enhance tax administration.	
Expenditure policy			
4. Develop, with Fund TA, a flexible fuel pricing mechanism.	Dec. 2014	Improve the efficiency and targeting of current spending	
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.	
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.	
7. Close all central government accounts in commercial banks (except in areas with no CBOS branch).	Jun. 2014	Improve cash management.	
Financial sector			
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.	

Attachment II. 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 criteria, 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 the change in net domestic assets of the Central Bank of Sudan (CBOS);

(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) floor for social spending;

(iii) ceiling on reserve money growth; and

(iv) ceiling on non-oil primary deficit.

Some of these targets are subject to adjustors. The definitions of these variables and the adjustors are set out below. All the quantitative targets and structural benchmarks are displayed in Tables 1 and 2 of the MEFP.

Definitions

5. Net domestic assets (NDA) of the Central Bank of Sudan (CBOS) are defined as the sum of: Net Domestic Credit of the CBOS, plus net issue of money market instruments, and plus other items net:

- 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;

- 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;

- Other items net is the difference between other assets and other liabilities. Other assets are defined as reported in the balance sheet of the CBOS; and

- 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).

6. 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 5.8 per U.S. dollar.

7. 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]

8. 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

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

GICs), net sales of GMCs and GICs outside the banking system, promissory notes (i.e., standing 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. The definition of central government for the purpose of this criterion is the same as the one applied for the NDA of the central bank.

9. Overall fiscal balance is defined as total revenues and grants minus total expenditures including capital expenditures cumulatively since the beginning of the calendar year.

10. 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) and fuel subsidies[5] 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.

11. 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

[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.

[5] Fuel subsidies are defined as the difference between the international reference price and the domestic retail price, multiplied by total domestic consumption of gasoline, diesel, LPG, kerosene, jet fuel, and heavy fuel oil.

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);

(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.

12. 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.

13. 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.

14. 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.

15. 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.

16. 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.

17. 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.

18. 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

19. 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).[6] 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 2,441 million in 2014, and the TFA is SDG 3,253 million in 2014. 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 overall fiscal 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 overall fiscal 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.

- The payments to the IMF is defined as a quarterly payment of US$2,500,000.

Program Monitoring

The Sudanese authorities should maintain 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 will have observer status on this committee. The committee should be 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 should 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.

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

Data Reporting

20. 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	1 month 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	45 days after the end of each month
	Privatization receipts	Detailed figures for each transaction and nature of the transaction	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,	Monthly	30 days after the end of each month

		standing orders, accounts payable (including arrears) and amortization schedule		
	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 budget and project grants	Monthly	30 days after the end of each 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 Petroleum	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

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IMF Managing Director Approves New Staff-Monitored Program for Sudan

The Managing Director of the International Monetary Fund has approved a Staff-Monitored Program (SMP) for Sudan covering the period January-December 2014. An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

Sudan's economy has been facing major challenges since the July 2011 secession of South Sudan, with low economic growth, high inflation largely driven by the financing of high fiscal deficits, a deterioration in external and fiscal accounts, and a persisting gap between the official and curb market exchange rates.

The new SMP for 2014 provides a comprehensive framework for strengthening the policy mix to engineer an economic turnaround and restore macroeconomic stability while strengthening social safety nets and developing the reforms for sustainable economic growth.

Sudan's external debt is high and largely in arrears, cutting off the country from access to most external financing sources. In particular, Sudan remains unable to access IMF resources because of its continued arrears to the Fund. A strong track record of maintaining macroeconomic stability and implementing reforms, together with a comprehensive arrears clearance strategy supported by development partners, will be essential for resolving Sudan's large debt overhang.

Sudan has established good cooperation with the Fund over more than a decade. IMF staff will closely work with the authorities to monitor progress in the implementation of their economic program through quantitative targets and structural benchmarks. In addition, the IMF will continue to provide targeted technical assistance to support Sudan's capacity-building efforts and its adjustment and reform program. Successful implementation of the SMP will signal to the international community the authorities' commitment to macroeconomic reforms and in due time will help the authorities in the debt relief process.

Statement by Momodou Saho, Executive Director for Sudan
March 24, 2014

Background and Context

Sudan's economy has suffered significant setbacks following the secession of South Sudan in July 2011. Loss of oil revenue and foreign exchange reserves have generated huge economic imbalances, which together with civil regional conflicts, high level of external debt and low growth, continue to weigh heavily on Sudanese economic developments. At the same time, international economic sanctions are severely constraining Sudan's access to international financial resources, making fiscal management an increasingly complex task.

Macroeconomic performance in 2013 was generally mixed. While revenue performance improved on account of improvements in tax and customs collections, inflationary pressures worsened as a result of significant devaluation, high import prices and increases in petroleum product prices. The macroeconomic situation is expected to improve over the medium term.

Against this background, the Sudanese authorities are requesting a new Staff Monitored Program (SMP) for 2014 as detailed in the staff report EBS/14/30. As pointed out in the report, the new SMP is aimed at providing a comprehensive framework for key policy and structural reforms. The authorities are committed to a thorough implementation of the program. They hope that the program will generate a much needed economic turnaround, and help build a track record of sound macroeconomic policies, thereby sending a signal to the international community about the authorities' commitment to macroeconomic reforms.

Furthermore, my authorities also hope that the SMP will help fulfill a requirement in the debt relief process. In this regard, they will continue their dialogue with their creditors and donors to seek debt relief and normalize relations with international financial institutions. However, they would also like to express their disappointment regarding lack of progress in the debt relief process despite many years of successful SMPs implementation. From the onset, therefore, my Sudanese authorities appeal to the international community for assistance in this regard.

The 2014 SMP

The new SMP is consistent with Sudan's three-year emergency plan covering 2012-2014 which was designed to address the post-secession challenges and lay the foundations for sustainable reconstruction of the economy. In this regard, they have already adopted, in June 2012, a package of corrective measures to restore macroeconomic stability and establish a framework for adjusting the economy to its new potential. A second package of corrective measures were implemented in late September 2013 to address the remaining macroeconomic imbalances, and they included significant upward adjustment of domestic petroleum prices, the unification of official exchange rates, and increases in social expenditure in recognition of the need to alleviate the impact of these measures on the most vulnerable segments of the population.

In line with the new SMP, my authorities are committed to continue with measures to restore macroeconomic stability, strengthen social safety nets and lay the groundwork for sustainable economic growth. The Sudanese authorities are aware that 2014 will be a challenging year with recovery in agriculture, gold and oil production offset by relatively tight fiscal and monetary policies. Consistent with the SMP, my authorities are committed to strengthen fiscal buffers by improving revenue mobilization and streamlining expenditure. They will continue to gradually reduce subsidies while protecting the most vulnerable and in a way that does not fuel inflationary pressures.

With regard to monetary policy, the Sudanese authorities are committed to improve the transmission mechanism, use reserve money as an anchor, and move towards a more flexible exchange rate regime. This will strengthen the effectiveness of monetary policy in line with the SMP.

Sudan is in debt distress. The authorities understand the need to substantially reduce non-concessional borrowing. However, they are constrained by limited access to international concessional funding. With crucial infrastructure and development projects to execute in order to enhance growth, relying on concessional borrowing remains a formidable challenge to the Sudanese authorities. They welcome any assistance from the international community in this regard.

Program Monitoring and Risks

The Sudanese authorities are aware of the risks to the program which include spillovers from regional conflicts and the potential for the crisis in South Sudan to escalate and negatively affect oil production thereby generating lower-than-expected revenues. Moreover, continued delays in reaching the HIPC Decision Point could activate the “zero option” agreement with South Sudan as stated in the staff report, and this increases the risk of renewed tensions.

Continuous monitoring of the program is of significant importance to the Sudanese authorities. For this reason, they are in a process of setting up an institutional mechanism which will facilitate monitoring and implementation of the program. The mechanism will comprise the key decision makers on economic and financial matters, who will be assisted by a technical committee that will monitor execution of the SMP and report on a regular basis. The technical committee will comprise senior officials from the Finance and Oil Ministries, the Central Bank of Sudan, the Statistics Office, and other institutions that are essential to ensuring adequate execution of the program. The authorities will not hesitate to request Fund technical assistance when necessary.

Conclusion

The Sudanese authorities recognize that the success of the program is very much dependent on the clearing of Sudan's arrears with the international financial institutions and other creditors. Building on the comprehensive economic cooperation agreement with South Sudan, my authorities have developed a joint outreach approach with South Sudan and the African Union High Level Implementation Panel that will provide the framework for reaching out to creditors. They will further continue to consult with multilateral institutions on the modalities of eliminating arrears. Their hope, however, is that a comprehensive debt relief through the HIPC Initiative will be forthcoming and they again appeal for the assistance of the international community.

Finally, the Sudanese authorities welcome the proposals that no further remedial action be taken at this time regarding the Managing Director's complaint with respect to the suspension of Sudan's voting rights and related rights in the Fund.