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SOUTH SUDAN

March 2017

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SOUTH SUDAN

In the context of the Staff Report for the 2016 Article IV Consultation, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 15, 2017 consideration of the staff report that concluded the Article IV consultation with South Sudan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 15, 2017, following discussions that ended on December 10, 2016, with the officials of South Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 28, 2017.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association.
- A **Statement by the Executive Director** for South Sudan.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2016 Article IV Consultation with the Republic of South Sudan

On March 15, 2017, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of South Sudan.

South Sudan faces enormous economic and humanitarian challenges in the aftermath of internal conflict and external shocks. The relapse into violence a few months after forming a transitional government of national unity in April 2016 compounded the humanitarian crisis and derailed the peace process. The conflict has contributed to the deaths of thousands and led to severe food insecurity for nearly half of the population, as well as a substantial flight of refugees to neighboring countries. Moreover, famine was recently declared in some areas of the country.

Economic conditions have deteriorated rapidly since the beginning of the civil conflict in late 2013. Real GDP growth declined by nearly 20 percent in the two years through 2015/16, and annual inflation rose to about 550 percent in September 2016 before declining to 370 percent in January 2017. The conflict and the collapse of oil prices led to a decline in oil production and export proceeds. Falling government revenue and rising security-related spending caused the fiscal deficit to rise rapidly, which exacerbated the economic instability. Monetization of the fiscal deficit led to strong money growth, high inflation and precipitous exchange rate depreciation. Since December 2015, the South Sudanese pound has lost more than 95 percent of its value against the U.S. dollar.

The authorities shifted economic policy course in late 2016 with the passing of a new budget for 2016/17, which incorporates bold fiscal measures that could go a long way to restore macroeconomic stability and strengthen public financial management. Preliminary information indicates a substantial reduction in the fiscal deficit for the first half of the fiscal year and significant moderation in money growth.

The medium-term outlook faces challenges and significant downside risks. Without significant progress toward peace and economic stabilization, the economic trajectory for South Sudan is

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

highly unstable, and the country risks falling into a spiraling trap of deteriorating economic performance and worsening security conditions with continued high humanitarian costs. A sustainable medium-term outlook is predicated on achieving progress on normalization of the political and security situation, sustained economic adjustment and reforms, and renewed access to external financing. Assuming that peace is achieved, the fiscal deficit could fall to 2–3 percent of GDP in the coming years consistent with a return to single digit inflation and exchange rate stability. In the next five years, annual GDP growth could increase to 5-6 percent, reflecting a recovery in oil production and in non-oil GDP.

Executive Board Assessment[2]

Directors noted the daunting humanitarian, economic and political challenges facing South Sudan in the wake of renewed internal conflict and subdued oil prices. In this context, Directors emphasized the need for a credible path towards lasting peace and decisive economic stabilization without which the country risks falling into a spiral of deteriorating economic performance and worsening security conditions. To alleviate the continued devastating humanitarian costs of the conflict, Directors called on the authorities to ensure that aid organizations have access to all areas of the country to deliver assistance.

Directors agreed that restoring fiscal discipline is necessary to reduce money expansion, help reduce inflation and restore external stability. They welcomed the adoption of the 2016/17 budget and accompanying policy measures, including a decision to stop monetizing the deficit and improve public financial management. Directors urged the authorities to implement the adopted revenue measures and spending cuts, and to take additional measures to reduce domestic financing to a level consistent with macroeconomic stability. Directors emphasized the need to improve expenditure management and prevent domestic arrears, primarily through enforcement of monthly budget allocations, strict control of extra-budgetary expenditures, and setting up of a treasury single account. They also stressed the need to minimize revenue leakages by implementing domestic oil market reforms, including removal of fuel subsidies, transparent transfer of government crude oil receipts to the budget, and liberalization of the fuel market.

Directors underlined the need to tighten monetary policy to reduce inflation and gradually replenish international reserves, and to enforce the statutory minimum reserve requirements and minimum capital for all banks to reduce vulnerabilities in the banking system. They acknowledged the progress achieved in the liberalization of the exchange rate regime and elimination of several exchange restrictions and multiple currency practices.

For the medium term, Directors underscored that policies should be focused on reprioritizing budgetary spending and rebuilding international reserves. They stressed that budgetary spending should be shifted from security-related outlays towards public services and infrastructure investment. Given capacity constraints, Directors encouraged the authorities to seek assistance to

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

develop a coherent and well prioritized public investment program. They also encouraged the authorities to seek donor support for a disarmament, demobilization and reintegration program.

Directors noted that South Sudan is in debt distress despite moderate levels of external debt due to the combined impact of a civil war, decline in oil prices and high levels of fiscal spending. They underscored that steadfast implementation of announced adjustment policies and a return to peace would improve the debt outlook and allow for a gradual resumption of external financing.

Republic of South Sudan: Selected Economic Indicators[1]

Population (millions; 2015/16):	12.2	Per capita GDP (US$) (2015/16):	240
IMF Quota (current; millions SDR; % total):	246; 0.05%	Literacy rate (%) (2009):	27
Main exports:	Oil	Poverty rate (%) (2009):	51
Key export markets:	China, Malaysia	Paved road density:	2km/100km²

	2013/14 Act.	2014/15 Act.	2015/16 Prel.	2016/17 Proj.
Output and Prices				
Real GDP growth (%)	39.3	-12.8	-6.9	-10.5
Oil production (millions of barrels per year)	66.8	57.8	53.1	43.4
Inflation, average (%)	-5.6	14.8	158.7	336.2
South Sudan's oil price (US dollars per barrel)	97.8	62.4	34.7	41.4
Central government finances				
Revenue and grants (% GDP)	26.4	28.6	29.0	34.4
Of which: grants (% of GDP)	0.0	8.3	0.4	0.9
Of which: oil revenues (% of GDP)	24.1	16.7	22.0	29.5
Expenditure (% GDP)	28.1	37.2	38.4	36.3
Current	24.5	34.7	33.0	33.7
Of which: Payments to Sudan (% of GDP)	6.2	5.9	7.9	17.2
Capital	3.6	2.4	5.4	2.6
Errors and Omissions	1.1	6.0	-1.8	-0.5
Change in arrears	0.0	0.0	23.2	0.0
Fiscal balance (% GDP)[2]	-2.9	-14.6	-30.8	-1.3
Money and Credit				
Broad money (% change)	20.5	36.9	219.1	38.7
Reserve money (% change)	37.0	81.1	239.6	56.6
Credit to private sector (% change)	4.6	13.7	172.6	46.9
Balance of payments				
Current account (% GDP)	2.3	-4.2	-3.7	2.1
Net foreign assets of the central bank (in months of imports, end of period)	1.0	1.4	0.4	0.2
External debt (% GDP)	4.2	5.5	28.6	38.7
Exchange rate				
Official rate (SSP per dollar; period average)	3.0	3.0	16.9	…
Parallel market rate (SSP per dollar; period aver	4.3	6.6	23.8	…

Source: South Sudanese authorities; and IMF staff estimates and projections.

[1] The data corresponds to fiscal year (July to June).

[2] On an accrual basis.

REPUBLIC OF SOUTH SUDAN

February 28, 2017

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

KEY ISSUES

Context: South Sudan has suffered civil conflict, political instability and external shocks in the past three years. A steep decline in oil production and a sharp drop in oil prices have caused large shortfalls in foreign exchange receipts and government revenue. Continued high government spending led to massive fiscal deficits that were either monetized or financed through accumulation of arrears. The country is in a deep economic crisis with annual inflation peaking at 550 percent in September 2016 and a precipitous currency depreciation. Gross international reserves have dropped to about one week of import cover. A relapse of violence in July 2016 following the formation of the Transitional Government of National Unity three months earlier compounded the already existing humanitarian crisis and derailed the peace process. The hope is that the country charts a new course toward a broad-based and inclusive political process and economic development.

Focus of the consultation: The discussions focused on the urgent need to restore macroeconomic stability. Addressing the macroeconomic imbalance and reforming the public financial management systems will be required to rebuild confidence and regain access to external financial support from development partners.

Key issues and recommendations: The immediate priority is to address the macroeconomic imbalance through tighter fiscal and monetary policies. Without policy adjustment, the economic situation will deteriorate further contributing to insecurity, which could undermine an already fragile peace process. While restoring stability will require a collaborative effort by South Sudan and its development partners, the government must take the lead by raising revenue and cutting expenditures to reduce the financing need to a sustainable level. Meanwhile, the central bank should combat inflation by refraining from lending to the government, and gradually start replenishing its international reserves. There is a need to strengthen public financial management and government priorities should shift from security to development spending. Since late 2016, the authorities have shifted strategy and embarked on an economic adjustment program in line with staff recommendations.

Debt sustainability: Based on external debt indicators, South Sudan is currently in debt distress. Accumulation of arrears, low capacity to repay, and very low foreign exchange reserves indicate unsustainable debt dynamics.

Approved By
Roger Nord (AFR) and Zeine Zeidane (SPR)

The discussions took place on February 17-March 2, 2016 and May 24-June 1, 2016 in Juba, and on December 4-10, 2016 in Nairobi. The staff team of the most recent mission comprised Messrs. Mikkelsen (head), Tjirongo and Hasegawa, and Ms. Farahbaksh (all AFR). Messrs. Egoume (resident representative) and Chany (national economist) assisted the mission. Mr. Nakunyada (OED) also participated. The staff met with Finance Minister Stephen Dhieu Dau, Bank of South Sudan Governor Koriom Mayik, and other senior officials. In the two earlier missions, the team met with President Kiir, First Vice President Machar, other ministers, parliamentarians, private sector representatives, and representatives of the diplomatic community and the civil society.

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CONTEXT

1. **South Sudan is suffering tremendously in the aftermath of internal conflict and external shocks.** The country descended into a civil war about three years ago, as a power struggle between President Kiir and Vice President Machar triggered a conflict along ethnic lines, which left thousands dead, nearly 2 million internally displaced, more than a million refugees in neighboring countries, and over 5 million out of an estimated total population of 12 million in need of humanitarian assistance. The war also caused significant damage to the country's infrastructure and oil fields and undermined already fragile institutions. The sharp decline in oil prices from late 2014 caused further decline in foreign exchange receipts, government revenue, and real disposable income.

2. **The country continues to face multi-faceted challenges.** After long delay, the Transitional Government of National Unity (TGNU) was formed in April 2016, in line with the August 2015 peace agreement. The return to Juba of former Vice President Machar paved the way for the new government, headed by President Kiir with Machar as First Vice President. However, the onset of fighting between the parties only three months later and the subsequent ouster of Machar have since challenged the peace process. Political uncertainty remains and clashes along ethnic lines continue in several regions of the country. Going forward, President Kiir's recent call for an all-inclusive national dialogue is a welcome step. Success in restoring the country's credibility will require urgent simultaneous efforts to immediately address the insecurity, the humanitarian emergency, and the economic and financial crises. These challenges are interdependent and failure to address any of them could quickly compromise a successful peace process. On the economic front, restoring macroeconomic stability will require tighter fiscal and monetary policies, and establishment of sound economic management to foster renewed growth and employment creation.

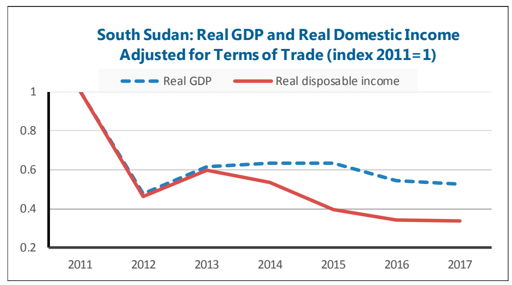
3. **Peace dividends.** Lasting peace achieved through an inclusive political dialogue will be necessary to successfully restore macroeconomic stability, refocus on developing economic activities, and restore social services. Protecting public resources and putting them to productive and peaceful good use will be crucial. The challenge of returning to normalcy is to make sure that peace dividends are widely shared (Annex II).

4. **Implementation of recommendations from the 2014 Article IV consultation has been hampered by the civil war**. In concluding the consultation, the Executive Board urged the government to implement measures to address fiscal imbalances, including exchange rate unification, and stressed the importance of peace and political inclusion to set the basis for growth and development. They supported the authorities' intention to mobilize non-oil revenue, and emphasized the importance of improving expenditure management and preventing domestic arrears. Directors cautioned against increased central bank financing of the fiscal deficit, which would fuel inflation and further weaken the local currency. There has been little progress in these

areas, except for the exchange rate liberalization in December 2015 and, more recently, the lowering of central bank financing and new measures to improve non-oil revenue.

MACROECONOMIC DEVELOPMENTS

5. Economic conditions have deteriorated rapidly since the beginning of the civil conflict. Real GDP growth is estimated to have declined by 18.8 percent in the two years through 2015/16 (July-June) and annual inflation rose to about 550 percent in September 2016 (Table 1 and Figure 1). However, with the recent tightening of policies, inflation declined to about 370 percent in January and monthly price changes have been in single digits in recent months. The conflict and the collapse in oil prices have led to closure of oil fields and lack of maintenance and investments which in turn have resulted in dwindling production. South Sudan's effective average oil export price declined from US$98 per barrel in 2013/14 to about US$33 per barrel in 2015/16, while daily production has fallen by about 40 percent of the level produced immediately before the conflict (Box 1). The conflict, poor rains, and decline in oil activity also weakened the non-oil sector, including food crop production. Non-oil GDP declined by an estimated 17 percent over the last two years. Moreover, real domestic income adjusted for terms of trade declined by an estimated 35 percent since 2013.



6. A large and widening fiscal deficit has exacerbated economic instability. Depressed oil revenue, weak non-oil revenue mobilization, and runaway security-related expenditure caused the deficit to rise rapidly. Oil revenue net of transfers to Sudan[1] dropped from about US$2.3 billion in 2013/14 to US$0.5 billion in 2015/16 (Text Table 1; Table 2a and 2b). With unadjusted spending, the overall fiscal deficit increased rapidly from 3 percent of GDP in 2013/14 to 31 percent of GDP in 2015/16).[2] With limited access to external financing, the deficits were primarily financed through discretionary central bank financing and accumulation of arrears, including on salaries and external obligations. The fiscal deterioration in 2015/16

Text Table 1. Government Net Oil Revenue (in US$ millions)

	2013/14	2014/15	2015/16	2016/17
Oil revenue (gross)	3,204	2,082	796	852
Transit fees	329	291	11	186
Transfers to Sudan	549	420	276	313
Net oil revenue	2,326	1,371	509	353

[1] Under the agreement signed with Sudan in 2012, the South Sudanese government pays oil transit and pipeline fees of US$9.10 per barrel of oil export and transitional financial transfers to Sudan of US$15 per barrel of oil exports. In 2015/16, South Sudan accumulated payment arrears on the Transitional Financial Arrangement (TFA) and transit fees to Sudan of US$291 million.

[2] The sharp depreciation of the South Sudanese pound in the second half of 2015/16 (the SSP/US$ rate rose ten-fold) caused a jump in foreign currency denominated revenues and expenditures in 2015/16. Since nominal GDP rose only by a fraction of the exchange rate depreciation, foreign currency denominated budget categories also rose markedly as a percent of GDP.

reflected rising foreign currency denominated outlays due to the exchange rate liberalization and a salary raise by 200-300 percent (depending on grade) in March 2015. Arrears on external and domestic payments rose by an estimated 23 percent of GDP in 2015/16.

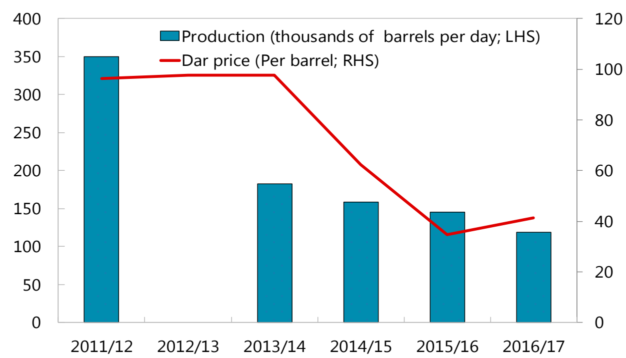
Box 1. South Sudan. Oil Sector

Oil production plays an important role in the South Sudan economy, contributing slightly more than half of GDP, 95 percent of exports, 90 percent of government revenue and a significant share of private sector employment.

The oil sector of South Sudan remains closely linked to Sudan. Most of the former Sudanese oil fields are now in South Sudan, but the processing facilities, pipelines, export terminals, and refineries are in Sudan. Transit and processing fees and oil-related transfers represent an important income stream for Sudan.

Following the departure from Sudan of western oil companies in the early 1990s, the Chinese oil company, China National Petroleum Corporation, started investments in Sudan by mid-1990s. The Chinese company was followed by the Malaysian-owned Petronas and the Indian-owned Oil and Natural Gas Corporation Limited. These companies financed development of the current oil fields in South Sudan and built a network of pipelines, refineries, and export terminals in Sudan that enabled the sector to grow. South Sudan's Nile Petroleum, a state-owned oil company, holds minority shareholding in production-sharing contracts with the foreign oil companies. China is the largest export destination for crude oil from South Sudan.

Republic of South Sudan: Oil Production and Prices



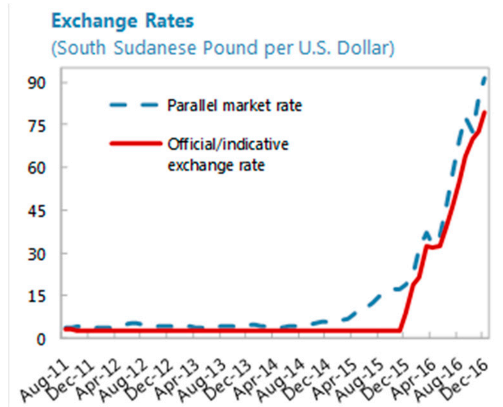
Source: South Sudanese authorities.

When South Sudan became independent in 2011, it gained control of three-quarters of Sudan's oil production, which amounted to 490,000 barrels per day (bpd) in 2010. South Sudan is estimated to have proven oil reserves of 3.75 billion barrels as of January 2014, ranking 38th in the world and 3rd in Sub Sahara Africa.

South Sudan has experienced frequent disruptions to oil production since independence. In January 2012, South Sudan shut down its oil production for 15 months because of a dispute with Sudan over transit fees and transfers. Oil production resumed in April 2013, following an agreement under which South Sudan would pay to Sudan US$9.10/barrel in transit fees and US$15/barrel under the Transitional Financial Arrangement. However, production was partially shut down again later in the year because of civil conflict and it has not fully recovered since. As oil fields in South Sudan are mature, output will naturally decline over time unless new investments in enhanced oil recovery (EOR) techniques are made. The civil conflict and low oil prices led to a postponement in investment in EOR.

Box 2. South Sudan. The Evolution of the Exchange Rate Regime

From September 2011 until December 2015, the South Sudanese pound was pegged to the U.S. dollar at 2.96 SSP/$US. Under this system, the government's foreign exchange earnings from oil, by far the largest part of foreign exchange earnings, was sold to the Bank of South Sudan (BSS) at the official rate. The BSS then allocated the foreign exchange to economic agents at the same rate. While ostensibly aimed at ensuring the supply of essential goods, BSS foreign exchange allocations were prone to being captured by rent seekers who sought to benefit from the large spread between the official and parallel market rates. The allocation of a fixed amount of foreign exchange to each bank (initially weekly sums of US$1 million for foreign-owned banks and US$1.7 million for domestic banks) and smaller amounts to foreign exchange bureaus, led to an increase in the number of banks, many of which focused purely on arbitrage opportunities. Similarly, part of the foreign exchange allocated to government ministries for imports of goods and services found its way to the parallel market. Non-government imported goods tended to be priced at parallel market rates, with prices adjusting rapidly to rate changes.



The official exchange rate became increasingly unrealistic as oil revenues and foreign exchange receipts fell; first during the 2012 government's shutdown of oil production and again when oil prices and production fell in 2014. From mid-2014, the parallel market rate rose from about SSP 4/US$ to SSP 17/US$ by late 2015. The widening gap between the official and parallel exchange rates discouraged investment and spurred further rent-seeking. Initial attempts to reform the system were defeated by vested interests in late 2013.

In December 2015, the authorities officially switched to a de jure floating exchange rate system, with a view to eliminating the parallel exchange rate market. Under the new regime, the BSS supplies foreign exchange through market-based auctions and commercial banks are free to determine their rates with customers. The reform was initially successful in reducing the spread between the official market rate and rates in the parallel cash market. However, excessive monetary expansion and shortage of foreign exchange connected with the security crisis have continued to exert downward pressure on the exchange rate and has undermined convergence of the official and parallel rates. The de facto exchange rate arrangement was reclassified to other managed from conventional peg, effective December 15, 2015. The reform also led to the removal of several exchange restrictions and multiple currency practices (MCPs).1

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[1] South Sudan removed the following measures earlier maintained under Article XIV transitional arrangements: (i) the exchange restrictions arising from limiting the availability of foreign exchange through the rationing and further earmarking of foreign exchange by the central bank; (ii) the exchange restriction arising from requiring a tax clearance certificate for access to foreign exchange for priority imports; and (iii) the MCP arising from the spread of more than 2 percent between the official exchange rate (buying and selling exchange rates of the central bank) and the exchange rate at which commercial banks sell foreign currency within the limits set by the central bank. South Sudan also removed the MCP maintained under Article VIII arising from the exchange rate guarantee arrangements maintained by the BSS.

7. **Fiscal dominance undermined monetary policy objectives**. The Bank of South Sudan (BSS) financing of the government deficit grew five-fold from June 2013 to June 2016. This credit expansion led to strong money growth which was exacerbated by the exchange rate depreciation (Table 3). Broad money grew by 219 percent in the 12-months through June 2016. The combination of policy slippages, resumption of conflict, and an external shock led to a rapid rise in annual

inflation, which peaked at 550 percent in September 2016. Rapid money growth and exchange rate pressure led to the liberalization of the foreign exchange market in December 2015 (Box 2). Since then, the value of the South Sudanese pound lost about 95 percent against U.S. dollars. Moreover, international reserves fell to about two weeks of imports by June 2016 and further to about one week of imports by December 2016 (Table 4).

POLICIES TO ADDRESS THE ECONOMIC CRISIS

8. **The discussions focused on how to restore macroeconomic stability.** A credible pathway toward lasting peace and decisive economic stabilization is crucial to rebuilding confidence and reversing the economic decline. Reinstating fiscal discipline is the only way to reduce monetary expansion, stabilize domestic prices, and restore external stability. While available domestic instruments are rudimentary to address the sizable fiscal problems in an environment with limited availability of external financing, the authorities need to formulate a credible set of fiscal measures combined with more transparency in public financial transactions and improvements in public financial management to regain credibility and access to external financing.

9. **Restoration of macroeconomic stability and peace will support economic growth.** A quick return to fiscal discipline will restore confidence and support an urgent increase in investments, including in the oil sector, and foreign exchange inflows from development partners. Moreover, government priorities should shift from security to development spending on infrastructure and human resources. A turnaround from high inflation and negative growth (real GDP is projected to decline by about 10 percent in 2016/17) will require immediate macroeconomic adjustment and a successful inclusive process towards peace in the coming months.

10. **The authorities have recognized the severity of the economic problems and the need to immediately address them by taking strong policy measures.** While expressing skepticism about the need for stabilization policies in discussions since the beginning of the crisis, the authorities shifted course in late 2016 with the passing of a new budget for 2016/17, which incorporates strong fiscal measures that will significantly contribute to restore macroeconomic stability. It also includes measures to limit government borrowing from the central bank and improve public financial transparency.

A. Fiscal Policy

11. **The 2016/17 budget reflects an ambitious fiscal consolidation objective**. The fiscal trajectory in recent years has been unsustainable and strong fiscal measures are needed to reduce the deficit to a level consistent with price and exchange rate stability. The 2016/17 budget and the accompanying policy measures go a long way towards restoring macroeconomic stability. The budget presents a substantial reduction of the deficit (accrual) from about 31 percent of GDP in

2015/16 to 8½ percent of GDP and it intends to stop direct borrowing from the BSS (Text Table 2). The budget includes a string of revenue measures, including increases in sales and excise taxes, and introduction of a new departure tax, that could raise annual revenue by 1.4 percent of GDP (Text Table 3), and tough spending limits across the board, including on travel, purchases of goods and services, wages, and domestically financed capital spending. The savings on the latter implies a steep decline in real spending compared to previous years.

Text Table 2. Fiscal Adjustment in 2016/17 (Percent of GDP)

	2015/16	2016/17	
	Act.	Budget	Proj.
Total revenue and grants	29.0	26.7	34.4
Total expenditure 1/	59.8	35.1	35.8
Overall balance (accrual)	-30.8	-8.4	-1.3
Financing gap	0.0	5.6	0.0
Closing the financing gap:			
Total			5.6
Additional measures			0.4
Salary raise in Jan 2017			-1.0
Lower domestic financing from banks			-1.0
Oil price and other ajustments			7.2

1/ include change in arrears and errors and omissions.

12. Nevertheless, the mission urged the authorities to consider additional measures and adjustments to eliminate a budgeted external financing need. The adopted budget for 2016/17 implies domestic financing of 5 percent of GDP and an estimated external financing requirement of about US$200 million. Since no external financing is readily available, the budget implies a financing gap of 5.6 percent of GDP. Moreover, the assumed domestic financing, mostly through Treasury bill issuances, is unrealistically high given the undeveloped nature of the financial market. In this context, staff proposed additional measures, including (i) maintaining foreign currency-denominated operational spending notwithstanding the exchange rate adjustments; (ii) eliminating subsidies to Nile Petroleum (Nilepet) and raising domestic fuel prices to cost recovery; and (iii) reducing the cost of operating foreign diplomatic missions (the estimated budgetary effect in 2016/17 of these measures is 0.4 percent of GDP). Moreover, updated assumptions for the exchange rate, which has continued to depreciate, oil prices, and oil production in line with current production, are estimated to improve the budget by 7.2 percent of GDP. The additional measures and updated assumptions would close the financing gap while allowing for (i) reducing domestic financing by 1 percent of GDP, and (ii) raising civil servant salaries by 30 percent in January 2017. Given the recent steep decline in real wages for civil servants, staff proposed the salary adjustment and advised the authorities to let it primarily benefit the lower grades.

Text Table 3. Revenue Measures January 2017 (Percent of GDP)

	2016/17	2017/18
• Raise sales tax from 15% to 18%	0.07	0.20
• Raise excise tax on alcohol (50% to 100%) and tobacco from 30% to 50%	0.20	0.40
• Impose 8% withholding tax on government contracts and 10% withholding tax on fees paid to contractors	0.05	0.08
• Departure tax of US$20 per passenger	0.09	0.13
• Implement new customs tariff schedule	0.10	0.20
• Moratoriam on customs exemptions	0.05	0.05
• Update customs valuation schedule	0.10	0.20
• Strengthen tax admin. and information exchange	0.08	0.15
Total impact of measures	**0.73**	**1.41**

13. The proposed measures are estimated to reduce the fiscal deficit to 1½ percent of GDP in 2016/17. This would reduce the domestic financing requirement to 4 percent of GDP and allow for repayment of external obligations in 2016/17. This would broadly achieve the objective of moving towards a domestic borrowing requirement of 2-3 percent of GDP, which in staff's assessment is consistent with a return to price stability, and eliminate the need to borrow from the BSS.

14. Successful fiscal consolidation would contribute to regaining credibility and getting access to external financial support. Given improvements to the political environment and a path toward macroeconomic stability, the coming years would offer an opportunity to reinforce the gains while gradually shifting spending from security towards development and social services. With a small amount of external borrowing, and a deficit targeted at 3½ percent of GDP, domestic financing could be contained at 2-3 percent of GDP in 2017/18.

15. The mission welcomed the recent measures to improve public financial management (PFM). Consistent with staff recommendations (Box 3), the authorities have taken measures to require all revenue to be immediately transferred from government accounts in commercial banks to the treasury account, and established a Cash Management Committee. The mission urged the authorities to take additional steps to strengthen the PFM framework, including measures to enforce

Box 3. South Sudan. Public Financial Management (PFM) Reforms

South Sudan's nascent PFM institutions and processes largely collapsed during the economic and political turmoil in recent years. With falling revenue, high inflation, and expenditure pressures, financial controls were circumvented. As a result, payroll control was lost, payment decisions became ad hoc and based on non-transparent criteria, expenditure arrears grew, and the use of the budget as a policy instrument has been undermined as significant spending takes place outside the budget.

The authorities devised a short-term reform program in late 2016 to jumpstart the restoration of PFM integrity. Rebuilding the PFM institutions will take several years, but some immediate actions can be taken to reestablish core routines, enhance transparency, and strengthen the integrity of the system. The program, recommended by a FAD TA mission in mid-2016, aims at implementing a number of basic and quickly achievable PFM measures. For simplicity and in order not to divert limited policy implementation capacity into too many reforms at a time, it is organized in reasonably ambitious monthly milestones to improve budget preparation, budget execution, and accounting and fiscal reporting procedures.

The PFM reform milestones for implementation include:

- remittance of all revenue collected to the consolidated treasury account;
- registration of all civil servants (including military) on payroll system;
- completion of payroll audit and removal of ghost workers;
- establishment of a Treasury Single Account (TSA) structure;
- verification of the 2015/16 non-salary arrears and formation of a clearance plan;
- enactment of the Public Procurement Bill; and
- enactment of the Public Financial Management and Accountability Act (PFMAA).

commitment control, conduct a payroll audit, strengthen reporting of public sector accounts, and adopt the Procurement Act. Staff also provided a set of recommendations to improve the effectiveness of the Cash Management Committee and complete verification of domestic arrears.

16. The mission urged the authorities to seek support from development partners to develop and finance a program for disarmament, demobilization and reintegration (DDR). Such a program would not only release budgetary resources toward other priorities but it would also support a move away from the current war economy. An estimated 70 percent of the wage bill is currently spent on the armed and organized forces; hence, a properly implemented DDR program that would provide an alternative source of living for redundant soldiers could be an important measure to achieve a sustainable budget. Over the medium term, a reduction in the need for humanitarian assistance could allow room for additional donor support for DDR.

Authorities' views

17. The authorities broadly agreed that strong fiscal adjustment is necessary to restore macroeconomic stability. The authorities agreed to revise the budget to eliminate the financing gap and pursue strict fiscal discipline to avoid any new borrowing from the BSS. Preliminary information indicates that the authorities already have taken initiatives to eliminate transfers to Nilepet and reduce costs in foreign missions. Moreover, based on preliminary reports on execution and financing, the envisaged budgetary tightening for 2016/17 has been broadly implemented in the early parts of the fiscal year. Moreover, the authorities have started implementing the needed reforms to strengthen the PFM systems.

B. Monetary and Financial Policies

18. Monetary policy should focus on reducing inflation, gradually replenishing international reserves, and strengthening monetary policy instruments. The proposed fiscal adjustment will set the stage to achieve this, including through eliminating BSS direct lending to government and the full financing of the deficit through Treasury bills. Tighter monetary conditions will gradually lower inflation and stabilize the foreign exchange market. With the proposed fiscal tightening, broad money growth could decelerate to about 40 percent in 2016/17 and further to near 25 percent in 2017/18, supporting a lowering of inflation to about 20 percent (year-on-year).[3] With banks holding large excess reserves, the BSS should urgently enforce the statutory minimum reserve requirement. In particular, it should apply the adopted increase in reserve requirements from 15 percent to 20 percent, and begin reserve averaging. The staff support the authorities' plan to introduce repurchase agreements for liquidity management. A tighter monetary policy stance will also support a gradual recovery in foreign exchange reserves and enhance confidence in the South Sudanese pound.

[3] Information through December 2016 confirms that money growth indeed is slowing down and that new direct BSS lending to the government has been small in recent months.

19. The BSS should enforce the minimum capital requirement for all banks. Since the decision to raise capital requirements for commercial banks in 2013 (US$30 million for foreign-owned banks and US$15 million for locally-owned banks to be met over two years), only about half of the banks have met the requirements. Indeed, financial soundness indicators reveal that capital adequacy ratios, earnings, non-performing loans (NPLs), and profitability have declined, and asset quality has been eroded. (Figure 5 and Table 6). The recent pick-up in NPLs and drop in earnings reflect the worsening of the security situation in July 2016, which particularly affected the construction and service sectors. The staff urged the authorities to address the undercapitalized banks by adopting bank resolution regulations, and fostering banking system consolidation by closing banks that do not meet the capital requirements.

Authorities' views

20. The BSS agreed with the assessment and recommendations on monetary policy. It has stopped direct lending to the government, and plans to finance the fiscal deficit solely through the issuance of Treasury bills. The BSS plans to enforce reserve requirements and reserve averaging by early 2017. It instructed banks to address the inadequate capitalization, and will either agree on a specific plan with the delinquent banks or start withdrawing banking licenses. The audit of BSS's financial statements for 2013-15 is expected to be completed in the first half of 2017.

C. Exchange Rate Policy and External Stability

21. Overvaluation of the official exchange rate was broadly eliminated with the exchange rate liberalization in December 2015. Given the resistance from vested interests, this was a courageous and crucial step in the right direction that broadly eliminated a large overvaluation of the official rate and reduced the spread to the parallel market. However, given the current economic and political uncertainties, the volatility in the parallel market remains high and the cash premium has risen substantially. This has caused the spread to the official indicative rate to increase substantially since mid-2016. With the current low inflow of foreign exchange, the BSS should continue to conduct regular auctions with smaller amounts to send price signals to the market. The authorities will need to ensure that the spread between the official and parallel rates is reduced by allowing the auction and indicative rates to reflect market conditions.

22. Restoration of external stability will require improvement in policies and external support (Annex I). While exchange rate flexibility will help, tighter fiscal and monetary policies combined with some external financing are required to restore external stability and to gradually rebuild reserves. In particular, urgent measures are needed to minimize foreign exchange expenditure by the government in light of the current very weak reserve position. The tighter fiscal conditions should over time allow the BSS to increase reserves. Over the medium term, structural reforms to address business environment will be essential to diversify the economy and build competitiveness.

MEDIUM TERM: REBUILDING BUFFERS AND REFOCUSSING ON ECONOMIC DEVELOPMENT

A. Economic Outlook

23. The medium-term outlook faces challenges and significant downside risks. While there are external risks, including of lower than anticipated oil prices and climate-related shocks, the possibility of lack of internal political inclusiveness may derail the peace process and prevent the government from embarking on economic stabilization and reforms. In the event of insufficient progress towards peace and economic stabilization, the trajectory of the economy becomes highly unstable and could lead to further economic deterioration, which in turn would further undermine the implementation of a fragile peace process. The consequences of insufficient efforts to address the economic crisis and to achieve peace are illustrated in staff's downside scenario (Box 4). In this scenario, which assumes a three-year delay in peace and economic adjustment, the fiscal deficit remains high and economic activity will be stagnant. This would lead to further instability through high inflation, exchange rate volatility, and low foreign exchange reserves.

24. A sustainable medium-term outlook hinges on progress toward normalization of the political and security situation, sustained economic adjustment and reforms, and renewed access to external financing. Leveraging on peace, the medium-term strategy should focus on restoring economic growth and poverty reduction. Fiscal policies should be anchored by debt sustainability and domestic financing consistent with low inflation. Under these assumptions and progress toward political normalization, the fiscal deficit is projected to fall to 2-3 percent of GDP in the coming years assuming a moderate recovery in oil production and higher capital spending (Table 5). In the next five years, annual GDP growth could increase to 5-6 percent, reflecting a recovery in oil production and in non-oil GDP. The latter is based on the positive effects of improved security on agricultural production (gradual return of internally displaced persons to their land), post-conflict rebuilding efforts, and a better investment climate for services and light manufacturing. The path for oil production assumes investments in existing wells and daily production is projected to increase from the current 120,000 barrels to about 155,000 barrels in 2020/21. Higher than anticipated oil prices may encourage oil companies to invest more and earlier in enhanced oil recovery techniques which could further raise production.

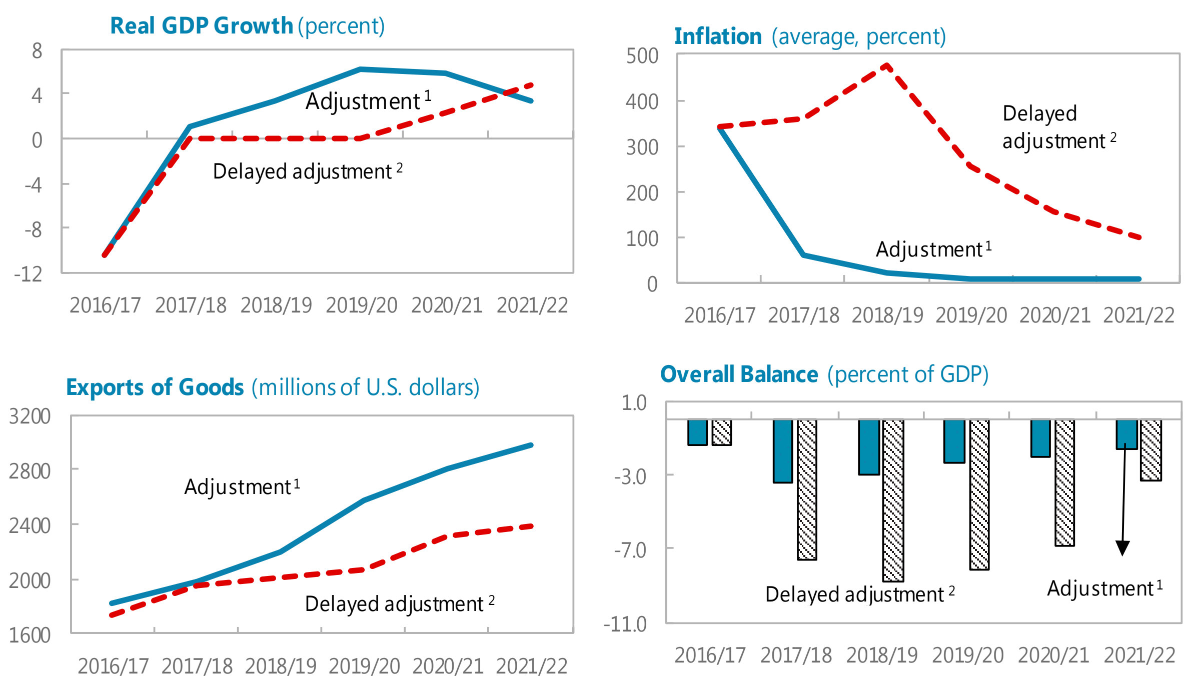
25. Policies should focus on reprioritizing budgetary spending and rebuilding foreign exchange reserves. Beyond the immediate stabilization efforts, there is a need to shift away from security-related spending toward investment in education, health, infrastructure and rural development. Moreover, efforts should be made to diversify the revenue base, including by exploring options in mining, agricultural reforms, and promoting private sector. Further, the authorities would need to gradually rebuild foreign exchange reserves to restore credibility to the South Sudanese pound so that the economy can better withstand external shocks. The projection

Box 4. The Risks of a Delay in Policy Action

Without significant progress towards peace and economic stabilization, as assumed in the baseline projection, the economic trajectory for South Sudan becomes highly unstable. A downside scenario demonstrates the risks of the baseline by assuming a three-year delay in achieving peace and implementing economic stabilization policies. The underlying assumptions include (i) stagnating oil production because oil companies are unwilling to invest to rehabilitate the aging oil wells in the middle of civil war; (ii) rising instability will maintain a large number of internally displaced people and refugees, which will dampen activity in the nonoil sector; (iii) the country will continue to have no access to external financing; and (iv) budgetary spending will accelerate reflecting higher security-related expenses. Key macroeconomic indicators under this scenario will therefore deviate significantly from the baseline scenario:

- *Growth*. The delay in peace will prevent investments in the oil sector and prevent a pick-up in agriculture and construction. As a result, real GDP growth will be flat for the next three years and export values will only grow slowly with slightly higher international prices.
- *Fiscal policy*. With rising security-related spending against declining domestic revenue, the fiscal deficit is projected to rise gradually to 10 percent of GDP in the next three years (comparable to what happened in recent years).
- *Monetary policy*. The central bank will resume printing money to finance the government deficit, which will fuel inflation and the depreciation of the South Sudanese pound. Moreover, foreign exchange reserves will decline further to less than a week of imports.
- *Inflation*. The combination of high money growth and exchange rate depreciation will lead to continued high inflation and high price volatility. Annual consumer price inflation is projected to stay at 400-500 percent.

Republic of South Sudan: Medium-Term Scenarios, 2016/17–2021/22



Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] Adjustment scenario is equal to Table5.

[2] Delayed adjustment scenario assumes 3 year dealy in economic adjustment and achieving peace.

assumes public investment of 10–12 percent of GDP annually in the medium term and an increase in gross foreign exchange reserves to about 1.5 months of imports by 2020/21.

Authorities' views

26. **The authorities agreed that the situation remains fragile and concurred that the macroeconomic imbalances need to be addressed to prevent further economic deterioration.** They agreed that the economic stabilization efforts need to be complemented by peace, reconciliation, and an inclusive political process, and in this respect the authorities referred to their commitment to make the new national dialogue initiative a successful vehicle for political normalization. Moreover, the authorities are keenly aware of the need to shift resources away from the security sector towards economic and social development in the medium term.

B. Debt Sustainability

27. **South Sudan is in debt distress.** Despite moderate levels of external debt, the combined impact of a decline in oil prices, civil war, and high levels of fiscal spending has left South Sudan in debt distress. Payment delays have arisen on international obligations, civil servant salaries, and other government obligations. Moreover, international reserves are near exhaustion and the country is currently constrained from accessing longer-term external financing. While the current situation is difficult, the debt sustainability analysis suggests that implementation of the adopted adjustment policies and a return to peace would improve the debt outlook and allow for a gradual resumption of external financing.[4] However, as debt vulnerabilities will remain, the authorities are encouraged to seek financing on the most concessional terms to prevent falling into debt distress in the face of negative shocks.

C. Managing Oil Revenue

28. **Appropriate oil revenue management is vital to ensuring fiscal sustainability.** The Petroleum Revenue Management Act (PRMA) was enacted in 2015 but has only been partially implemented. The PRMA includes provisions to prevent corruption and mismanagement and to ensure proper use of funds in the future. The PRMA stipulates that oil revenue should flow through specific accounts and that utilization of the resources must go through the budget. It also prescribes prudent financial management guidelines, including for the investments of saved funds and on auditing requirements. The authorities agreed to implement the PRMA in full and seek the necessary technical support.

D. Reforming the Domestic Oil Sector

29. **There is a need to reform the domestic market for oil products.** Fuel and other oil products are imported as there is no refining capacity in South Sudan. The existing subsidy at the

[4] See the accompanying staff report for the Debt Sustainability Analysis.

pump (prices are currently significantly below import cost) has led to fuel shortages and the emergence of a parallel market. Eliminating the subsidy will help the budget and price liberalization will support normalization of supply. The state-owned Nilepet imports petroleum products while holding and managing South Sudan's shares in crude oil production ventures. The use of the dividends from shares are unclear since Nilepet does not provide transparent accounting of its financial activities and no dividends are paid to the central government.

30. In reforming the domestic oil sector, staff recommends the authorities to: (i) eliminate fuel subsidies to Nilepet and raise pump prices to cost-recovery level to help alleviate supply shortages and informal trade, (ii) review domestic fuel prices periodically, and (iii) subject Nilepet to external audits. Nilepet should solely focus on its core business as a fuel importer and its proceeds from government crude oil shares should be transferred to the consolidated government fund on a monthly basis. The authorities concurred with staff and a policy document for Cabinet approval is under preparation.

E. Promoting Private Sector Development

31. South Sudan needs to diversify its economy and create non-security related employment opportunities for its people. The ongoing conflict and uncertainty about macroeconomic stability have impeded non-oil exports and import-substituting production. In the event of a successful peace process, maintaining a liberalized exchange rate regime, and implementing the necessary economic stabilization policies, these impediments will be reduced. The next step should be to build on this in the medium term by addressing the remaining key constraints on private sector growth, including an undeveloped banking sector, insufficient infrastructure, lack of rule of law, and endemic corruption. On the latter, in order to ensure enforcement of transparency measures, acts of corruption should be effectively prosecuted, in line with the United Nations Convention Against Corruption. Over the medium term, and with the support of donors and creditors, it will be vital to create a framework, including through public private partnerships, for supplying public goods, which are currently lacking in South Sudan, such as water, sewage, electricity and transport.

CAPACITY DEVELOPMENT ISSUES

32. The IMF launched a dedicated five-year capacity development program in 2012 funded by a multi-donor trust fund. While the needs for capacity building are enormous, efficient provision of technical assistance has been a challenge because of political instability, high staff turnover, limited local resources, and insufficient political commitment to reform. As a result, delivery of technical assistance was scaled back in 2015 to focus on areas with sufficient traction (these included support to core functions of the central bank, macroeconomic analysis and coordination, production of statistics, and tax administration). The escalation of violence in July 2016 led to a nearly complete stop of TA activities. Depending on the peace efforts and the willingness of donors to keep funding the TA, the trust fund supported activities could be resumed in the future, including by supporting a strengthening of public financial management. The authorities have expressed a strong desire to resume the trust fund-supported activities and they committed to implement measures to strengthen capacity.

STAFF APPRAISAL

33. **South Sudan faces massive economic and political challenges in the wake of prolonged internal conflict and subdued oil prices.** The shocks over the past three years have exacerbated an already fragile situation in the world's youngest nation endowed with an underdeveloped economy, high poverty rates, weak institutions, and deficient infrastructure. Real income has declined massively and the number of people in need of immediate humanitarian assistance has risen to unprecedented proportions.

34. **Decisive economic stabilization and a credible path towards lasting peace are necessary to rebuild confidence and prevent economic collapse.** Excessive budgetary spending and falling oil revenue, combined with loose monetary policy, have led to large macroeconomic imbalances and have eroded all economic buffers. Failure to arrest this situation will cause further income loss, price and exchange rate instability, and loss of credibility that will make a recovery even more difficult. Restoring macroeconomic stability and confidence will not only require implementation of economic adjustment policies but also simultaneous efforts to promote reconciliation, address the security challenges, and alleviate the humanitarian emergency.

35. **Against this background, staff commends the South Sudanese authorities for their commitment to economic stabilization and initiative for an all-inclusive national dialogue.** The adopted 2016/17 budget and accompanying policy measures, including a decision to stop monetizing the fiscal deficit and improve public financial management, are important first steps in restoring macroeconomic balance.

36. **The immediate focus should be on restoring fiscal discipline.** This is the only way to reduce money expansion, stabilize domestic prices, and restore external stability. In this respect, staff urges the government to implement the proposed revenue measures and spending cuts in the 2016/17 budget and take additional measures to fully eliminate the financing gap and reduce domestic financing to a level consistent with macroeconomic stability. While these measures indeed will constrain government activities to an absolute minimum, they will not only address the current macroeconomic imbalances but also contribute to restoration of credibility that will help to restore access to external financing.

37. **The public financial management systems are in dire need of improvement.** While recent improvements have been made, additional steps should be taken to enforce commitment control, conduct a payroll audit, bolster reporting of public sector accounts, and adopt the Procurement Act. Moreover, the Petroleum Revenue Management Act should be fully implemented. The Act includes key provisions to prevent corruption and mismanagement and to ensure proper

use of funds. The Fund stands ready to support these steps with technical support as soon as the security condition allows for resumption of missions.

38. The authorities should seek support from development partners for a disarmament, demobilization and reintegration (DDR) program. This will contribute to lower the high share of budgetary resources allocated for security personnel and more importantly it would provide an alternative living for former soldiers.

39. Monetary policy should focus on reducing inflation and gradually replenishing international reserves. The proposed fiscal adjustment supports tighter monetary conditions that will gradually lower inflation and stabilize the foreign exchange market. To this end, the BSS should stop direct lending to the government and domestic financing of the budget could instead be achieved by issuance of Treasury bills. Also, the BSS should enforce the statuary minimum reserve requirements and the minimum capital for all banks to reduce vulnerabilities in the banking system.

40. Staff welcomes the exchange reforms and removal of two exchange restrictions and the two MCPs and encourages the authorities to continue the efforts to remove the remaining exchange restrictions and MCP as soon as conditions permit.

41. Medium-term policies should be motivated by reprioritizing budgetary spending and rebuilding foreign exchange reserves. As economic stabilization takes hold budgetary spending should be shifted away from security-related outlays towards public services and infrastructure investment. Assuming progress towards lasting peace and security, a coherent economic policy package would boost economic activity, including gradual recovery in oil production. Economic growth could bounce back to 5-6 percent a year within a few years under the right conditions. In support of this objective, the authorities should seek assistance to develop a coherent and well prioritized public investment program.

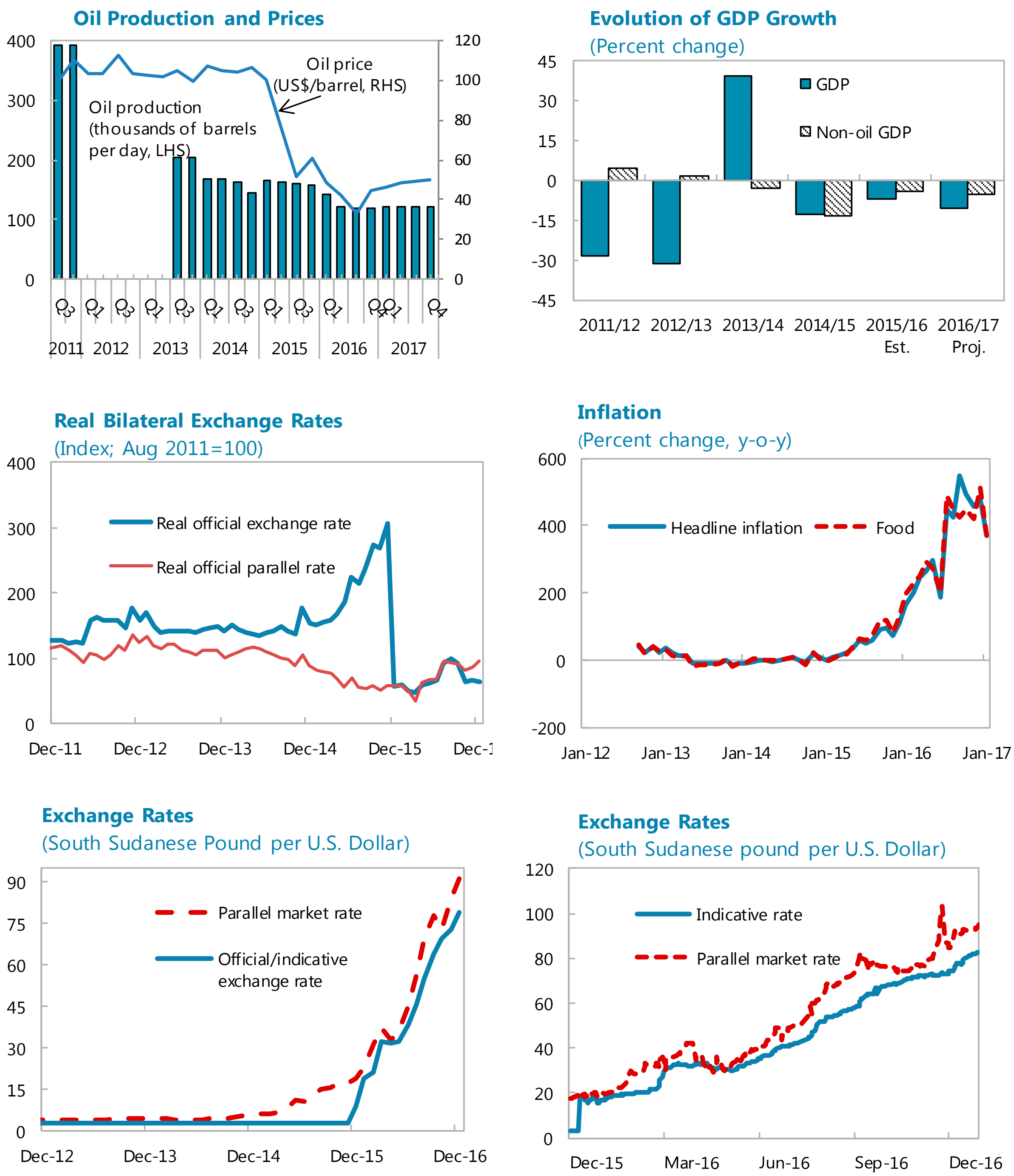
42. A reform of the domestic oil market is needed. Removing domestic fuel subsidies, ensuring that the proceeds from the government's crude oil interests are transparently transferred to the budget, and liberalizing the domestic market for fuel will improve the budgetary situation and address the current shortages in the domestic fuel market.

43. South Sudan is in debt distress. Despite moderate levels of external debt, the combined impact of a decline in oil prices, civil war, and high levels of fiscal spending has left South Sudan in debt distress. While the current situation is difficult, the debt sustainability analysis suggests that steadfast implementation of the announced adjustment policies and a return to peace would improve the debt outlook and allow for a gradual resumption of external financing.

44. Downside risks are substantial. The main risk to economic recovery and solving the humanitarian crisis is the failure to achieve sufficient internal political inclusiveness to bring the peace process back on track. In the event this does not happen, the trajectory of the economy becomes highly unstable and the country risks falling into a spiraling trap of deteriorating economic performance and worsening security conditions with devastating humanitarian costs.

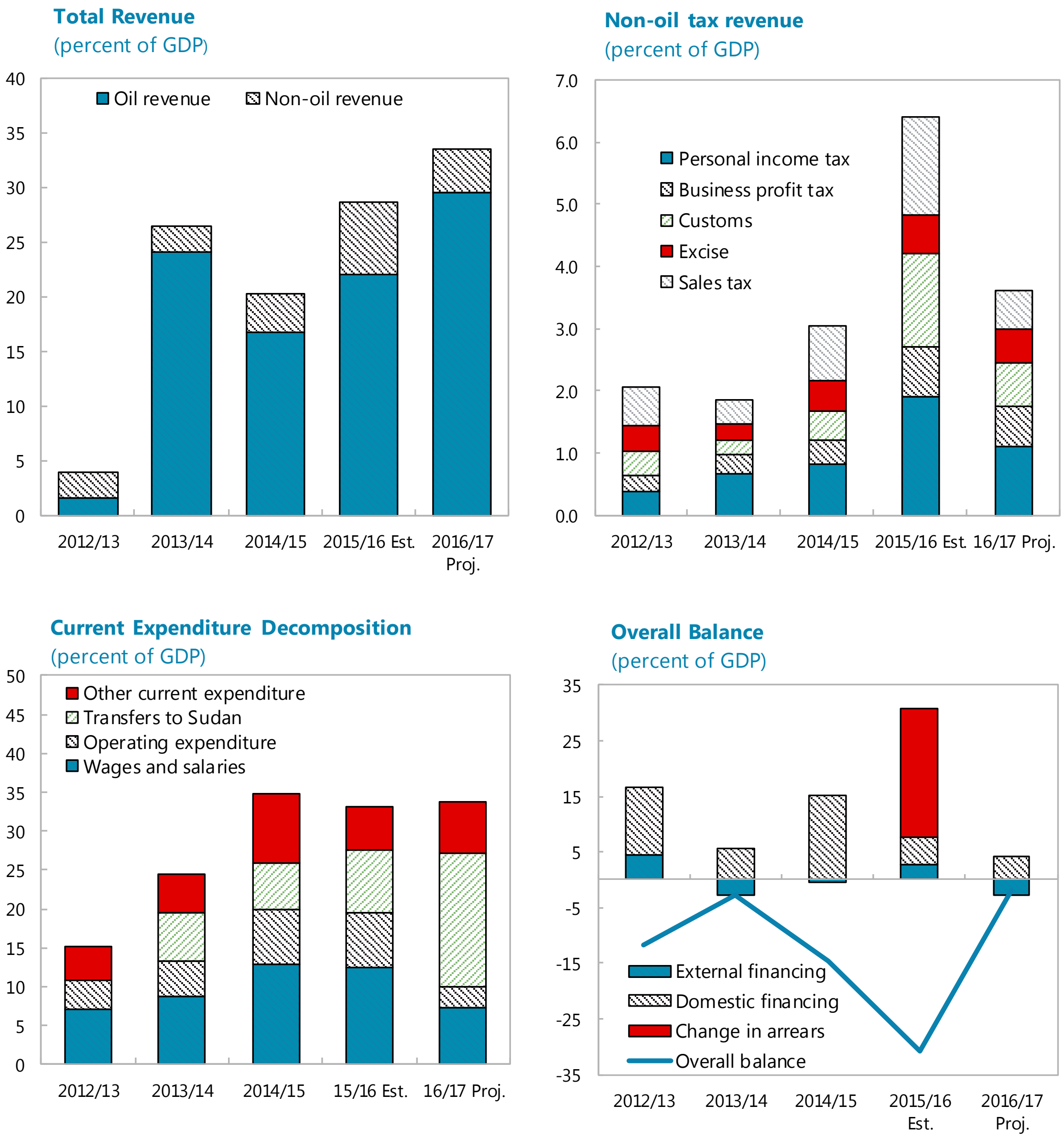
45. It is recommended that the next Article IV consultation be held on the standard 12-month schedule.

Figure 1. Republic of South Sudan: Recent Economic Developments



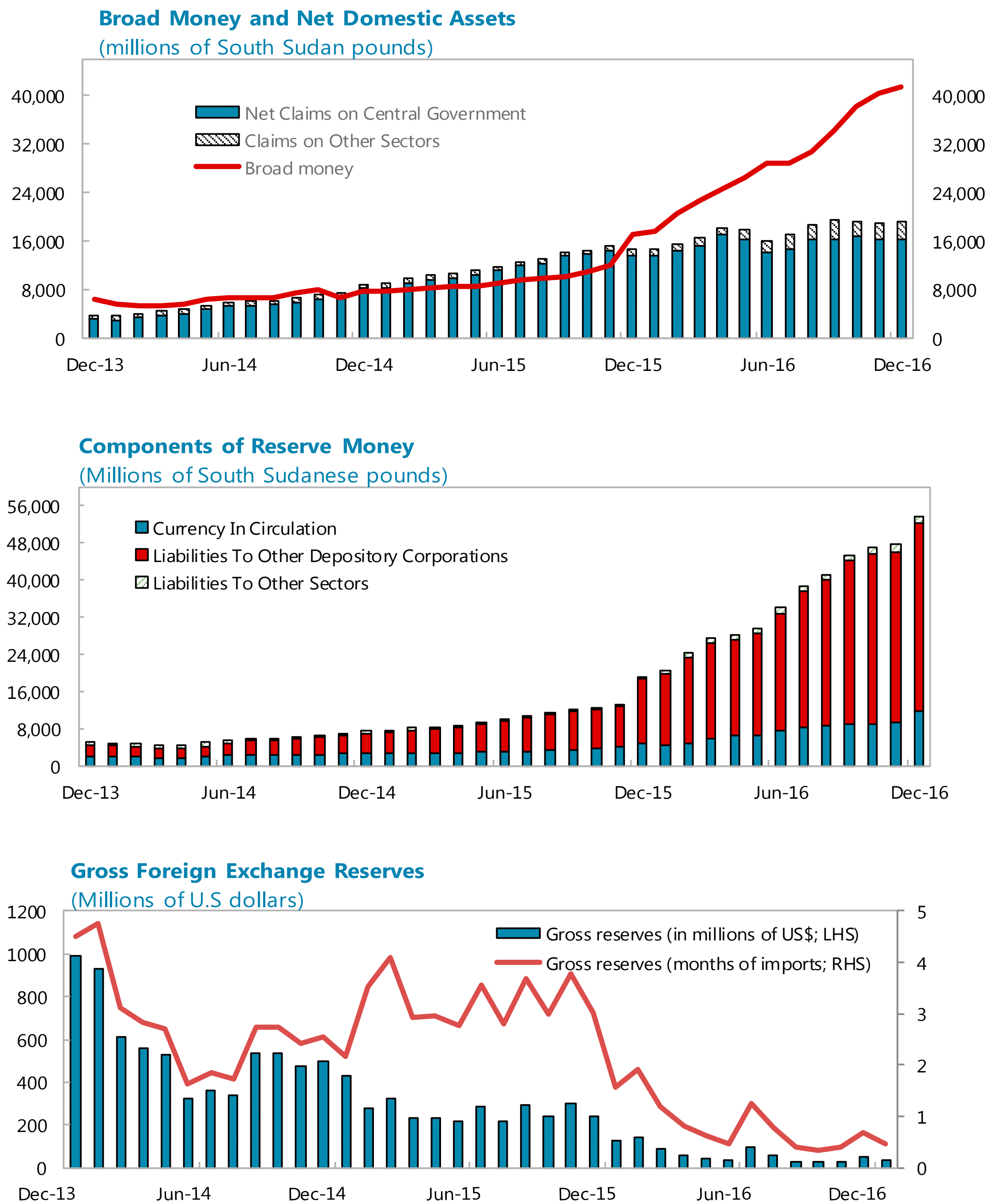
Sources: South Sudanese authorities and IMF staff calculations.

Figure 2. Republic of South Sudan: Fiscal Developments



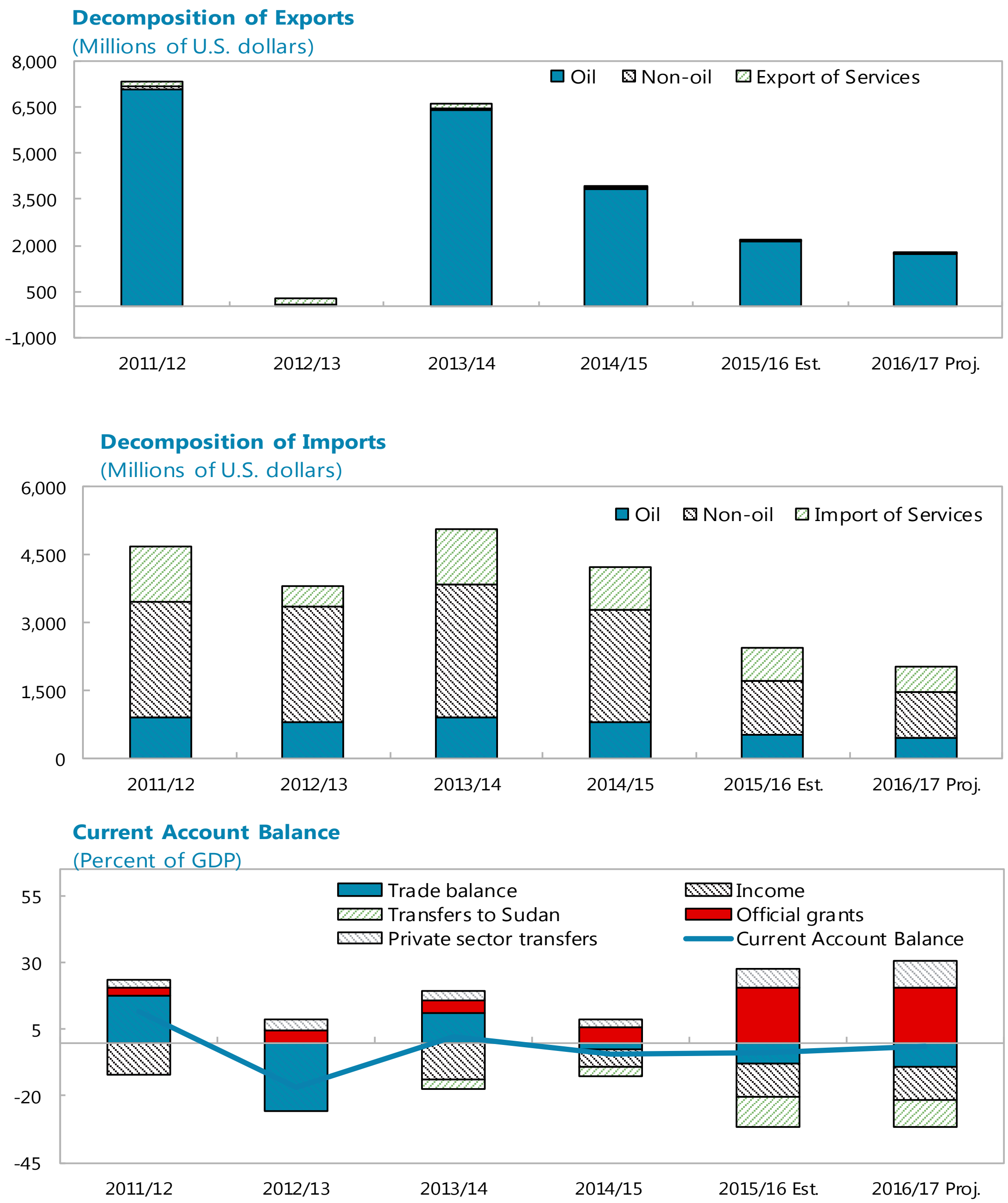
Sources: South Sudanese authorities, and IMF staff calculations.

Figure 3. Republic of South Sudan: Monetary Developments



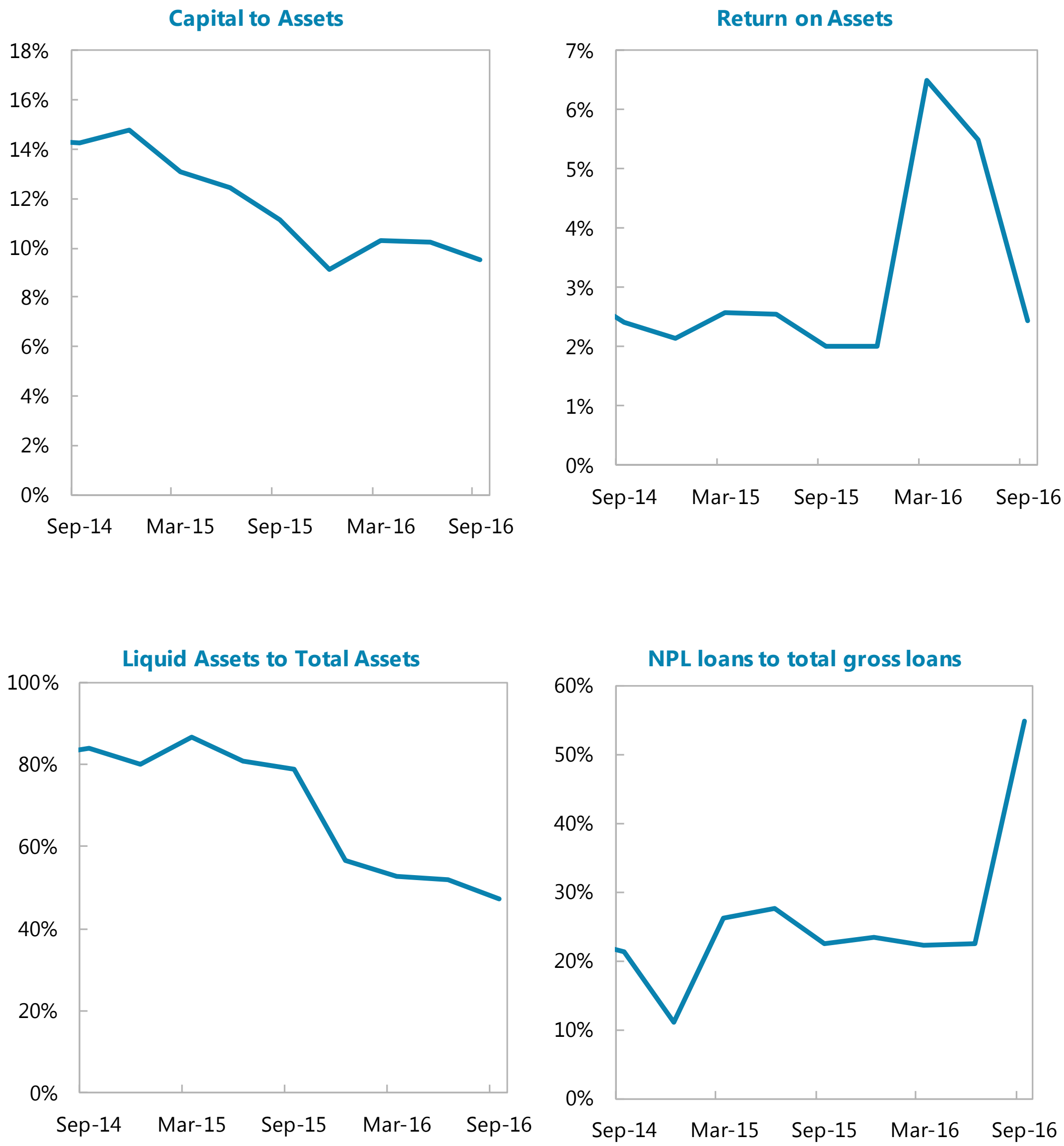
Sources: South Sudanese authorities and IMF staff calculations.

Figure 4. Republic of South Sudan: External Sector Developments



Sources: South Sudanese authorities and IMF staff calculations.

Figure 5. Republic of South Sudan: Selected Financial Stability Indicators, 2014–16



Source: Bank of South Sudan.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2013/14–2017/18

	2013/14 Act.	2014/15 Act.	2015/16 Est.	2016/17 Proj.	2017/18 Proj.
	(Annual percent of change, unless otherwise indicated)				
Output, prices, and exchange rate					
Real GDP (percent change)	39.3	-12.8	-6.9	-10.5	1.1
Oil	263.0	-11.6	-10.6	-18.4	0.6
Non-oil	-3.2	-13.6	-4.1	-5.1	1.4
Inflation (end-of-period)	0.6	61.2	187.0	237.9	20.0
Inflation (average)	-5.6	14.8	158.7	336.2	61.9
Exchange rate (SSP/US$, average)	3.0	3.0	16.9	…	…
Exchange rate (SSP/US$, end period)	3.0	3.0	52.0	97.1 [1]	…
Money and credit					
Broad money	20.5	36.9	219.1	38.7	26.1
Reserve money	37.0	81.1	239.6	56.6	9.5
Credit to non-government sector	4.6	13.7	172.6	46.9	28.5
M2/GDP (percent)	15.9	23.2	48.3	18.4	15.0
	(Percent of GDP, unless otherwise indicated)				
Central government budget					
Total Revenues and Grants	26.4	28.6	29.0	34.4	33.4
Of which : Oil	24.1	16.7	22.0	29.5	25.7
Of which : Non-oil tax revenue	1.8	3.1	6.1	3.7	4.2
Of which : Grants	0.0	8.3	0.4	0.9	3.1
Expenditures	28.1	37.2	38.4	36.3	36.9
Current	24.5	34.7	33.0	33.7	32.2
Of which : transfers to Sudan	6.2	5.9	7.9	17.2	15.0
Net acquistition of non-financial assets	3.6	2.4	5.4	2.6	2.6
Errors and omissions	1.1	6.0	-1.8	-0.5	0.0
Overall balance (cash)	-2.9	-14.6	-7.6	-1.3	-3.5
Change in arrears	0.0	0.0	23.2	0.0	0.0
Overall balance (accural)	-2.9	-14.6	-30.8	-1.3	-3.5
Public debt					
Total Public External Debt [2]	4.2	5.5	28.6	38.7	31.1
External sector					
Exports of goods and services	46.7	29.5	61.5	66.3	61.1
Imports of goods and services	35.8	31.8	69.4	72.8	75.4
Current account balance (including grants)	2.3	-4.2	-3.7	2.1	-6.6
Current account balance (excluding grants)	-2.6	-9.2	-20.3	-20.4	-23.1
Gross foreign reserves (millions of US dollars)	363	282	73	50	131
Gross foreign reserves (in months of imports)	1.0	1.4	0.4	0.2	0.6
Memorandum Items:					
Population (millions)	11.1	11.6	12.2	12.8	13.5
Oil production (millions of barrels)	66.8	57.8	53.1	43.4	43.7
South Sudan's oil price (U.S. dollars per barrel)	97.8	62.4	34.7	41.4	44.6
Brent price (U.S. dollars per barrel)	105.5	71.8	42.2	48.9	51.9
Nominal GDP (billions of SSP)	42	39	60	218	338
GNI per capita (US dollars)	1,154	1,060	240	210	226
Nominal GDP (percent change)	2.1	-6.2	53.4	263.5	55.3

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] Exchange rate as of February 13, 2017.

[2] Public external debt in U.S. dollars in percent of U.S. dollar GDP.

Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2013/14–2017/18

(Billions of South Sudanese Pounds)

	2013/14	2014/15	2015/16	2016/17		2017/18
	Act.	Act.	Est.	Budget	Proj.	Proj.
Total revenue and grants	10.4	11.2	17.4	58.2	75.0	113.1
Total oil revenues	9.5	6.5	13.2	46.8	64.3	87.0
Government share from oil exports	9.5	6.5	13.2	46.8	64.3	87.0
Signature bonuses	0.0	0.0	0.0	0.0	0.0	0.0
Non-Oil Tax Revenue	0.8	1.2	3.7	8.7	8.0	14.3
Other GoSS Revenue	0.2	0.2	0.3	0.6	0.7	1.2
Grants	0.0	3.2	0.2	2.0	2.0	10.6
Total expenditure	11.7	14.5	23.0	77.7	79.1	124.9
Current expenditure	10.2	13.6	19.8	72.0	73.4	109.0
Salaries	3.6	5.0	7.5	14.0	16.1	26.5
Operating expenses	1.9	2.8	4.2	5.5	5.6	15.5
Interest	0.3	0.5	0.7	0.2	0.3	0.4
Other expenses	4.7	3.1	3.0	9.8	9.1	12.3
Emergency contingency fund	0.0	0.0	0.0	1.4	1.4	3.0
Transfers to states	1.8	1.6	1.7	4.6	4.6	10.3
Conditional transfers	1.0	1.5	1.7	4.2	4.2	7.6
Current transfers to states	1.0	1.5	1.7	4.2	4.2	7.6
Capital transfers to states	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to oil producing states (5%)	0.1	0.1	0.0	0.5	0.5	0.5
Block grants to states	0.7	1.0	0.4	2.2	1.8	2.1
Subsidies	0.0	0.5	0.9	1.5	1.2	0.0
Transfers to Sudan	2.6	2.3	4.8	37.7	37.6	50.6
Transportation and transit fees	1.0	0.9	0.2	14.0	14.4	19.1
Financial transfer	1.6	1.4	4.6	23.6	23.1	31.5
Peace agreement	…	…	…	4.8	4.8	7.0
Net acquistition of Non-Financial Assets	1.5	0.9	3.2	5.7	5.7	15.9
Domestically financed	1.5	0.7	2.1	1.0	1.0	3.4
Foreign financed	0.0	0.3	1.1	4.7	4.7	12.5
Errors and omissions	-0.1	2.3	-1.1	-1.2	-1.2	0.0
Overall balance (Cash)	-1.2	-5.7	-4.5	-18.3	-2.9	-11.8
Change in Arrears	0.0	0.0	13.9	0.0	0.0	0.0
Overall balance (Accrual)	-1.2	-5.7	-18.4	-18.3	-2.9	-11.8
Financing	1.2	5.7	4.5	6.0	2.9	11.8
Domestic (net)	2.3	5.9	3.0	11.2	9.0	7.3
Net credit from the central bank	2.3	5.6	2.5	2.2	2.2	0.0
Net credit from commercial banks	0.0	0.3	0.5	9.0	6.8	7.3
Foreign (net)	-1.1	-0.2	1.6	-5.2	-6.0	4.4
Disbursement	1.2	0.6	2.8	2.6	2.6	23.0
Amortization	-2.3	-0.9	-1.3	-7.9	-8.7	-18.6
Financing gap	0.0	0.0	0.0	12.3	0.0	0.0
Memorandum Items:						
Off-budget grant-financed current spending	2.1	2.4	12.1	40.8	40.8	72.2
Non-oil domestic current fiscal balance [1]	-4.4	-6.7	5.0	-22.5	31.9	45.8
Nominal GDP (billions of South Sudanese pounds)	41.7	39.1	60.0	218.0	218.0	338.5

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees), minus tranfers to oil producing states and communities.

Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2013/14–2017/18

(Percent of GDP, unless otherwise indicated)

	2013/14	2014/15	2015/16	2016/17		2017/18
	Act.	Act.	Est.	Budget	Proj.	Proj.
Total revenue and grants	25.0	28.6	29.0	26.7	34.4	33.4
Total oil revenues	22.7	16.7	22.0	21.5	29.5	25.7
Government share from oil exports	22.7	16.7	22.0	21.5	29.5	25.7
Signature bonuses	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil tax revenue	1.8	3.1	6.1	4.0	3.7	4.2
Other revenue	0.4	0.5	0.5	0.3	0.3	0.3
Grants	0.0	8.3	0.4	0.9	0.9	3.1
Total expenditure	28.0	37.2	38.4	35.6	36.3	36.9
Current expenditure	24.4	34.7	33.0	33.0	33.7	32.2
Salaries	8.7	12.9	12.5	6.4	7.4	7.8
Operating expenses	4.5	7.1	7.0	2.5	2.6	4.6
Interest	0.6	1.4	1.2	0.1	0.1	0.1
Other expenses	11.2	7.9	4.9	4.5	4.2	3.6
Emergency contingency fund		0.0	0.0	0.7	0.7	0.0
Transfers to states	4.4	4.1	2.8	2.1	2.1	3.0
Conditional transfers	2.4	3.9	2.8	1.9	1.9	2.3
Current transfers to states	2.4	3.9	2.8	1.9	1.9	2.3
Capital transfers to states	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to oil producing states (5%)	0.3	0.2	0.0	0.2	0.2	0.2
Block grants to states	1.7	2.6	0.6	1.0	0.8	0.6
Subsidies	0.0	1.3	1.5	0.7	0.5	0.0
Transfers and oil service payments to Sudan	6.2	5.9	7.9	17.3	17.2	15.0
Transportation and transit fees	2.3	2.4	0.3	6.4	6.6	5.6
Financial transfer	3.9	3.5	7.6	10.8	10.6	9.3
Peace agreement	...	...	...	2.2	2.2	2.1
Net acquistition of Non-Financial Assets	3.6	2.4	5.4	2.6	2.6	4.7
Domestically financed	3.6	1.7	3.5	0.5	0.5	1.0
Foreign financed	0.0	0.8	1.9	2.1	2.1	3.7
Errors and Omissions	-0.1	6.0	-1.8	-0.5	-0.5	0.0
Overall balance (Cash)	-2.9	-14.6	-7.6	-8.4	-1.3	-3.5
Change in arrears	0.0	0.0	23.2	0.0	0.0	0.0
Overall balance (Accrual)	-2.9	-14.6	-30.8	-8.4	-1.3	-3.5
Financing	2.9	14.6	7.6	2.7	1.3	3.5
Domestic (net)	5.5	15.1	5.0	5.1	4.1	2.2
Net credit from the central bank	5.6	14.3	4.1	1.0	1.0	0.0
Net credit from commercial banks	-0.1	0.8	0.8	4.1	3.1	2.2
Net acquisition of financial assets	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	-2.7	-0.6	2.6	-2.4	-2.8	1.3
Disbursement	2.8	1.6	4.7	1.2	1.2	6.8
Amortization	-5.5	-2.2	-2.1	-3.6	-4.0	-5.5
Financing gap	0.0	0.0	0.0	5.6	0.0	0.0
Memorandum Items:						
Off-budget grant-financed current spending	5.0	6.0	20.2	18.7	18.7	21.3
Non-oil domestic current fiscal balance[1]	-10.6	-17.3	8.4	-10.3	14.6	13.5
Nominal GDP (billions of South Sudanese pounds)	41.7	39.1	60.0	218.0	218.0	338.5

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees), minus tranfers to oil producing states and communities.

Table 3. Republic of South Sudan: Monetary Accounts, June 2014–June 2018

(Billions of South Sudanese Pounds, unless otherwise indicated)

	2014 Jun Act.	2015 Jun Act	2015 Dec Act.	2016 Jun Est.	2017 Jun Proj.	2018 Jun Proj.
Monetary Survey						
Net foreign assets	1.2	0.8	-9.3	-23.2	-50.7	-59.9
Claims on nonresidents	3.1	3.2	7.7	23.6	43.1	69.1
Central bank	1.5	1.2	4.9	17.9	32.0	53.9
Commercial banks	1.6	1.9	2.8	5.7	11.1	15.2
Liabilities to nonresidents	1.9	2.4	17.0	46.8	93.7	129.0
Central bank	0.9	0.8	5.3	20.1	39.6	54.6
Commercial banks	1.0	1.6	11.8	26.7	54.1	74.5
Net domestic assets	5.4	8.3	26.4	52.2	90.8	110.5
Net domestic credit	5.9	11.9	14.6	16.1	25.9	34.1
Net claims on central government	5.2	11.2	13.7	14.1	23.1	30.4
Claims on other sectors	0.6	0.7	1.0	2.0	2.9	3.7
Other items (net)	-0.5	-3.6	11.7	36.1	64.9	76.4
Broad money	6.6	9.1	17.1	28.9	40.1	50.6
Currency outside banks	1.9	2.6	4.1	6.6	12.2	16.3
Transferable deposits	2.8	4.8	9.8	16.3	21.5	24.9
of which : in foreign currency	0.9	1.0	4.1	10.1	16.3	17.4
Other deposits	1.9	1.7	3.2	6.0	6.4	9.4
of which : in foreign currency	0.2	0.2	0.8	2.5	4.5	4.8
Central Bank						
Net foreign assets	0.6	0.4	-0.4	-2.2	-7.6	-0.6
Claims on nonresidents	1.5	1.2	4.9	17.9	32.0	53.9
Liabilities to nonresidents	0.9	0.8	5.3	20.1	39.6	54.6
Net domestic assets	4.9	9.6	19.4	36.2	60.8	58.9
Net domestic credit	4.5	9.9	12.4	12.4	14.5	14.5
Claims on commercial banks	0.2	0.0	0.0	0.0	0.0	0.0
Net claims on central government	4.2	9.8	12.3	12.3	14.5	14.5
Claims on central government	5.2	11.8	15.8	17.1	19.9	19.9
Liabilities to central government	0.9	2.0	3.5	4.8	5.5	5.5
Other items (net)	0.5	-0.3	7.1	23.8	46.3	44.4
Monetary base	5.5	10.0	19.1	34.0	53.2	58.2
Currency in circulation	2.3	3.1	4.8	7.6	13.5	18.2
Liabilities to commercial banks	2.7	6.6	13.9	25.0	38.2	38.6
Liabilities to other sectors	0.5	0.3	0.4	1.4	1.5	1.5
Memorandum items:						
Money multiplier	1.2	0.9	0.9	0.9	0.8	0.9
Share of foreign currency deposits to total deposits	0.3	0.2	0.4	0.6	0.7	0.6
Gross foreign reserves (millions of dollars)	363	282	124	73	50	131
Monetary base (Year-on-year change in percent)	37.0	81.1	154.8	239.6	56.6	9.5
Broad money (Year-on-year change in percent)	20.5	36.9	117.4	219.1	38.7	26.1

Sources: South Sudanese authorities; and IMF staff estimates and projections.

Table 4. Republic of South Sudan: Balance of Payments, 2014/15–2020/21

(Millions of U.S. dollars, unless otherwise indicated)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Act.	Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Current account balance	-560	-131	58	-219	-357	-313	-447
Trade Balance	594	437	358	109	90	320	316
Exports of goods	3,880	2,142	1,825	1,983	2,198	2,577	2,798
Oil	3,839	2,113	1,795	1,948	2,158	2,513	2,718
Nonoil	41	28	30	35	40	64	80
Imports of goods	-3,286	-1,704	-1,466	-1,873	-2,108	-2,256	-2,482
Balance of Services	-900	-720	-541	-582	-618	-649	-733
Exports of services	35	37	40	45	50	60	84
Imports of services	-936	-757	-581	-627	-668	-709	-817
of which non-oil	-306	-265	-184	-218	-237	-224	-295
Income	-913	-438	-392	-294	-323	-432	-446
Wages of expatriate oil workers	-270	-157	-122	-137	-145	-160	-173
Investors' profits	-614	-259	-248	-143	-133	-221	-213
Investment income (net)	-29	-22	-22	-14	-45	-51	-60
Current Transfers (net)	659	590	633	548	494	448	417
General government	798	727	640	635	592	562	506
Workers' remittances (net)	29	-32	53	56	74	89	129
Financial transfers to Sudan[1]	-466	-394	-315	-326	-332	-371	-398
Other sectors	298	289	255	183	160	168	180
Capital and financial account	-127	230	234	300	452	453	530
Capital account	229	233	238	186	186	170	166
Financial account	-356	-3	-4	114	266	283	364
Foreign direct investment[2]	44	-71	-17	80	191	98	128
of which: non-oil	0	-100	0	0	0	0	0
Change in net foreign assets of commercial banks	89	527	103	-81	-70	-47	-58
Public borrowing (net)	-4	107	-66	161	164	252	309
Overall balance	-687	99	292	80	94	140	84
Errors and Omissions	557	-203	-315	0	0	0	0
Financing	109	102	23	-80	-94	-140	-84
Change in net foreign assets of the central bank	109	102	23	-80	-94	-140	-84
of which : Change in gross reserves	82	209	23	-80	-94	-140	-84
Change in liabilities to non-residents	28	-107	0	0	0	0	0
Financing gap	0	0	0	0	0	0	0
Memorandum Items:							
Current account balance including transfers (percent of GDP)	-4.4	-3.4	2.1	-6.6	-10.4	-8.0	-11.1
Current account balance excluding transfers (percent of GDP	-9.7	-18.7	-20.4	-23.1	-24.9	-19.5	-21.4
External Public Debt (percent of GDP)	5.1	28.7	0.0	29.8	28.3	33.2	35.3
South Sudan oil price (dollars per barrel; weighted average)	62.4	34.7	41.4	44.6	46.5	47.9	49.4
Gross foreign reserves (millions of US dollars)	282	73	50	131	225	365	449
In months of next year's imports of goods and services	1.4	0.5	0.2	0.6	0.9	1.3	1.6
Nominal GDP (billions of U.S. dollars)	13.3	3.5	2.8	3.3	3.4	3.9	4.0

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1]The agreement with Sudan over financial transfers for oil transit through its pipeline is set to expire in 2017. The figure for 2017/18 is added for illustrative purposes in order to complete the balance of payments projection and does not entail a prediction of a new agreement or any such

[2] Net of outflows associated with the repatriation of oil investments (Capex cost oil).

Table 5. South Sudan: Medium-Term Macroeconomic Framework, 2014/15–2020/21

(Percent of GDP, unless otherwise specified)

	2014/15	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
	Act.	Est.			Proj.		
National Accounts and Prices							
Nominal GDP (billions of U.S. dollars)	13.3	3.5	2.8	3.3	3.4	3.9	4.0
Nominal GDP (billions of South Sudanese Pounds)	39.1	60.0	218.0	338.5	414.0	480.3	545.4
GNI per capita (US dollars)	1,060	240	210	226	230	233	241
Real GDP (percent change)	-12.8	-6.9	-10.5	1.1	3.5	6.2	5.8
Oil	-11.6	-10.6	-18.4	0.6	6.2	13.1	7.6
Non-oil	-13.6	-4.1	-5.1	1.4	1.9	2.0	4.6
Inflation (percent change, average)	14.8	158.7	336.2	61.9	20.2	10.4	7.5
Inflation (percent change, end period)	61.2	187.0	237.9	20.0	7.5	7.5	7.5
Central government budget							
Total Revenues and Grants	28.6	29.0	34.4	33.4	33.4	35.8	36.8
Oil	16.7	22.0	29.5	25.7	25.3	27.5	28.3
Non-Oil Tax Revenue	3.1	6.1	3.7	4.2	5.0	5.7	6.1
Grants	8.8	0.9	1.3	3.5	3.2	2.6	2.4
Expenditures	37.2	38.4	36.3	36.9	36.5	38.2	38.8
Current	34.7	33.0	33.7	32.2	29.8	29.8	29.7
Of which : transfers to Sudan	5.9	7.9	17.2	15.0	13.8	14.8	14.7
Capital	2.4	5.4	2.6	4.7	6.6	8.5	9.2
Errors and Omissions	6.0	-1.8	-0.5	0.0	0.0	0.0	0.0
Overall balance (cash)	-14.6	-7.6	-1.3	-3.5	-3.0	-2.4	-2.1
Change in Arrears	0.0	23.2	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual)	-14.6	-30.8	-1.3	-3.5	-3.0	-2.4	-2.1
External Sector							
Current account balance	-4.2	-3.7	2.1	-6.6	-10.0	-8.0	-11.1
excl. grants	-10.2	-24.2	-20.7	-25.8	-27.3	-22.5	-23.6
Exports of goods and services	29.5	61.5	66.3	61.1	65.7	67.7	71.3
Of which: Oil	29.0	59.6	63.8	58.7	63.1	64.5	67.3
Imports of goods and services	31.8	69.4	72.8	75.4	81.1	76.2	81.6
External debt-to-export ratio[1]	17.3	46.8	75.8	59.5	45.4	41.8	46.5
Gross foreign reserves (in months of imports)	1.4	0.5	0.2	0.6	0.9	1.3	1.6
Gross foreign reserves (in USD mill)	282	73	50	131	225	361	441
Memorandum Items:							
Oil production (millions of barrels)	57.8	53.1	43.4	43.7	46.4	52.5	56.5
South Sudan's oil price (U.S dollars per barrel)	62.4	34.7	41.4	44.6	46.5	47.9	49.4

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1]Ratio of debt-to-exports of goods and services.

Table 6. Republic of South Sudan: Financial Soundness Indicators for Banking Sector

(Percent)

	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16
Capital adequacy											
Capital to Assets	16.2%	14.4%	14.3%	14.8%	13.1%	12.4%	11.2%	9.1%	10.3%	10.2%	9.5%
Asset quality											
Nonperforming loans to total gross loans	18.7%	23.2%	21.3%	11.1%	26.2%	27.6%	22.5%	21.6%	22.2%	22.5%	54.9%
Nonperforming loans net of provisions to capital	6.0%	7.1%	4.6%	2.0%	2.0%	1.9%	2.6%	3.0%	3.4%	3.8%	3.5%
Foreign-Currency-Denominated Liabilities to Total Liabilities	25.5%	29.6%	26.0%	23.2%	23.7%	25.7%	25.6%	57.8%	71.2%	71.5%	78.2%
Profitability and earnings											
Return on Assets (ROA)	5.7%	2.9%	2.4%	2.2%	2.6%	2.6%	2.0%	1.7%	6.5%	5.5%	2.4%
Personal Expense to Noninterest Expense	24.3%	23.1%	24.0%	22.0%	17.9%	19.5%	22.0%	16.3%	18.6%	18.2%	14.2%
Liquidity											
Liquid Assets to Total Assets	78.7%	81.9%	84.0%	79.8%	86.4%	80.7%	78.8%	60.1%	52.7%	51.8%	46.7%
Customer Deposits to Total (noninterbank) loans	563.4%	783.9%	807.5%	577.6%	912.4%	1296.1%	1379.9%	1284.3%	1099.6%	1090.6%	1012.1%

Source: Bank of South Sudan.

Table 7. South Sudan: Risk Assessment Matrix (RAM)[1]

	Nature/Sources of Main Risk	Likelihood of realization in the next one-three years	Expected impact on economy if risk is realized	Possible policy responses
Short term	Political instability	**High** The delay in achieving sustainable peace and continuing violent clashes.	**High** Diversion of resources to deal with internal conflict, heightened levels of country risk, could lead to stagnation, lower oil production, insufficient investment, and economic instability.	Political agreement on peace and reconciliation between the parties.
	Sustained fiscal gap and shortfall in external financing	**High** Weak oil revenues combined with inability to cut budgetary spending sufficiently.	**High** Lack of external financing makes central bank lending and monetization of the deficit the only resort. In turn, injection of more liquidity will create more inflation and depreciate the currency, along with falling reserves.	Tighten fiscal policy and improve governance in order to secure external financing.
Short/Medium term	Sustained decline in commodity prices triggered by deceleration of global demand	**High** Deeper than expected slowdown in China and other emerging markets coupled with higher than expected world production could lead to sustained low international oil prices.	**High** Lower prices have already led to large fiscal gaps, domestic financing, high inflation and lowest levels of reserves on record.	Tighten fiscal policy through spending cuts and improving non-oil revenue collection. Some additional external financing may help the adjustment.
	Tension with Sudan over delayed transfer payments, pipeline contracts, territory, or borders	**Medium** South Sudan fell behind on its transfer fees to Sudan in 2015, thus, creating potential tensions in the repayment of these arrears. While a new three-year agreement has been signed in early 2017, there may still be disputes about the regular transfers and South Sudan's capacity to pay.	**High** A disruption of oil production will be detrimental to the economy given the lower oil prices and already reduced output. It would destabilize the economy.	Advance non-oil revenue reforms and keep public spending under control. Maintain good coordination and information sharing with Sudan.
	Delays in improving governance or capacity	**High** South Sudan ranks low on a variety of governance indicators, most notably government effectiveness, regulatory quality, rule of law, and control of corruption.	**Medium** Entrenched rent seeking behavior, pressures to raise current expenditures, and lower quality of public investment. Diversion of resources from development and continued threat of social and political instability.	Strengthen anti-corruption efforts, including by implement agreed transparency reforms, focus on strengthening key economic institutions, enforce petroleum and public financial management laws, and foster improvements in business environment.

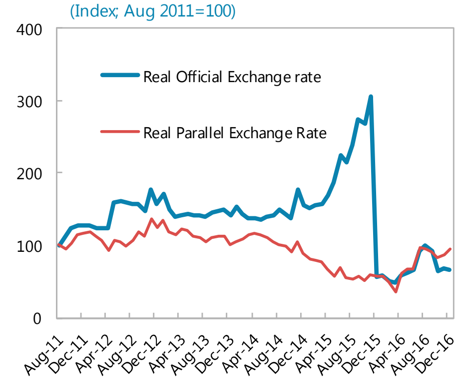
[1] The RAM shows events that could materially alter the baseline path—the scenario most likely to materialize in staff's view. The relative likelihood of risks listed is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability of 30 percent or more). The RAM reflects staff views on the source of risks and overall level of concern at the time of discussions with the authorities.

Annex I. South Sudan. External Sector Assessment

The combination of domestic policy slippages and the oil price shock led to a rapid depletion of the South Sudan's economic buffers and forced an abandonment of the fixed exchange rate and a sharp compression in imports. Restoration of external stability will require an improvement in economic policies and support from the international community. In the short term, improved security, fiscal retrenchment and an end to monetary financing will be required to prevent an exponential depreciation of the exchange rate. Over the medium term, structural reforms to address a deficient business environment will be required to diversify the economy and attain any measure of competitiveness.

1. **The exchange rate reforms introduced at end-2015 resulted in a closing of the large gap between the official and parallel markets, though policies will have to adjust further in order to restore stability to the foreign exchange market.** Since end-2015, the official exchange rate depreciated by about 95 percent, or around 60 percent in real terms. This brought the official exchange rate broadly in line with the parallel market[1], which had itself depreciated in the course of 2015 in line with the deteriorating fundamentals. The trade balance has also narrowed as imports have fallen in response to the reduced supply of foreign exchange.

Real Bilateral Exchange Rates
(Index; Aug 2011=100)



2. **An assessment of South Sudan's competitiveness and external stability is complicated by insufficient data availability and large structural changes.** With considerable uncertainty over the policy variables and the data itself, and in the context of very high inflation, it is difficult to draw firm conclusions from the standard methodologies for real exchange rate assessment at this juncture. Prior to December 2015, current account transactions by government were executed at the official exchange rate (e.g. fuel and purchases of goods and services), while most other transactions took place at the parallel market rate. The evolution of the current account balance was therefore only partly impacted by a significantly overvalued official exchange rate. However, with the unification of the exchange rate that took place at the end-2015 and the about 70 percent real depreciation in the first three quarters of 2016, the overvaluation of the exchange rate was either eliminated or greatly diminished.

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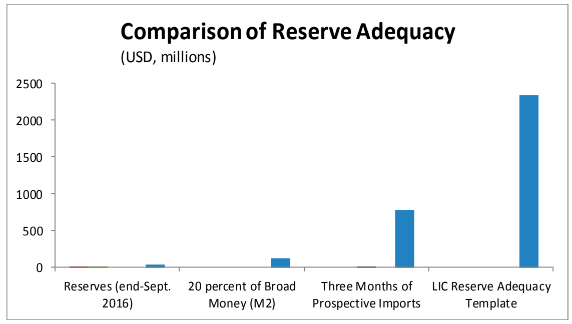
[1] The continuing existence of a spread between the official and parallel markets seems to reflect in part data collection issues (in the absence of a significant interbank market), and in part market segmentation issues (e.g. the parallel market is providing for greater anonymity).

3. Stronger evidence of the external disequilibrium is to be found in the current level of international reserves. At the current level of US$30–50 million (about one week of prospective imports of goods and services), international reserves are inadequate by any measure. As a fragile state with an economy dependent on oil exports and exiguous domestic production requiring the importation of almost all goods consumed in the economy barring subsistence agriculture, South Sudan would benefit from substantial foreign exchange buffers. In this context, the "rule of thumb" of three months of imports would likely be suboptimal, and a level of reserves much closer to that suggested by the LIC reserve adequacy template—which proposes nine months' of imports—would be ideal.



4. Rebuilding foreign reserve buffers will be a challenge as long as oil prices remain low. South Sudan is unlikely to see a significant increase in oil production at current oil price levels (substantial investments are required to expand production beyond near current levels) in the near term. In this context, even significant fiscal retrenchment and monetary discipline would likely not ensure attaining sufficient reserve adequacy immediately. Moreover, the existence of substantial near term obligations to repay outstanding trade-related credits ($US5 million a month over the next five years) and other outstanding obligations to oil companies will continue to place pressure on central bank reserves, and complicate the process of rebuilding reserves. The authorities should aim to build reserves gradually, while ensuring the ability of the government to carry out its essential functions.

5. In the short term, restoring external stability will depend on the restoration of fiscal discipline. Large-scale monetization of budget deficits would exacerbate inflationary pressures and maintain high demand for foreign exchange, while a combination of fiscal consolidation and a shift away from domestic towards concessional external financing would reduce inflation and stabilize the foreign exchange market. Moreover, with around one-third of government expenditure taking place in foreign exchange, there is room to reduce pressure on reserves by cutting back on travel, transportation, and other non-priority spending items that constitute a drain on foreign reserves.

6. Over the medium term, strengthening the balance of payments will entail efforts to address South Sudan's dire business climate. The difficult business environment is evidenced by the near-absence of any manufacturing in the country. With the country's sole brewery shutting down production, almost all nonfood and most food items (with the exception of bottled water and subsistence agriculture) are imported. Another barrier is the very high transport costs: the cost to import a twenty-foot container to South Sudan was the second-highest in the world.[2] Also, the

[2] According to the World Development Indicators the cost of importing a 20ft container in 2014 was US$9,285 in South Sudan, as compared with US$6,335 in Central African Republic, US$3,375 in Uganda, and US$4,990 in Rwanda.

World Bank's Ease of Doing Business Indicators ranked South Sudan 187th out of 189 countries (Table I.1). While restoration of security and macroeconomic balance, as well as maintenance of a flexible exchange rate regime should support investment, the almost complete absence of supportive infrastructure (electricity, water, sewage, and transportation network) will remain a constraining factor for some time.

Table I.1. South Sudan: Doing Business Indicators, 2015–16

	South Sudan		SSA	LICs	Fragile States
	2015	2016	2016	2016	2016
Ease of doing business	186	187	143	154	157
Starting a business	178	181	128	136	129
Dealing with construction permits	171	177	130	137	145
Getting electricity	183	187	149	158	144
Registering property	179	180	132	138	143
Getting credit	171	174	118	129	136
Protecting minority investors	181	181	125	138	137
Paying taxes	104	104	131	137	128
Trading across borders	179	179	136	137	132
Enforcing contracts	76	76	132	140	140
Resolving insolvency	189	189	128	133	151

Source: World Bank, Doing Business Indicators, 2016.

7. **Improvements are also needed to the regulatory and administrative environment.** Across a range of indicators South Sudan performs worse than its regional peers. According to the World Bank Worldwide Governance indicators (which measure governance based on six dimensions: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption), South Sudan ranked among the lowest in the world in five out of the six dimensions in 2015 (in three dimensions, South Sudan ranked in the first percentile and in two dimensions, it ranked in the third percentile (where the 100 percentile is the best scoring)). This suggests that an improvement in the country's political stability and responsiveness could be an important step to improve the business climate and competitiveness.

Annex II. South Sudan. Peace Agreement: Achieving Peace Dividends[1]

INTRODUCTION

1. **South Sudan gained independence after a long civil war in an environment of weak institutions and poor policy making**. The decision to shut down oil production in 2012 resulted in loss of revenue and erosion of accumulated international reserves. Key economic institutions such as the Ministry of Finance and the central bank remain at an early stage of developing capacity. Insufficient transparency and accountability has fostered poor governance in the management of public resources. The delivery of public services and infrastructure has not reflected the amount of resources earned from oil, frustrating the population.

2. **Jostling between politicians for control over resources is the underlying reason behind the civil war that began in December 2013**. One consequence has been the skewed distribution of the national wealth in favor of political elites, while the vast majority of the population remains very poor and dependent on humanitarian assistance. The civil war has worsened these ills by internally displacing over two million and making more than a million refugees in neighboring countries out of a population of 12 million.

3. **The Intergovernmental Authority on Development (IGAD)-brokered peace agreement signed in August 2015 to end the civil war has been disrupted.** The agreement essentially restored the status-quo ante by reestablishing rebel leader, Riek Machar, in his position of Vice President. But it also allowed him to return to the capital city, Juba, with a small army. This proved to be a fatal flaw, as fighting between former Vice President Machar's and President Kiir's soldiers resumed in early July. The civil war has now drawn in many additional ethnic-based armed rebellions and has spread to parts of the country that were peaceful before. Restoration of peace would now require a new agreement that should include stakeholders beyond Kiir and Machar. The recently initiated "national dialogue" has the potential to do just that.

4. **The challenge of returning to normalcy is to make sure that peace dividends are widely shared among the population**. Oil wealth largely benefited a few. The key to sustained peace and development is to restore macroeconomic stability and allow economic activities, particularly agriculture and trade, to resume across the country. It is also crucial to build new or strengthen available institutions, protect public resources against unscrupulous government officials, putting them instead to work to build schools, health centers, and to provide other vital social services. When every South Sudanese sees economic and social benefits of peace in their community, peace will become entrenched. Peace dividends would also have to include a new social contract whereby political representation is inclusive and fair.

[1] Prepared by Philippe Egoume, Resident Representative in Juba, South Sudan.

5. The annex proceeds as follows: section II discusses the failed IGAD-brokered peace agreement and a new framework for peace; section III defines peace dividends in South Sudan's context; section IV discusses the agenda for providing key social services; section V analyzes what the peace dividend will mean for the agriculture sector, one of the keys to stabilizing uprooted communities; section VI looks into prospects for private investment; and section VII discusses the conditions under which South Sudan could benefit anew from donor support for development; and section VIII concludes.

A NEW FRAMEWORK FOR A PEACE AGREEMENT

6. In retrospect, the IGAD-brokered peace agreement had many flaws, one fatal. The agreement was overly ambitious and complex, creating a plethora of institutions with neither the human capacity nor the financial means to establish them. When President Kiir signed the agreement he highlighted a long list of reservations and pointedly stated that he was being forced to sign it by the international community. It is not clear what the sponsors of this agreement thought of the reservations, but these were clear warning signs that the agreement was not standing on strong footing. One of his main reservations, the agreement's provision for Machar to bring with him a small army under his command in Juba, led to the unprecedented situation where two armies under two commands were asked to cohabitate in the same city. Tensions built rapidly between these armies until fighting resumed on July 7, forcing Machar to flee Juba.

7. A new, inclusive, peace agreement is needed. Thousands of people have been killed recently in attacks and revenges targeting civilians on the basis of their ethnicity. These developments owe essentially to the disenfranchisement felt by many ethnic groups. The government army is also accused of using heavy-handed tactics in quelling rebellions and political dissent. Some see these developments turning into a deadlier civil war, possible genocide, and total break-up of the country. In this environment ethnic groups have been arming, seemingly to protect themselves. Only an inclusive process acknowledging various grievances and sharing power and resources can arrest the steady march towards disintegration of the country. Seemingly recognizing this risk, President Kiir recently initiated a "national dialogue" to be moderated by eminent, respected, and nonpartisan South Sudanese. It remains to be seen how this initiative will unfold and whether it will succeed in restoring peace and unity.

DEFINING THE PEACE DIVIDEND

8. The peace dividend has been narrowly defined as the benefit accruing to an economy as a result of the end of armed conflict whether internal or external. But in the context of South Sudan, the concept of peace dividend has to be expanded to include conditions for restoring sustained economic growth and poverty reduction after the protracted state of civil war (including both the war of independence and the current civil war with a short hiatus in the middle). Though seemingly vast and unspecific, this definition is actually what peace is expected to deliver in this country that is struggling to build a modern economy and strong institutions. The literature on peace dividend offers some interesting insights into the situation in South Sudan.

9. Peace dividends can prove illusory. A 2003 World Bank report states that on average 44 percent of countries emerging from civil war return to conflict within the first five years, as the conditions that breed civil war often remain after the war has ended. Indeed, some of these countries fall in the *conflict trap* whereby conflict impoverishes the country, creating the conditions for further conflict over control of smaller resources. Analyzing the concept of peace dividend in Angola after the civil war ended, Manuel Ferreira (2005) finds that "vested interests" established during years of civil war actually prevent the peace dividend from being achieved. Strong vested interests are also a well-established feature of politics in South Sudan and they have proven quite entrenched.

10. South Sudan unfortunately will continue to exhibit traits typical of a country that has suffered from a protracted civil war. Collier and Hoeffler (2002) empirically identify three economic factors that determine the probability of civil war: (i) doubling of *per capita income* halves the risk of rebellion; (ii) each additional percentage point of *growth* reduces the risk of civil war by 1 percentage point; (iii) *primary commodity dependence*: it is a nonlinear effect that peaks when the country primary commodity exports represent 30 percent of GDP. They found that a decline in the price of primary commodities that the country exports is a key factor that shortens civil conflict. All of these factors apply to South Sudan and point to the need to restore growth and diversify the economy that remains too reliant on crude oil. One could argue as well that the abrupt drop in oil prices played a key role in the compromise that led to the IGAD-brokered peace agreement, as it has become financially impossible to sustain large war-related spending. The authors also identified ethnic dominance as a source of civil war. Ethnicity is certainly playing a toxic role in the current civil war. Overcoming these challenges is critical for South Sudan to benefit fully from restoration of peace.

REFOCUSING ON THE SOCIAL AGENDA

11. South Sudan social indicators are very poor and have worsened during the civil war. The peace dividend in this area is to restore normalcy and for the government to restart the process of delivering public services in education and health. Generally, the government in these sectors has been substituted by donor humanitarian assistance delivered by specialized international nongovernmental organizations.

12. In the education sector, the government has plans to improve key indicators (see table below). The objective is to increase student enrollment as well as the teacher-to–pupil ratio in both primary and secondary education. To achieve this, the government estimates that it needs to devote an additional 4 percent of GDP to the education sector per year.

	2011	2012	2013	2014	2015	2016	2017
Primary Eductaion							
Enrolment	1 391 704	1 583 995	1 769 365	1 944 704	2 129 623	2 323 887	2 527 891
Gross Enrolment Ratio	62.70%	67.60%	72.50%	77.30%	82.20%	87.10%	92.00%
Number of Teachers	26 549	26 876	31 852	37 282	43 662	51 201	60 188
Students per teacher	52.4	58.9	55.5	52.2	48.8	45.4	42
Secondary Education							
Enrolment	44 084	50 590	57 675	63 026	68 713	74 684	80 952
Gross Enrolment Ratio	5.90%	6.30%	6.70%	7.20%	7.60%	8.00%	8.40%
Number of Teachers	2 723	2 574	3 150	3 726	4 302	4878	5 454
Students per teacher	16.2	19.7	18.3	16.9	16.0	15.3	14.8

Sources: South Sudan Ministry of Education, 2014

13. In the area of health, the Government Health Sector Development Plan envisages improving health and service delivery towards regional levels (see table below). Spending amounting to around 3 percent of GDP per annum was envisaged in the health sector. Because of the civil war the government fell short of the targets. The peace dividend, if realized, could provide the government with the means to make progress in achieving its health targets.

Indicator	**South Sudan**	Regional level averages	Indicator Key
Maternal Mortality Rate	**2,045**	210	Deaths per 100,000 live births
Infant Mortality Rate	**102**	33	Deaths per 1000 live births
U5 Mortality Rate	**135**	43	Deaths per 1000 live births
Total Fertility Rate	**6.7**	2.9	Births per women
First Antenatal visit	**48%**	78%	Visit during pregnancy
Institutional deliveries	**13.6***	65	Deliveries attended at HFs
Skilled Birth Attendance	**10%**	76	All deliveries attended by skilled HRH
Contraceptives Prevalence Rate	**<3%**	56	Use of contraceptives among CBA women
DTP3 coverage (routine)	**71 (routine)**	89	% of children vaccinated
Stunting			
Access to health care (%)	**0.2 (<25%)**	NA	Visit per person/year

RESETTLING UPROOTED COMMUNITIES

14. Resettling about three million South Sudanese who are either internally displaced or refugees in neighboring countries as a result of the civil war is an absolute necessity. The task is massive as it involves not only economic factors but also ethnic, social, and political dimensions. Many among the displaced are afraid to return where their communities used to live, as they have witnessed or suffered atrocities in these places and are not sure about their safety. Ethnic tensions and fights over scarce resources, some predating the civil war, have compounded these fears. Many have lost everything and are wary to go back to start from scratch with no guarantee that they will not be victimized again. Indeed, law enforcement and protection of civilians are critically in short supply in a country where growing lawlessness reigns in many areas. Estimates for the cost of resettlement are hard to come by, but it will require setting aside several points of GDP. Whatever the difficulties, it is important that resettlement be accompanied by some sort of economic activity so that the returnees can generate income by and for themselves.

15. Agriculture and farming in general are excellent ways of resettling population to their original communities. Resuming production and being able to live off of that production after years of wandering in refugee camps would surely look and feel like a peace dividend to these populations. South Sudan has the potential to become an agricultural power house as it is exceptionally endowed with fertile land, water, and ecological diversity. According to official estimates, only 4.3 percent of arable land is cultivated and that ratio has likely declined due to the civil war. Food insecurity is a real problem affecting countless communities that rely on humanitarian assistance for survival. The government's objective in the medium-to-long term is to increase areas cultivated to 9.7 percent. Increased domestic production would help address food insecurity but also save foreign exchange, as currently South Sudan paradoxically imports the vast majority of its food. An area where South Sudan is already well positioned is livestock whose headcount is close to 40 million; but lack of transportation connecting the country within and with its neighbors implies that livestock remains subsistence goods or store of value rather than commercial goods. To fully realize the peace dividend in the farming sector would require investing funds not only to resettle people, but also to develop basic transportation infrastructure that would help open untapped markets.

POTENTIAL FOR NEW PRIVATE INVESTMENTS

16. An important aspect of the peace dividend is South Sudan's ability to attract large inflows of foreign investment. Civil war has reduced such prospects. But with relative peace, the areas of attractiveness in the relatively short run could be agriculture, mining, light manufacturing, and services among others. Unification of the exchange rate has helped by realigning relative prices and bringing the market for foreign exchange largely in the open.

- According to the South Sudan infrastructure action plan, transforming agriculture from essentially subsistence activity to one that contributes to exports will require investment in the order of US$200 million per year over the medium term, including for building roads. Such investment would require a combination of public, private, and donor funding.

- In the area of mining, the challenge is to transform mineral resources from a curse to an opportunity for the country. The current declining trend in commodity prices is not conducive for investment and large-scale projects have been shelved for the moment, including in oil exploration. However, the potential is there not only in the oil sector, but in other minerals such as iron, diamond, copper, nickel, marble, and gold. Artisanal gold mining is already taking place largely benefiting warlords, but with organization it could become a significant foreign exchange earner for the country.

- The light manufacturing sector has been badly affected by the dual exchange rate, the scarcity of dollars, the economic downturn, and sometimes bad policies. For example, scarcity of bottled water caused by administered pricing was eliminated as soon as price restrictions were lifted. There is a clear comparative advantage for manufacturing in South Sudan rather than importing because the country is in construction and its position far away from the coast make transportation costs very high.

- The service sector developed rapidly with banks and insurance companies, in particular, opening branches around the country. But widespread destruction and looting during the civil war seem to have set these activities back significantly and it would take some time and effort to see the kind of expansion that was taking place before the crisis. Yet the prospects are bright, as mobile phone services, for instance, continue to expand and mobile banking is poised to make a breakthrough.

WHAT TO EXPECT FROM THE DONOR COMMUNITY?

17. **An important aspect of the peace dividend for South Sudan would be the country's ability to attract development assistance**. So far the vast majority of assistance to South Sudan has been provided in the form of humanitarian assistance. Due to civil war and governance problems donors have been reluctant to provide development support. Many donor-funded projects have been put on hold. This trend worsened after the resumption of fighting in July. Should there be peace, donors would likely condition development assistance on the existence of an IMF-supported program to help safeguarding public funds and an appropriate overall macroeconomic framework.

18. **Unfortunately, South Sudan is unlikely to receive any budget support in 2016/17**, despite the importance of the balance of payment shock and depth of macroeconomic imbalances, and notwithstanding any serious efforts at reforming. After the government has undertaken tough but realistic adjustment policies, the remaining gap to be filled could be in the range of US$300–400 million per year over at least two fiscal years. Only sustained peace would put South Sudan in a position to receive such support. It is therefore imperative for South Sudanese to come together to make peace among themselves before they could count on their friends in the international community.

CONCLUSION

19. **Whether there is a peace dividend in South Sudan could be verified through a number of changes**. First and foremost, the fighting must stop. One should expect a reduction in the number of displaced people and refugees and resettlement of population in their communities where they would be undertaking income-generating economic activities. As the relative weight of oil in the economy declines, the economy should diversify with sectors such as agriculture making for a larger share of the economy. In the area of management of public affairs, institutions of

economic governance and of political representation must be built or reinforced; the rule of law must be strengthened, and transparency and accountability hold more sway. More than mere saving on war spending, peace dividends in South Sudan should reflect progress in refocusing the country toward building a functioning government that works for and protects all citizens and an economy that provide opportunities for a better life.

Bibliography

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INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

March 1, 2017

Prepared By

Staff of the International Monetary Fund in Consultation with staff the World Bank and the African Development Bank

CONTENTS

RELATIONS WITH THE FUND

(As of December 30, 2016)

Membership status. Joined on April 18, 2012.

General Resources Account	SDR Million	% Quota
Quota	246.00	100.00
Fund holdings of currency	246.00	100.00
Reserve Tranche Position	0.00	0.00

SDR Department	SDR Million	% Allocation
Net cumulative allocation	105.41	100.00
Holdings	2.08	1.97

Outstanding Purchases and Loans

None

Latest Financial Arrangements

None

Projected Payments to Fund (SDR million; based on current use of resources and present holdings of SDRs)

	Forthcoming				
	2017	2018	2019	2020	2021
Principal					
Charges/interest	0.25	0.25	0.25	0.25	0.25
Total	0.25	0.25	0.25	0.25	0.25

Exchange rate arrangement

South Sudan introduced its currency (the South Sudanese Pound) upon independence in July 2011. In September 2011, the Bank of South Sudan (BSS) pegged the exchange rate at 2.95 SSP per U.S. dollar. The de jure exchange rate arrangement was a conventional peg against the U.S. dollar. In the first week of the new currency, after independence, the exchange rate was determined by a central bank auction. However, this system was abandoned after it resulted in a jump of the rate from 2.9 to 3.5 SSP/US$, and the exchange rate was fixed again at 2.96 SSP/US$. The exchange rate remained fixed to the US dollar from 2011 to mid-2015, even when foreign exchange receipts fell; first during the 2012 government's shutdown of oil production and then again when oil prices and production fell in 2014.

In mid-December 2015 the authorities introduced a de jure floating exchange rate regime, which led to an 84 percent depreciation of the exchange rate. Under the new regime, the Bank of South Sudan (BSS) supplies foreign exchange to commercial banks in auctions and an indicative market rate is determined from the auction rate and the rate charged by commercial banks. All government transactions are carried out using the indicative market rate. The reform was successful in reducing the spread between the official/indicative and parallel exchange rates. The reform also included abolishing of exchange controls. However, excessive expansionary monetary policy has continued to exert downward pressure on the exchange rate and undermined convergence of the official and parallel rates. Accordingly, the de facto exchange rate arrangement has been reclassified to other managed from conventional peg, effective on December 15, 2015.

South Sudan maintains exchange restrictions and a multiple currency practice (MCP) under the transitional arrangements of Article XIV. The exchange restrictions arise from: imposing absolute ceilings on the availability of foreign exchange for certain invisible transactions (travel, remittances for living expenses of students and families residing abroad, transfers of salaries by foreign workers). The MCP, which also gives rise to an exchange restriction due to extra burden, arises from the spread of more than 2 percent between the parallel market exchange rate and the formal commercial exchange market rate.

Article IV consultation

The last Article IV consultation with South Sudan took place in 2014 (SM/14/316).

Capacity Development[1]

IMF technical assistance and training were scaled up after independence. In October 2012, the Fund launched a five-year dedicated capacity building program supported by a multi-donor trust fund. South Sudan is not yet a member of the East Africa Technical Assistance Center.

A. Headquarters missions and short-term experts: July 2011-December 2016

Department[2]	Time of Delivery	Purpose
FAD	August 2011	Priority measures to reform the nonoil tax system and revamp tax and customs administration.
FAD	August 2011	Assessment of the public financial management system.
STA	November-December 2011	Monetary and Financial Statistics
MCM	November 2011	Technical assistance needs assessment.
MCM	November 2011	Reserves management.
MCM	April 2012, June 2012	Assessment of the foreign exchange market.
MCM	August 2012	Assessment of Supervisory Capacity.
FAD	August-September 2012	Public Financial Management reform: implementation and Action Plan.
FAD	September-October 2012	Non-oil revenue administration.
ICD/AFR	October 2012	Financial Programming and Planning Course
STA	January 2013	Monetary and Financial Statistics.
MCM	February 2013, May 2013	Foreign exchange market liberalization.
FAD	February-March 2013	Revenue Administration (follow-up mission).

[1] The program was suspended between December 2013 and September 2014 because of insecurity caused by political instability and the civil conflict.

[2] AFR: African Department; FAD: Fiscal Affairs Department; ICD: Institute for Capacity Development; LEG: Legal Department; MCM: Monetary and Capital Markets Department; STA: Statistics Department.

Department	Time of Delivery	Purpose
MCM	March 2013	Payments' system
STA	March 2013	External sector statistics.
LEG	April 2013	AML-CFT diagnostic and reform agenda.
MCM	July 2013	Payments System.
MCM	October 2013	TA Evaluation Mission.
MCM	October 2013	Payments System.
STA	October 2013	National Accounts Statistics.
FAD	October 2013	Program of capacity development to MOFCIEP on petroleum issues.
LEG	November 2013	AML/CFT reform agenda.
FAD	November 2013	Strengthening the large taxpayers' unit, management of exemptions.
FAD	November 2013	Review of Public Financial Management reforms.
STA	November 2013	Government Finance Statistics.
FAD	October 2014	Follow-up mission on tax administration
FAD	December 2014	Managing petroleum revenue and expenditure arrears
STA	April 2015	Balance of payments statistics
STA	September 2015	National accounts statistics
STA	Oct-Nov 2015	Government finance statistics
STA	November 2015	External sector statistics
MCM	November 2015	Building a foreign exchange auction platform
MCM	January 2016	Follow-on foreign exchange auctions
FAD	May 2016	Budgetary reporting, budget framework and cash management
FAD	May 2016	Revenue administration and tax policy

B. Long-term advisors

Department	Period of Delivery	Purpose
STA	February 2012-December 2013	Monetary and financial statistics
MCM	March 2012-September 2013	Central Bank Organization
AFR	February 2013-August 2014	Macroeconomic framework
ICD	May 2013-December 2013	Banking Supervision
MCM	May 2013-December 2013	Central bank accounting
MCM	May 2013-December 2013	Banking supervision
MCM	September 2014-September 2016	Central bank accounting
MCM	September 2014-September 2016	Banking supervision
MCM	October 2014-October 2016	Monetary and foreign exchange operations
STA	October 2014-October 2015	Monetary and Financial Statistics
AFR	February 2015-February 2017	Macroeconomic framework
MCM	May 2015-November 2016	Reserve management

Resident Representative

Mr. Philippe Egoume was appointed the Fund's Resident Representative in South Sudan in September 2014. He was preceded by Joseph Karangwa, who became the first Fund's Resident Representative when South Sudan became an IMF member in April 2012.

JOINT BANK-FUND WORK PROGRAM

Title	Products	Timing of Missions	Target Board Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Lending**		
	Institutional Development and Capacity Building Credit		July 20, 2017
	Energy Sector Technical Assistance		December 14, 2017
	Agriculture Development		April 19, 2017
	Safety Net and Skills Development Project Additional Financing		October 22, 2017
	SS-Local Governance and Service Delivery Additional Financing		July 31, 2017
	Capacity Development		**Completion Date**
	Oil Sector Support		Delivered
	Energy sector support		Delivered
	ICT sector support		Delivered
	Revival of Tertiary Education Sector		Delivered
	Credit Reporting		Delivered
	Program Support to IDPs and Refugees		December, 2016
	Analytical Work		**Completion Date**
	Quarterly Economic Briefs		At the end of each quarter, starting Sep 2014
	Governance Review		Delivered

Title	Products	Timing of Missions	Target Board Date
	Enhancing Understanding and Informing Programming through Support for Return and Reintegration of IDPs and Refugees		December 2016
	High Frequency Survey		April 2017
	Inclusive Growth Country Economic Memorandum		March 2017
	South Sudan #A015 Strengthening Accounting and Auditing Legal Framework		December 2016
	South Sudan Startup Business Grant		December 2016
	South Sudan Financial Sector Dialogue and Development Implementation		June 2017
	Strengthening PFM and Procurement Capacity in South Sudan		Delivered
	South Sudan Governance Analysis: What can work for capacity		February 2017
	Alternative Service Delivery Options in South Sudan		April 2017
	South Sudan Policy Dialogue		May 2017
	Technical Assistance to Disarmament, Demobilization and Rein		April 2017
	Jobs and Livelihoods report		Delivered
	Health Public Expenditure Review		Delivered
	Indigenous Peoples in SS Facility for Quality Enhancement & Innovation		Delivered

Title	Products	Timing of Missions	Target Board Date
	Private sector and Job Creation		Closed
	Investment Climate Assessment		Delivered
	Fostering Competitiveness and Growth		Delivered
	Road Sector Strategy Note		Delivered

Title	Products	Timing of Missions	Target Board Date
Fund work program in next 12 months	**Policy Advice**		
	1. Article IV consultation	December 2017	March 2018
	Capacity Development		
	1. Oil Revenue Management	June 2017-March 2018	N/A
	2. Public Financial Management	June 2017-March 2018	N/A
	3. Monetary and Foreign Exchange Operations	June 2017-March 2018	N/A
	4. Central Bank Organization	June 2017-March 2018	N/A
	5. Tax and Customs Administration	June 2017-March 2018	N/A
	6. Balance of Payments Statistics	June 2017-March 2018	N/A
	7. National Accounts Statistics	June 2017-March 2018	N/A
	8. Fiscal Statistics/GFSM 2001	June 2017-March 2018	N/A
	9. Monetary and Financial Statistics	June 2017-March 2018	N/A

B. Sharing of Work Program Inputs	
From Bank to Fund staff	Memos for Bank missions and back to office debriefs, draft internal assessments of fragility, business climate, CPIA, public expenditure review, civil service reform, and other relevant structural reforms.
From Fund to Bank staff	Macroeconomic framework, briefing memoranda, policy notes, back-to-office reports, and staff reports.

WORLD BANK OPERATIONS[3]

Date of Latest Interim Strategy Note (ISN): February 28, 2013 (Joint IDA and IFC ISN, covering the period FY13-FY14). An update to the World Bank Board was provided in March 2014.

The Bank's Interim Strategy for South Sudan supports the Government development agenda to help the country head out of fragility to stability. The Bank's program of activities pursues two complementary objectives of: (i) improving economic management and governance for effective local service delivery; and (ii) expanding productive employment opportunities. The first political and security crises, which erupted in Juba on December 15, 2013 and later engulfed six of the ten states in South Sudan, prompted the Bank, together with South Sudan's other Development Partners, to evaluate on how best to respond. As a result, the World Bank Group formulated the following principles for engagement – which were discussed at the Bank's Board in March 2014: (i) protecting core functions of government; (ii) protecting the vulnerable by supporting livelihoods and ensuring the delivery of basic services: (iii) investing in knowledge; and (iv) protecting development gains.

When conflict renewed in July -2016, The World Bank country office in juba closed and the staff relocated to Nairobi. All Bank's operations were put on hold due to the security situation. The country team has taken immediate steps to protect the funds in the Designated Accounts immediately following the evacuation. Additional fiduciary, operational arrangements and risk mitigation measures were implemented to provide more oversight to the existing projects and reduce fiduciary risk and ensure appropriate use of the Bank proceeds. The Bank is monitoring the situation on the ground to inform its engagement strategy. *The next steps and the operations modality are still under discussion.*

A systematic Country Diagnostic completed in June 2015, and the Concept Note for the Country Engagement Note was prepared and shared for review. However, the process has been delayed by the eruption of the conflict in July 2016

Ongoing Operations (as of December 22, 2016)

The current World Bank-approved projects comprise:

(i) The *South Sudan Rural Roads Project (US$38 million), funded from the South Sudan Transitional Trust Fund which attempt to strike a balance between delivery of quick impact and building institutional capability. closed October* 2016. It was focusing on labor-based upgrading and maintenance of rural roads and building state and national capacity for rural infrastructure management

[3] On the proposed lending, please note that these are notional for now and so are the Board dates.

(ii) The *Emergency Food Crisis Response Project (US$ 2.7 million),* funded from the Global Food Crisis Response Fund, provides assistance to South Sudan in mitigating the impacts of the continuing food crisis;

(iii) Four IDA supported projects including : (a)the *Local Governance and Service Delivery Project (US$50 million)* which builds the capacity of local governments and communities on planning, implementing and monitoring development activities; (b)the *Social Safety Net and Skills Development Project (US$21 million),* which has the objective of providing access to income opportunities and temporary employment to vulnerable households as well as establishing a sustainable social protection systems in South Sudan; (c)the *Statistical Capacity Building Project(US$ 9 million)* which helps the government carry out poverty surveys, produce reliable GDP estimates, and build the foundation for an evidence-based decision making culture in South Sudan; (d) the *Health Rapid Results(US$40 million) Additional Financings*.

(iv) *The South Sudan Eastern Africa Regional intervention project (US$80 million* in *its first phase*) will contribute to the construction and maintenance of a core highway from the Kenya border to Juba that could serve as a gateway to the central and north-western parts of South Sudan. The project leverages regional IDA resources and potential financing partners, including China, the African Development Bank, and possibly others. The operation will also provide support for the ICT Sector.

(v) The IDF grant project: *Strengthening the Capacity of the Audit Chamber (US$ 299,144K)* support capacity building in the indicated organizations.

Pipeline Operations FY 2017-2018

The Bank's pipeline operations include five investment interventions:

(i) *the Institutional Development and Capacity-Building project (US$20 million)* will continue to deepen efforts and move toward a more medium to long-term approach to public sector strengthening; (ii) *the Energy Sector Technical Assistance Project (US$15 million)* will strengthen the capacity of the GRSS to facilitate the development of its energy sector planning capabilities, electrical distribution efficiency, and off-grid electrification programs; (iii) the *Agriculture Development Project (US$50 million)* will contribute to increasing crop production and productivity of participating households in selected project areas and laying the foundation of the recovery of the sector; iv) Additional Financing Local Governance and Service Delivery (US$52 million) ;and the Safety Net and Skills Development Project Additional Financing(US$30 million)

An extensive analytical work and technical assistance is complementing the Bank's lending activities.

AFRICAN DEVELOPMENT BANK OPERATIONS

The African Development Bank Group's first strategy for South Sudan was laid down in the Interim Country Strategy Paper (I-CSP) 2012-2014 approved by the Boards of Directors in October 2012. The I-CSP was aligned with the South Sudan Development Plan (SSDP) 2011-2013, which is now extended to 2016. Thee I-CSP is articulated around one main pillar: "State Building through Capacity Building and Infrastructural Development". The particular emphasis is on creating the conditions for promoting peace, stability and state building, through assisting the country in human and institutional capacity building in public financial management and aid coordination and in implementing infrastructural programs as well as quick-win infrastructure projects with rapid impact on peace, security, livelihood and the investment climate. The I-CSP, which expired in December 2014 was updated and extended to the end of 2016. Extension of the I-CSP was motivated mainly by the Government's extension of its development strategy document (The SSDP 2011-2013) to 2016. The extended I-CSP, which was approved by the Board in 2015, is articulated around the same single pillar of the original I-CSP. The extended I-CSP (2014-2016) has ended in December 2016 and the Bank in the process of finalizing a new Country Strategy Document to cover 2017–18.

Ongoing Operations

As at December 2016, the Bank's South Sudan portfolio comprises six operations amounting to UA 35.64 million (see Table 1). In terms of sectoral distribution, the power sector has the largest allocation amounting to UA16.96M (48%), while Transport sector amounts to UA6.93M (19%), and Water Supply and Sanitation UA4.95M (14%), Financial sector amounts to UA4.8M (13%) and Multi-sector amounts to UA2M (6%). The operations focus on infrastructure development and institutional capacity building, consistent with the engagement principles agreed with development partners and the Bank's priorities and strategies. The average project size is UA 5.94 million, which is very low mainly due to the small size of the country's resource allocations. The average age of the portfolio is 2.1 years and the cumulative disbursement rate is 14.8%. Two projects worth 21 million which were to be approved in November 2016 were delay for security reasons and are now supposed to be approved in February 2017.

Pipeline Operations for FY 2015-2016.

For 2015-16, the Bank has allocated South Sudan UA 36.94 Million consisting of grants amounting to UA 16.97 million (ADF Performances Based Allocation UA 6.89 Million and UA 10.08 Million Transitional Support Facility) as well as of loans amounting to UA 19.97 Million (ADF Performances Based Allocation UA 8.11 Million and UA 11.86 Million Transitional Support Facility). The Pipeline Projects are: the urban water supply and sanitation project, the Juba Power Distribution System Rehabilitation and Expansion project supplementary loan, the Lobira-Kapoeta Road Project, and the Institutional Support Project. All the four operations are expected to be considered for Board approval before end ADF-13; i.e. by end-2016.

AfDB Funded Operations (as of October 31, 2016)

Project Name	Amount Approved (Million Unit of Account)	Description/purpose
Public Finance Management and Aid Coordination	4.8	The objectives of the project are to (i) build and enhance transparency and accountability in the use of public resources through training, skills transfer to (ii) improve aid coordination; and, (iii) enhance the operational effectiveness of beneficiary institutions by providing basic office equipment. The project has disbursed UA 1.93 million. Financing Source: Fragile States Facility (FSF)
University of Juba Capacity Enhancement	0.32	The project intends to enhance the capacity of the University of Juba to provide training in auditing, fiduciary management and resource mobilization with a view to enhancing functional capacities of public sector officials, in improving service delivery, and ultimately, professionalization of these key functions. The project has disbursed UA 0.14 million Financing Source: Governance Trust Fund
Technical Assistance for Transport sector	6.93	The objectives of the proposed project are to enhance institutional setup and capacity, improve human resource capacity, streamline the transport infrastructure development, provide information for policy makers with regard to economic diversification and strengthen project management and implementation capacity. The project was launched in October 2014 and has fulfilled all necessary condition to start disbursement. Financing Source: Fragile States Facility (FSF)
Juba Electricity Distribution System Rehabilitation and Expansion project	16.96	The Project aims at strengthening the power distribution networks in Juba in order to provide reliable electricity and increase access in the city. The supply will improve the quality of life of the residents; improve the performances of the service providers; and promote businesses, thus contributing to economic growth and poverty reduction in South Sudan. The project was signed in May 2014, and fulfilled all necessary condition to start disbursement. Financing Source: ADF- Performance Based Allocation

Indicative Pipeline Operations (2015-2016)

Project	Indicative Amount in UA (million)	Sources of Funding	Status	Approval
Juba Power Distribution System Rehabilitation and Expansion project – Supplementary grant	10.61	ADF- PBA	Identified	2016
Multinational: Djibouti Corridor – Lobira-Kapoeta Road Project	20.5	ADF-PBA & TSF	Preparation	2015
Institutional Support Project	10.88	TSF	identified	2016
Urban Water Supply and Sanitation	4.95	TSF	Approved	2016

STATISTICAL ISSUES

Data provision has serious shortcomings that significantly hamper surveillance. With the exception of consumer prices, monetary, and exchange rate data, other macroeconomic data have important weaknesses in terms of quality, periodicity, and timeliness. Some progress with data quality and compilation was made between 2011 and 2013, but it was partly reversed in 2014 owing to displacement of civilians, the exile of local statisticians, and the interruption of technical assistance. Since the end of hostilities in 2015, technical assistance missions have resumed and significant progress has been achieved in capacity building and data quality.

Real sector

- Price indexes. A monthly Consumer Price Index (CPI) covering Juba, Wau, and Malakal is compiled (data for Malakal are not available for 2014 because of the conflict), based on the 2009-10 Household Budget Survey. To ensure appropriate weights are used, a new household survey will need to be conducted when peace and security are established. Import price indexes are not available and will require substantial investment in source data development (particularly at customs). Monthly CPI figures are available on the National Bureau of Statistics (NBS) website.
- GDP/GNP/National Income. The NBS compiles and publishes GDP at current and constant (2009) prices from the expenditure side. However, the figures are quite weak due to a lack of source data. Preliminary estimates on income (mainly profits to direct investors in the oil sector) facilitate the estimation of GNI. Work on source data and on the production-based GDP estimates is a priority which will require, inter-alia, an agriculture survey and continued technical assistance.

Fiscal sector

- Government finance statistics (GFS) are virtually non-existent due to the lack of dedicated GFS staff at the Ministry of Finance. The last GFS mission took place in November 2015 and scheduled missions for 2016 (namely 2 TA missions and 1 GFS debt workshop) were cancelled due to the security situation at present. Even while acknowledging the security situation, the authorities have been very slow to engage with STAGO on organizing GFS missions.

Monetary sector

- Foreign reserves. Data on the Bank of South Sudan's (BSS) holdings of foreign exchange are available from the BSS.
- Exchange rates. Data on the bid and ask exchange rates vis-à-vis the U.S. dollar applied by the central bank, and on the exchange rate prevailing in the parallel market, are available from the BSS.
- Monetary data for other depository corporations (ODCs). The ODCs for South Sudan comprise commercial banks only. An aggregated ODCs balance sheet and an ODCs survey are compiled on a monthly basis by the BSS.

- Monetary data for the BSS. The balance sheet of the BSS is available on a monthly basis. The BSS has not completed the reconciliation of its charts of accounts. Data based on the electronic system does not tally with manual records, particularly for foreign currency deposit accounts abroad.
- The BSS compiles and reports to STA the Standardized Report Forms (SRFs) 1SR for central bank, 2SR for ODCs, 5SR for monetary aggregates, and 6SR for interest rate. It also reports Form 01R for exchange rate Data on other financial corporations e.g. insurance corporation, are not compiled by BSS.
- Interest rates. Data on interest rates on deposits and lending are available from a few commercial banks.

Financial Soundness Indicators (FSIs): The BSS compiles FSIs for its internal use, but has not granted approval to the IMF STA to publish it.

External sector

- Data on external sector statistics are scant. The BSS, responsible for compiling these data, has been producing balance of payments statistics, but only data for 2014 have been disseminated.
- Data on cross-border transactions through the banking system are collected by the BSS' international transactions reporting system, but the coverage of data is incomplete due to non-reporting commercial banks. There are reliable estimates for oil exports based on volume and price data. Informal trade data are estimated by using NBS's GDP data. Services and primary income data are weak.
- Occasionally, partial data from official sources on income and current transfers are available. Data on commercial banks' foreign assets and liabilities, and on BSS' reserve assets are obtained from reliable source data.
- Data on direct investment flows and positions are virtually nonexistent and international investment position statistics are not compiled.
- Gross external debt. At the time of its secession from Sudan, South Sudan had no official external debt. Some external public debt has been accumulated since end-2012 and information about terms and amounts has been shared with Fund staff. However, these data are not published and public or private debt statistics are not available.

Data Standards and Quality

- South Sudan does not yet subscribe to the General Data Dissemination System (GDDS).

Republic of South Sudan: Table of Common Indicators Required for Surveillance
(As of January 5, 2017)[1]

	Date of latest observation	Date received	Frequency of data	Frequency of reporting	Frequency of publication
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities [2]	Current	Current	M	M	N/A
Reserve/Base Money	Nov. 2016	Dec. 2016	M	M	M
Broad Money	Nov. 2016	Dec. 2016	M	M	M
Central Bank Balance Sheet	Nov. 2016	Dec. 2016	M	M	N/A
Consolidated Balance Sheet of the Banking System	Nov. 2016	Dec. 2016	M	M	M
Interest Rates	N/A	N/A	N/A	N/A	N/A
Consumer Price Index	Nov. 2016	Jan. 2017	M	M	M
Revenue, Expenditure, Balance and Composition of Financing– General Government[3]	May 2016	June 2016	M	Q	N/A
External Current Account	2015	May 2016	N/A	N/A	N/A
Exports and Imports of Goods and Services	2015	May 2016	N/A	N/A	N/A
GDP/GNP	2015	June 2016	A	A	A
Domestic government debt	May 2016	July 2016	Q	Q	N/A
Gross External Debt	May 2016	May 2016	N/A	N/A	N/A
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Daily (D); Monthly (M); Quarterly (Q); Annually (A); Not Available (N/A).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately.
[3] Data on composition of financing not yet available.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

STAFF REPORT FOR 2016 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

March 1, 2017

Approved by
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Prepared by the staffs of the International Monetary Fund and the International Development Association

Despite moderate levels of external debt, the combined impact of a civil conflict, a large fall in oil prices, and high levels of fiscal spending has left South Sudan in debt distress. This crisis has caused payment delays on international obligations, on civil servant salaries, and other government obligations. Moreover, international lines of credit have been restructured on longer maturities, international reserves have declined to near exhaustion, and the country is currently constrained from accessing long term external financing. However, assuming implementation of the recently adopted economic *adjustment policies and a successful peace process, the debt outlook would improve considerably which could allow for a gradual resumption of external financing. However, vulnerabilities remain high and a prolonged period of lower oil prices or failure to address the country's economic and security problems could cause continued debt sustainability problems.*[1]

[1] The risk rating is assessed using Debt Sustainability Framework for Low-Income Countries (LIC DSF). The DSA presented in this document is based on a unified 5 percent discount rate. South Sudan has a "weak" policy performance based on the 2015 CPIA score of 1.9. The thresholds, which apply to external public and publicly-guaranteed debt, are: 30 percent for the present value (PV) of external debt-to-GDP ratio, 100 percent for the PV of external debt-to-exports ratio, 200 percent for the PV of external debt-to-revenue ratio, 15 percent for the PV of external debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio.

See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries"

BACKGROUND

1. **South Sudan has fallen into debt distress despite moderate levels of public external debt**. At independence in July 2011, the country had neither domestic nor foreign debt.[2] However, since then the fiscal position deteriorated markedly because of a shutdown of oil production between January 2012 and April 2013, the civil conflict that erupted in December 2013, and the sharp drop in international oil prices since mid-2014. Moreover, a highly overvalued exchange rate in the period up to the liberalization of the foreign exchange market in December 2015 contributed to the rapid depletion of foreign exchange reserves. As a result, by June 2016, the stock of domestic and external debt owed or guaranteed by the central government amounted to about US$1.4 billion (38 percent of GDP), while foreign exchange reserves had dwindled to about US$70 million (about 2 weeks of prospective imports).[3]

2. **The economic crisis and continued political instability led to credit rationing by external lenders in 2016, except for a few short-term oil advances.** Total external debt therefore remained at about US$1 billion through 2016. By June 2016, debt to the World Bank amounted to US$34 million on IDA terms, while US$100 million had been borrowed from China Exim Bank to reconstruct Juba international airport. The balance of outstanding oil advances from international oil companies and traders is estimated at US$219 million. Finally, the Bank of South Sudan (BSS) has an outstanding liability to the Qatar National Bank amounting to about US$610 million, originating from short-term credit facilities (guaranteed by the Government of South Sudan) that fell into arrears in 2015.[4] In addition, South Sudan fell behind on payments to Sudan in 2015 and 2016 under the Transitional Financial Arrangement (TFA) signed in September 2012 (see details below). About US$290 million was in arrears by June 2016 according the authorities. However, preliminary information indicates that this amount was rescheduled with the recent signing of a new three-year extension agreement with Sudan in early 2017.

South Sudan Debt Stock as of June 2016

External debt (US$ millions) 1/	
World Bank (IDA)	34
China Exim Bank	100
Oil-related advances	219
QNB Line of credit	610
Total external borrowing	***963***
(In percent of GDP in US$)	*27.5*
Domestic debt (SSP billions)	
Borrowing from Bank of Sudan	17.3
Direct borrowing and interest accrued	14.8
Interest accrued on direct borrowing	0.4
Capital restoration and interest accrued	1.9
Interest accrued on capital restoration	0.2
Borrowing from commercial banks	1.8
Treasury bills	1.8
Interest accrued on Treasury bills	0.1
Arrears 2/	5.0
Total borrowing from domestic banking syster	***24.1***
(In percent of GDP in local currency)	*39.7*

1/ Excludes arrears of Transitional Financial Arrangement.
2/ Estimate and subject to verification.

3. **With external financing in short supply, South Sudan has resorted to domestic borrowing the central bank and commercial banks.** Domestic debt amounted to about SSP 24.1 billion by June 2016

[2] At South Sudan's secession an agreement was reached with Sudan that the latter would retain all external debts and assets (see below).

[3] By end-December 2016, foreign exchange reserves had fallen further to about 1 week of imports.

[4] This short-term debt was restructured in mid-2016 with an agreement to repay though monthly payments of US$10 million. This figure was reduced to US$5 million later in 2016.

(40 percent of GDP), of which total government borrowing from the BSS amounted to SSP 17.3 billion, and borrowing through Treasury bills from commercial banks amounted to SSP1.8 billion. Of the latter, about SSP1 billion were issued to domestic banks in 2012; since then they have been rolled over as the government has been unable to repay. The debt stock does not include domestic arrears accumulated in 2015/16 due to uncertainties about the amount. These arrears still need to be verified, but they could add another SSP 5 billion to government debt.[5]

ASSUMPTIONS

4. **The baseline reflects a macroeconomic adjustment conditional on the implementation of the adopted budget for fiscal year 2016/17 (July–June) and a gradual return to peace and political stability in the next couple of years.** The South Sudanese authorties announced a shift in policies in late 2016 with plans to embark on an economic adjustment program. The adopted policy measures involve multiple revenue measures and a sharp reduction in expenditures in 2016/17 that would substantially reduce the fiscal deficit and domestic financing needs.[6] Based on preliminary information, the envisaged polices have been broadly implemented during the first half of the fiscal year 2016/17. The baseline assumes continuation of this adjustment policy in the medium term. With implementation of economic stabilization policies and gradual peace, the baseline assumes that the economy and oil production will start to recover in 2018/19. There are, however, considerable downside risks to the baseline, as security conditions could deteriorate and undermine implementation of the envisaged stabilization policy, or international market conditions could change. To address these risks, customized scenarios have been prepared to illustrate the effect of (i) lower oil prices than envisaged in the baseline, and (ii) a delay in achieving peace and economic reforms.

5. **The transition to economic and political stability will support broader economic recovery followed by new investments in economic development.**[7] Over the medium term, prudent fiscal and monetary policies would ensure a return to price stability. At the same time, the government is expected to embark on a reform program, focusing on shifting the composition of spending towards social and infrastructure spending, and fostering transparency and accountability in the management of public resources.[8] Public investment is assumed to be scaled up over the medium term, with priority on transport

[5] Due to large fluctuations in exchange rates and domestic prices in the past couple of years, changes in debt and debt ratios should be carefully interpretated. For example, the large difference between the end-of-period and average exchange rate in 2015/16 and 2016/17 has led to a large discrepancy between measuring the debt-to-GDP ratio in local currency (as in the DSA template) and in U.S. dollars. For example, for 2015/16, the total debt-to-GDP ratio measured in local currency is 119 percent compared to 38 percent if measured in U.S. dollars. This factor also explains the very large residuals in Tables 1 and 3.

[6] See more details in the Staff Report for the 2016 Article Consultation for South Sudan.

[7] Unlike the previous DSA, estimates and projections for the DSA are based on fiscal year calculations, in line with projections in the staff report for the 2016 Article IV consultation.

[8] Under the baseline, the authorities are expected to proceed with plans to strengthen public financial management (including oil revenue management), primarily through improving budget execution and preventing domestic arrears, establishing a treasury single account, reorienting public spending towards development, and implementing the Petroleum Revenue Management Act and the forthcoming Public Procurement Act.

and energy infrastructure.[9] Economic stabilization and implementation of these reforms would lead to a recovery of oil production, a gradual resumption of trade, and an expansion of agriculture and mining activities, supporting a pickup in real GDP growth to 4½ percent per year from 2018/19 to 2021/22 (Box 1). In the outer years growth is expected to decline to about 2 percent, as oil production decreases in aging oil fields. The projections of public and publicly guaranteed debt (PPG) are derived from these assumptions.

Box 1. South Sudan: Macroeconomic Assumptions: 2016/17–2036/37

Real sector: Following several years of negative growth, real GDP is projected to expand by 4½ percent a year during 2019–22, largely driven by a recovery of oil production. Oil output is projected to remain at about 120,000 barrels per day in 2016/17–2017/18 and then gradually recover to about 145,000 barrels per day by 2019/20. It is assumed that investment in enhanced oil recovery and the reopening of oil fields that closed in 2013 would push up production to nearly 200,000 barrels per day by the mid-2020s. Thereafter, oil output is projected to fall to about 140,000 barrels per day in the 2030s. Non-oil real GDP growth is assumed to recover slowly from its current low base and reach an average of about 5 percent in the 2020s, primarily as the result of increased activity in agriculture, mining, and services. Average inflation is projected to fall from its current high level to high single digits within three years and remain at this level during the remaining forecast period.

Fiscal sector: Driven by the projected path for oil production and new tax measures, total revenue excluding grants is projected to rise from about 29 percent of GDP in 2015/16 to about 38 percent of GDP in 2019/20, and then gradually decrease to about 30 percent of GDP in the 2030s as oil production recedes. Noninterest expenditure is projected to decline to 34 percent of GDP in 2016/17, followed by a gradual recovery back to 38-39 percent of GDP in the mid-2020s, reflecting scaling up of public investments. Capital expenditures are projected to increase from very low levels to 7–9 percent of GDP in the 2020s. Based on these trends, the primary fiscal deficit (including grants) is projected to decline from around 9 percent of GDP in 2015/16 to 1–2 percent in the 2018–20. The primary balance is expected to remain close to balance in the 2020s, as declining oil revenue is compensated by lower payments to Sudan following completion of the TFA paymemts expected in 2022. In the outer years, the fiscal balance is projected to turn into deficit as oil revenue dwindles.

External sector: Exports of goods and services as a share of GDP are projected to increase in the medium term, supported by growth in both the oil and the non-oil sectors, and later decline as oil production begins to fade in the late 2020s. The share of imports of goods and services to GDP is expected to increase in the medium term because of the scaling up of public (and later private) investment but decrease after the mid-2020s as the non-oil economy develops and import substitution begins to take hold. Grants (current and capital transfers) are projected to gradually decline as the economy recovers and peace and development take hold. Current transfers to Sudan are expected to fall after 2022 as the obligations under the TFA is expected to be paid off.

6. The baseline assumes scaling up of external borrowing for infrastructure investments in the medium term while domestic borrowing will be cautious. In the short term, only limited domestic financing is projected through issuance of Treasury bills, while borrowing from the central bank is phased out by 2017/18. Concessional budget financing is projected to resume in 2017/18 but only with a relatively small amount. Over the medium term, new external debt is expected to be contracted to address the large infrastructure needs. Beyond completion of existing projects (where the Juba airport is by far the largest),

[9] If properly managed, a scaling up of public investment is expected to raise real incomes in the next two decades. The impact of the scaling up will depend on key structural conditions, such as absorptive capacity, the prudent management of mineral revenue, and a strengthening in the business environment.

implementation of a new investment program amounting to about US$1.5 billion is assumed to be financed over 5-6 years starting in 2017/18 (these estimates are based on identified priority projects in a preliminary public investment program prepared by the authorities). About half of this debt is assumed to be non-concessional, although the authorities are expected to approach multilateral and bilateral partners to increase the share of concessional debt.[10] These financing projections rely on the successful macroeconomic stabilization as assumed in the baseline. The projected overall external public sector borrowing requirements amounts to about US$2.8 billion in the next 10 years. In the 2030s, new external borrowing levels out at about US$250 million a year.

7. **There are considerable downside risks to the baseline.** There are external risks, mainly related to developments of oil prices, and internal political risks that could prevent the government from fully implementing the economic stabilization policy assumed in the baseline. Given South Sudan's short and volatile economic history, the standard DSA bounds tests do not apply. In this context two alternative scenarios have been developed: (i) a lower oil price scenario for the first five years of the projections period[11]; and (ii) a scenario that assumes postponement of peace and economic stabilization for the next three years. Comnpared to the baseline, this latter scenario assumes lower economic growth, a higher fiscal deficit, and constrained external borrowing (see text table).[12]

Macroeconomic Assumptions: Baseline and Alternative Scenario, 2018-20

	Baseline			Postponed adjustment		
	2018	2019	2020	2018	2019	2020
Real GDP growth (%)	1.1	3.5	6.2	0.0	0.0	0.0
Export growth (%)	8.0	10.9	17.3	7.8	4.4	3.1
Primary fiscal deficit (% of GDP)	3.2	1.8	2.5	8.2	8.8	12.5
Revenue and grants	31.8	33.4	35.8	29.8	30.4	32.8
Primary expenditures	35.0	35.2	38.3	38.0	39.2	45.3
New external disbursements (% of GDP)	4.7	10.0	10.6	2.0	1.6	2.5

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

8. **Assuming continuation of policies to achieve macroeconomic stability, South Sudan could gradually regain access to external financing but caution should be applied to the speed of scaling up and the terms of new borrowing.** Under the baseline scenario, the PV of debt-to-GDP gradually

[10] Most of this new debt is assumed be contracted with 15-18 years of maturity and a 5 year grace. The expected increase in concessional debt in the medium term will increase the grant element compared to the past.

[11] This scenario assumes a 10 percent lower oil price for five years compared to the baseline. It is a static scenario where baseline macroeconomic assumptions are maintained except for export values.

[12] Some external borrowing may still take place in the form of either short-term oil advances or accumulation of external payments arrears.

increases to above the threshold value within a few years. It will peak at about 10 percentage points above the threshold in the late 2020s and then fall below the threshold towards the end of the sample period. The PV of debt-export-ratio follows a similar pattern, but since it starts much lower compared to the threshold, it will never exceed the thredshold. The other ratios will remain below the threshold for most years. Generally, the debt ratios tend to peak around 2030, reflecting a slowdown in borrowing for public investments.

9. The baseline is sensitive to developments of oil prices. A lower oil price by 10 percent compared to the baseline for five years (2017/18–2020/21) would raise the PV of debt by about 10 percentage points of GDP during the initial years and then gradually adjust towards the baseline (note that this scenario also incorporates a decline in nominal GDP compared to the baseline since the value of oil production effects GDP). As a result, the PV of debt-to-GDP ratio breaks the threshold for most of the projection period, while the PV of debt-to-export ratio exceeds the threshold only in the outer years.

10. A delay in implementing policies to stabilize the economy could significantly worsen debt indicators. While the economic and debt implications of continued economic and political instability are wide ranging and difficult to predict, this alternative scenario assumes three years delay beginning 2017/18 in addressing the fiscal imbalance. It assumes a gradually increasing deficit by 10 percent of GDP through the three years, through revenue losses and higher expenditures, and constant real GDP. Mooreover, access to external financing is assumed to be limited during this period, i.e. higher deficits are mostly financed through domestic financing. While PV of external debt ratios decline initially due to small new disbursements, there are significant effects in the period after three years since part of the repayment of the higher domestic debt burden implicitly will be financed through new external borrowing. This and a lower starting point for GDP and export will significantly raise PV of debt-to-GDP and PV of debt-to-export ratios compared to the baseline in the rest of the projection period. Debt thresholds will be exceeded by a wide margin for several debt indicators.

11. A lack of a resolution of Sudan's external debt could affect South Sudan in the future. Under a cooperation agreement signed with Sudan in September 2012, Sudan committed to assume all external debt of former Sudan subject to securing a "firm commitment" of international creditors for debt relief (i.e. Sudan's reaching the HIPC decision point) no later than two years from the date of agreement (this was termed the "zero option"). Absent such commitment, the agreement states that the two countries may discuss how to apportion the debt. Upon expiration of the two-year window, the two countries agreed in November 2014 to interpret the zero option in a "flexible" manner and extended the timing for debt relief until October 2016. In the meantime, the authorities indicated that South Sudan remains committed to support Sudan's efforts to obtain debt relief. Even if discussions were to be held in the future on how to apportion Sudan's debt, it is not possible to speculate at this point on what the allocation could be. Given the above, this risk has not been quantified in the DSA.

PUBLIC SECTOR DEBT SUSTAINABILITY ANALYSIS

12. Public debt indicators suggest a slightly lower debt burden in the medium term but debt sustainability is at risk in the outer years of the projection period of the baseline scenario. The baseline assumes fiscal consolidations and scaling up of external financing for infrastructure investments. Domestic financing adds to the debt burden particularly in the outer years when oil revenue is projected to level off. The PV of public sector debt-to-GDP ratio remains close to the public debt benchmark for most of the period but exceeds it by about 6 percentage points towards the end of the projection period. A similar pattern emerges for the PV of debt-to-revenue and debt service-to-revenue ratios. Except for the initial couple of years, the debt service-to-revenue ratio stay below 20 percent.

13. The alternative scenarios demonstrate the risks to the baseline. In the lower oil price scenario, the PV of debt-to-GDP ratio rise about 10 percentage points in the initial 10 years bringing the ratio above the benchmark for most of the projection period. In the case of continued political instability and a three-year delay in implementing economic stabilization, a rising fiscal deficit to 10 percent of GDP above the baseline over the three years has significant effects on public debt stability. The effects are larger than for external debt since a large share of the higher deficit is assumed to be financed domestically. The PV of public debt is rising quickly by about 20 percent of GDP above the baseline and the debt and debt service burden on fiscal revenue are rising substantially as well. In the latter scenario, the PV of debt-to-GDP exceeds the benchmark throughout the projection period.

CONCLUSION

14. South Sudan is in debt distress. This reflects a situation with several debt indicators currently exceeding thresholds, external payments difficulties, very low foreign exchange reserves, and short-term repayment needs that exceed available resources unless policy adjustments are implemented. This situation is also supported by the country's current inability to access external financing, except for short-term oil-related advances. Moreover, while total public debt indicators improve in the long-term under the baseline scenario, public debt vulnerabilities remain a concern as external and public debt indicators exceed thredsholds in a substantial part of the sample period.

15. While the current situation is extremely difficult, the baseline scenario indicates that South Sudan could regain access to external financing. With peace, good policies, a cautious borrowing strategy, and a relatively stable external environment, South Sudan could attain external viability over a relatively short period and achieve an improvement in its risk of debt distress rating.

16. There are, however, substantial downside risks to the baseline scenario. In addition to subdued oil prices, these risks include lack of political commitment to implement strong macroeconomic adjustment measures, deadlock in implementing sustainable peace, under-investment for enhanced oil recovery, unresolved territorial issues with Sudan, and protracted rent seeking behavior and corruption. These risks of prolonged fragility underscore the importance of a commitment to internal peace, economic reforms, and close cooperation with the international community.

Table 1. South Sudan: External Debt Sustainability Framework, Baseline Scenario, 2014–2037[1]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/	Standard 6/	Projections									
	2014	2015	2016	Average	Deviation	2017	2018	2019	2020	2021	2022	2017-2022 Average	2027	2037	2023-2037 Average
External debt (nominal) 1/	**4.2**	**5.8**	**87.8**			**42.1**	**32.6**	**31.1**	**34.5**	**37.7**	**41.2**		**47.9**	**32.3**	
of which: public and publicly guaranteed (PPG)	4.2	5.8	87.8			42.1	32.6	31.1	34.5	37.7	41.2		47.9	32.3	
Change in external debt	3.2	1.6	82.1			-45.7	-9.5	-1.5	3.4	3.2	3.5		2.4	-2.5	
Identified net debt-creating flows	2.3	4.2	21.6			9.8	3.9	2.5	3.9	5.6	4.9		6.2	0.0	
Non-interest current account deficit	**-3.8**	**3.1**	**3.0**	**-2.6**	**5.5**	**-2.5**	**6.3**	**8.8**	**6.8**	**9.3**	**6.0**		**12.3**	**6.3**	8.6
Deficit in balance of goods and services	-10.9	2.3	8.0			6.1	14.3	15.5	8.5	9.9	5.0		8.5	7.2	
Exports	46.7	29.5	61.5			66.7	61.1	65.7	67.7	72.9	69.2		65.5	39.3	
Imports	35.8	31.8	69.4			72.8	75.4	81.1	76.2	82.8	74.3		73.9	46.5	
Net current transfers (negative = inflow)	-4.9	-5.0	-16.6	-7.7	4.5	-22.5	-16.5	-14.4	-11.5	-10.3	-9.5		-10.9	-1.7	-6.6
of which: official	-5.0	-6.0	-20.5			-22.7	-19.1	-17.3	-14.4	-12.5	-10.3		-4.7	-1.0	
Other current account flows (negative = net inflow)	12.0	5.8	11.7			13.9	8.5	7.7	9.8	9.7	10.4		14.7	0.8	
Net FDI (negative = inflow)	**4.6**	**-0.3**	**2.0**	**0.9**	**2.0**	**0.6**	**-2.4**	**-5.6**	**-2.5**	**-3.2**	**-1.3**		**-8.4**	**-6.8**	-7.5
Endogenous debt dynamics 2/	**1.5**	**1.4**	**16.6**			**11.7**	**0.0**	**-0.7**	**-0.4**	**-0.5**	**0.2**		**2.3**	**0.5**	
Contribution from nominal interest rate	1.5	1.1	0.7			0.1	0.4	1.4	1.2	1.4	1.4		1.8	1.2	
Contribution from real GDP growth	0.0	0.6	1.5			11.6	-0.4	-2.1	-1.7	-1.9	-1.2		0.5	-0.6	
Contribution from price and exchange rate changes	0.0	-0.3	14.4			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**0.9**	**-2.5**	**60.5**			**-55.5**	**-13.4**	**-4.0**	**-0.5**	**-2.3**	**-1.4**		**-3.8**	**-2.5**	
of which: exceptional financing	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	74.4			37.5	29.0	27.0	29.8	32.7	35.9		41.7	26.2	
In percent of exports	...	...	121.1			56.3	47.4	41.2	44.0	44.8	51.9		63.7	66.8	
PV of PPG external debt	**...**	**...**	**74.4**			**37.5**	**29.0**	**27.0**	**29.8**	**32.7**	**35.9**		**41.7**	**26.2**	
In percent of exports	**...**	**...**	**121.1**			**56.3**	**47.4**	**41.2**	**44.0**	**44.8**	**51.9**		**63.7**	**66.8**	
In percent of government revenues	**...**	**...**	**259.8**			**109.2**	**97.0**	**86.7**	**87.0**	**87.3**	**104.7**		**109.6**	**96.3**	
Debt service-to-exports ratio (in percent)	**15.0**	**11.1**	**4.6**			**6.0**	**10.5**	**9.8**	**7.7**	**6.2**	**2.3**		**6.2**	**9.6**	
PPG debt service-to-exports ratio (in percent)	**15.0**	**11.1**	**4.6**			**6.0**	**10.5**	**9.8**	**7.7**	**6.2**	**2.3**		**6.2**	**9.6**	
PPG debt service-to-revenue ratio (in percent)	**26.7**	**16.1**	**9.9**			**11.7**	**21.5**	**20.7**	**15.1**	**12.1**	**4.7**		**10.6**	**13.9**	
Total gross financing need (Billions of U.S. dollars)	1.1	0.8	0.3			0.1	0.3	0.3	0.4	0.4	0.3		0.5	0.3	
Non-interest current account deficit that stabilizes debt ratio	-7.0	1.5	-79.1			43.2	15.7	10.3	3.4	6.0	2.5		9.9	8.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-4.2	-12.8	-6.9	-10.6	10.8	-10.5	1.1	3.5	6.2	5.8	3.4	1.6	-1.0	2.0	2.1
GDP deflator in US dollar terms (change in percent)	0.8	7.5	-71.3	-3.7	40.7	-11.4	16.6	-0.3	7.2	-1.9	6.1	2.7	1.9	5.1	2.4
Effective interest rate (percent) 5/	142.7	24.2	3.2	56.7	75.2	0.1	1.2	4.5	4.6	4.2	4.0	3.1	4.0	3.6	3.9
Growth of exports of G&S (US dollar terms, in percent)	-9.7	-40.7	-44.4	-20.6	25.9	-13.8	8.0	10.9	17.3	11.7	4.2	6.4	-4.4	3.6	0.8
Growth of imports of G&S (US dollar terms, in percent)	7.8	-16.5	-41.7	-7.0	23.2	-16.8	22.2	11.0	6.9	12.7	-1.6	5.7	-4.0	1.0	1.4
Grant element of new public sector borrowing (in percent) 9/	...	...	...	...	...	5.3	12.7	8.8	8.0	8.4	11.8	9.2	11.3	13.5	12.9
Government revenues (excluding grants, in percent of GDP)	26.4	20.3	28.6			34.4	29.9	31.2	34.3	37.4	34.3		38.1	27.2	32.2
Aid flows (in Billions of US dollars) 7/	0.7	1.1	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
of which: Grants	0.7	1.1	0.0			0.0	0.1	0.1	0.1	0.1	0.1		0.2	0.3	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.0	2.5	3.1	2.4	2.8	3.2		3.7	3.5	3.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			54.0	38.1	25.1	19.4	25.3	37.7		45.5	62.4	54.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	14.1	13.3	3.5			2.8	3.3	3.4	3.9	4.0	4.4		5.8	8.5	
Nominal dollar GDP growth	-3.4	-6.2	-73.3			-20.6	17.9	3.2	13.8	3.8	9.7	4.6	0.9	7.3	4.5
PV of PPG external debt (in Billions of US dollars)						0.9	0.9	0.9	1.1	1.3	1.6		2.4	2.2	
(PVt-PVt-1)/GDPt-1 (in percent)						2.2	-3.1	2.4	**5.8**	**5.2**	**5.7**	3.1	2.3	-0.4	0.9
Gross workers' remittances (Billions of US dollars)	0.3	0.2	0.2			0.2	0.2	0.2	0.2	0.3	0.3		0.3	0.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	70.1			35.0	27.3	25.4	28.1	30.6	33.3		39.8	25.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	110.1			50.8	43.0	37.4	40.4	40.9	46.7		59.3	65.0	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	4.2			5.4	9.5	8.9	7.0	5.7	2.1		5.7	9.4	

Sources: Country authorities; and staff estimates and projections.

1/ Data for fiscal year July-June

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

9/ Variations in the grant element in the early years, where new disburements are relatively small, reflect small nominal variations in new debt with significant differences in grant element.

Table 2. South Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–2036[1]

(In Percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2014	2015	2016			2017	2018	2019	2020	2021	2022	2017-22 Average	2027	2037	2023-37 Average
Public sector debt	15.1	35.3	127.9			62.1	48.5	44.7	44.8	44.7	46.7		49.2	52.5	
of which: foreign-currency denominated	4.2	5.8	87.8			42.1	32.6	31.1	34.5	37.7	41.2		47.9	32.3	
Change in public sector debt	14.1	20.2	92.5			-65.8	-13.6	-3.9	0.1	-0.1	2.0		2.3	-0.7	
Identified debt-creating flows	2.2	15.5	61.4			-74.1	-9.9	-4.6	-0.8	-4.7	2.4		0.7	4.0	
Primary deficit	0.7	13.4	8.7	3.6	7.1	1.9	3.2	1.8	2.5	-2.4	3.9	1.8	-0.7	7.4	2.4
Revenue and grants	31.4	28.6	29.0			35.3	31.8	33.4	35.8	39.4	36.8		41.2	30.4	
of which: grants	5.0	8.3	0.4			1.0	1.9	2.2	1.5	2.0	2.5		3.1	3.2	
Primary (noninterest) expenditure	32.1	42.0	37.7			37.2	35.0	35.2	38.3	37.0	40.7		40.5	37.8	
Automatic debt dynamics	1.5	2.1	52.8			-76.0	-13.1	-6.4	-3.3	-2.2	-1.5		1.3	-3.3	
Contribution from interest rate/growth differential	1.5	2.4	-9.8			-20.1	-8.1	-3.1	-2.9	-2.3	-1.2		1.3	-2.3	
of which: contribution from average real interest rate	1.5	0.2	-12.4			-35.1	-7.4	-1.5	-0.3	0.1	0.3		0.8	-1.3	
of which: contribution from real GDP growth	0.0	2.2	2.6			14.9	-0.7	-1.6	-2.6	-2.5	-1.5		0.5	-1.0	
Contribution from real exchange rate depreciation	0.0	-0.3	62.5			-55.8	-5.0	-3.2	-0.5	0.1	-0.4		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	11.9	4.7	31.1			8.3	-3.7	0.7	0.9	4.5	-0.3		1.6	-4.7	
Other Sustainability Indicators															
PV of public sector debt	...	...	114.4			57.5	44.9	40.6	40.1	39.6	41.4		43.0	46.4	
of which: foreign-currency denominated	...	...	74.4			37.5	29.0	27.0	29.8	32.7	35.9		41.7	26.2	
of which: external	...	...	74.4			37.5	29.0	27.0	29.8	32.7	35.9		41.7	26.2	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.7	19.3	14.7			9.1	16.8	17.1	16.0	8.2	10.5		3.9	27.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	394.2			162.8	141.3	121.7	112.2	100.5	112.5		104.4	152.6	
PV of public sector debt-to-revenue ratio (in percent)	...	...	399.5			167.4	150.3	130.2	117.1	105.9	120.6		113.0	170.6	
of which: external 3/	...	...	259.8			109.2	97.0	86.7	87.0	87.3	104.7		109.6	96.3	
Debt service-to-revenue and grants ratio (in percent) 4/	22.4	11.5	9.8			11.4	20.8	19.7	14.8	11.7	4.5		9.9	12.5	
Debt service-to-revenue ratio (in percent) 4/	26.7	16.1	9.9			11.7	22.1	21.1	15.4	12.4	4.8		10.7	13.9	
Primary deficit that stabilizes the debt-to-GDP ratio	-13.4	-6.8	-83.9			67.7	16.8	5.7	2.4	-2.3	1.9		-2.9	8.1	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-4.2	-12.8	-6.9	-10.6	10.8	-10.5	1.1	3.5	6.2	5.8	3.4	1.6	-1.0	2.0	2.1
Average nominal interest rate on forex debt (in percent)	142.7	24.2	...	....		0.1	1.2	4.5	4.6	4.2	4.0	3.1	4.0	3.6	3.9
Average real interest rate on domestic debt (in percent)	...	...	...			...	-35.7	-14.6	-7.6	-5.8	-5.8	-13.9	-5.2	-9.8	-6.3
Real exchange rate depreciation (in percent, + indicates depreciation)	1.5	-5.4	989.8	186.8	449.1	-57.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	0.0	7.5	64.7	29.4	26.1	295.2	57.7	18.2	9.3	7.3	6.9	65.8	7.5	10.9	7.8
Growth of real primary spending (deflated by GDP deflator, in percent)	25.2	14.1	-16.3	5.8	18.0	-11.6	-4.9	4.0	15.4	2.3	13.8	3.2	1.5	-0.4	1.7
Grant element of new external borrowing (in percent)	...	...	...	...	...	5.3	12.7	8.8	8.0	8.4	11.8	9.2	11.3	13.5	...

Sources: Country authorities; and staff estimates and projections.

1/ Data for fiscal year july-June. Public sector covers central government.

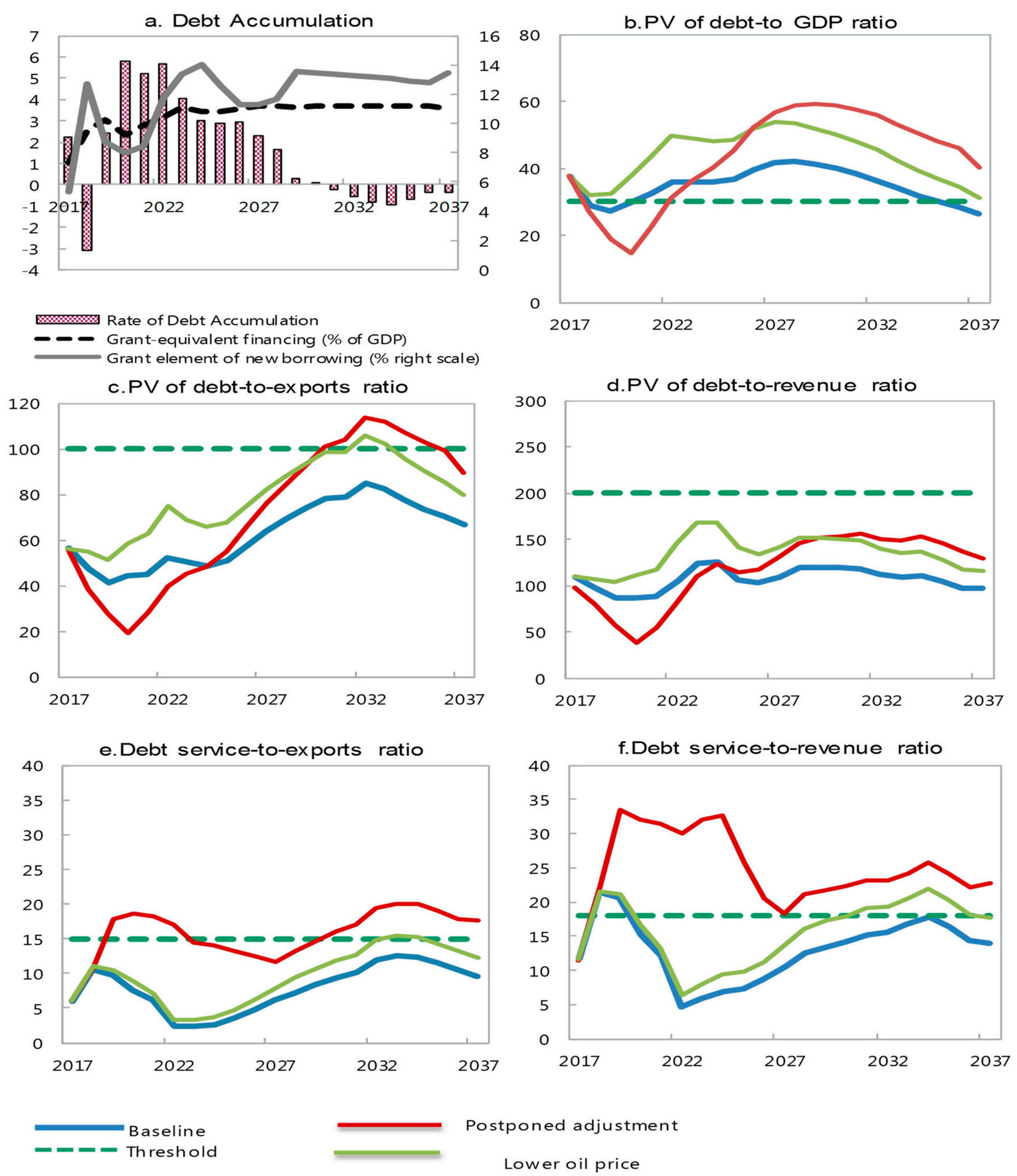
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

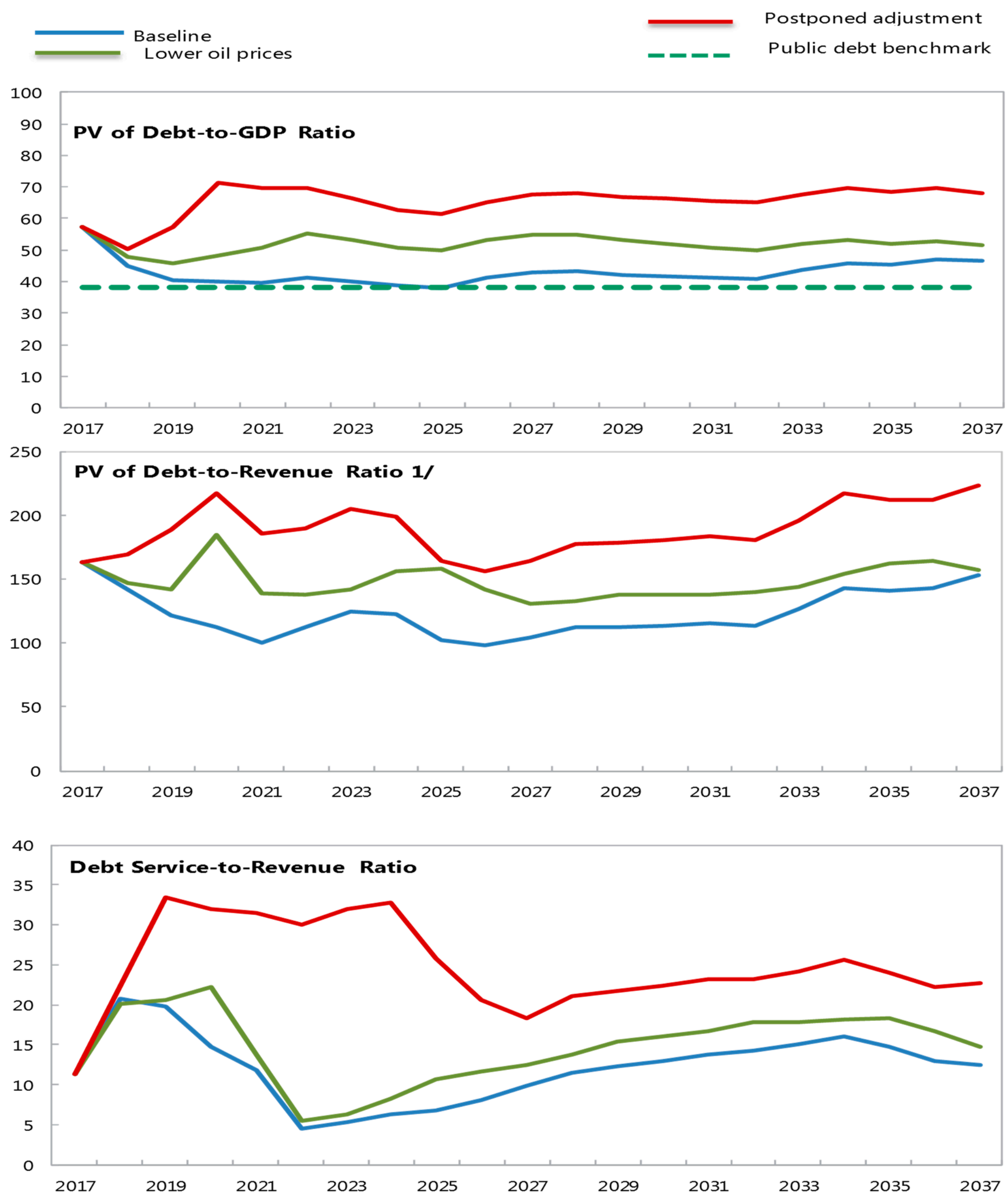
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Figure 1. South Sudan: Indicators of Public and Publicly Guaranteed External Debt, 2017–2037



Sources: Country authorities; and staff estimates and projections.

Figure 2. South Sudan: Indicators of Public Debt, 2017–2037



Sources: Country authorities; and staff estimates and projections.
1/ Revenues are defined inclusive of grants.

Table 3. South Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2017-2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of debt-to GDP ratio								
Baseline	38	29	27	30	33	36	42	26
A1. Lower Oil Price	38	32	32	38	44	50	54	31
A2. Postponed adjustment	38	27	19	15	23	31	57	40
PV of debt-to-exports ratio								
Baseline	56	47	41	44	45	52	64	67
A1. Lower Oil Price	56	55	51	58	62	75	82	80
A2. Postponed adjustment	56	39	28	19	28	40	76	90
PV of debt-to-revenue ratio								
Baseline	109	97	87	87	87	105	110	96
A1. Lower Oil Price	109	107	104	111	117	145	141	115
A2. Postponed adjustment	97	79	58	38	55	81	130	129
Debt service-to-exports ratio								
Baseline	6	10	10	8	6	2	6	10
A1. Lower Oil Price	6	11	10	9	7	3	8	12
A2. Postponed adjustment	6	11	18	19	18	17	12	18
Debt service-to-revenue ratio								
Baseline	12	21	21	15	12	5	11	14
A1. Lower Oil Price	12	21	21	17	13	6	14	18
A2. Postponed adjustment	11	22	34	32	32	30	18	23

Sources: Country authorities; and staff estimates and projections.

Table 4. South Sudan: Sensitivity Analysis for Key Indicators of Public Debt 2017-2037

	Projections							
	2017	2018	2019	2020	2021	2022	2027	2037
PV of Debt-to-GDP Ratio								
Baseline	58	45	41	40	40	41	43	46
A1. Lower oil prices	58	48	46	48	51	55	55	52
A2. Higher deficits	58	50	57	71	70	70	68	68
PV of Debt-to-Revenue Ratio 1/								
Baseline	163	141	122	112	101	112	104	153
A1. Lower oil prices	163	147	142	184	139	137	131	157
A2. Higher deficits	163	169	188	217	186	190	165	223
Debt Service-to-Revenue Ratio 1/								
Baseline	11	21	20	15	12	5	10	12
A1. Lower oil prices	11	20	21	22	14	5	12	15
A2. Higher deficits	11	22	34	32	32	30	18	23
Debt Service-to-GDP Ratio								
Baseline	4	7	7	5	5	2	4	4
A1. Lower oil prices	4	7	7	6	5	2	5	5
A2. Higher deficits	4	7	10	10	12	11	8	7

Sources: Country authorities; and staff estimates and projections.
1/ Revenues are defined inclusive of grants.

Statement by Mr. Mkwezalamba, Executive Director for South Sudan and Mr. Nakunyada, Advisor to the Executive Director

March 15, 2017

Introduction

1. Our South Sudanese authorities appreciate the constructive engagement during the recent 2015/16 Article IV Consultation mission. Broadly, they agree with staff's assessment of economic challenges and the key policy recommendations**.**

2. **South Sudan continues to face economic and development challenges compounded by renewed conflict and exogenous shocks**. Given its high dependence on oil for export receipts and fiscal revenues, the collapse of international oil prices in 2014 coupled with the re-emergence of conflict in July 2016 have weighed down economic activity over the past three years. Against this background, the country has experienced export and fiscal revenue shortfalls as well as declining donor support, amplifying budgetary pressures and leading to the depletion of foreign exchange reserve buffers. Consistent with Fund advice, the authorities are intensifying efforts to restore macroeconomic stability through fiscal consolidation, tightening of monetary policy, and implementation of measures to mitigate emerging banking sector vulnerabilities. At the same time, the government is spearheading the establishment of a broad-based and inclusive national dialogue process to restore peace.

Recent Economic Developments and Outlook

3. **Real GDP growth in South Sudan declined by 12.8 percent and 6.9 percent in FY2014/2015 and FY2015/2016, respectively.** The contraction in economic activity is attributed to declines in the key sectors, notably oil, agriculture, construction, and services. In the oil sector, which is the mainstay of the economy, production was scaled back from 165,000 barrels/day in 2015 to 130,000 barrels/day in 2016, on the back of low international oil prices. Should oil prices remain subdued, production is projected to decline further in the near term. The decline in oil output has been exacerbated by lack of capital to invest in efficient oil recovery techniques, occasioned by low investment returns. In the agricultural sector, production was mainly affected by declines in subsistence farming activities owing to drought conditions and displacement effects related to the civil conflict. As a result, the food security situation has worsened particularly in conflict affected areas, with the UN and the government of South Sudan recently declaring a famine in two northern counties.

4. **Persistent foreign exchange shortages exerted incessant pressure on the exchange rate and inflation**. Accordingly, the South Sudanese Pound (SSP) depreciated by an estimated 95 percent in 2016, compounded by high import dependence. This followed exchange rate reforms in December 2015 aimed at allowing the interplay of market forces in the foreign exchange market, and removing most restrictions and multiple currency practices (MCPs). The remaining restrictions will be dealt with as conditions improve. The

depreciation of the exchange rate, coupled with an earlier monetization of the fiscal deficit, accelerated inflation from 187 percent in June 2016 to 550 percent in September 2016, which eventually moderated to 370 percent in January 2017 following the winding down of expansionary monetary policy.

5. **Going forward, growth prospects remain challenged by volatility in oil prices, the country's susceptibility to adverse weather conditions, and political instability.** The implementation of fiscal reform measures as well as the tightening of monetary conditions are, however, expected to curb high money supply growth, reduce inflation, and stabilize the foreign exchange market in the medium term. On the other hand, the rebound in international oil prices and the success of the inclusive national dialogue process to improve the security situation may present additional upside risks to the outlook.

Policy Reform Measures

6. The 2016/2017 National Budget, which was fully supported and approved by Cabinet, outlined comprehensive fiscal policy and public financial management reform measures geared at restoring fiscal sustainability. The ambitious fiscal consolidation measures enunciated in the budget are envisaged to reduce the deficit to levels that support price and exchange rate stability.

Fiscal Policy and Public Financial Management Reforms

7. **The authorities are placing greater emphasis on the mobilization of additional domestic revenues.** Accordingly, government is taking steps to increase sales tax and excise duty on selected products and services; impose withholding tax on government contracts; introduce a new departure tax; and eliminate exemptions on personal income and corporate tax. In this regard, the authorities have made progress towards establishment of the National Revenue Authority (NRA), which should improve tax administration and promote the mobilization of both tax and non-tax revenues, particularly in non-oil sectors. In this regard, the National Legislature has passed the National Revenue Authority Bill, while appointments to the NRA Board of Directors are expected in the near-term. The NRA is expected to commence operations by the end of 2017.

8. **The containment of expenditures to levels consistent with available resources remains high on the authorities' reform agenda.** In this respect, the authorities are implementing measures to reduce the civil service wage bill by freezing new recruitments, payroll screening, and the biometric registration of civil servants to eliminate ghost workers. The government has since kick-started the process of cleaning and updating the payroll system and removing ghost workers through the application of identification codes. External support will be critical in helping the authorities successfully screen the payroll. Furthermore, strict spending limits have been set across the board, particularly on travel, goods and services, wages, and domestic capital expenditure. Cabinet also approved the downsizing of staff in diplomatic and foreign missions. This is expected to result in an estimated 50 percent reduction in expenditures of running the country's diplomatic missions.

9. **To further contain spending, the authorities are taking steps to remove subsidies to Nile Petroleum Corporation[1] (NilePet) to lessen its burden on the budget.** Accordingly, Parliament agreed that subsidies to NilePet should be phased out. Moreover, the authorities have engaged Ernst and Young to undertake audits of NilePet and pave the way for the publication of NilePet's financial statements on an annual basis. Progress on this front, however, stalled on account of the renewed political conflict. Subject to improvements in security conditions, the audit process is expected to resume.

10. **The South Sudanese authorities established a Cash Management Committee (CMC) to control expenditures within the broader Public Finance Management reform framework.** The CMC, comprising senior officials from the Ministry of Finance and Economic Planning and the Bank of South Sudan, has been mandated to institute strict expenditure prioritization measures consistent with budget constraints. Within this context, the authorities intend to publish detailed quarterly CMC reports, and make regular presentations to cabinet to enhance transparency. Presently, the CMC operates on strict cash budgeting principles with priority accorded to critical government expenditures. The operations of the CMC also benefitted from the transfer of government accounts from commercial banks to the consolidated treasury account. In line with the provisions of the Public Financial and Accountability Act, the authorities also agreed with the Fund to enforce the accountability of under-secretaries to contain the breaching of budget limits.

11. **Work is currently underway to install the Integrated Financial Management Information System (IFMIS) geared to controlling commitments made by government departments.** Once installed, the system will be rolled out to various government departments to control the undertaking of commitments and curtail further accumulation of domestic arrears. In addition, government is preparing budget execution procedures while strengthening internal expenditure control mechanisms. Further, the authorities intend to strengthen government procurement processes. In this regard, the National Procurement Bill is currently before the National Legislature, awaiting approval before implementation.

Financial and Monetary Sector Policy Measures

12. **The authorities have made progress towards promoting the building of capital buffers to cushion banks from vulnerabilities emanating from capital inadequacy.** In this context, the Bank of South Sudan (BSS) raised minimum capital requirements to US$30 million for foreign banks and US$15 million for domestic banks over a two-year period ending December 31, 2016. Non-compliant banks will be forced to either merge their operations or liquidate by mid-2017, following proper due diligence by the BSS. Furthermore, the BSS is finalizing the legislative framework guiding the merger and liquidation of under-capitalized banking institutions in consultation with regional counterparts.

[1] Nile Petroleum Corporation (NilePet) is South Sudan's state owned oil company which imports petroleum products, and holds and manages South Sudan's stake in crude oil production ventures.

13. **To further strengthen the efficacy of monetary policy, the BSS is taking initiatives to enforce reserve requirements.** In this vein, the BSS will enforce compliance with already approved reserve requirements once work to enhance commercial banks' preparedness has been completed. To date, regulations on banks' compliance with required reserves have been signed, and the appropriate template has been circulated to all banks.

14. **Consistent with the central bank's disinflation efforts, the government recently discontinued recourse to central bank borrowing to bridge budget deficits.** In response to the tightening of monetary conditions, inflationary pressures have since subsided. This measure will be complemented by the gradual scaling down of Treasury Bill issuances, to reduce the banking sector's exposure to government and avoid crowding-out the private sector. The authorities also plan to introduce repurchase agreements to strengthen liquidity management efforts.

Conclusion

15. **The authorities of South Sudan remain committed to the steadfast implementation of sound macroeconomic policies consistent with Fund policy advice despite difficult domestic and external conditions**. More importantly, they acknowledge the severity of the prevailing macroeconomic challenges, and the need to urgently implement reforms to turn-around the economy and improve living standards. In this regard, the authorities expect to leverage on the far-reaching fiscal reform measures outlined in the 2016/2017 National Budget. In addition, the authorities are optimistic that ongoing initiatives to establish an inclusive national dialogue process will foster cohesion and broad consensus required to lay a solid foundation for the restoration of lasting peace and stability. In that context, they look forward to continued close collaboration with the Fund to help strengthen policies and unlock external support, both technical and financial.