INTERNATIONAL MONETARY FUND

IMF Country Report No. 19/153

REPUBLIC OF SOUTH SUDAN

June 2019

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SOUTH SUDAN

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2019 Article IV consultation with the Republic of South Sudan, 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 May 29, 2019 consideration of the staff report that concluded the Article IV consultation with the Republic South Sudan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on May 29, 2019, following discussions that ended on March 15, 2019, with the officials of the Republic of South Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on May 15, 2019.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staff of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Republic of 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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June 4, 2019

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

On May 29, 2019, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of South Sudan.

Since December 2013, South Sudan has been hit hard by a civil war and falling oil prices. The conflict along ethnic lines left hundreds of thousands dead, with severe social and economic consequences. A relapse into war in mid-2016 spread insecurity across the country and severely affected economic activities and exacerbated the humanitarian crisis and food insecurity. About 40 percent of the population are either internally displaced or live as refugees in neighboring countries and more than half of the population currently requires humanitarian assistance.

South Sudan is in a deep economic crisis. Economic conditions have deteriorated rapidly since the beginning of the civil conflict in late 2013. Real GDP is estimated to have declined by 2.4 percent in 2017/18 adding to a cumulated decline of about 24 percent in the last three years. Overall, real disposable income (adjusted for terms of trade) is estimated to have declined by about 70 percent since independence in 2011, contributing to an increase in poverty headcount ratio from 50 percent in 2012 to about 82 percent in 2016.

The peace agreement signed in September 2018 has improved the prospects for lasting peace and economic recovery. The cessation of hostilities last year has already enabled the reopening of some damaged oil wells, which pushed up daily oil production (export) by about 20 percent in February 2019. Inflation has gradually declined to about 40 percent in December 2018 from a peak of 550 percent in September 2016, while the exchange rate depreciated substantially in the last 18 months.

Fiscal policy has been weakened by the loss of fiscal discipline, deteriorating public financial management, and contracting of non-transparent oil advances, which have increased corruption vulnerabilities. Shortfalls in revenue translated into deep cuts in expenditure for other budget

[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.

items, including wages and operating expenses, which contained the cash deficit to an estimated 2.8 percent of GDP in 2017/18. With cash rationing, arrears grew, and civil servants' salaries lagged by at least 3 months. In the first half of 2018/19, the fiscal path was similar, running essentially a balanced cash deficit and maintaining 3–4 months of salary arrears.

The banking sector is yet to recover from the adverse effects of the civil conflict, high inflation and strong currency depreciation. Consequently, many domestic banks are heavily undercapitalized and face rising non-performing loans.

The medium-term outlook faces challenges and significant downside risks. Without peace and security, the outlook remains extremely difficult, with continuing threats to macroeconomic and financial stability, declining income, and deteriorating humanitarian conditions. A sustainable medium-term outlook requires sustained improvements in the political and security situation, robust economic adjustment and reforms, budgetary discipline, and enhanced oil revenue management. Under these assumptions, the fiscal deficit is projected to average 1–2 percent of GDP in the coming years assuming a robust recovery in oil production and higher capital spending, while annual GDP growth could increase to about 6 percent a year, reflecting a recovery in oil production and in non-oil GDP.

Executive Board Assessment[2]

Executive Directors commended the authorities for signing the revitalized peace agreement and stressed that achieving lasting peace will be critical to restoring macroeconomic stability and improving the population's living conditions. Directors observed, however, that the country is facing a deep economic and humanitarian crisis, and underscored the importance of decisively implementing key reforms to restore macroeconomic stability, strengthen economic buffers, improve governance, and rebuild credibility with the international community.

Directors welcomed the removal of domestic fuel subsidies, liberalization of the fuel market, and the authorities' efforts to reverse fiscal dominance by reducing central bank budgetary financing, which contributed to lowering inflation. These efforts notwithstanding, Directors concurred on the need to restore fiscal discipline and strengthen oil revenue and public financial management. They urged the authorities to implement the planned measures to discontinue contracting oil advances and to arrest off-budget transactions. Directors also encouraged non-oil revenue mobilization to underpin the needed fiscal consolidation over the medium-term while creating space for increased spending in education, health, infrastructure, and rural development. In this regard, they recommended to fast-track the operationalization of the newly-created National Revenue Authority.

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[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 summing up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

Directors welcomed the authorities' intention to pursue a tight monetary policy, including by abstaining from providing credit to government, with the objectives to continue to lower inflation, gradually replenish international reserves, and remove distortions in the foreign exchange market. In this regard, Directors called for actions to liberalize the foreign exchange market and abolish the surrender requirements. They also concurred that the exchange rate should be market-determined, which would help address external imbalances and improve resilience to shocks.

Directors welcomed the Bank of South Sudan’s commitment to strengthen financial stability, including by adopting a sound banking resolution framework and taking actions to address undercapitalization of banks that do not meet minimum capital requirements. Efforts to strengthen the AML/CFT framework were also encouraged.

Directors noted that additional reforms, including to improve governance, will be needed to foster more diverse, inclusive growth. They expressed concern about the lack of transparency of Nilepet’s financial operations and called for a transparent audit to ensure that its planned investments in oil production and related activities are cost-effective and growth-enhancing. Directors stressed the importance of auditing the current stock of domestic arrears and developing a credible clearance strategy.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2016/17–2022/23

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Est.	Projections				
			(Annual percent of change, unless otherwise indicated)				
Output, prices, and exchange rate							
Real GDP (percent change)	-13.0	-2.4	3.4	8.1	6.6	5.5	5.6
Oil	-19.8	3.8	12.7	17.6	10.5	4.4	3.8
Non-oil	-8.3	-6.1	-2.7	0.9	3.1	6.5	7.2
Inflation (average)	384.9	125.8	33.5	26.4	11.0	9.2	8.2
Inflation (end-of-period)	361.9	88.5	27.2	14.0	9.5	8.5	8.1
Exchange rate (SSP/US$, average)	85.3	127.8	…	…	…	…	…
Exchange rate (SSP/US$, end period)	117.0	140.2	157.1[1]	…	…	…	…
Money and credit							
Broad money	87.2	64.3	33.4	20.4	14.1	…	…
Reserve money	96.6	34.0	19.1	16.3	12.9	…	…
Credit to non-government sector	171.7	114.1	27.2	11.0	26.1	…	…
M2/GDP (percent)	19.7	16.8	16.7	15.7	15.4	…	…
			(Percent of GDP, unless otherwise indicated)				
Central government budget							
Total revenues and grants	36.5	28.6	31.5	32.0	35.8	39.2	40.6
Of which: Oil	32.8	24.5	27.4	27.9	31.7	35.1	36.5
Of which: Non-oil tax revenue	3.2	3.7	4.1	4.1	4.1	4.1	4.1
Of which: Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	36.8	31.4	31.5	32.6	35.8	38.9	39.4
Current	36.1	31.1	30.8	30.5	32.9	34.7	30.5
Of which: transfers to Sudan	16.0	15.9	13.3	11.9	12.6	12.4	6.4
Net acquisition of non-financial assets	0.7	0.4	0.7	2.2	2.9	4.2	8.9
Overall balance (cash)	-0.3	-2.8	0.0	-0.6	0.0	0.2	1.2
Change in arrears	4.5	3.3	2.4	0.7	-0.4	0.0	0.0
Overall balance (accrual balance)	-4.8	-6.1	-2.5	-1.3	0.5	0.2	1.2
Public debt							
Total Public Debt [2]	46.8	43.0	35.9	34.2	38.2	51.9	51.6
Of which: external public debt	37.2	34.6	31.6	30.2	34.4	45.0	44.9
External Sector							
Export of goods and services	54.3	68.7	60.3	64.4	75.6	84.3	88.9
Imports of goods and services	80.0	83.5	70.0	75.6	84.9	95.7	96.9
Current account balance (including grants)	-3.0	-4.5	-6.4	-1.8	-1.9	-1.9	-0.7
Current account balance (excluding grants)	-37.5	-32.9	-27.9	-27.1	-26.2	-29.8	-26.1
Gross foreign reserves (millions of US dollars)	28.3	33.0	41.3	72.3	137.2	253.0	513.0
Gross foreign reserves (in months of imports)	0.1	0.1	0.1	0.2	0.4	0.8	1.4
Memorandum items:	12.4	12.8	13.2	13.6	14.0	14.4	14.9
Oil production (millions of barrels)	42.0	43.5	48.6	56.4	62.0	64.8	67.2
South Sudan's oil price (US dollars per barrel)	42.3	53.4	56.9	52.6	52.3	51.5	51.9
Brent price (US dollars per barrel)	49.8	60.6	63.7	59.1	58.6	57.9	58.2
Nominal GDP (billions of SSP)	276.1	532.2	713.0	913.8	1,062.8	1,204.9	1,363.5
GNI per capita (US dollars)	230.7	233.2	280.1	272.8	253.2	234.0	232.0
Nominal GDP (percent change)	327.1	92.7	34.0	28.2	16.3	13.4	13.2

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

[1] Exchange rate as of April 24, 2019.

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

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

May 15, 2019

KEY ISSUES

Context: While the peace agreement signed in September 2018 has improved the prospects for lasting peace in South Sudan, the implementation of the agreement has become more protracted than envisaged with the recently announced six-month delay in forming a new national unity government. A relapse into war in mid-2016 spread insecurity across the country and severely affected all economic activities and exacerbated the humanitarian crisis and food insecurity. The country is in a serious economic crisis.

Focus of the Consultation: The discussions focused on the urgent need to restore macroeconomic stability and rebuild economic buffers. Addressing the macroeconomic imbalance, supported by improvements in oil management and public financial management, is key to rebuild confidence in government policies. This will be necessary to regain access to external financial support from development partners.

Key Policy Recommendations: The key measures include: strengthening oil management and transparency by an immediate stop of contracting new oil-backed advances; restoring fiscal discipline; refraining from central bank financing; and replacing the current multiple exchange rate system with a unitary exchange rate system with market-determined rates. Additional upfront external support would ease macroeconomic adjustment efforts, particularly with rising demand on peace-related activities in the near term. However, the authorities will likely initially rely mostly on own resources due to a sizable credibility gap with donors. It is therefore paramount that the government urgently take steps to improve oil revenue management, strengthen non-oil revenue administration and shift spending priorities from war to peace-building.

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

Approved By
Mr. Zeidane (AFR) and Ms. González (SPR)

Discussions were held in Juba during March 5–15, 2019. The mission comprised of Messrs. Mikkelsen (Head), Hasegawa, Tjirongo and Ms. Jack (all AFR) and was assisted by Mr. Chany (local economist). J. Kiggundu, F. Morán, and F. Nyankiye provided administrative and research support. Mr. Garang (OED) also participated in the discussions. The mission met First Vice President Taban Deng Gai, Minister of Finance Mabiordit, Central Bank Governor Ngor, other high-ranking government officials, the Joint Monitoring and Evaluation Commission (JMEC), representatives from the private sector and civil society, and development partners.

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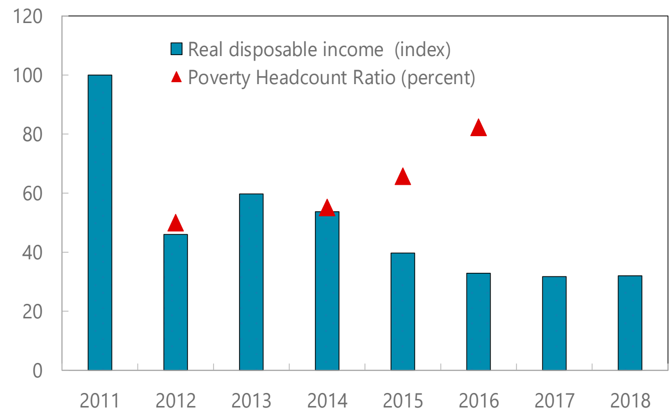
CONTEXT

1. **South Sudan, a fragile state, has an oil-dependent economy.** Since December 2013, South Sudan has been hit hard by a civil war and the fall in oil prices. The conflict along ethnic lines left hundreds of thousands dead, with severe social and economic consequences. A relapse into war in mid-2016 spread insecurity across the country and severely affected economic activities and exacerbated the humanitarian crisis and food insecurity. Nearly 40 percent of the population are either internally displaced or live as refugees in neighboring countries and more than half of the population currently require humanitarian assistance (Box 1). Moreover, real disposable income (includes adjustment for terms of trade) declined by an estimated 70 percent since independence in 2011, translating into a dramatic rise in poverty with the headcount ratio increasing from 50 percent in 2012 to an estimated 82 percent in 2016.

South Sudan: Real Disposable Income and Poverty Headcount Ratio



Sources: World Bank Poverty and Equity Databank, South Sudanese authorities, and IMF staff calculations.

2. **The peace agreement signed in September 2018 has improved the prospects for the achievement of lasting peace.** With the worsening of the humanitarian situation, the international community, including from the region, exerted pressure on the warring parties in South Sudan to restore peace. After protracted negotiations mediated by the Intergovernmental Authority on Development (IGAD) and the African Union, the Government of South Sudan and opposition parties signed a new peace deal—the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS) in September 2018. The R-ARCSS provides a broad framework for a power sharing arrangement under a new transitional government of national unity. In the agreement, Salva Kiir remains president of the new national unity government, while opposition leader Riek Machar returns as first-vice president out of four vice presidents. The agreement specifies an eight-month pre-transition period up to May 2019 before the formation of a new unity government, but because of delays in implementation, especially on security arrangements, the parties agreed on May 3 to an extension of the pre-transition period by six months.

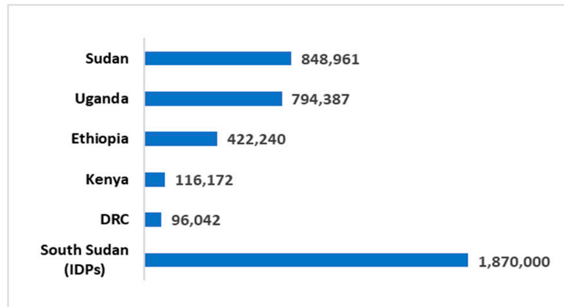
Box 1. Humanitarian Crisis in South Sudan

South Sudan has experienced a humanitarian crisis due to civil war for more than five years. About 7.1 million South Sudanese require humanitarian assistance in 2019, roughly 2.3 million refugees fled into neighboring countries, and an estimated 1.9 million people are internally displaced.[1] More than half of the country's population is estimated to be severely food insecure. Healthcare facilities have been destroyed and an estimated 3.9 million people needed healthcare in early 2019. Moreover, the education system has been disrupted and about 2.8 million children (more than 70 percent of school-aged children) have lost access to educational services.[2]

Since independence in 2011, the international community has worked closely with the South Sudanese government to provide humanitarian assistance. According to the UN Office for the Coordination of Humanitarian Affairs (OCHA), donors have provided a total of about US$10 billion to South Sudan in humanitarian assistance since 2011. The US is South Sudan's largest donor with contributions of about US$3.6 billion. The UK is the second largest donor with about US$1.1 billion.

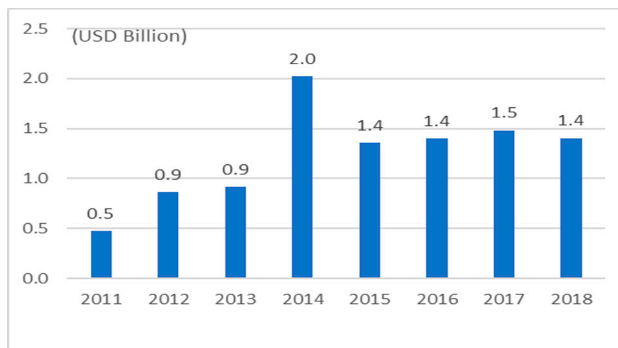
Humanitarian aid operations have been disrupted frequently because of insecurity. Thousands of security and harassment incidences have been reported, particularly in recent years. An estimated 112 aid workers have been killed in South Sudan since 2013.[3]

South Sudan: Refugees and Internally Displaced People (January 2019)



Source: UNHCR

South Sudan: Humanitarian Funding by Year (2011–18)



Source: UN OCHA Financial Tracking Service

Donors have welcomed the revitalized peace agreement signed in September 2018; however, many remain concerned about the level of commitment to the agreement.

[1] UNHCR "South Sudan Operational Update No 05–1–15 March 2019"
[2] UNOCHA "South Sudan Humanitarian Response Plan 2019"
[3] UNOCHA "South Sudan: Annual Humanitarian Access Review (January–December 2018)"

3. **Implementation of the recommendations from the 2016 Article IV Consultation have been hampered by continued fighting and weakened institutional capacity (Annex I).** While there has been noticeable progress in liberalizing the fuel market, thus reducing subsidies, and curtailing direct central bank lending to government, which has helped reduce inflation, controls on oil management and government spending have weakened further.

RECENT ECONOMIC DEVELOPMENTS

4. **While economic conditions have further deteriorated with the relapse into war in 2016, signs of a peace dividend are emerging.** Real GDP is estimated to have declined by 2.4 percent in 2017/18 adding to a cumulative decline of 22 percent in the last three years.[1] However, the cessation of hostilities last year has already enabled the reopening of some damaged oil wells, which pushed up daily oil production (export) from about 120,000 barrels per day in 2017/18 to about 145,000 barrels per day in February 2019. Moreover, inflation, which had reached 550 percent in September 2016, gradually declined to about 40 percent in December 2018, as money growth moderated due to restraints in government expenditure and central bank financing.[2]

5. **Notwithstanding, the removal of direct fuel subsidies by mid-2017, budget execution continues to face difficulties with a diminished resource envelope.** Repayment of financial obligations to Sudan and oil-collateralized loans absorbed nearly all the oil revenue in 2017/18 (Text Table 1). Meanwhile an envisaged pick-up in domestic revenue, stemming from revenue enhancing measures, failed to materialize because of worsening security and border closures (Table 2). Shortfalls in revenue translated into deep cuts in expenditure for other budget items, including wages and operating expenses, which contained the cash deficit to an estimated 2.8 percent of GDP in 2017/18. While central bank financing was contained at 2.1 percent of GDP, arrears grew by an estimated 3.3 percent of GDP, and civil servants' salaries were lagging by about 3 months. During the first half of 2018/19, the fiscal situation was similar, running essentially a balanced cash budget with salary arrears increasing to about 4 months.

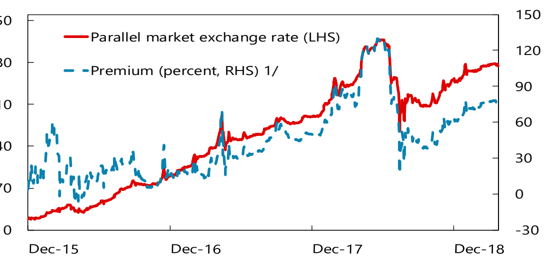
Text Table 1. Distribution of Oil Revenue

	2016/17		2017/18		2018/19	
	US$ mil	Percent	US$ mil	Percent	US$ mil	Percent
Nilepet's share of oil	223.9	24.6	74.7	7.0	94.2	7.5
o/w : Financing of fuel subsidies	151.1	16.6	0.0	0.0	0.0	0.0
Payments to Sudan	480.1	52.8	781.1	72.8	649.0	51.4
Repayments for oil advances	150.1	16.5	212.4	19.8	167.7	13.3
Oil revenue GRSS (Treasury)	56.0	6.2	4.2	0.4	351.0	27.8
Total	**910.1**	**100.0**	**1,072.4**	**100.0**	**1,261.9**	**100.0**

6. **Despite modest government borrowing from the central bank, the exchange rate continued to depreciate in the last couple of years.** The parallel market rate more than doubled in 2017-18, though the rate of depreciation moderated somewhat in the first quarter of 2019. This largely reflected worsening economic conditions and the flight into the US dollar. Notwithstanding large fluctuations around the peace negotiations last year, the parallel market premium over the

[1] The fiscal year runs July-June.

[2] The production of consumer prices has faced difficulties since January 2019 where information became unreliable. However, the downward trend of inflation is expected to have continued.



Sources: South Sudanese authorities.
1/ The premium is defined as percentage by which the parallel market exchange rate exceeds the official exchange rate.

Bank of South Sudan (BSS) official (indicative) exchange rate remains high at 80 percent in April 2019, as the official rate did not fully respond to the deteriorating economic conditions. International reserves remain very low fluctuating around 1–2 weeks of imports since early 2017, which make the country extremely vulnerable to external shocks.

7. **The banking sector is facing significant challenges because of the civil conflict, high inflation, and strong currency depreciation.** Since mid-2017, when the BSS introduced the "Special Accounts" scheme, commercial banks have been required to immediately sell all the foreign exchange (FX) purchased from the special account holders[3] to the BSS (both transactions should be at the official (indicative) rate), while banks have been allowed to subsequently repurchase 25 percent from the BSS. Moreover, many domestic banks are heavily undercapitalized, and their non-performing loans are rising rapidly (to more than 50 percent of total gross loans in some cases).

8. **South Sudan remains in debt distress and the external position is weak.** The mechanical risk ratings of the Debt Sustainability Analysis (DSA) indicate that South Sudan is at high risk of debt distress with breaches of thresholds related to the PV of debt-to-GDP and debt service-to-revenue ratios. However, South Sudan has arrears on external and domestic debt, which suggests that South Sudan remains in debt distress. The external position is weaker than implied by fundamentals and desirable policies; the external sector assessment points to continued weaknesses with nearly depleted foreign exchange reserves and an overvalued official exchange rate (Annex II).

ECONOMIC OUTLOOK AND RISKS

9. **The outlook critically depends on whether the country's leaders can come together in establishing credible and lasting peace.** Without peace and security, the outlook remains extremely difficult, with continuing threats to macroeconomic and financial stability, declining income, and deteriorating humanitarian conditions. By contrast, a peace scenario with formation of an inclusive new government of national unity presents new opportunities for a fresh start and to repair donor relations. Assuming the budding peaceful climate consolidates, an upturn in economic activity is expected. Real GDP is projected to grow by 3.4 percent in 2018/19 and continue to improve over the medium term (Table 5). The main driver of growth in the near term will be rising oil production and exports, reflecting implementation of planned investments by the oil companies, which will ease pressure on the fiscal and external sectors (Box 2). The expected higher oil exports

[3] Special accounts are the accounts of *"all the foreign diplomatic missions, United Nations agencies, and offices of other organizations established by international and regional treaties, International Non-Governmental Organizations (INGOs), Oil & Mining companies, and the accounts of projects funded by international and regional partner bodies,"* which are subject to special rules as described in BSS Circular No .DCB/2/2017 of July 2, 2017 "Guidelines on the Management of Accounts, Designated by the Bank of South Sudan as Special Accounts."

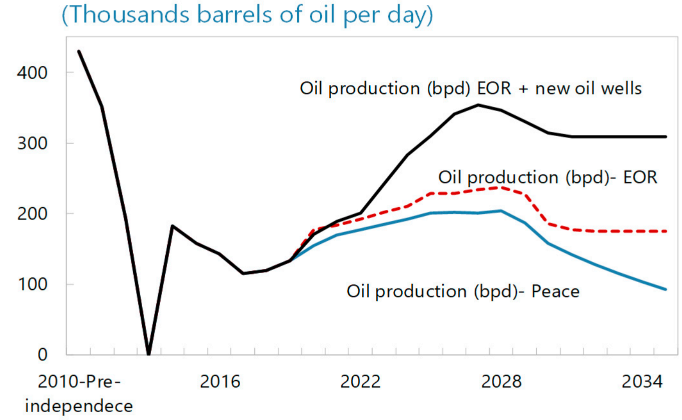
and revenues would help improve the fiscal position and create space for increased capital spending to support medium-term non-oil growth, reduce domestic financing needs, and rebuild the foreign exchange reserves.[4] This would also support the continued decline in inflation.

Box 2. Prospects for an Upturn in Oil Production

Large swings in oil production. The performance of the oil sector since 2012 was buffeted by political and security challenges and low oil prices in international markets. The outbreak of the civil war in 2013 led to the closure of oil production in Upper Nile and Unity States, representing two-thirds of oil production capacity in South Sudan. These problems caused a precipitous decline in oil production from about 350,000 barrels per day in 2011 to about 110,000 barrels per day in 2017. The September 2018 peace agreement and cessation of hostilities have already enabled the reopening of some damaged oil wells. As a result, daily oil production (export) has increased from about 120,000 barrels per day in 2017/18 to about 145,000 barrels per day in early 2019.

The oil sector remains important to the South Sudanese economy. The sector's potential is large and scaling it up is key to rebuilding economic buffers and supporting the transition to peace. In this regard, the South Sudanese authorities have stepped up efforts to restore oil production capacity to its pre-war levels. Oil production capacity is still low compared to the sizable unexploited oil reserves. Estimates by the Oil and Gas Journal (2014) put South Sudan's proven oil reserves at 3.75 billion barrels, which potentially could make South Sudan the third largest oil producer in Sub-Saharan Africa. Prospects to increase oil production to pre-war levels rest on using enhanced oil recovery (EOR) techniques in the existing oil wells and new oil discoveries. For this to happen, a peaceful environment is necessary to attract investment in exploration. Simulation results of oil production under three scenarios (chart) show that oil production rebounds to 200,000 barrels/day by 2025 in the baseline (peace) scenario. To sustain high levels of production and extend the life of the mature oil wells, oil companies need to invest in EOR techniques (middle scenario). However, reaping the full peace dividend, where new exploration opens for new oil flows, production could reach a peak of 350,000 barrels/day in about 10 years.

South Sudan: Oil Production Estimates and Simulation
(Thousands barrels of oil per day)



Sources: South Sudan authorities and IMF staff estimates

[4] Additional revenue will accrue to the budget when South Sudan finishes paying the transitional financial arrangement (US$15/barrel) to Sudan projected by 2021/22.

10. Downside political and external risks predominate in the short and medium term (Annex III). Political instability and insecurity, which can materialize if the R-ARCSS is broken, would adversely affect real GDP, which could contract further, driven partly by weaker oil production that would put further pressure on the fiscal and external sectors (Text Table 2, which compares the baseline with an alternative scenario if the domestic risks in Annex III are realized). In such a scenario, and with low foreign exchange reserves and limited access to external financing, the authorities may resort to central bank financing, risking further uncontrollable currency depreciation and a return to high inflation episodes. On external risks, South Sudan is extremely dependent on international oil prices. Uncertainty about prices will weigh negatively on South Sudan's economic outlook, including through delays in required investments in the oil sector.

Text Table 2. Baseline and Adverse Scenario

	Baseline		Adverse Scenario	
	2019/20	2020/21	2019/20	2020/21
	(Annual percent of change, unless otherwise indicated)			
Real GDP (percent change)	8.1	6.6	1.0	-2.6
Inflation (average)	26.4	11.0	40.1	48.2
Broad money	20.4	14.1	40.7	48.2
	(Percent of GDP, unless otherwise indicated)			
Total revenues and grants	32.0	35.8	30.0	24.4
Expenditures	32.6	35.8	33.6	30.5
Overall balance (cash)	-0.6	0.0	-3.6	-6.1
Change in arrears	0.7	-0.4	2.9	3.7
Current account balance (including grants)	-1.8	-1.9	-2.7	-3.0
Gross foreign reserves (millions of US dollars)	72.3	137.2	38.1	32.9
Gross foreign reserves (in months of imports)	0.2	0.4	0.1	0.1

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

Authorities' Views

11. The authorities have a more sanguine view about the outlook but agreed with staff's risk assessment. They expected to see the peace dividend materializing faster in the form of faster reopening of oil wells and acceleration in oil production. The authorities have pinned their hopes of improved oil export earnings to invest in rural development, reduce poverty and promote inclusive growth. However, they share the view that political stability and security are crucial elements to entrench peace, facilitate growth and support economic development.

NEAR-TERM POLICIES TO RESTORE MACROECONOMIC BALANCE

12. Discussions on near-term policies focused on how to restore macroeconomic stability and fiscal transparency. The authorities recognize that a credible pathway toward lasting peace is crucial to reversing the economic decline. Thus, they recognized the importance of macroeconomic policies and reforms that would immediately help to stabilize the economy and, if implemented, would enhance credibility with the international community and private investors. There is an immediate need to restore fiscal discipline and strengthen oil revenue management and public financial management, while maintaining tight monetary conditions. Non-transparent oil advances, oil-backed loans, and off-budget transactions are undermining fiscal discipline and budgetary integrity, which have led to high corruption vulnerabilities. The approved budget ceilings have become meaningless and non-binding. Although rising oil production is expected to raise government revenues, it will be insufficient to cover projected upfront peace-related costs. However, regaining access to longer term external financing will be a challenge due to a credibility gap, arising from failing attempts in the past to achieve peace and non-transparent government operations. Staff's policy advice and baseline projections assume that the peace agreement is broadly implemented. They are also based on no new external budget support; however, donor's off-budget humanitarian support is assumed to be maintained.

A. Fiscal Policies

13. The fiscal situation remains difficult with large financing needs, substantial transfer obligations to Sudan, and lack of fiscal discipline. The current fiscal stance is unsustainable as it relies on large expenditure cuts in some areas that have not only paralyzed government services and control, but also led to a substantial accumulation of arrears, including on wages. The 2018/19 budget, adopted by parliament in October 2018, applied ambitious spending limits and targeted a cash surplus of 2.5 percent of GDP (Text Table 3). However, the preliminary budget outturn for the first half shows that while fuel subsidies were reduced substantially, huge spending overruns on operations and off-budget spending crowded out spending elsewhere, resulting in arrears accumulation on wages and transfers to the states. The risks of budget overruns and further accumulation of arrears remain high, despite higher oil revenue and improved non-oil revenue performance.

Text Table 3. Fiscal Balance Projections

(in percent of GDP)

	2017/18	2018/19		2019/20
	Prel.	Budget	Proj.	Proj.
Revenue	28.6	24.8	31.5	32.0
Expenditure	31.4	22.3	31.5	32.6
Overall balance, cash	-2.8	2.5	0.0	-0.6
Financing	2.9	-2.5	0.0	0.6
Domestic	1.5	0.2	0.8	0.4
External	1.3	-2.7	-0.7	0.1
Change in arrears	3.3	-2.0	2.4	0.7
Overall balance, accrual	-6.1	4.5	-2.5	-1.3

14. Lack of financing options demands for tight fiscal conditions in the near term. This makes domestic revenue mobilization and management a priority while strict budgetary discipline should be applied to ensure that resources are made available to cover key peace-related costs and payment of civil servant salaries. Staff supports the authorities' zero-central bank financing policy, which is necessary to instill fiscal discipline, while providing incentives to increase non-oil revenue, improve oil revenue governance and strengthen budgetary controls.

- **FY 2018/19:** The remainder of FY 2018/19 will be constrained by the repayment of past oil advances. Without new external support, the mission estimates that the resource envelope (net of payments to Sudan, Nilepet, and oil advances) for the fourth quarter will decline by about one-third compared to the average of the first three quarters to about SSP 20 billion

(3 percent of GDP), assuming continued modest non-oil revenue. The overall balance (cash) for the year is projected to be close to zero. The authorities should allocate a limited amount to the National Pre-Transition Committee (NPTC) for piloting cantonment of combatants. Reporting of peace-related spending, including by NPTC, should be transparently publicized monthly. Staff advised the authorities to seek a longer-term loan, preferably on concessional terms, to clear the stock of short-term oil advances to ease the adjustment.[5]

- **FY 2019/20:** Staff advised continued fiscal restraint in 2019/20, while keeping domestic financing modest. With clearance of old oil advances and expected gradual increase in oil production, gross revenues are expected to rise from SSP 196 billion to SSP 255 billion. Assuming a roughly balanced budget, the net resource envelope (after payments to Sudan and Nilepet) is estimated to increase to SSP 147 billion (16 percent of GDP) in FY 2019/20 from SSP 101 billion (14 percent of GDP) the previous year. This could allow for payment of civil servant salaries, including outstanding arrears of about SSP 14 billion (1.5 percent of GDP), peace-related spending of about 2 percent of GDP, but it will require moderation in operational spending compared to the overspending in 2018/19. The authorities should present the FY 2019/20 budget to parliament for approval before July 1.

15. Improving oil revenue management is urgently needed. Appropriate oil revenue management is vital to provide resources to sustain spending on peace implementation, maintain basic government services and reduce vulnerabilities to corruption. The current practice of contracting oil-backed advances or prepayments is non-transparent, encourages misuse, and complicates accounting and monitoring. Contract terms are often unknown and in-kind repayments are unpredictable, which make expenditure management difficult. Moreover, the advances are costly and serve no good purpose in most cases (interest cost and fees amounted to $11 million in 2017/18). The mission therefore recommends a complete stop of contracting oil-backed loans, advances and prepayments. Government oil should be sold at spot market prices and gross proceeds should be transferred directly to the BSS oil account. This simplification will help enhance transparency, reduce costs, and ensure that oil revenues will be fully available for financing budgetary spending. Also, it will ease expenditure planning and management because of a more predictable revenue stream. Moreover, detailed and up-to-date crude oil production and export information should be published on the Ministry of Petroleum's website, as stipulated by the Petroleum Act (2012). The amount of outstanding short-term oil advances is estimated at US$338 million (7.3 percent of GDP) as of March 2019.[6]

16. There is also an urgent need to strengthen public financial management (PFM). 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

[5] The outstanding stock of oil advances was estimated at US$338 million by March 2019, and about US$100 million is expected to be repaid in the last quarter of the fiscal year.

[6] The estimated stock of oil advances is based on multiple sources and may not capture all outstanding advances. The authorities were unable to provide a full list of contracted oil advances and their repayment terms, which complicated fiscal projections. It also indicates potential transparency and governance issues arising from this practice.

controls were circumvented. While a longer-term strategy needs to be devised, the authorities are encouraged to implement previous "low-hanging fruit" actions, recommended by IMF's Fiscal Affairs Department, that would provide immediate impact. These include, (i) removing ghost workers from the payroll; (ii) implementing the technical tools prepared in 2016 to support cash forecasting; (iii) preparing an annual borrowing plan as part of the budget cycle; and (iv) starting verification of the current stock of arrears and developing a credible clearance strategy.

17. On revenue administration, the mission welcomed the formation of the National Revenue Authority (NRA), launched in 2018. The NRA is leading efforts to develop a high-level information technology roadmap to automate the operations of customs and tax and integrate core systems. The introduction of an electronic collection system recently has started to improve domestic revenue collection. However, for the NRA to become fully operational, the authorities should complete the recruitment of the core management team and fast-track the staffing.

18. The lack of transparency of the public oil company, Nilepet, remains a concern. Nilepet manages the government's shares in the oil producing consortia in South Sudan and provides subsidized petroleum products to certain government entities. It also has ambitions to get involved in crude production and refinery activities. Staff has been unable to obtain any financial statements of operations and legally required audited statements have never been completed despite requests from the Auditor General. The staff urges the authorities to facilitate the conduct of an audit, including to identify possible profit transfers to the budget. It recommends Nilepet to eliminate all fuel subsidies, as they provide opportunities for misuse.

Authorities' Views

19. The authorities were receptive to staff recommendations. They agreed that oil and budget management have been complicated by oil advances in recent years. They expressed commitment to strengthening oil management through discontinuing contracting oil advances. On Nilepet, the authorities agreed that an audit should be conducted according to existing legal requirements. The authorities also noted that they will aim at a broadly balanced budget for 2019/20 given the unavailability of budgetary financing. There is a strong commitment to avoid borrowing from the central bank to finance the budget for the remainder of 2018/19 and 2019/20. The government will continue to provide necessary support to the NRA, seeking technical assistance from the IMF where required. However, the authorities foresee a financing gap and urge the IMF to support its case for external resource mobilization with donors.

B. Monetary, Financial Sector, and Exchange Rate Policies

20. Monetary policy should focus on containing inflation and gradually replenishing international reserves. The BSS should adopt price stability as the primary objective and use reserve money as an intermediate target, given the undeveloped financial system. While monetary policy will continue to be dominated by fiscal conditions, the BSS should gradually reduce money expansion and rebuild foreign exchange reserves. This should be achieved by refraining from extending credit to the government. The cessation of central bank borrowing to finance the fiscal deficit has been proven to eliminate fiscal dominance and manage inflation.

21. The FX market should be liberalized, and the "Special Accounts" scheme discontinued. Under the current system, government FX transactions, FX sales by "special accounts" holders to banks and surrender by banks of these amounts to the BSS are required to take place at the BSS established official (indicative) rate, while a limited amount of transactions on the official FX market occur at the banks' market rate. These include FX sales by commercial banks from (a) 25 percent allocated by the BSS to banks[7] from the FX sold by the special accounts' holders and (b) from other sources than special accounts. The spread between the official (indicative) rate and the freely determined banks' market rate is close to the spread between official (indicative) rate and parallel market rate, and both spreads remain excessively high.[8] The large spreads among these exchange rates give rise to multiple currency practices (MCPs); moreover, the BSS practice of prioritizing FX allocation for government payments and payments of essential commodities gives rise to a new exchange restriction.[9] This exchange rate system and banks' surrender requirement to the BSS have contributed to a decline in FX inflows. There is an urgent need to normalize the FX market by discontinuing the "Special Accounts" scheme and let the exchange rate be unified and market determined. The BSS is encouraged to re-instate the FX auction mechanism—introduced in 2015 and suspended in 2017—to ensure transparency and fairness in allocation of FX to the market. Liberalization of the FX market will attract FX inflows, reduce rent seeking, and increase budgetary revenues.

22. To maintain financial stability, there is a need to address the risks stemming from undercapitalized banks. Many banks are currently noncompliant with the minimum statutory capital requirements. An earlier plan to resolve this issue through three options (raising capital, mergers, or liquidation) has not been implemented. The BSS should take firm action to ensure that banks meet minimum capital requirements by implementing its original plan. In this context, the BSS should adopt a comprehensive banking resolution regulation as soon as possible.

23. The BSS should ensure that the minimum reserve requirement of 20 percent is met for all commercial banks. In the event of foreign exchange market liberalization, reserve requirements on foreign currency deposits held in local currency will rise substantially. A change towards meeting reserve requirements on foreign currency deposits in foreign currency should be considered to reduce domestic liquidity volatility due to exchange rate movements.

24. Staff welcomes the completed audits of the BSS for 2013, 2014, and 2015, but urges the outstanding audits for 2016, 2017, and 2018 to be completed as well.

[7] These allocations from the BSS to banks are conducted at a small premium over the official/indicative rate.

[8] The primary sources of these spreads are (i) misrepresentation of market information in the calculation of the official/indicative rate, and (ii) restrictions imposed on the exchange rate used by commercial banks in their FX transactions within the "Special Accounts" scheme.

[9] The new MCPs and exchange restriction are subject to the Fund's jurisdiction under Article VIII.

Authorities' Views

25. The authorities agreed with most staff recommendations on monetary and financial sector policies. They recognize the shortcomings of the multiple foreign exchange rate system and BSS is reviewing it with the view to introduce reforms and eliminate the "Special Accounts" scheme. However, the timing of these reforms is uncertain. While the BSS recognizes the need to address the undercapitalization of banks, the implementation of a resolution plan is facing political resistance. While the BSS intends to retain the minimum reserve requirements at 20 percent of the total deposits, the requirements for local and foreign currency deposits will be calculated separately. The BSS is considering introducing term deposit facilities and central bank bills, given the lack of monetary policy instruments. On the latter, the mission offered to facilitate IMF TA support.

MEDIUM TERM: REBUILDING ECONOMIC BUFFERS AND TRANSITIONING TO PEACE

A. Fiscal Policies and Debt Management

26. Fiscal policies should aim to restore debt sustainability and domestic and external stability. Over the medium term, fiscal consolidation should be pursued to reach a surplus within a few years and thus bring down debt ratios, eliminate the need for domestic financing both to contain inflation and avoid crowding out private sector credit, and rebuild reserves. This would be supported by the projected completion of financial transfers to Sudan in 2021/22, which will free up substantial resources.

27. Policies should focus on raising non-oil revenues and reprioritizing budgetary spending. As the economy stabilizes and the NRA is fully in place, efforts should be made to further raise non-oil revenues, including by diversifying the revenue base. On the expenditure side, there is a need to shift away from security-related spending toward investment in education, health, infrastructure and rural development, which would help unlock potential in key economic sectors.

28. The authorities are encouraged to seek a restructuring plan on external debt arrears. Such an agreement, combined with improved fiscal conditions, could allow South Sudan to restore debt sustainability and move out of debt distress. A solution to the outstanding treasury bills would also help to pave the way to regularize relations with domestic creditors.

B. Governance and Corruption

29. The governance framework in South Sudan needs to be strengthened. Key areas of weaknesses include fiscal governance (revenue institutions, procurement, transparency, PFM controls), the regulatory framework, rule of law, and AML/CFT. The mission discussed the anti-corruption institutional and legal framework, with a specific focus on the implementation of a comprehensive asset declaration regime. Staff encouraged the authorities to apply for membership in a FATF-style regional AML body—such as the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)—and strengthen the AML/CFT regime, including the measures to support anti-corruption efforts. While the 2012 Anti-Money Laundering Act provides for the establishment of a Financial Intelligence Unit (FIU), this has not been done so far. Staff advised the authorities to establish the FIU as soon as possible.

C. Economic Diversification

30. Over the medium term, South Sudan needs to diversify its economy to reduce reliance on the oil sector, broaden domestic revenue mobilization, and achieve sustainable and inclusive growth (Box 3). Considering its geographical and geological advantages, South Sudan has economic potential in non-oil sectors such as agriculture, fisheries, mining, and construction. To fully mobilize these sectors, there is a need to foster human development and close a huge infrastructure gap—a key constraint, which requires mobilizing revenues, improving expenditure composition and efficiency, and regaining confidence with donors and investors. For the latter, it is critical to pursue structural reforms aimed at improving the business environment and the competitiveness of the economy.

Authorities' Views

31. The authorities broadly agreed with staff's views on medium-term policies needed to rebuild economic buffers and transition to peace. They concurred that without policy actions, public debt dynamics are unsustainable and threaten domestic and external stability. The authorities agreed on the need to diversify the economy and channel more resources toward infrastructure investments, including in roads. They also agreed to accelerate the operationalization of the FIU, for which a Commissioner has now been nominated. On external debt, the authorities noted that they are in the process of negotiating a restructuring of the commercial bank debt in arrears.

OTHER ISSUES

A. Capacity Building

32. The capacity needs in South Sudan are substantial across all sectors. With no new commitments, the South Sudan Trust Fund will be phased out as the main TA delivery vehicle in 2019/20 after seven years in operation. However, South Sudan is a member of the Measuring Natural Resource Wealth Topical Trust Fund, which supports capacity building in the measurement and development of the extractive industries, and South Sudan is expected soon to be approved as a member of East AFRITAC. The focus on capacity building in the coming years will be on: improving PFM (including oil revenue management), strengthening monetary and FX operations, reintroducing FX auctions, strengthening banking supervision, developing payments systems, and improving macroeconomic statistical systems (Annex IV).

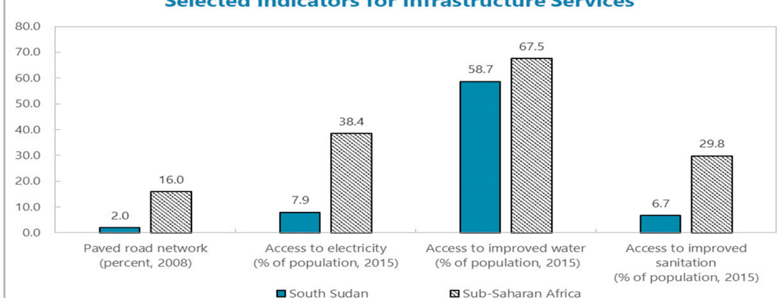
Box 3. Economic Diversification in South Sudan

South Sudan needs to diversify its economy to reduce reliance on the oil sector, broaden domestic revenue mobilization, and achieve sustainable and inclusive growth. In the baseline scenario, oil production will gradually fall over the next decade, and the economy will increasingly rely on other sectors. Several non-oil sectors have economic potential:

- **Agriculture.** Despite the reliance on oil, about 95 percent of population is engaged in agriculture, including livestock. Before insecurity and displacement disrupted agricultural production, South Sudan was a net exporter of agricultural products. With more than 70 percent of total land suitable for agriculture, the agriculture sector has the potential to be a key driver to take the country out of poverty and food insecurity.
- **Fisheries.** Since South Sudan is located within the Nile River basin, including one of the largest wetlands in the world, the Sudd, the country has abundant fishery resources. Despite the potential, old fishing gear and poor fingerling skills prevent an improvement in productivity. Moreover, poor infrastructure and lack of storage facilities hamper the distribution to the markets, causing huge losses before fresh fish reach the markets.
- **Mining.** Surrounded by mineral-rich countries, such as the Democratic Republic of the Congo, Sudan, and Uganda, South Sudan is believed to have rich mineral resources, including gold, diamond, copper, and various rare minerals. Despite the potential, mineral resources in South Sudan have been almost completely unexplored and commercialization of the mining industry is insufficient. So far, no big company has started operation in South Sudan and only a few smaller companies and artisanal miners are engaged in mining, including gold.
- **Construction.** The demand for construction is high in South Sudan. The lack of both quality and quantity in basic infrastructure, including transportation system, power supply, water supply, and communication system, provides substantial opportunities for the construction sector.

Thanks to its geographical and geological advantages, South Sudan has abundant natural resources, which remain untapped, creating a huge space for government and private actors to explore. Lack of infrastructure is a common issue across the non-oil sectors. Considering the population density and natural resource locations, investment in roads, especially in southern part of South Sudan should be prioritized. The prolonged internal conflict has squeezed budgets and left almost no resources for economic and social development in South Sudan. The insecurity has led to large numbers of internally displaced people and refugees, which have dampened activities in the non-oil sector. Therefore, putting peace in place and shifting spending away from the security areas would be important pre-requisites for South Sudan's economic diversification. This will also help to gain access to the required external funding.

Selected Indicators for Infrastructure Services



Source: World Bank, *World Development Indicators*, 2019.

B. Data for Surveillance

33. Data provision has serious shortcomings that significantly hamper surveillance. Most macroeconomic data have significant weaknesses in terms of quality, periodicity, and timeliness. While TA missions have been interrupted for longer periods by the civil conflict, some improvements have been made, including on real sector and monetary statistics. However, since the relapse into war in mid-2016, some areas have seen serious deterioration in quality, particularly government finances and oil sector transactions. For these reasons, actual data received from the authorities and historical estimates are often revised substantially as new information becomes available.[10] Significant data gaps also exist in the areas of fiscal governance, central bank governance, financial sector oversight, and trade facilitation, which preclude a thorough assessment of governance weaknesses. TA missions are currently planned on government finances, external sector statistics, and real sector statistics.

STAFF APPRAISAL

34. The peace agreement signed in September 2018 has enhanced the prospects for achieving lasting peace and reaping the peace dividend. The relapse into war in mid-2016 exacerbated the humanitarian conditions in the country and led to a deep economic crisis, debt distress and a weak external position. The peace agreement and cessation of hostilities provide a new opportunity for reconciliation and economic recovery. The reopening earlier this year of some damaged oil wells is already a positive development in this regard. However, the political downside risks remain significant and, if materialized, would have substantial negative impacts on the economic outlook and humanitarian conditions.

35. The peace agreement is the first of several steps toward economic recovery and regaining the confidence of donors and investors. The formation of a functioning transitional unity government and implementation of the main security arrangements in the peace agreement will be other major steps towards rebuilding confidence. Further steps include the need to address the country's severe economic and humanitarian problems and to establish enough transparency and accountability in government affairs that would enable implementation of economic policies that meet the overall economic objectives, which should encompass support to the whole population.

36. Fiscal discipline needs to be restored and public financial management improved. Non-transparent oil advances, oil-backed loans, and off-budget transactions are undermining fiscal discipline and budgetary integrity. The budget ceilings have become non-binding and spending decisions have become ad-hoc and non-transparent. The budget process needs to be reestablished with realistic budget assumptions and tighter budgetary controls. Moreover, lack of appropriate domestic and external financing options calls for tight fiscal conditions in the near term. Despite an increase in oil revenue, this will demand tough prioritization of allocations, though with due consideration to rising peace-related costs. Staff welcomes removal of most domestic fuel subsidies, which will ease the budgetary priorities.

37. Successful economic stabilization will rely on strengthening oil management. The South Sudanese economy is heavily dependent on the oil sector, and this will not change for many years. The management and use of government oil revenues need to improve. The practice of

[10] For example, in this report, historical nominal GDP data were revised and donor transfers were updated from a new database on historical donor contributions to South Sudan.

contracting oil-backed advances or loans is non-transparent, costly, encourages misuse, and complicates fiscal management and monitoring. The government should therefore impose an immediate stop on contracting oil advances. Instead, crude oil should be sold at the spot market and gross proceeds should be transferred to the BSS oil account.

38. Staff welcomes the creation of the National Revenue Authority (NRA). The authorities are urged to complete the recruitment of a management team and fast-track fully staffing the NRA.

39. The lack of transparency of Nilepet's financial operations is a concern. This is the country's largest public enterprise and it manages the country's shareholding interests in the oil sector. Staff welcomes the authorities' commitment to facilitate a public audit of Nilepet, as stipulated by law.

40. Monetary policy should focus on containing inflation and replenishing international reserves. The BSS should set price stability as its primary objective and continue to use reserve money as an intermediate target. Staff commends the BSS for abstaining from providing credit to government, which has helped to reduce monetary expansion and inflation. This policy should continue. Moreover, the BSS should gradually rebuild its monetary policy toolbox, including by introducing market-based instruments.

41. The multiple foreign exchange rate system should be abolished. The current system encourages rent seeking, raises corruption vulnerabilities, discourages inflows of foreign exchange, and harms economic activity. The foreign exchange market should be liberalized and the surrender requirements at the official (indicative) rate should be abolished. The exchange rate should be market-determined, and banks should be able to freely set buying and selling rates. Moreover, the new exchange restriction arising due to the prioritized access to FX for certain government transactions and essential commodities should be abolished, along with the existing exchange restriction arising from imposing absolute ceilings on the availability of FX for certain invisible transactions. Staff does not recommend Executive Board approval of the new exchange restriction and MCPs subject to Article VIII, Sections 2(a) and 3 since the criteria for approval are not met and the authorities are not requesting approval.

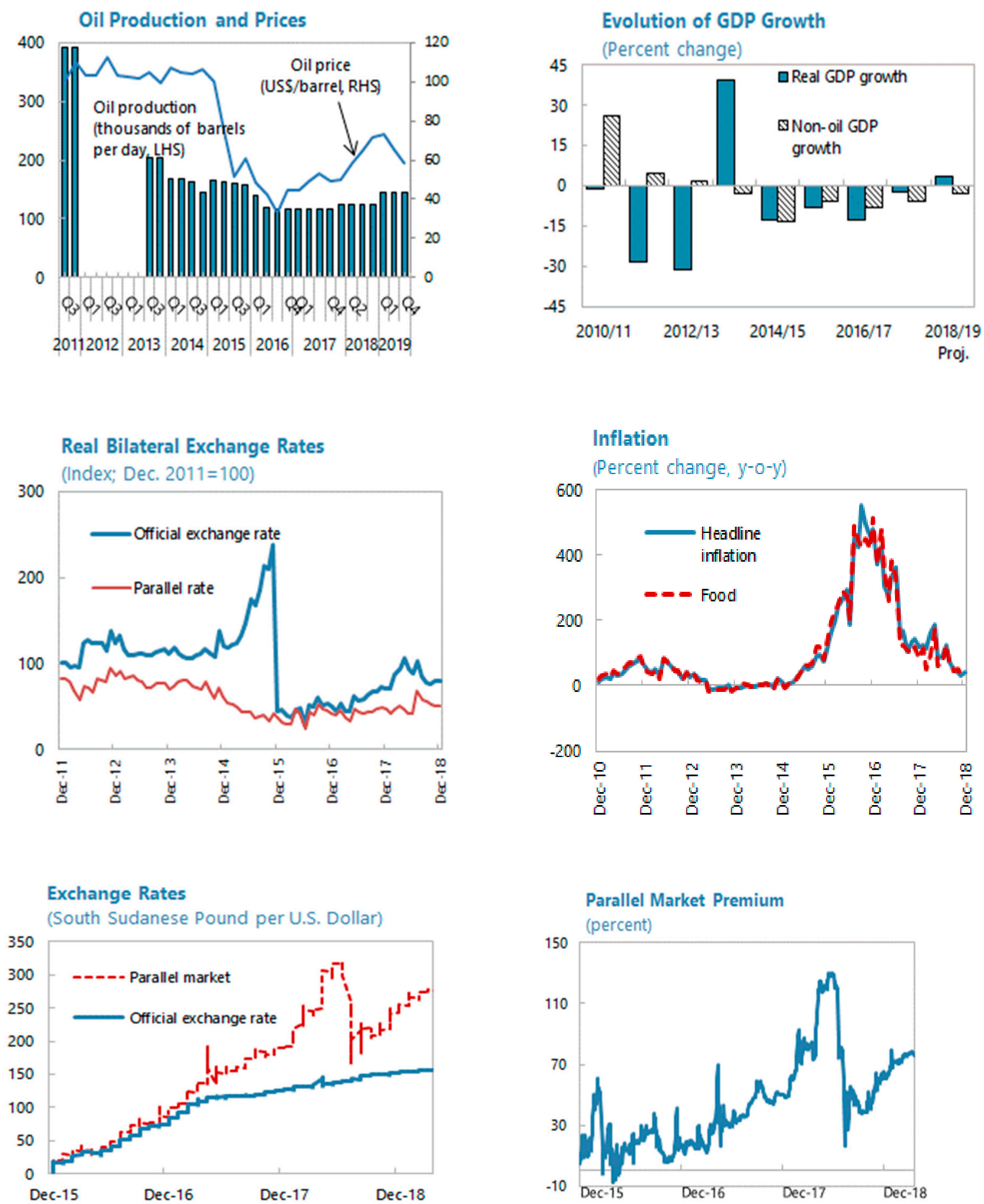
42. The serious undercapitalization of many banks needs to be addressed. The BSS should adopt a comprehensive banking resolution regulation as soon as possible, and take a firm stand to ensure that banks meet minimum capital requirements.

43. South Sudan remains in debt distress and the external position is weaker than implied by fundamentals and desirable policies. However, the peace agreement, an improved oil sector, and foreign exchange market liberalization could help to improve the debt outlook and the external position in the near term.

44. In the medium term, fiscal policies should aim to restore domestic and external stability, while reprioritizing spending towards development. Fiscal consolidation should be pursued while raising non-oil revenue and reprioritizing budgetary spending away from security-related spending towards investments in education, health, infrastructure, and rural development.

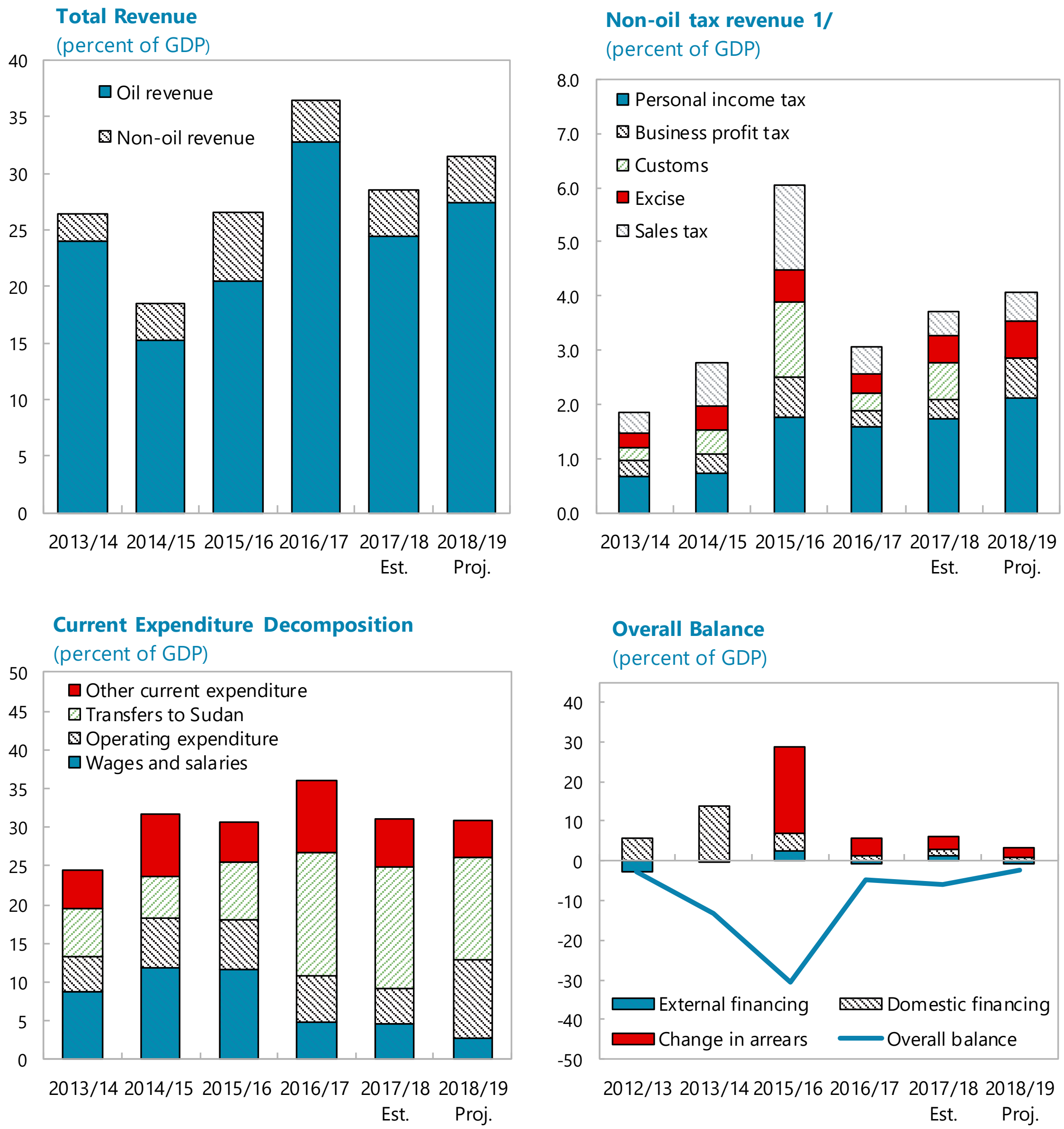
45. It is proposed that the next Article IV consultation with South Sudan be held on the standard 12-month cycle.

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

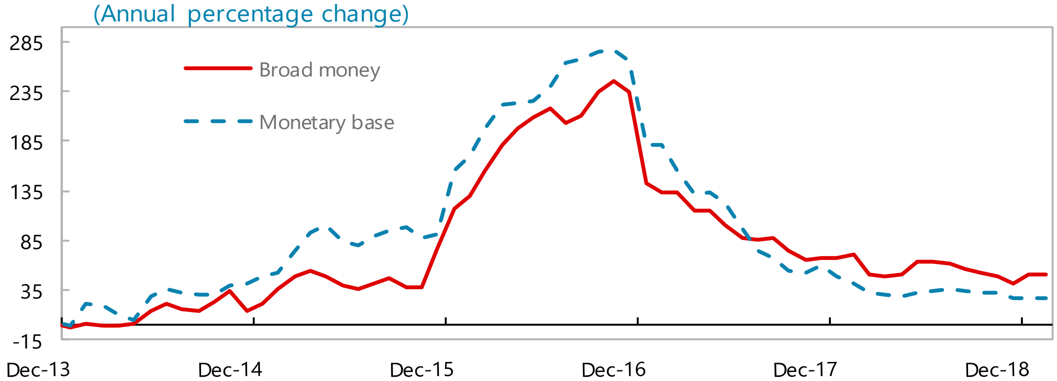


Sources: South Sudanese authorities, and IMF staff calculations.

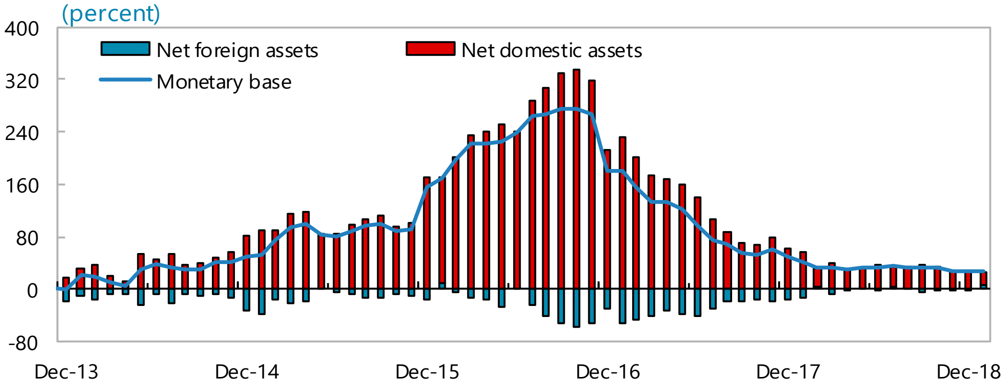
1/ For 2018/19 customs revenue collection was not reported due to technical problems

Figure 3. Republic of South Sudan: Monetary Developments

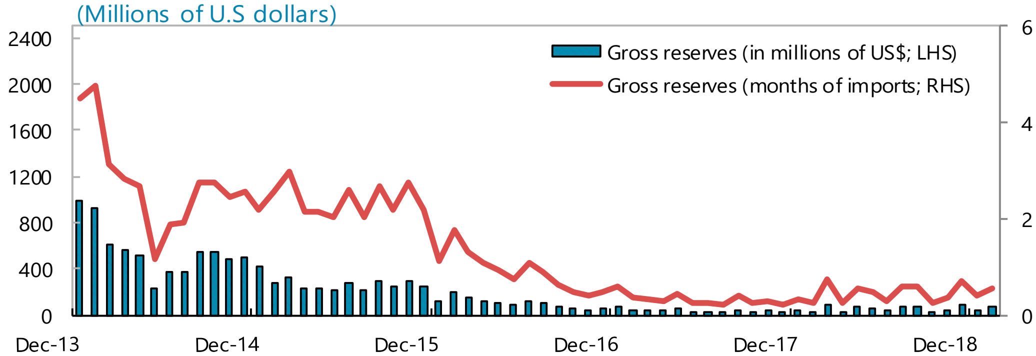
Broad Money and Monetary Base
(Annual percentage change)



Contribution to Monetary Base
(percent)

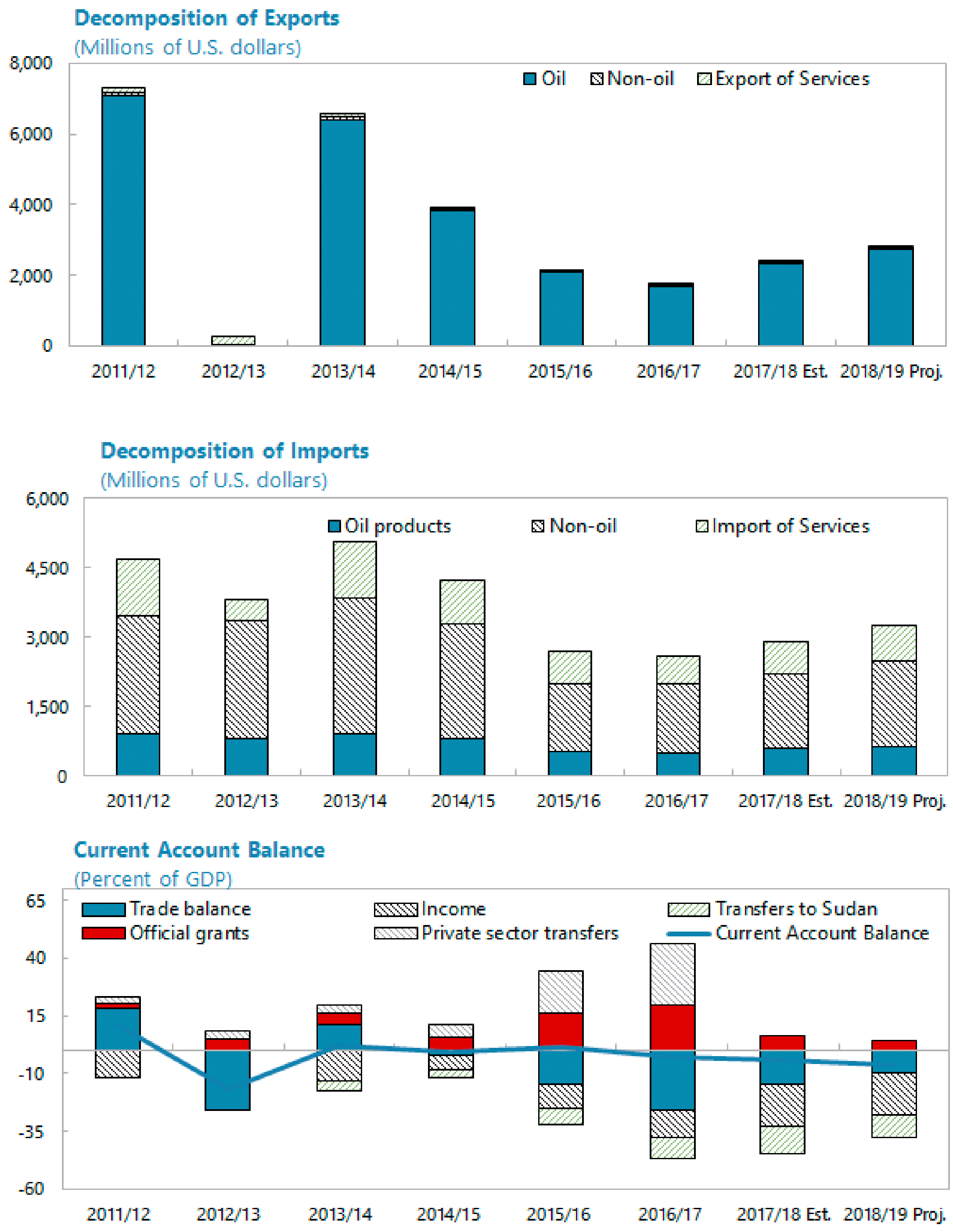


Gross Foreign Exchange Reserves
(Millions of U.S dollars)



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.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2016/17–2022/23

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Est.	Projections				
			(Annual percent of change, unless otherwise indicated)				
Output, prices, and exchange rate							
Real GDP (percent change)	-13.0	-2.4	3.4	8.1	6.6	5.5	5.6
Oil	-19.8	3.8	12.7	17.6	10.5	4.4	3.8
Non-oil	-8.3	-6.1	-2.7	0.9	3.1	6.5	7.2
Inflation (average)	384.9	125.8	33.5	26.4	11.0	9.2	8.2
Inflation (end-of-period)	361.9	88.5	27.2	14.0	9.5	8.5	8.1
Exchange rate (SSP/US$, average)	85.3	127.8	...	...	...	...	...
Exchange rate (SSP/US$, end period)	117.0	140.2	157.1 [1]	...	...	...	...
Money and credit							
Broad money	87.2	64.3	33.4	20.4	14.1	...	...
Reserve money	96.6	34.0	19.1	16.3	12.9	...	...
Credit to non-government sector	171.7	114.1	27.2	11.0	26.1	...	...
M2/GDP (percent)	19.7	16.8	16.7	15.7	15.4	...	...
			(Percent of GDP, unless otherwise indicated)				
Central government budget							
Total revenues and grants	36.5	28.6	31.5	32.0	35.8	39.2	40.6
Of which : Oil	32.8	24.5	27.4	27.9	31.7	35.1	36.5
Of which : Non-oil tax revenue	3.2	3.7	4.1	4.1	4.1	4.1	4.1
Of which : Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	36.8	31.4	31.5	32.6	35.8	38.9	39.4
Current	36.1	31.1	30.8	30.5	32.9	34.7	30.5
Of which : transfers to Sudan	16.0	15.9	13.3	11.9	12.6	12.4	6.4
Net acquistition of non-financial assets	0.7	0.4	0.7	2.2	2.9	4.2	8.9
Overall balance (cash)	-0.3	-2.8	0.0	-0.6	0.0	0.2	1.2
Change in arrears	4.5	3.3	2.4	0.7	-0.4	0.0	0.0
Overall balance (accrual balance)	-4.8	-6.1	-2.5	-1.3	0.5	0.2	1.2
Public debt							
Total Public Debt [2]	46.8	43.0	35.9	34.2	38.2	51.9	51.6
Of which : external public debt	37.2	34.6	31.6	30.2	34.4	45.0	44.9
External sector							
Exports of goods and services	54.3	68.7	60.3	64.4	75.6	84.3	88.9
Imports of goods and services	80.0	83.5	70.0	75.6	84.9	95.7	96.9
Current account balance (including grants)	-3.0	-4.5	-6.4	-1.8	-1.9	-1.9	-0.7
Current account balance (excluding grants)	-37.5	-32.9	-27.9	-27.1	-26.2	-29.8	-26.0
Gross foreign reserves (millions of US dollars)	28.3	33.0	41.3	72.3	137.2	253	513
Gross foreign reserves (in months of imports)	0.1	0.1	0.1	0.2	0.4	0.8	1.4
Memorandum items:							
Population (millions)	12.4	12.8	13.2	13.6	14.0	14.4	14.9
Oil production (millions of barrels)	42.0	43.5	48.6	56.4	62.0	64.8	67.2
South Sudan's oil price (U.S. dollars per barrel)	42.3	53.4	56.9	52.6	52.3	51.5	51.9
Brent price (U.S. dollars per barrel)	49.8	60.6	63.7	59.1	58.6	57.9	58.2
Nominal GDP (billions of SSP)	276.1	532.2	713.0	913.8	1,062.8	1,204.9	1,363.5
GNI per capita (US dollars)	230.7	233.2	280.1	272.8	253.2	234	232
Nominal GDP (percent change)	327.1	92.7	34.0	28.2	16.3	13.4	13.2

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

[1] Exchange rate as of April 24, 2019.

[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, 2016/17–2022/23

(In billions of South Sudanese pounds)

	2016/17	2017/18	2018/19		2019/20	2020/21	2021/22	2022/23
	Act.	Est.	Budget	Proj.	Projections			
Total revenue and grants	**100.8**	**152.1**	**216.3**	**224.6**	**292.6**	**380.8**	**472.2**	**553.4**
Total oil revenues	90.7	130.3	191.3	195.6	255.3	337.2	423.3	498.0
Government share from oil exports	90.7	130.3	191.3	195.6	255.3	337.2	423.3	498.0
Signature bonuses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil tax revenue	8.9	19.7	22.7	29.0	37.3	43.4	48.9	55.3
Other GoSS revenue	1.0	2.1	2.3	0.0	0.1	0.3	0.0	0.0
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
On-budget grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Off-budget grants	61.1	87.9	88.0	72.2	88.2	88.3	88.3	99.7
Total expenditure	**101.7**	**167.3**	**194.5**	**224.9**	**298.0**	**380.5**	**469.3**	**537.3**
Current expenditure	99.6	165.3	184.8	219.9	278.3	349.3	418.5	416.4
Salaries	13.5	24.8	36.4	18.8	46.0	65.1	89.4	100.6
Operating expenses	16.3	23.4	11.2	67.8	62.7	63.8	73.5	83.4
Interest	0.4	1.4	0.1	3.3	0.4	0.5	0.5	0.7
Transfers to states	3.6	8.7	21.8	15.8	28.0	39.7	44.4	86.2
Conditional transfers	2.1	8.6	12.5	4.6	14.2	25.2	26.4	68.4
Current transfers to states	2.1	8.6	12.5	4.4	12.3	22.3	22.9	25.2
Capital transfers to states	0.0	0.0	0.0	0.2	1.9	2.9	3.5	43.1
Transfers to oil producing states (5%)	0.0	0.1	5.1	5.6	7.9	9.8	12.1	13.1
Block grants to states	1.5	0.0	4.2	5.6	5.8	4.7	6.0	4.7
Transfers to Sudan	44.1	84.6	88.9	95.0	108.5	133.4	149.0	87.4
Transportation and transit fees	16.7	31.9	26.7	35.9	40.5	58.6	74.7	87.4
Financial transfer	27.5	52.6	62.2	68.2	68.0	74.8	74.3	0.0
Other expenses	21.7	22.5	26.4	19.2	32.8	46.8	78.3	126.0
Subsidies and transfers to public enterprises	21.1	20.8	17.4	14.7	14.6	19.0	33.9	39.8
Emergency contingency fund	0.4	0.1	4.5	0.0	0.0	0.0	0.0	0.0
Peace agreement	0.2	1.6	4.5	4.5	18.2	27.8	27.8	18.4
Net acquistition of non-financial assets	2.0	1.9	9.7	5.0	19.6	31.1	50.8	120.9
Domestically financed	1.9	1.9	8.6	5.0	19.6	31.1	50.7	120.7
Foreign financed	0.1	0.0	1.1	0.0	0.0	0.1	0.1	0.2
Overall balance (cash)	**-0.9**	**-15.1**	**21.8**	**-0.3**	**-5.4**	**0.3**	**2.9**	**16.1**
Change in arrears	12.3	17.4	-17.4	17.2	6.8	-4.7	0.0	0.0
Overall balance (accrual balance)	**-13.2**	**-32.5**	**39.2**	**-17.6**	**-12.2**	**5.0**	**2.9**	**16.1**
Statistical discrepancy	-1.2	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Financing	**14.3**	**32.6**	**-39.2**	**17.6**	**12.2**	**-5.0**	**-2.9**	**-16.1**
Domestic (net)	16.3	25.5	-15.9	22.7	10.9	5.0	9.3	-19.2
Net credit from the central bank	3.2	11.2	0.0	6.4	0.0	0.0	-0.5	-20.2
Net credit from commercial banks	0.8	-3.1	1.5	-0.9	4.1	9.7	9.8	1.0
Change in arrears	12.3	17.4	-17.4	17.2	6.8	-4.7	0.0	0.0
Foreign (net)	-2.0	7.0	-23.3	-5.2	1.3	-10.0	-12.3	3.1
Disbursement	10.6	48.2	1.1	5.3	7.6	0.1	7.9	9.1
Amortization	-12.6	-41.1	-24.5	-10.4	-9.5	-10.1	-20.1	-6.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil domestic current fiscal balance [1]	-45.5	-58.8	-65.7	-90.3	-124.6	-162.5	-208.6	-260.5
Oil production (millions of barrels)		43.5	…	48.6	56.4	62.0	64.8	67.2
Nominal GDP (bn of South Sudanese pounds)	276.1	532.2	873.6	713.0	913.8	1,062.8	1,363.5	1,363.5

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, 2016/17–2022/23

(In percent of GDP)

	2016/17	2017/18	2018/19		2019/20	2020/21	2021/22	2022/23
	Act.	Est.	Budget	Proj.	Projections			
Total revenue and grants	**36.5**	**28.6**	**24.8**	**31.5**	**32.0**	**35.8**	**34.6**	**40.6**
Total oil revenues	32.8	24.5	21.9	27.4	27.9	31.7	31.0	36.5
Government share from oil exports	32.8	24.5	21.9	27.4	27.9	31.7	31.0	36.5
Signature bonuses	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Non-oil tax revenue	3.2	3.7	2.6	4.1	4.1	4.1	3.6	4.1
Other GoSS revenue	0.4	0.4	0.3	0.0	0.0	0.0	0.0	0.0
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**36.8**	**31.4**	**22.3**	**31.5**	**32.6**	**35.8**	**34.4**	**39.4**
Current expenditure	36.1	31.1	21.1	30.8	30.5	32.9	30.7	30.5
Salaries	4.9	4.7	4.2	2.6	5.0	6.1	6.6	7.4
Operating expenses	5.9	4.4	1.3	9.5	6.9	6.0	5.4	6.1
Interest	0.1	0.3	0.0	0.5	0.0	0.0	0.0	0.0
Transfers to states	1.3	1.6	2.5	2.2	3.1	3.7	3.3	6.3
Conditional transfers	0.8	1.6	1.4	0.6	1.6	2.4	1.9	5.0
Current transfers to states	0.8	1.6	1.4	0.6	1.4	2.1	1.7	1.8
Capital transfers to states	0.0	0.0	0.0	0.0	0.2	0.3	0.3	3.2
Transfers to oil producing states (5%)	0.0	0.0	0.6	0.8	0.9	0.9	0.9	1.0
Block grants to states	0.5	0.0	0.5	0.8	0.6	0.4	0.4	0.3
Transfers to Sudan	16.0	15.9	10.2	13.3	11.9	12.6	10.9	6.4
Transportation and transit fees	6.0	6.0	3.1	5.0	4.4	5.5	5.5	6.4
Financial transfer	9.9	9.9	7.1	9.6	7.4	7.0	5.4	0.0
Other expenses	7.9	4.2	3.0	2.7	3.6	4.4	5.7	9.2
Subsidies and transfers to public enterprises	7.7	3.9	2.0	2.1	1.6	1.8	2.5	2.9
Emergency contingency fund	0.1	0.0	0.5	0.0	0.0	0.0	0.0	0.0
Peace agreement	0.1	0.3	0.5	0.6	2.0	2.6	2.0	1.3
Net acquistition of non-financial assets	0.7	0.4	1.1	0.7	2.2	2.9	3.7	8.9
Domestically financed	0.7	0.4	1.0	0.7	2.2	2.9	3.7	8.9
Foreign financed	0.1	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	**-0.3**	**-2.8**	**2.5**	**0.0**	**-0.6**	**0.0**	**0.2**	**1.2**
Change in arrears	4.5	3.3	-2.0	2.4	0.7	-0.4	0.0	0.0
Overall balance (accrual)	**-4.8**	**-6.1**	**4.5**	**-2.5**	**-1.3**	**0.5**	**0.2**	**1.2**
Statistical discrepancy	-0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing	**5.2**	**6.1**	**-4.5**	**2.5**	**1.3**	**-0.5**	**-0.2**	**-1.2**
Domestic (net)	5.9	4.8	-1.8	3.2	1.2	0.5	0.7	-1.4
Net credit from the central bank	1.2	2.1	0.0	0.9	0.0	0.0	0.0	-1.5
Net credit from commercial banks	0.3	-0.6	0.2	-0.1	0.4	0.9	0.7	0.1
Change in arrears	4.5	3.3	-2.0	2.4	0.7	-0.4	0.0	0.0
Foreign (net)	-0.7	1.3	-2.7	-0.7	0.1	-0.9	-0.9	0.2
Disbursement	3.9	9.1	0.1	0.7	0.8	0.0	0.6	0.7
Amortization	-4.6	-7.7	-2.8	-1.5	-1.0	-0.9	-1.5	-0.4
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Non-oil domestic current fiscal balance [1]	-16.5	-11.1	-7.5	-12.7	-13.6	-15.3	-15.3	-19.1
Oil production (millions of barrels)	42.0	43.5	…	48.6	56.4	62.0	64.8	67.2
Nominal GDP (bn of South Sudanese pounds)	276.1	532.2	873.6	713.0	913.8	1,062.8	1204.9	1363.5

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 2016–June 2021

(In billions of South Sudanese Pounds, unless otherwise indicated)

	2016	2017	2018	2019	2020	2021
	Jun	Jun	Jun	Jun	Jun	Jun
	Actual			Projections		
			Monetary Survey			
Net foreign assets	**-20.5**	**-72.8**	**-74.9**	**-99.7**	**-122.8**	**-135.6**
Claims on nonresidents	26.4	57.1	87.0	113.0	149.7	201.0
Central bank	20.7	43.3	53.1	68.5	95.1	136.4
Commercial banks	5.7	13.7	33.9	44.5	54.7	64.6
Liabilities to nonresidents	46.8	129.9	161.9	212.7	272.5	336.6
Central bank	20.1	57.2	69.3	91.0	116.6	144.0
Commercial banks	26.7	72.7	92.6	121.7	155.9	192.6
Net domestic assets	**49.5**	**127.1**	**164.1**	**218.7**	**266.0**	**299.0**
Net domestic credit	16.1	23.5	36.8	46.2	51.9	65.8
Net claims on central government	14.1	18.2	26.3	31.7	35.7	45.4
Claims on other sectors	2.0	5.3	10.5	14.5	16.1	20.3
Other items (net)	33.4	103.6	127.3	172.5	214.1	233.3
Broad money	**29.0**	**54.3**	**89.2**	**119.0**	**143.2**	**163.4**
Currency outside banks	6.6	13.5	27.1	39.9	46.1	49.8
Transferable deposits	16.4	31.3	50.5	62.9	83.1	93.2
o/w: in foreign currency	10.1	23.9	39.1	45.1	60.7	78.3
Other deposits	6.0	9.5	11.6	16.2	14.0	20.3
o/w: in foreign currency	2.5	4.8	4.2	3.0	3.1	3.3
			Central Bank			
Net foreign assets	**0.5**	**-13.8**	**-16.2**	**-22.5**	**-21.5**	**-7.7**
Claims on nonresidents	20.7	43.3	53.1	68.5	95.1	136.4
Liabilities to nonresidents	20.1	57.2	69.3	91.0	116.6	144.0
Net domestic assets	**33.4**	**80.6**	**105.6**	**129.1**	**145.4**	**147.5**
Net domestic credit	12.4	17.3	31.8	39.0	39.6	40.4
Claims on commercial banks	0.0	0.0	0.1	0.1	0.0	0.0
Net claims on central government	12.3	15.5	26.8	32.1	32.1	32.1
Claims on central government	17.1	21.1	34.3	39.6	39.6	39.6
Liabilities to central government	4.8	5.6	7.5	7.5	7.5	7.5
Other items (net)	21.1	63.3	73.8	90.1	105.8	107.1
Monetary base	**34.0**	**66.8**	**89.5**	**106.6**	**123.9**	**139.8**
Currency in circulation	7.6	15.2	30.5	44.3	51.7	56.8
Liabilities to commercial banks	25.0	49.5	56.0	58.7	73.4	74.1
Liabilities to other sectors	1.4	2.0	3.0	3.6	-1.2	9.0
Memorandum items:						
Money multiplier	0.9	0.8	1.0	1.1	1.2	1.2
Share of foreign currency deposits to total deposits	0.6	0.7	0.7	0.6	0.7	0.7
Gross foreign reserves (millions of dollars)	126.5	28.3	33.0	41.3	72.3	137.2
Monetary base (year-on-year change in percent)	239.6	96.6	34.0	19.1	16.3	12.9
Broad money (year-on-year change in percent)	246.5	87.2	64.3	33.4	20.4	14.1

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

Table 4. Republic of South Sudan: Balance of Payments, 2016/17–2022/23

(In millions of U.S. dollars, unless otherwise indicated)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23
	Act.	Est.	Projections				
Current account balance	**-96**	**-157**	**-298**	**-87**	**-83**	**-77**	**-31**
Trade Balance	-267	134	270	289	402	425	541
Exports of goods	1,719	2,348	2,766	3,001	3,288	3,390	3,578
Oil	1,694	2,333	2,749	2,967	3,243	3,339	3,488
Nonoil	25	16	17	34	45	51	90
Imports of goods	-1,986	-2,214	-2,495	-2,712	-2,886	-2,965	-3,037
Balance of Services	-562	-647	-719	-821	-817	-894	-876
Exports of services	40	38	24	37	68	77	100
Imports of services	-602	-685	-743	-858	-885	-971	-976
o/w: oil-related	-388	-416	-469	-551	-614	-641	-668
of which non-oil	-214	-269	-274	-307	-271	-330	-308
Income	-385	-628	-841	-749	-751	-759	-741
Wages of expatriate oil workers	-124	-139	-147	-162	-176	-183	-192
Investors' profits	-239	-379	-500	-524	-518	-496	-489
Investment income (net)	-22	-100	-170	0	0	0	0
Current Transfers (net)	1,119	985	991	1,194	1,082	1,150	1,045
General government	640	224	202	265	410	404	310
Workers' remittances (net)	53	53	58	54	82	58	11
Financial transfers to Sudan	-309	-410	-449	-396	-349	-287	0
Other sectors	805	1,132	1,183	1,231	940	975	724
Capital and financial account	**266**	**-30**	**179**	**118**	**148**	**193**	**291**
Capital account	238	124	28	32	34	42	49
Financial account	28	-154	151	85	114	151	242
Foreign direct investment[1]	-6	10	-26	-9	44	91	152
of which: non-oil	0	0	0	22	30	45	74
Public borrowing (net)	-42	-65	202	70	110	160	90
Overall balance	**170**	**-187**	**-119**	**31**	**65**	**116**	**260**
Errors and omissions	-370	186	133	0	0	0	0
Financing	**200**	**1**	**-14**	**-31**	**-65**	**-116**	**-260**
Change in net foreign assets of the central bank	200	1	-14	-31	-65	-116	-260
of which : Change in gross reserves (Increase -)	98	-5	-8	-31	-65	-116	-260
Change in liabilities to non-residents	102	6	-6	0	0	0	0
Financing gap	0	0	0	0	0	0	0
Memorandum items:							
Current account balance including transfers (percent of GDP)	-3.0	-4.5	-6.4	-1.8	-1.9	-1.9	-0.7
Current account balance excluding transfers (percent of GDP)	-37.5	-32.9	-27.9	-27.1	-26.2	-29.8	-26.0
South Sudan oil price (dollars per barrel; weighted average)	42.3	53.4	56.9	52.6	52.3	51.5	51.9
Gross foreign reserves (millions of US dollars)	28	33	41	72	137	253	513
In months of next year's imports of goods and services	0.1	0.1	0.1	0.2	0.4	0.8	1.4
Oil production (millions of barrels)	42.0	43.5	48.6	56.4	62.0	64.8	67.2
Nominal GDP (billions of U.S. dollars)	3.2	3.5	4.6	4.7	4.4	4.1	4.1

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

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

Table 5. South Sudan: Medium-Term Macroeconomic Framework, 2016/17–2023/24
(In percent of GDP, unless otherwise specified)

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
	Act.	Est.	Projections					
National accounts and prices								
Nominal GDP (billions of U.S. dollars)	3.2	3.5	4.6	4.7	4.4	4.1	4.1	4.3
Nominal GDP (billions of South Sudanese Pounds)	276	532	713	713	1,063	1,205	1,363	1,543
GNI per capita (US dollars)	231	233	280	273	253	234	232	236
Real GDP (percent change)	-13.0	-2.4	3.4	8.1	6.6	5.5	5.6	5.0
Oil	-19.8	3.8	12.7	17.6	10.5	4.4	3.8	4.2
Non-oil	-8.3	-6.1	-2.7	0.9	3.1	6.5	7.2	5.7
Inflation (percent change, average)	384.9	125.8	33.5	26.4	11.0	9.2	8.2	8.4
Inflation (percent change, end period)	361.9	88.5	27.2	14.0	9.5	8.5	8.1	8.7
Central government budget								
Total revenues and grants	36.5	28.6	31.5	32.0	35.8	39.2	40.6	42.1
Oil	32.8	24.5	27.4	27.9	31.7	35.1	36.5	37.8
Non-oil tax revenue	3.2	3.7	4.1	4.1	4.1	4.1	4.1	4.4
Grants	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	36.8	31.4	31.5	32.6	35.8	38.9	39.4	42.1
Current	36.1	31.1	30.8	30.5	32.9	34.7	30.5	30.0
Of which : transfers to Sudan	16.0	15.9	13.3	11.9	12.6	12.4	6.4	6.5
Capital	0.7	0.4	0.7	2.2	2.9	4.2	8.9	12.2
Errors and omissions	-4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	-0.3	-2.8	0.0	-0.6	0.0	0.2	1.2	0.0
Change in arrears	4.5	3.3	2.4	0.7	-0.4	0.0	0.0	0.0
Overall balance (accrual)	-4.8	-6.1	-2.5	-1.3	0.5	0.2	1.2	0.0
External sector								
Current account balance	-3.0	-4.5	-6.4	-1.8	-1.9	-1.9	-0.7	-4.2
excl. grants	-37.5	-32.9	-27.9	-27.1	-26.2	-29.8	-26.0	-23.7
Exports of goods and services	54.3	68.7	60.3	64.4	75.6	84.3	88.9	92.1
Of which: Oil	52.3	67.2	59.5	62.9	73.0	81.2	84.3	86.9
Imports of goods and services	80.0	83.5	70.0	75.6	84.9	95.7	96.9	101.4
Gross foreign reserves (in USD mill)	28.3	33.0	41.3	72.3	137.2	253.1	513.5	819.7
Gross foreign reserves (in months of imports)	0.1	0.1	0.1	0.2	0.4	0.8	1.4	2.1
Memorandum items:								
Oil production (millions of barrels)	42.0	43.5	48.6	56.4	62.0	64.8	67.2	70.0
South Sudan's oil price (U.S dollars per barrel)	42.3	53.4	56.9	52.6	52.3	51.5	51.9	53.1
Current account balance (millions of USD)	-95.8	-156.7	-298.1	-86.5	-83.4	-76.9	-30.5	-181.3

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

Annex I. Implementation of the IMF 2016 Article IV Consultation Recommendations

Recommendations	Status
Fiscal Policy	
Eliminate the need to borrow from the BSS.	Met
Eliminating fuel subsidies to Nile Petroleum	Met
Reduce the cost of operating foreign diplomatic missions (0.4 percent of GDP in 2016/17 budget)	Ongoing
Public Financial Management	
Reduce domestic financing to 1 percent of GDP	
Remit all revenue collected to the consolidated treasury account	Met
Register all civil servants (including military) on payroll system;	Not met
Complete payroll audit and remove ghost workers	Not met
Establish Treasury Single Account (TSA) structure	Not met
Verify the 2015/16 non-salary arrears and form a clearance plan	Not met
Enact the Public Procurement Bill	Met
Enact the Public Financial Management and Accountability Act (PFMAA)	Met
Monetary and Financial Policies	
Eliminating BSS direct lending to government	Met
Finance the deficit through Treasury bills	Not met
Exchange Rate Policy and External Stability	
BSS continue to conduct regular auctions with smaller amounts to send price signals to the market	Not met
Ensure that the spread between the official and parallel rates is reduced by allowing the auction and indicative rates to reflect market conditions.	Not met
Rebuilding buffers and refocusin on economic development	
Reprioritizing budgetary spending	Not met
Rebuilding foreign exchange reserves	Not met
Managing Oil Revenue	
implement the PRMA in full and seek the necessary technical support.	Not met
Reforming the domestic oil sector,	
Raise pump prices to cost-recovery level to help alleviate supply shortages and informal trade	Met
Review domestic fuel prices periodically	Met
Subject Nilepet to external audits.	Not met

Source: South Sudan authorities and IMF staff estimates.

Annex II. External Sector Assessment

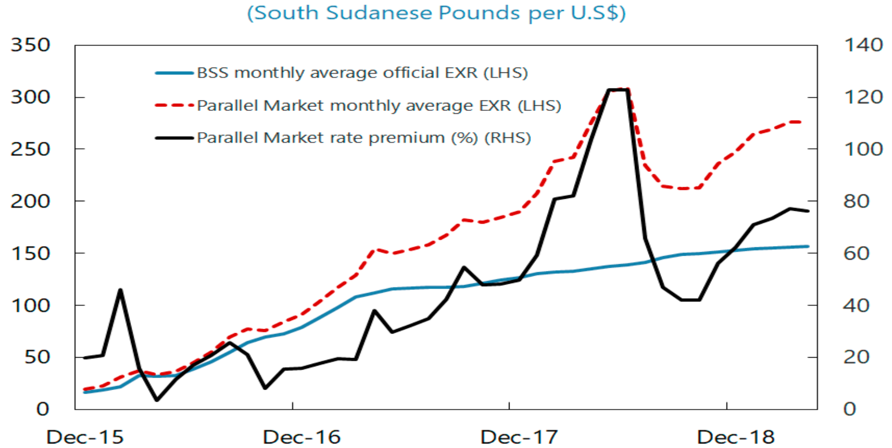
Based on data as of December 2018, the external position of South Sudan is weaker than implied by fundamentals and desirable policies, with nearly depleted foreign reserves and an overvalued official exchange rate. The civil conflict, subdued oil prices and policy slippages have led to economic instability and depletion of economic buffers in recent years. Despite liberalization of the exchange rate regime towards the end of 2015, continued deterioration in the security situation led to re-introduction in 2016 of a multiple exchange rate system combined with substantial import compression. Restoration of external stability will require a return to lasting peace and implementation of economic stabilization policies.

1. **The civil conflict and large structural changes complicate the use of standard tools for the external sector assessment in the case of South Sudan.** Given insufficient data, uncertainty about policy variables, high inflation, and extreme volatility of nominal macroeconomic variables, including the exchange rate, neither the External Balance Assessment (EBA) nor EBA-lite is applicable to South Sudan. In the following, the external assessment is based on more descriptive analysis.

2. **The gap between the official (indicative) rate and the parallel market rate remains high, indicating that the official rate set by the BSS is overvalued.** The parallel market premium has been rising since the civil conflict escalated in July 2016, which led to further macroeconomic instability and an almost complete loss of foreign exchange reserves. The decline in oil prices exacerbated the problems and the premium peaked at about 120 percent in mid-2018. The increase in oil prices and the improved outlook for a peace settlement have led to a marked decline in the premium since the second half of 2018.

South Sudan: Exchange Rate Development

(South Sudanese Pounds per U.S$)

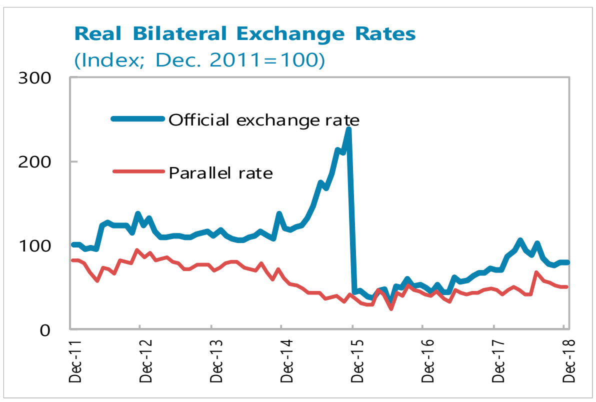


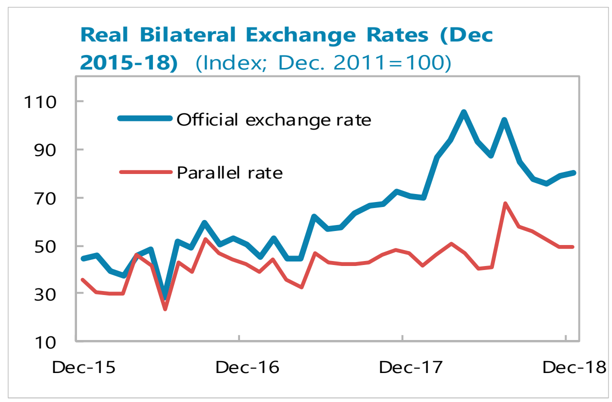
Source: South Sudanese authorities.

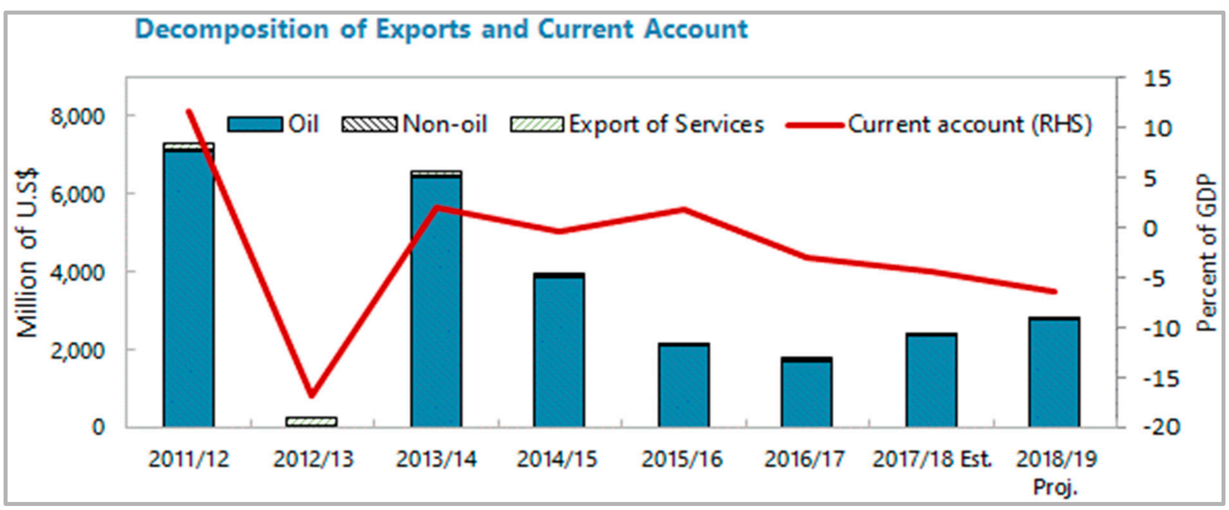
3. **The bilateral real official exchange rate has appreciated over the last two years, as the crisis deepened, and foreign exchange restrictions were put in place.** The real appreciation of the official (indicative) exchange rate accelerated after April 2017 concurrently with the BSS abolishing BSS foreign exchange auctions and requiring commercial banks to surrender foreign

exchange purchased from "special account" holders at the official (indicative rate). By end-2018, the real exchange rate had appreciated by 80 percent since April 2017. By contrast, the real parallel market rate has remained stationary over a long period of time, indicating that the parallel market rate against US$ has roughly reflected the developments in relative price levels between South Sudan and the US.

4. **The current account balance has worsened in recent years largely due to the decline in oil exports.** South Sudan is an oil dependent country, with oil exports accounting for about 97 percent of total exports of goods and services. The current account balance has deteriorated from 1.7 percent of GDP in 2015/16 to -4.5 percent of GDP in 2017/18. While imports have been partly financed by large inflows of donor grants, the deficit has also been burdened by large Transitional Financial Arrangement (TFA) transfers to Sudan. While the current account deficit is expected to narrow in the coming years with higher oil exports, a structural change is envisaged with the completion of the TFA payments to Sudan, expected in 2021/22.





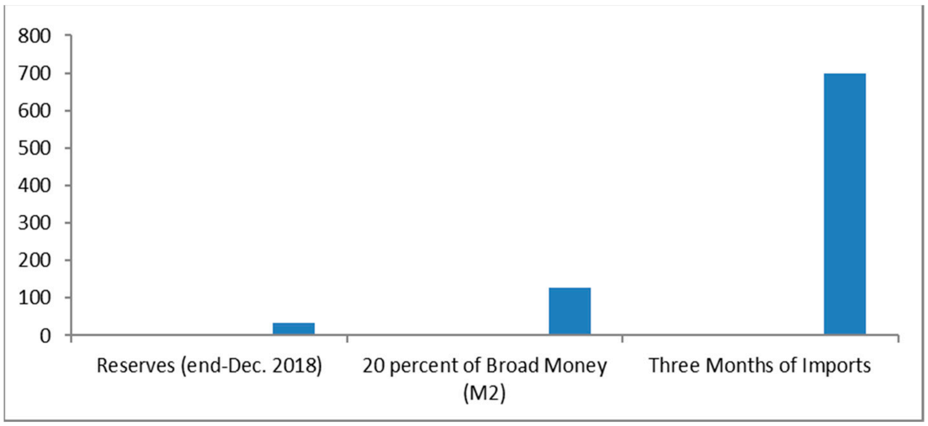


5. **Low levels of foreign reserves reflect external disequilibrium.** South Sudan's foreign exchange reserves have steadily declined since the outset of the civil conflict in 2013. The current level of US$30–70 million (less than one week of next year's imports of goods and services) is

inadequate by any measure. Given the country's dependence on oil exports and importation of almost all goods for domestic consumption, South Sudan needs substantial foreign exchange buffers. In this context, the "rule of thumb" of three months of imports would likely be suboptimal. In the medium and long term, a level of reserves closer to the average of peer sub-Saharan African countries (4 months of imports cover) would be preferable.

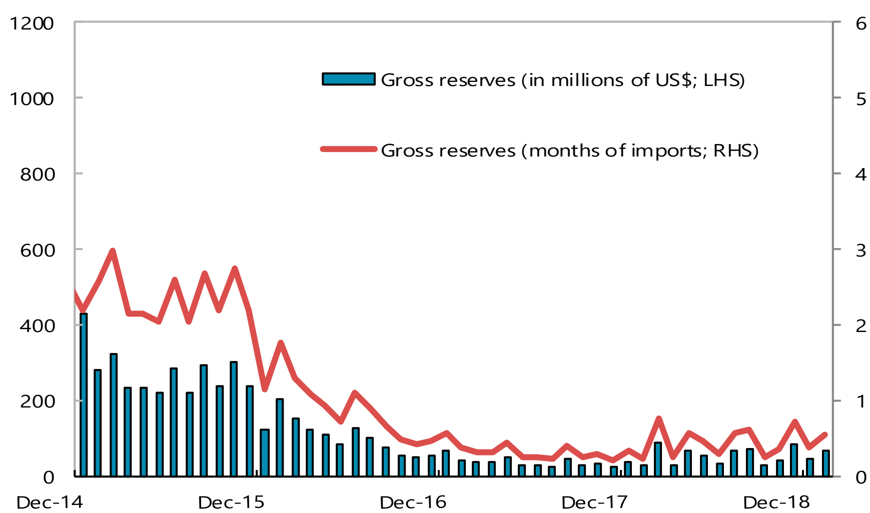
Comparison of Reserve Adequacy

(USD. millions)



Gross Foreign Exchange Reserves

(Millions of U.S. dollars)



6. **The business environment and governance need to improve.** South Sudan ranked in the bottom tier of economies in the World Bank's Doing Business Indicators in 2019. While improvements in the business environment have been recognized, South Sudan still performs worse than its regional peers. While security restoration and macroeconomic stability are important, providing access to basic infrastructure, such as electricity and water, will also be required to

strengthen the business environment and competitiveness. In addition, according to World Bank's Global Indicators of Regulatory Governance, South Sudan's regulatory governance is much poorer than its regional peers and low-income countries. These indicators suggest that there is an urgent need to strengthen government institutions and transparency to improve the business climate and competitiveness.

South Sudan: Doing Business Indicators, 2017-19

	South Sudan			SSA	LICs	Fragile States
	2017	**2018**	**2019**	**2019**	**2019**	**2019**
Ease of doing business	**186**	**187**	**185**	**139**	**146**	**162**
Starting a business	181	181	177	121	117	125
Dealing with construction permits	178	178	169	125	133	147
Getting electricity	188	187	187	144	150	165
Registering property	181	181	179	132	135	143
Getting credit	175	177	178	111	113	132
Protecting minority investors	179	177	180	125	132	146
Paying taxes	68	66	66	126	137	149
Trading across boarders	177	178	180	137	142	153
Enforcing contracts	73	81	85	129	130	146
Resolving insolvency	169	168	168	124	129	140

Source: World Bank, Doing Business Indicators (2017, 2018, 2019)

7. Adopting a more flexible exchange rate regime, restoring fiscal discipline and strengthening the balance of payments are important to stabilize South Sudan's external position. While the standard tools for the external sector assessment are not applicable to the case of South Sudan, the analysis on the real exchange rate and the reserve adequacy shows South Sudan's external disequilibrium. In the short term, restoring fiscal discipline, refraining from central bank financing and allowing for greater exchange rate flexibility are essential. Over the medium term, diversification away from dependence on oil will be key for external stability and achieving sustainable economic growth.

Annex III. Risk Assessment Matrix (RAM)[1]

Source of risk (likelihood)	Expected impact	Recommended response
External Risks		
Sharp tightening of global financial conditions, resulting from a sustained rise in the risk premium (**Medium**).	**Medium.** South Sudan has no access to international capital markets, but there could be spillovers due to the dependence on crude oil. Volatility in global markets could negatively impact planned investments in reopening oil wells in South Sudan.	Advance non-oil revenue reforms and keep public spending under control. Maintain good coordination and information sharing with Sudan to minimize disruptions in oil production.
Weaker-than-expected global growth, including in China (**Medium**).	**Medium.** Depressed global demand translates into weaker South Sudan exports, especially through the possibility of lower oil prices. Moreover, as a major investor and trading partner, lower growth in China could negatively impact economic developments in South Sudan.	Tighten fiscal policy through spending cuts and improving non-oil revenue collection.
Large swings in energy prices (**Medium**).	**High.** Volatility in oil prices will make investments in the oil sector uncertain and complicate fiscal management with large revenue swings. In case of revenue shortfalls, there is a risk of resorting to central bank financing due to the lack of external financing and an undeveloped securities market.	Tighten fiscal policy, rebuild buffers when possible, and improve governance to regain access to external financing.
Domestic Risks		
Continued political instability (**High**).	**High.** Diversion of resources to deal with internal conflict and heightened levels of country risk could lead to stagnation, lower oil production, insufficient investment, and economic instability.	Implement agreement on peace and reconciliation between the political parties. Focus on economic stabilization, fair sharing of oil revenues, and overall good governance.
Tension with Sudan over delayed transfer payments, pipeline contracts, territory, or borders (**Medium**).	**High.** A disruption of oil production will be detrimental to the economy given uncertain 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.

Source of risk (likelihood)	Expected impact	Recommended response
Delays in improving governance or capacity (**High**).	**High.** 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 implementing 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 IV. Capacity Development Strategy for 2019-21 Summary

Main Challenges

The capacity needs in South Sudan are substantial across all sectors. South Sudan has been one of the highest-intensity technical assistance (TA) recipients in sub-Saharan Africa. The IMF launched a dedicated five-year capacity development (CD) program in 2012, funded by a multi-donor trust fund (South Sudan Trust Fund, SSTF). With no new commitments, the SSTF will be phased out as the main TA delivery vehicle in 2019/20. South Sudan still requires substantial resources to build institutional capacity and implement key reforms. However, South Sudan is a member of the Measuring Natural Resource Wealth Topical Trust Fund, which supports capacity building in the measurement and development of the extractive industries, and South Sudan is expected soon to be approved as a member of East AFRITAC.

Past TA Assessment

South Sudan's implementation of TA advice has improved in the recent years but remains poor due to low capacity, high staff turnover and the disruption from armed conflict. The IMF has provided South Sudan with substantial TA focused on: public financial management (PFM) and petroleum revenue management, tax administration and tax policy, macroeconomic frameworks, monetary and foreign exchange operations, banking supervision, payments system and statistics.

Key achievements include:

- Creation of integrated macroeconomic frameworks at Bank of South Sudan (BSS) and Ministry of Finance
- Setting up basic infrastructure and institutions for revenue administration; enacting or updating tax and customs laws and regulations; and putting in place administrative procedures for taxpayer registration, collection enforcement and audit
- Creation of the Cash Management Committee
- Introduction of the IFMIS and a treasury single account
- Creation of the National Revenue Authority
- Establishment of frameworks for reporting minimum reserve requirements and international foreign exchange reserves
- Compilation and reporting of key macroeconomic statistics

Main TA Priorities

The top priority reforms going forward are:

- Restoring fiscal discipline to reduce money expansion, stabilize domestic prices, and restore external stability.
- Improving oil revenue management to ensure that oil revenues will be fully available for financing budgetary spending.
- Reducing inflation, gradually replenishing international reserves, and strengthening monetary policy instruments, such as reserve money targeting.
- Strengthening the institutional framework of the BSS.
- Allowing official exchange rate flexibility to reduce the premium on the parallel market rate.
- Reprioritizing spending from security-related spending toward investment in education, health, infrastructure and rural development.
- Improving statistical systems, including government finance statistics, national accounts statistics, and external sector statistics.

Accordingly, the CD strategy for South Sudan focuses on the following areas in order of priority for the next 3 years and the main objectives sought.

Annex IV Table: Capacity Development Strategy for 2019–21 Summary	
Priorities	**Objectives**
Public financial management (including petroleum revenue management issues)	Improve budget preparation, execution and control; improve coverage and quality of fiscal reporting; improve integrated cash and debt management; strengthen PFM laws and institutions; collect and report oil revenue.
Monetary and foreign exchange operations	Improve monetary and exchange rate regimes. Development of monetary instruments: implementation of reserve requirements and central bank facilities.
Foreign exchange auctions	Review BSS foreign exchange auctions and surrender of FX by banks to BSS.
Banking supervision	Strengthen on-site and off-site supervisory practices: financial analysis of banks (including construction and use of financial soundness indicators), and review of the CAMEL system and prudential framework. Adopt risk-based supervision.
Payments systems	Develop a payments and settlements system and electronic clearing of domestic transactions
Government finance statistics	Improve fiscal reporting based on the Government Finance Statistics Manual 2001 (GFSM 2001) and GFSM 2014. Follow-up on progress since the previous mission; attention to compilation and dissemination of quarterly GFS; assess available source data and provide recommendations toward broadening the institutional coverage of GFS; and hands-on training on GFS.
Debt management	Construct database and maintenance system for foreign debt.
Short-term macroeconomic framework	Develop and monitor a short-term integrated macroeconomic framework; strengthen coordination between institutions; and conduct training.
Tax and customs administration	Refine action plans for tax and customs administration reform. Support NRA implementation and advice on priorities to enhance tax administration.
National accounts statistics	Assist in the development and improvement of national accounts statistics. The outcome will be compiling and disseminating annual GDP by production and by expenditure approaches.
External sector statistics	Compile and disseminate reliable external sector data on annual basis.

Authorities' Views

The authorities appreciated the SSTF's capacity development support and stressed the need for the SSTF's continued engagement in institutional capacity building and policy framework development. The authorities also expressed their interests in receiving TA support from East AFRITAC once South Sudan is approved as a member. The authorities also noted the current challenging situation in South Sudan was exacerbated by the high level of staff turnover in governmental institutions.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

May 15, 2019

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By | The African Department (in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of March 31, 2019)

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	0.42	0.40

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				
	2019	2020	2021	2022	2023
Principal					
Charges/Interest	0.90	1.21	1.21	1.21	1.21
Total	0.90	1.21	1.21	1.21	1.21

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-December 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 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 official (indicative) rate. The reform was successful in reducing the spread between the official (indicative) and parallel market 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 (indicative) and parallel market rates. Accordingly, the de facto exchange rate arrangement has been reclassified to other managed from conventional peg, effective on December 15, 2015. Despite liberalization of the exchange rate regime towards the end of 2015, continued deterioration in the security and economic situation led to re-introduction of a multiple exchange rate system with the BSS abolishing its foreign exchange auctions in 2017.

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.

South Sudan also maintains the MCPs and exchange restriction subject to Fund's approval under Article VIII. The MCPs arise from the spread larger than 2 percent between (i) the official (indicative) rate and commercial banks' (market) rate, and (ii) between the official (indicative) rate and the parallel market rate. The exchange restriction arises due to prioritization of FX allocation by the BSS for external government payments and payments for certain essential commodities.

Article IV Consultation

The last Article IV consultation with South Sudan was concluded on March 15, 2017 (SM/17/33).

Capacity Development

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 expected soon to be approved as a member of the East Africa Technical Assistance Center.

A. Headquarters Missions and Short-Term Experts: September 2015—April 2019

Department[1]	Time of Delivery	Purpose
STA	September 2015, April 2016, August 2017, July 2018	National Accounts
MCM	October 2015	Payments system
MCM	May 2015, June 2016	TA needs assessment and evaluation
STA	November 2015, December 2017	Government Finance Statistics
MCM	November 2015, April 2017, January 2018, April 2019	Monetary and foreign exchange operations
STA	November 2015, April 2016	Balance of payments
MCM	January 2016	Assessment of exchange rate reform
FAD	April 2016	Strengthening the tax audit program
FAD	May 2016	Fiscal reporting, budgetary framework, and cash management
FAD	May 2016	Joint tax policy and revenue administration
MCM	March 2017, April 2018	Bank supervision training
STA	March 2017	Monetary and financial statistics
FAD	April and June 2017, April 2018	Workshop on cash management, TSA, arrears, commitment control and fiscal reporting
STA	March 2018	Financial Soundness Indicators
STA	August 2018	External sector statistics
MCM	December 2018	Debt management
FAD	February 2019	Assessment of tax and customs operations and the next steps of reform
MCM	March 2019	Project assessment mission
MCM	March 2019	Bank supervision
FAD	April 2019	PFM reform

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

B. Long-Term Advisors: February 2012—February 2017

Department	Time 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

The Fund's Office in South Sudan is no longer headed by a resident representative. Mr. Hoth Chany, local economist, functions as the officer-in-charge. The last resident representative was Mr. Philippe Egoume (appointed in September 2014), who was preceded by Mr. Joseph Karangwa—the Fund's resident representative when South Sudan became an IMF member in April 2012.

WORK PROGRAM WITH PARTNER INSTITUTIONS

The World Bank work program can be found on the following website:
http://www.worldbank.org/en/country/southsudan

The African Development Bank work program can be found on the following website:
https://www.afdb.org/en/countries/east-africa/south-sudan/

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. With the end of hostilities in 2015, technical assistance (TA) missions resumed and significant progress was achieved in capacity building and data quality. However, fighting broke out again in mid-2016, which led to the suspension of missions to Juba until end-2018 when TA and surveillance missions were cleared to go again.

Real Sector Statistics:

- Price indexes. A monthly Consumer Price Index (CPI) covering Juba, Wau, and Malakal is compiled (data for Malakal have been imputed since 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, albeit with lags.
- 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. A national accounts mission is proposed under the trust fund during the first half of FY 2020.

Government Finance Statistics (GFS):

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 December 2017. It developed a medium-term Result Based Management (RBM) action plan and roadmap for the implementation of the GFSM 2014 framework. None of the mission's recommendations have been implemented so far largely because of the lack of human and technical resources. A joint FAD/STA mission is planned for end-April 2019 to assist the authorities in improving GFS data and fiscal reporting.

Monetary and Financial Statistics:

The Bank of South Sudan (BSS) reports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for the other depository corporations, 5SR for monetary aggregates, and 6SR for interest rates for publication in the IMF's *International Financial Statistics (IFS)* monthly with an average lag of three months. Data for the other financial corporations are not available, but the sector remains relatively small. The BSS reports data on some key series and indicators of the financial access survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.

Financial Soundness Indicators (FSIs): With technical assistance from the IMF's Statistics Department, the BSS has compiled 11 of the 12 core FSIs and 6 of the 13 encouraged FSIs for deposit takers, with quarterly frequency. However, while the BSS has used FSIs for its internal purposes, it has not yet granted approval to publish the data on the IMF's FSI website.
External Sector Statistics (ESS): • Data on ESS are scant. The BSS has been producing balance of payments statistics and data for the period 2014–17 have been disseminated. • The August 2018 ESS and national accounts missions worked jointly on issues related to oil exports, imports, and humanitarian aid received from abroad, and produced improved balance of payments estimates for 2015 to 2017. • Enhancements were made to source data for oil export and humanitarian aid to reflect information from the Ministry of Petroleum and the Customs Authority. Profit repatriated by the oil company was also estimated and included in the revised balance of payments estimates for 2015 to 2017. • Data on direct investment flows and positions are virtually nonexistent and the international investment position statistics (IIP) is not compiled.
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 April 30, 2019)[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	Mar 2019	Apr 2019	M	M	M
Broad Money	Mar 2019	Apr 2019	M	M	M
Central Bank Balance Sheet	Mar 2019	Apr 2019	M	M	N/A
Consolidated Balance Sheet of the Banking System	Mar 2019	Apr 2019	M	M	M
Interest Rates	Mar 2019	Apr 2019	M	M	M
Consumer Price Index	Feb 2019	Apr 2019	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing—General Government[3]	Feb 2019	Mar 2019	M	Q	N/A
External Current Account	2018	Mar 2019	A	A	A
Exports and Imports of Goods and Services	2018	Mar 2019	A	A	A
GDP/GNP	2017	Oct 2018	A	A	A
Domestic Government Debt	Mar 2019	Mar 2019	Q	Q	N/A
Gross External Debt	Mar 2019	Mar 2019	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.

May 15, 2019

REPUBLIC OF SOUTH SUDAN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS[1]

Approved By
Zeine Zeidane (AFR), María González (SPR) and Marcello Estevão (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

Republic of South Sudan: Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	*In debt distress*
Overall risk of debt distress	*In debt distress*
Granularity in the risk rating	*Unsustainable*
Application of judgment	*No*

The combined impact of a civil conflict, a large fall in oil prices, and high levels of fiscal spending left South Sudan in debt distress in 2016. Several thresholds were breached, and external and domestic debt arrears accumulated. Since then, the fiscal situation has improved somewhat, and the economic and security outlooks are more positive with the signing of a peace agreement in September 2018. However, South Sudan still has substantial external and domestic debt arrears, and implementation of the peace agreement is putting substantial pressure on government spending in the near term, while the expected depletion of oil would pose challenges to fiscal sustainability in the long term. As a result, South Sudan continues to be in external and overall debt distress and debt is assessed to be unsustainable.

[1] This debt sustainability analysis was conducted by using the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (LIC-DSF) that was approved in 2017.

DEBT COVERAGE

1. The DSA covers central government debt. South Sudan faces significant weaknesses with availability of debt data. Complete information about SOE debt and government guarantees is unavailable, though the size of them is negligible. Thus, the contingent liability stress test includes only SOE debt and financial market shocks. The external debt is defined using the currency criterion.

Subsectors of the public sector	Sub-sectors covered
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

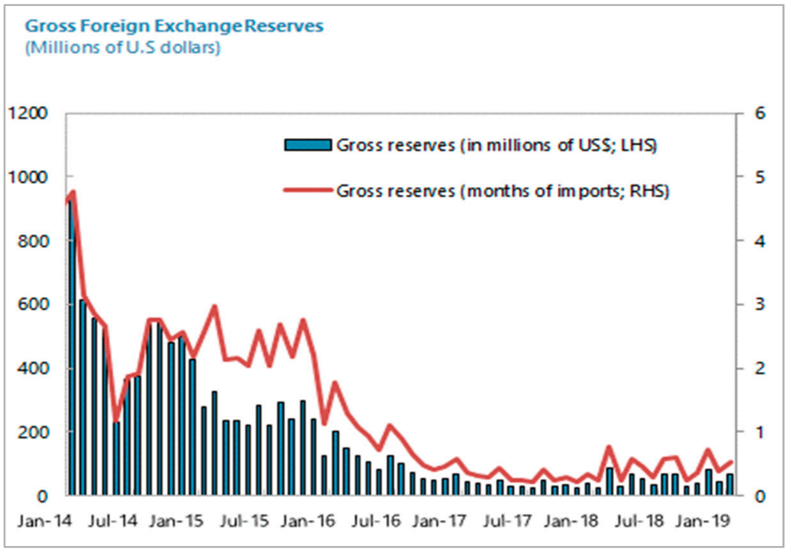
1 The country's coverage of public debt	The central government, central bank		
	Default	Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0 percent of GDP	0.0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2 percent of GDP	2.0	
4 PPP	35 percent of PPP stock	0.0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)		7.0	

1/ The default shock of 2% of GDP will be triggered for countries, whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

A. Background on Debt

2. South Sudan has been in debt distress for several years, owing to arrears on external and domestic public debt. The macroeconomic conditions deteriorated in 2012 due to a prolonged oil production shutdown, and despite reopening production in the second quarter of 2013, the eruption of the civil conflict in December 2013 caused further harm to the economy. Moreover, a sharp drop in international oil prices from mid-2014 and an overvalued exchange rate contributed to continued economic deterioration and rapid depletion of foreign exchange reserve. A short-term trade facility provided by the Qatar National Bank (QNB) fell into arrears in 2015. In addition, South Sudan fell behind on payments to Sudan in 2015 and 2016 under the Transitional Financial Arrangement (TFA).[2] Accordingly, South Sudan was categorized as being in debt distress in the 2016 DSA.

[2] 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. The arrears were cleared by end-2018.



3. **South Sudan's external public debt, including arrears, was estimated at US$1,196 million (34 percent of GDP) as of end-March 2019.** Debt to the World Bank amounted to US$53 million on IDA terms, while debt to the African Development Bank (AfDB) amounted to US$28 million. US$150 million had been borrowed from China Exim Bank to upgrade Juba International Airport. The Bank of South Sudan (BSS) has an outstanding liability to the QNB amounting to US$627 million, of which US$175 million is estimated to be in arrears as of March 2019. Oil-related short-term loans are estimated at US$338 million.

Republic of South Sudan: Public Debt Stocks as of End-March 2019

External debt (US$ millions), including arrears	
World Bank (IDA)	53
AfDB	28
China Exim Bank	150
QNB	627
Oil-related advances	338
Arrears to QNB	175
Total external debt stock, including arrears	**1,196**
(in percent of GDP in US$)	*34.4*
Domestic debt (SSP millions)	38,670
Borrowing from Bank of South Sudan	38,668
Borrowing from commerical banks	2
Arrears/1	17,200
Total domestic debt stock, excluding arrears	38,670
(in percent of GDP in local currency)	*7.3*

1/Estimate and subject to verification

4. After the Minister of Finance announced the policy to stop direct borrowing from the BSS to finance the budget deficits in 2016, central government financing from the banking system has declined substantially. BSS net credit to the central government has declined from 13 percent of GDP in 2015/16 to 0.9 percent in 2018/19. The stock of domestic debt amounted to about SSP 38.7 billion by March 2019 (9 percent of GDP), almost entirely from the BSS, with the commercial banks accounting for only SSP 2 million. The stock of domestic arrears is estimated at about 3.2 percent of GDP, but domestic payment arrears still need to be verified.

B. Outlook and Key Assumptions

5. The revised macroeconomic assumptions reflect the recent positive political and security developments (Box 1). The revitalized peace agreement, signed in September 2018, has helped to stabilize the political and security situation in South Sudan. The baseline scenario assumes the peace agreement will be broadly implemented and that the cessation of hostilities will hold. With implementation of economic stabilization policies and peace, oil production is projected to recover above the pre-2016 levels, which helps ease pressure on the fiscal and foreign exchange markets. A significant increase in oil production has already occurred with the re-opening of some damaged oil wells. The improved government oil revenue would reduce the risk of recourse to deficit financing from the central bank. Higher oil export will also support a gradual increase in foreign exchange reserves. Based on updated information, the baseline growth trajectory has been slightly modified compared to the one used in the 2016 DSA (Box 2).

6. South Sudan will likely require inflows from donors to finance the peace process. While external support is unlikely to come forward in the near term, the baseline assumes that some inflows will come to support macroeconomic stabilization, resettlement of the internally displaced and returning refugees, construction of feeder roads and rural infrastructures, and disarmament, demobilization and reintegration of former combatants.

7. Over the medium term, the improved political and security environment will support broader economic recovery, including both the oil and non-oil sectors, followed by new investments. The economy is projected to grow at close to 4 percent annually through the late 2020s when oil production is projected to reach a peak. While oil production is expected to gradually decrease in aging oil fields after reaching its peak in the late 2020s, the non-oil sectors are projected to grow to partially offset falling oil production. 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. Those efforts would improve the business climate and thus help to attract foreign direct investments. However, significant downside risks to the growth estimates remain. The first challenge is restoring peace and security. The revitalized peace agreement between President Salva Kiir and opposition leader Riek Machar had been seen as a break-through in efforts to end South Sudan's civil war, but since then there has been little progress in implementing governance and security arrangements. Without action to end the conflict and stabilize the economy, a post-conflict path for the economy remains uncertain.

Box 1. Key Macroeconomic Assumptions

Real sector: After negative growth in 2018 due to continued conflict and a sharp decline in international oil prices, real GDP is projected to recover and expand by an average of 4.3 percent through 2029. Oil production is projected to increase gradually with the peak at 204,000 barrels per day in 2028. After 2028, oil production is projected to fall gradually to below 70,000 barrels per day by end of 2030s. Meanwhile, the non-oil sectors—agriculture, fisheries, mining, construction and services—are projected to grow robustly. During 2030-2039, real GDP is projected to increase by an average of 3.6 percent.

Fiscal sector: Total revenue and grants are projected to rise from 34.3 percent of GDP in 2018 to 42.4 percent of GDP in 2025, and thereafter gradually decrease to 14.1 percent of GDP by the end of 2030s as oil revenues decrease. Noninterest expenditure is projected to remain high in the short and medium term due to the costs for the implementation of peace and reconstruction. While trying to scale down its expenditure, South Sudan is projected to experience prolonged primary deficits in 2030s because of the decline in oil revenue.

External sector: Exports of goods and services as a share of GDP are projected to increase in the short and medium term, supported by growth in both the oil and the non-oil sectors. The share of imports of goods and services to GDP is projected to increase in the short and medium term because of scaling up of public (and later private) investment and return of refugees and internally displaced people. Current transfers to Sudan under the TFA are expected to be paid off by 2021/22.[1] Budgetary external borrowing is assumed to rise as the peace process takes hold.

[1] The completion of transfers to Sudan under the TFA depends on international oil prices.

8. **The realism tools suggest that the macroeconomic projections are reasonable and consistent with historical patterns and those observed in other LICs (Figure 4).** Cross-country experience suggests that the baseline fiscal adjustment is feasible. The projected adjustment over the next 3-year period is a 3-percentage point increase in the primary surplus-to-GDP ratio, supported by increase in oil revenue. Fiscal multipliers suggest a more pessimistic growth, but the baseline assumes robust growth of oil production.

9. **Continued current account deficit and negative real GDP growth contributed to external debt-creating flows and this situation is expected to turn around (Figure 3).** The accumulation of external debt in South Sudan over the last 5 years has been primarily driven by current account deficits and negative real GDP growth. Looking forward, the improved current account and positive real GDP growth are expected to partly offset debt accumulation mainly caused by unfavorable nominal interest rates.

Box 2. Republic of South Sudan: Key Macroeconomic Assumptions Comparison with the Previous Debt Sustainability Analysis

	2017/18 Actual	2018/19 Projections	2019/20	2020/21	2021/22	2022/23	2024/25	2028/29	2038/39
Real GDP growth (annual percent change)									
2019 DSA	-2.4	3.4	8.1	6.6	5.5	5.6	4.8	-0.9	5.8
2016 DSA	1.1	3.5	6.2	5.8	3.4	6.4	3.5	1.1	n.a.
Real oil GDP growth (annual percent change)									
2019 DSA	3.8	12.7	17.6	10.5	4.4	3.8	4.6	-8.5	-10.0
2016 DSA	0.6	6.2	13.1	7.6	1.8	8.5	2.0	-6.3	n.a
Current Account Balance (percent of GDP)									
2019 DSA	-4.5	-6.4	-1.8	-1.9	-1.9	-0.7	-4.5	-18.4	-11.7
2016 DSA	-6.6	-10.0	-8.1	-10.6	-7.4	-7.4	-7.2	-7.6	n.a.
Exports of goods and services (percent of GDP)									
2019 DSA	68.7	60.3	64.4	75.6	84.3	88.9	93.6	85.5	42.9
2016 DSA	61.1	65.7	67.7	72.9	69.2	71.3	72.3	55.7	n.a.
Imports of goods and services (percent of GDP)									
2019 DSA	83.5	70.0	75.6	84.9	95.7	96.9	102.4	103.5	52.5
2016 DSA	75.4	81.1	76.2	82.8	74.3	73.8	74.6	62.1	n.a.
Primary deficit (percent of GDP)									
2019 DSA	-2.6	0.4	-0.5	0.1	0.3	1.2	0.7	-0.2	-3.1
2016 DSA	-3.2	-1.8	-2.5	2.4	-3.9	-1.3	-0.6	0.4	n.a.
Revenue and grants (percent of GDP)									
2019 DSA	28.6	31.5	32.0	35.8	39.2	40.6	42.9	40.0	14.1
2016 DSA	31.8	33.4	35.8	39.4	36.8	32.3	37.4	37.5	n.a.
Primary expenditures (percent of GDP)									
2019 DSA	31.2	31.1	32.6	35.8	38.9	39.4	42.2	40.2	17.2
2016 DSA	35.0	35.2	38.3	37.0	40.7	33.6	38.0	37.1	n.a.

10. **Continued negative real GDP growth and primary deficits contributed to public debt-creating flows and this situation is expected to turn around (Figure 3).** Over the last 5 years, negative real GDP growth and primary deficits have been the main factors of debt accumulation, which was offset by favorable interest rates and real exchange rates. Looking forward, positive real GDP growth and improved primary balances are expected to partly offset debt-creating flows mainly caused by unfavorable real interest rates.

Country Classification and Determination of Scenario Stress Test[3]

11. **South Sudan's debt carrying capacity is assessed as "weak."** South Sudan's Composite Indicator (CI) score is calculated to 1.42, and the country has 'weak debt carrying capacity.' The CI is

[3] While the default standard stress tests use the latest 10 years as the sample period to calculate historical averages and standard deviations, in the case of South Sudan, the latest 5-years have been used since the country became independent in 2011 followed by extreme volatility immediately thereafter. Moreover, in the real GDP growth shock stress test, staff assumes zero percent real GDP growth in the shock period (2020 and 2021), since the historical (standard deviation is an unreliable representation. The same applies to the export growth shock stress test, where the shock is defined as -10% of export growth, which is the average of the latest 3 years' export growth.

based on a weighted average of several factors, such as the country's real GDP growth, remittances, international reserves, and world growth and the Country Policy and Institutional Assessment (CPIA) score, and the calculation of the CI is based on 10-year averages of the variables, across 5 years of historical data and 5 years of projection, and the corresponding CPIA. South Sudan's CI has been calculated based on the October 2018 WEO and 2017 CPIA update. This classification remains unchanged from the previous DSA framework applied in the 2016 DSA. With this assessment, the DSA uses the following thresholds to assess risk of external debt distress:

- Present value of public and publicly guaranteed debt (PPG) external debt-to-GDP: 30 percent
- Present value of PPG external debt-to-exports: 140 percent
- PPG external debt service-to-exports: 10 percent
- PPG external debt service-to-revenue: 14 percent

Calculation of the CI Index

Components	Coefficients (A)	10-year average values (B)	CI Score components (A*B) = (C)	Contribution of components
CPIA	0.385	1.698	0.65	46%
Real growth rate (in percent)	2.719	-0.605	-0.02	-1%
Import coverage of reserves (in percent)	4.052	4.138	0.17	12%
Import coverage of reserves^2 (in percent)	-3.990	0.171	-0.01	0%
Remittances (in percent)	2.022	6.243	0.13	9%
World economic growth (in percent)	13.520	3.660	0.49	35%
CI Score			1.42	100%
CI rating			**Weak**	

12. **Given the sensitivity to international oil prices, a tailored stress test for a lower oil price was conducted.** As oil exports account for about 97 percent of total exports of goods and services, South Sudan's economy is very sensitive to international oil prices.[4] In this context, in addition to standard stress tests, the commodity price stress test, which assumes oil prices fall by 1 standard deviation and the gap closed over 6 years, has been applied.

External Debt Sustainability Analysis

13. **The baseline shows the stock of PPG external increases gradually toward mid-2020s, then declining slowly thereafter (Table 1).** Under the baseline scenario, the PV of debt-to-GDP ratio gradually

[4] Since South Sudan also imports oil products and oil-related services, the tailored stress test for a lower oil price considers oil imports (about 30 percent of total exports of goods and services) as a mitigating factor.

increases and remains above the thresholds during 2021-2028, with its peak at about 9 percentage points above the threshold in 2024. The debt service-to-exports ratio and the debt service-to-revenue ratio are above the thresholds in the early years because of repayments of short-term oil-related loans. These ratios are projected to increase after the mid-2020s as grace periods of new longer-term debt expire and export-to-GDP ratio and revenue-to-GDP ratio decreases due to the decline in oil production. The PV of debt-to-exports ratio remains below the thresholds throughout the sample period under the baseline.

14. The stress tests confirm breaches of thresholds in most indicators (Figure 1 and Table 3). In the PV of debt-to-GDP ratio, the debt service-to-exports ratio, and the debt service-to-revenue ratio, both the historical scenario and the most extreme shock test show breaches of the thresholds. In the PV of debt-to-exports ratio, the historical scenario shows breaches of the threshold (140 percent of GDP) after 2028.

Public Debt Sustainability Analysis

15. South Sudanese domestic financial market remains undeveloped. In 2018, external debt accounts for about 80 percent of PPG debt and this situation is expected to continue over the short and medium term. Over the long term, domestic debt is projected to be more dominant as domestic financial market reforms are implemented.

16. The public debt in the baseline is projected to increase gradually toward the late-2020s, but to increase rapidly thereafter due to higher primary deficit linked to a decline in oil production (Table 2). Under the baseline scenario, the PV of debt-to-GDP ratio decreases in 2019 as central government financing from the banking system has declined substantially. However, it remains above the threshold (35 percent of GDP) throughout the sample period. In the long term, it is projected to increase rapidly after 2030 as South Sudan is expected to experience fiscal deficits because of a decline in the oil revenue.

17. Indicators of public debt are very sensitive to non-debt flows (Figure 2 and Table 4). Compared to the baseline and historical scenarios, the decline in non-debt flows, such as foreign direct investments, brings about an explosive impact on the PV of debt-to-GDP ratio and the PV of debt-to-revenue ratio.

Assessment

18. South Sudan remains in debt distress for external and overall debt, and debt is assessed to be unsustainable. External and domestic arrears remain and debt indicators breach thresholds under the baseline scenario except for the PV of debt-to-export ratio. Moreover, the very low level of foreign reserves of less than a week of prospective import cover, underscores the difficult and unsustainable debt situation in South Sudan.

19. Notwithstanding the current difficulties, the baseline scenario assumes that South Sudan could regain access to external financing. With secured peace by the revitalized peace agreement, a cautious borrowing strategy, fiscal discipline, and a relatively stable external environment, South Sudan could attain external viability over a relatively short period.

20. Clearing external and domestic arrears is a pre-requisite for an improvement of the debt distress rating. Paying or restructuring existing debt arrears is required to clear the arrears, which will also help to regain donor confidence. Moreover, it is important for the authorities to the extent possible to ensure that newly-contracted loans are concessional.

21. There are, however, substantial downside risks to the baseline scenario. Besides subdued oil prices, the risks include deadlock in implementing sustainable peace, lack of political commitment to implement strong macroeconomic adjustment measures, under-investment for enhanced oil recovery, 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.

Authorities' Views

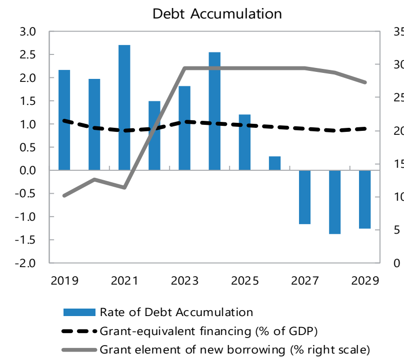
22. The authorities agree with the assessment of the DSA. They recognize that the mechanical risk ratings indicate South Sudan is at high risk of debt distress, and that South Sudan is assessed to be in debt distress due to arrears on external and domestic debt. They recognize the importance of clearing debt arrears to improve South Sudan's risk rating.

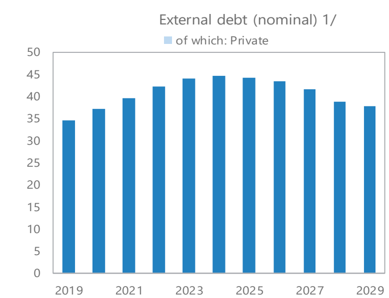
Table 1. Republic of South Sudan: External Debt Sustainability, Baseline Scenario, 2018–39

(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
External debt (nominal) 1/	**38.0**	**34.5**	**37.1**	**39.5**	**42.2**	**44.0**	**44.6**	**37.7**	**38.2**	**18.9**	**40.7**
of which: public and publicly guaranteed (PPG)	**38.0**	**34.5**	**37.1**	**39.5**	**42.2**	**44.0**	**44.6**	**37.7**	**38.2**	**18.9**	**41.0**
Change in external debt	-13.0	-3.5	2.6	2.5	2.7	1.7	0.6	-1.2	0.1		
Identified net debt-creating flows	**0.8**	**6.0**	**-0.7**	**-1.7**	**-2.7**	**-5.3**	**-6.1**	**1.4**	**-0.8**	**9.3**	**-8.0**
Non-interest current account deficit	**4.2**	**2.8**	**1.1**	**0.6**	**-0.1**	**-1.5**	**2.0**	**16.7**	**10.3**	**0.3**	**2.2**
Deficit in balance of goods and services	14.8	9.7	11.3	9.3	11.4	8.1	9.3	18.0	9.7	**-1.4**	**10.6**
Exports	68.7	60.3	64.4	75.6	84.3	88.9	92.1	85.5	42.9		
Imports	83.5	70.0	75.6	84.9	95.7	96.9	101.4	103.5	52.5		
Net current transfers (negative = inflow)	-28.4	-21.4	-25.3	-24.4	-28.0	-25.3	-19.5	-4.3	0.3	**-14.5**	**-17.7**
of which: official	-6.5	-4.4	-5.6	-9.2	-9.8	-7.5	-6.3	-2.5	-0.3		
Other current account flows (negative = net inflow)	17.8	14.5	15.1	15.6	16.4	15.7	12.2	3.0	0.3	**16.3**	**9.3**
Net FDI (negative = inflow)	**-0.3**	**0.6**	**0.2**	**-1.0**	**-2.2**	**-3.7**	**-8.2**	**-17.4**	**-10.4**	**0.4**	**-10.3**
Endogenous debt dynamics 2/	**-3.1**	**2.7**	**-2.0**	**-1.3**	**-0.3**	**-0.1**	**0.2**	**2.0**	**-0.7**		
Contribution from nominal interest rate	0.3	3.7	0.7	1.3	2.0	2.2	2.3	1.7	1.3		
Contribution from real GDP growth	1.1	-1.0	-2.7	-2.6	-2.3	-2.3	-2.1	0.4	-2.1		
Contribution from price and exchange rate changes	-4.6	...	...	...	...	...	...	...	...		
Residual 3/	**-13.8**	**-9.6**	**3.3**	**4.1**	**5.4**	**7.0**	**6.7**	**-2.5**	**0.9**	**-31.1**	**8.1**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**32.4**	**25.9**	**27.3**	**31.9**	**36.1**	**37.7**	**39.0**	**30.0**	**31.6**		
PV of PPG external debt-to-exports ratio	**47.1**	**43.0**	**42.5**	**42.3**	**42.8**	**42.4**	**42.3**	**35.0**	**73.8**		
PPG debt service-to-exports ratio	**8.8**	**15.1**	**9.4**	**7.7**	**5.3**	**3.9**	**3.0**	**8.4**	**7.8**		
PPG debt service-to-revenue ratio	**17.7**	**28.8**	**18.9**	**16.3**	**11.3**	**8.5**	**6.5**	**18.0**	**23.7**		
Gross external financing need (Million of U.S. dollars)	347.0	573.9	345.7	239.6	86.0	-71.4	-150.8	336.5	277.4		
Key macroeconomic assumptions											
Real GDP growth (in percent)	-2.4	3.4	8.1	6.6	5.5	5.6	5.0	-0.9	5.8	**-7.2**	**5.7**
GDP deflator in US dollar terms (change in percent)	9.9	28.8	-5.6	-11.7	-12.2	-4.7	-1.6	1.5	1.1	**1.1**	**-1.2**
Effective interest rate (percent) 4/	0.6	12.9	2.2	3.4	4.7	5.3	5.4	4.3	3.7	**0.3**	**5.6**
Growth of exports of G&S (US dollar terms, in percent)	35.7	16.9	8.9	10.5	3.3	6.1	7.0	-4.7	1.0	**226.4**	**8.8**
Growth of imports of G&S (US dollar terms, in percent)	12.0	11.7	10.2	5.6	4.4	2.0	8.0	-1.3	2.8	**-2.7**	**7.0**
Grant element of new public sector borrowing (in percent)	...	10.2	12.5	11.4	20.4	29.4	29.4	27.3	19.3	**...**	**18.9**
Government revenues (excluding grants, in percent of GDP)	34.3	31.5	32.0	35.8	39.2	40.6	42.1	40.0	14.1	**22.8**	**36.9**
Aid flows (in Million of US dollars) 5/	0.0	76.6	70.0	60.5	60.0	60.0	60.0	60.0	60.0		
Grant-equivalent financing (in percent of GDP) 6/	...	1.1	0.9	0.9	0.9	1.1	1.0	0.9	0.9	**...**	**1.0**
Grant-equivalent financing (in percent of external financing) 6/	...	10.2	12.5	11.4	20.4	29.4	29.4	27.3	19.3	**...**	**18.9**
Nominal GDP (Million of US dollars)	3,471	4,624	4,719	4,441	4,113	4,140	4,274	5,156	8,436		
Nominal dollar GDP growth	7.2	33.2	2.1	-5.9	-7.4	0.6	3.3	0.6	7.0	**-9.8**	**4.3**
Memorandum items:											
PV of external debt 7/	32.4	25.9	27.3	31.9	36.1	37.7	39.0	30.0	31.6		
In percent of exports	47.1	43.0	42.5	42.3	42.8	42.4	42.3	35.0	73.8		
Total external debt service-to-exports ratio	8.8	15.1	9.4	7.7	5.3	3.9	3.0	8.4	7.8		
PV of PPG external debt (in Million of US dollars)	1123.2	1198.8	1290.2	1418.1	1484.7	1560.0	1665.5	1544.9	2668.6		
(PVt-PVt-1)/GDPt-1 (in percent)		2.2	2.0	2.7	1.5	1.8	2.6	-1.3	2.4		
Non-interest current account deficit that stabilizes debt ratio	17.2	6.3	-1.5	-1.9	-2.9	-3.2	1.3	17.9	10.2		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

6/ 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).

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

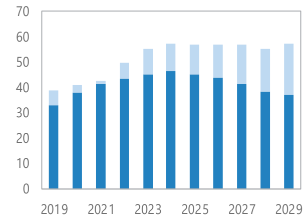
Table 2. Republic of South Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2018–39

(in percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	46.3	38.8	41.0	42.7	49.5	55.3	57.0	57.4	77.1	28.1	51.0
of which: external debt	38.0	34.5	37.1	39.5	42.2	44.0	44.6	37.7	38.2	18.9	41.0
Change in public sector debt	-14.3	-7.5	2.2	1.7	6.9	5.8	1.7	2.2	2.0		
Identified debt-creating flows	-12.9	-8.1	5.2	2.1	2.4	1.6	0.5	3.4	1.9	-34.2	0.3
Primary deficit	3.1	-0.4	0.5	-0.1	-0.3	-1.2	-0.6	0.2	3.1	1.5	-0.6
Revenue and grants	34.3	31.5	32.0	35.8	39.2	40.6	42.1	40.0	14.1	25.8	39.1
of which: grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	37.4	31.1	32.6	35.8	38.9	39.4	41.6	40.2	17.2	27.3	38.5
Automatic debt dynamics	-16.0	-7.7	4.6	2.1	2.7	2.8	1.1	3.1	-1.2		
Contribution from interest rate/growth differential	-2.8	1.1	-1.9	-0.9	-0.4	0.0	0.1	3.0	-1.5		
of which: contribution from average real interest rate	-4.3	2.6	1.0	1.6	1.8	2.6	2.8	2.5	2.6		
of which: contribution from real GDP growth	1.5	-1.5	-2.9	-2.5	-2.2	-2.6	-2.6	0.5	-4.1		
Contribution from real exchange rate depreciation	-13.2	...	...	...	...	...	...	...	...		
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		
Recognition of contingent liabilities (e.g., bank recapitalization)	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		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	-1.5	-8.2	3.6	2.7	7.6	7.1	2.1	-1.0	0.4	5.4	1.3
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	43.8	32.6	37.5	39.8	45.6	51.1	52.9	50.4	71.3		
PV of public debt-to-revenue and grants ratio	127.8	103.6	117.0	111.1	116.4	126.0	125.4	126.1	507.1		
Debt service-to-revenue and grants ratio 3/	35.4	47.0	41.4	41.4	29.5	37.3	34.5	53.3	182.2		
Gross financing need 4/	15.3	14.4	13.8	14.7	14.4	15.8	15.4	19.2	28.8		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-2.4	3.4	8.1	6.6	5.5	5.6	5.0	-0.9	5.8	-7.2	4.8
Average nominal interest rate on external debt (in percent)	0.9	14.1	2.4	4.1	5.4	5.6	5.7	4.4	3.8	0.5	5.8
Average real interest rate on domestic debt (in percent)	-1.4	12.1	0.4	1.7	3.0	3.3	3.3	2.4	1.8	-1.6	3.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-25.6	...	...	...	...	...	...	...	...	105.8	...
Inflation rate (GDP deflator, in percent)	64.6	55.5	18.6	9.2	7.5	7.2	7.8	6.5	6.1	77.8	13.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.5	-14.1	13.2	17.0	14.8	6.8	10.9	-1.5	-2.2	7.6	6.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	17.4	7.1	-1.7	-1.7	-7.1	-7.1	-2.3	-2.0	1.1	-2.8	-1.5
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

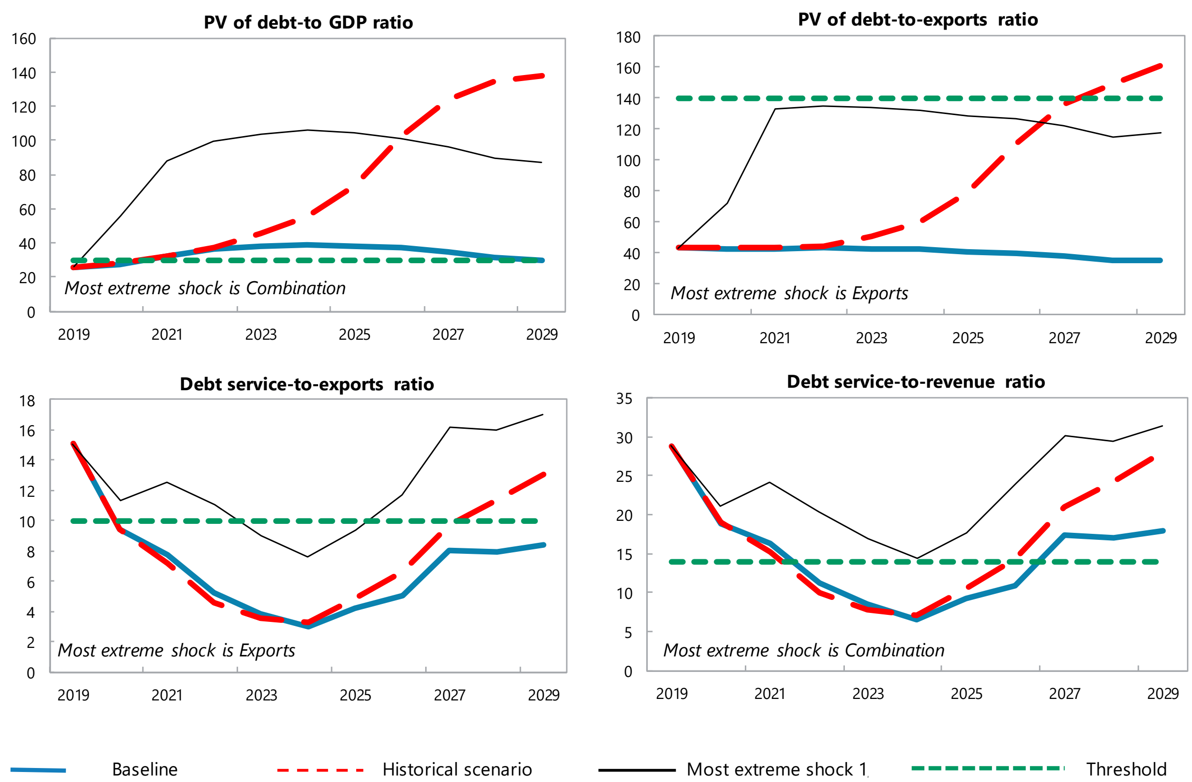
Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.
1/ Coverage of debt: The central government, central bank. Definition of external debt is Currency-based.
2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.
4/ 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 and other debt creating/reducing flows.
5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

Figure 1. Republic of South Sudan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2019–29[1]



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	Yes	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	100%
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.6%	4.6%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5

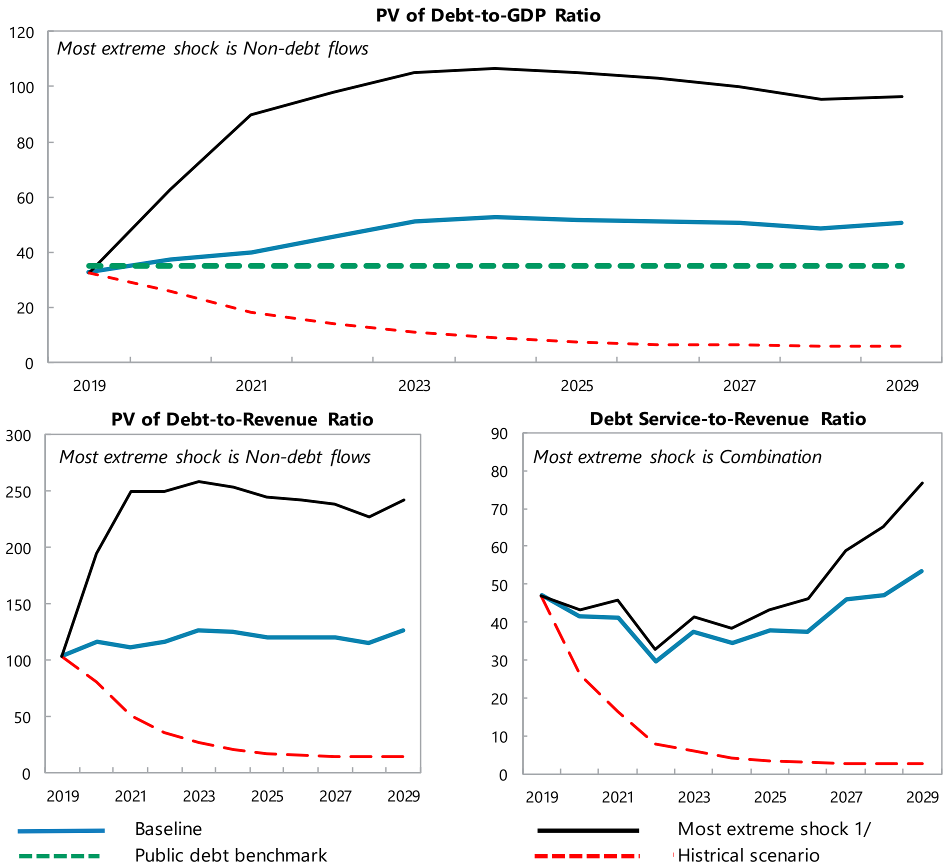
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Figure 2. Republic of South Sudan: Indicators of Public Debt Under Alternatives Scenarios, 2019–29



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	32%	32%
Domestic medium and long-term	31%	31%
Domestic short-term	37%	37%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.6%	4.6%
Avg. maturity (incl. grace period)	21	21
Avg. grace period	5	5
Domestic MLT debt		
Avg. real interest rate on new borrowing	-2.0%	-2.0%
Avg. maturity (incl. grace period)	2	3
Avg. grace period	1	2
Domestic short-term debt		
Avg. real interest rate	2%	2%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2029. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2019–29

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	25.9	27.3	**31.9**	**36.1**	**37.7**	**39.0**	**38.2**	**36.8**	**34.3**	**31.4**	30.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	25.9	28.0	**32.4**	**37.1**	**45.1**	**55.0**	**73.4**	**102.3**	**123.9**	**134.3**	**137.4**
B. Bound Tests											
B1. Real GDP growth	25.9	**31.1**	**40.6**	**45.9**	**47.9**	**49.5**	**48.5**	**46.8**	**43.6**	**39.9**	**38.1**
B2. Primary balance	25.9	29.5	**37.4**	**42.3**	**44.1**	**45.6**	**45.1**	**43.9**	**42.1**	**40.1**	**40.1**
B3. Exports	25.9	**39.9**	**74.0**	**83.7**	**87.3**	**89.4**	**88.4**	**86.2**	**81.6**	**76.0**	**73.9**
B4. Other flows 3/	25.9	**47.7**	**75.3**	**85.2**	**88.8**	**90.9**	**89.9**	**87.4**	**82.8**	**77.2**	**75.1**
B5. One-time 30 percent nominal depreciation	25.9	**35.2**	**37.9**	**42.9**	**44.8**	**46.3**	**45.3**	**43.6**	**40.5**	**36.9**	**35.2**
B6. Combination of B1-B5	25.9	**55.3**	**87.7**	**99.2**	**103.4**	**105.9**	**104.7**	**101.4**	**95.9**	**89.4**	**86.8**
C. Tailored Tests											
C1. Combined contingent liabilities	25.9	29.5	**35.1**	**38.9**	**40.2**	**41.1**	**40.2**	**38.9**	**37.1**	**35.1**	**34.9**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	25.9	**43.2**	**63.5**	**72.3**	**75.7**	**77.7**	**76.6**	**73.9**	**69.4**	**63.9**	**61.2**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	43.0	42.5	42.3	42.8	42.4	42.3	40.8	39.8	37.8	34.8	35.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	43.0	43.5	42.9	44.0	50.8	59.7	78.4	110.6	136.6	**148.9**	**160.6**
B. Bound Tests											
B1. Real GDP growth	43.0	42.5	42.3	42.8	42.4	42.3	40.8	39.8	37.8	34.8	35.0
B2. Primary balance	43.0	45.8	49.4	50.2	49.6	49.5	48.1	47.4	46.4	44.4	46.8
B3. Exports	43.0	71.6	133.1	135.0	133.5	131.9	128.3	126.6	122.3	114.6	117.4
B4. Other flows 3/	43.0	74.2	99.7	101.1	100.0	98.7	96.1	94.4	91.2	85.6	87.8
B5. One-time 30 percent nominal depreciation	43.0	42.5	39.0	39.5	39.2	39.1	37.7	36.6	34.7	31.8	32.0
B6. Combination of B1-B5	43.0	88.0	93.0	125.7	124.3	122.8	119.5	117.0	112.9	105.8	108.4
C. Tailored Tests											
C1. Combined contingent liabilities	43.0	45.8	46.4	46.2	45.3	44.6	42.9	42.1	40.9	38.9	40.8
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	43.0	89.3	102.1	98.2	93.6	89.5	84.3	82.2	78.7	72.9	73.7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	**15.1**	9.4	7.7	5.3	3.9	3.0	4.2	5.0	8.0	7.9	8.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	**15.1**	9.4	7.2	4.6	3.6	3.2	4.8	6.6	9.7	**11.3**	**13.1**
B. Bound Tests											
B1. Real GDP growth	**15.1**	9.4	7.7	5.3	3.9	3.0	4.2	5.0	6.4	6.4	6.8
B2. Primary balance	**15.1**	9.4	7.9	5.6	4.2	3.3	4.6	5.5	8.7	8.7	9.3
B3. Exports	**15.1**	**11.4**	**12.5**	**11.1**	9.0	7.6	9.4	**11.7**	**16.2**	**16.0**	**17.0**
B4. Other flows 3/	**15.1**	9.4	9.1	7.9	6.5	5.5	6.8	9.0	**11.8**	**11.6**	**12.4**
B5. One-time 30 percent nominal depreciation	**15.1**	9.4	7.7	5.1	3.7	2.8	4.1	4.9	6.1	6.1	6.5
B6. Combination of B1-B5	**15.1**	**10.8**	**12.3**	**10.1**	8.2	7.0	8.6	**11.8**	**14.9**	**14.7**	**15.7**
C. Tailored Tests											
C1. Combined contingent liabilities	**15.1**	9.4	7.9	5.5	4.0	3.1	4.3	5.1	8.1	8.1	8.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**15.1**	**12.6**	**10.8**	8.4	6.5	5.2	6.4	8.4	**10.8**	**10.7**	**11.4**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio											
Baseline	**28.8**	**18.9**	**16.3**	11.3	8.5	6.5	9.3	10.9	**17.3**	**16.9**	**18.0**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	**28.8**	**19.0**	**15.2**	9.9	7.9	7.1	10.5	**14.3**	**20.9**	**24.3**	**28.0**
B. Bound Tests											
B1. Real GDP growth	**28.8**	**21.5**	**20.7**	**14.4**	10.8	8.3	11.8	13.9	**17.6**	**17.4**	**18.5**
B2. Primary balance	**28.8**	**18.9**	**16.6**	12.0	9.2	7.2	10.0	12.0	**18.8**	**18.6**	**19.8**
B3. Exports	**28.8**	**19.8**	**19.4**	**17.5**	**14.4**	12.2	**15.0**	**18.7**	**25.6**	**25.1**	**26.8**
B4. Other flows 3/	**28.8**	**18.9**	**19.2**	**17.0**	**14.2**	12.1	**14.7**	**19.5**	**25.4**	**24.9**	**26.6**
B5. One-time 30 percent nominal depreciation	**28.8**	**24.3**	**20.9**	**14.1**	10.5	8.0	11.5	13.6	**17.0**	**16.8**	**17.9**
B6. Combination of B1-B5	**28.8**	**21.1**	**24.2**	**20.4**	**16.9**	**14.3**	**17.6**	**23.9**	**30.0**	**29.5**	**31.4**
C. Tailored Tests											
C1. Combined contingent liabilities	**28.8**	**18.9**	**16.6**	11.7	8.8	6.8	9.5	11.1	**17.5**	**17.3**	**18.4**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**28.8**	**20.8**	**20.3**	**16.9**	13.6	11.2	13.8	**17.7**	**22.7**	**22.2**	**23.6**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the threshold.

2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.

3/ Includes official and private transfers and FDI.

Table 4. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public Debt, 2019–29

					Projections 1/						
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					PV of Debt-to-GDP Ratio						
Baseline	32.6	**37.5**	**39.8**	**45.6**	**51.1**	**52.9**	**51.8**	**51.3**	**50.4**	**48.5**	**50.4**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	33	26	18	14	11	9	7	7	6	6	6
B. Bound Tests											
B1. Real GDP growth	33	**42**	**50**	**58**	**64**	**66**	**64**	**63**	**61**	**58**	**61**
B2. Primary balance	33	**44**	**54**	**61**	**66**	**67**	**65**	**64**	**63**	**61**	**63**
B3. Exports	33	**51**	**81**	**89**	**96**	**97**	**96**	**95**	**92**	**88**	**89**
B4. Other flows 3/	33	**62**	**90**	**98**	**105**	**107**	**105**	**103**	**100**	**95**	**97**
B5. One-time 30 percent nominal depreciation	33	33	33	**36**	**38**	**36**	32	28	24	19	17
B6. Combination of B1-B5	33	**44**	**49**	**54**	**64**	**68**	**68**	**69**	**70**	**69**	**71**
C. Tailored Tests											
C1. Combined contingent liabilities	33	**44**	**47**	**53**	**59**	**60**	**58**	**57**	**56**	**54**	**56**
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	33	**42**	**47**	**56**	**63**	**65**	**64**	**63**	**62**	**60**	**62**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
					PV of Debt-to-Revenue Ratio						
Baseline	103.6	117.0	111.1	116.4	126.0	125.4	120.7	120.5	119.9	115.1	126.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	104	81	51	36	28	21	17	16	15	14	14
B. Bound Tests											
B1. Real GDP growth	104	117	112	119	127	126	120	118	117	111	122
B2. Primary balance	104	138	151	155	162	159	152	151	150	144	158
B3. Exports	104	158	226	226	236	231	223	222	218	208	222
B4. Other flows 3/	104	195	250	249	259	253	244	242	238	226	242
B5. One-time 30 percent nominal depreciation	104	104	92	93	94	86	75	66	57	45	43
B6. Combination of B1-B5	104	136	136	139	157	160	159	163	167	163	178
C. Tailored Tests											
C1. Combined contingent liabilities	104	139	131	136	144	142	136	135	134	128	140
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	104	145	142	154	164	160	152	148	148	142	156
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
					Debt Service-to-Revenue Ratio						
Baseline	47.0	41.4	41.4	29.5	37.3	34.5	38.0	37.6	46.0	47.3	53.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2039 2/	47	26	16	8	6	4	3	3	3	3	3
B. Bound Tests											
B1. Real GDP growth	47	41	41	30	37	34	37	37	46	49	56
B2. Primary balance	47	41	49	41	43	41	41	41	50	54	62
B3. Exports	47	41	43	34	42	39	43	44	56	57	63
B4. Other flows 3/	47	41	44	35	43	40	43	46	58	59	65
B5. One-time 30 percent nominal depreciation	47	39	39	25	34	29	33	32	40	40	45
B6. Combination of B1-B5	47	43	46	33	41	38	43	46	59	65	77
C. Tailored Tests											
C1. Combined contingent liabilities	47	41	49	33	40	35	36	37	46	50	58
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	47	48	47	33	40	36	39	39	48	52	60
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

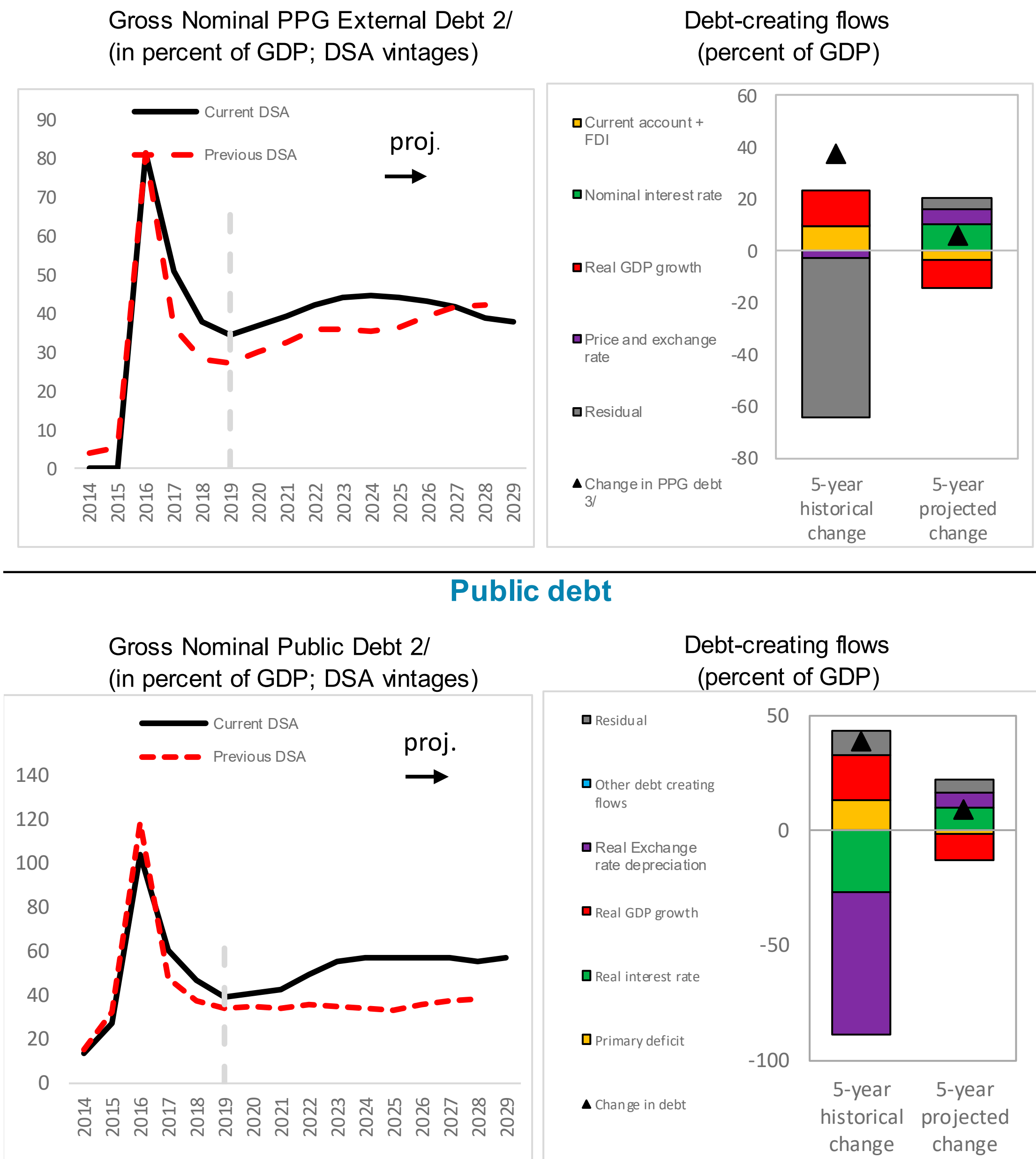
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Republic of South Sudan: Drivers of Debt Dynamics—Baseline Scenario External Debt 1/

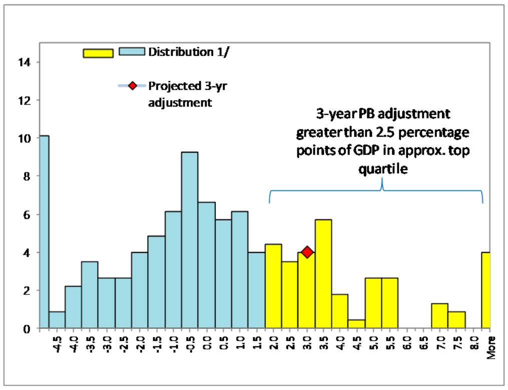


1/ Analyses on unexpected changes in debt are unavailable due to the lack of data.

2/ The current DSA assumes more external financing for peace process than the previous DSA, which makes its Gross Nominal PPG External Debt and Gross Nominal Public Debt larger than the previous DSA.

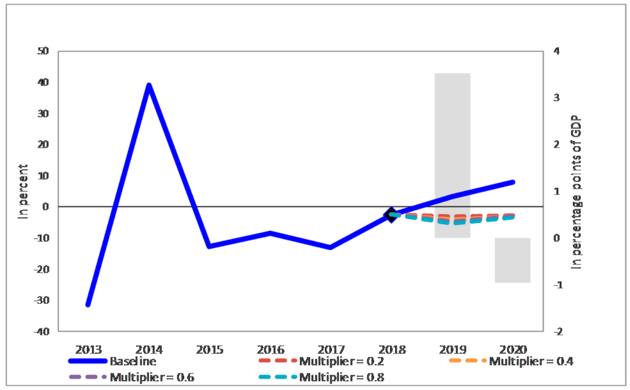
Figure 4. Republic of South Sudan: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

Statement by the Executive Director, Mr. Dumisani Hebert Mahlinza, and by the Advisor of the Executive Director, Mr. James Alic Garang on the Republic of South Sudan
May 29, 2019

Introduction

1. Our South Sudanese authorities appreciate the constructive engagement during the recent Article IV Consultation and welcome the resumption of onsite surveillance by the Fund. They broadly agree with the staff's assessment of economic challenges and the key policy recommendations.

2. South Sudan is emerging from a protracted internal conflict which created significant institutional capacity gaps, and huge development challenges. At the same time, the country continues to face significant humanitarian challenges. The continued decline in international oil prices since 2014 has undermined fiscal and export revenues, thereby generating exchange rate and inflationary pressures. Although a pathway towards re-establishment of lasting peace has been laid, the country remains fragile and requires support to implement economic reforms to resuscitate activity in key productive sectors. The signing of the Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCSS) in September 2018 has, however, improved prospects for peace, and created an environment for increased oil production.

3. To address prevailing macroeconomic challenges, the authorities are directing their efforts towards restoring economic stability, rebuilding international reserves, improving the management of oil resources, enhancing public financial management, and regaining access to external support from development partners. These reform measures are consistent with the key objectives of the National Development Strategy (2018–21), which aims to consolidate peace and unlock the country's economic growth potential.

Recent Economic Developments and Outlook

4. While economic activity declined in 2017/18, real GDP is estimated to grow by 3.4 percent in 2018/19, following the cessation of hostilities and reopening of damaged oil wells. Oil production increased from 120, 000 barrels per day in 2017/2018 to 145,000 barrels per day in early 2019. Going forward, economic growth is expected to further accelerate to 8.1 percent in 2020 conditional on the peace dividend, increased oil production and public investment projects.

5. From a peak of 550 percent in 2016, inflation declined to 40 percent in December 2018, largely reflecting the discontinuation of central bank financing of the budget deficit. Looking ahead, inflation is expected to decline further to 26.4 percent in 2019 as the authorities continue to implement a tight monetary policy stance.

6. While the current account deficit is expected to continue to worsen, reaching 6.4 of GDP in 2018/19, going forward, improved export performance is expected to narrow the deficit of 1.8 percent of GDP in 2019/2020. Consequently, gross reserves will modestly increase from 0.1 months of import in 2018/2019 to 0.2 months of import in 2019/2020.

Fiscal Policy and Public Financial Management (PFM) Reforms

7. The authorities remain committed to restoring fiscal discipline, mobilizing domestic revenues to address fiscal pressures and containing expenditures. The establishment of the National Revenue Authority (NRA) in 2018 has greatly improved collections of non-oil revenues. At the same time the operationalization of a Treasury Single Account (TSA) early in 2019, is expected to enhance fiscal discipline. Going forward, greater focus will be placed on efforts to broaden the tax base, improve tax administration, automate corporate taxes, and complete the functionality of NRA by hiring adequately qualified staff. To this end, the recruitment of Commissioners and deputies of the NRA is ongoing.

8. To further enhance fiscal discipline, the authorities are committed to stop oil advances and improve transparency in the management of oil revenues. In this regard, a strategy to deal with and limit oil advances has been prepared and submitted to Cabinet for approval. Furthermore, the authorities intend to sell oil at the spot market prices with gross proceeds transferred directly to the Treasury Oil Account at the Central Bank.

9. Containing expenditures consistent with the available resources remains high on authorities' reform agenda. In this connection, the authorities are undertaking measures to rationalize expenditures, while prioritizing social, peace-related, and growth-enhancing development expenditures. At the same time, they are planning to advance efforts to clean the civil service payroll, downsize diplomatic missions, limit foreign travel, and develop a credible arrears clearance plan. The Cash Management Committee, which comprises senior officials from Ministry of Finance and Planning (MoFP), Bank of South Sudan (BSS) and other bodies, continues to make progress in implementing spending controls, including prioritizing expenditure.

10. As part of an effort to place public debt on a downward trajectory, the authorities have made a budget provision for the clearance of arrears owed to the Qatar National Bank, and to fully pay the Transitional Financial Arrangement (TFA) fees to Sudan by 2021/2022. In addition, the Council of Ministers has established an Arrears Clearance Committee to ascertain the stock of arrears and restructure arrears to commercial banks. They have also removed fuel subsidies to Nilepet, the main oil company operating in South Sudan. The removal of the remaining subsidies on public transport and hospitals is not viewed as an immediate priority.

Monetary, Exchange Rate, and Financial Sector Policies

11. The BSS has continued to maintain a tight monetary policy stance, which is consistent with its disinflationary efforts. Going forward, the authorities remain committed to strengthening the monetary policy toolkit, including reserve requirements, voluntary term deposits, and FX intervention. Relatedly, they will continue to ensure that commercial banks meet minimum reserve requirements which remain at 20 percent of deposits.

12. The foreign exchange market has witnessed supply shortfalls in recent times. These shortages reflect capital flow reversals, declining remittances, and limited sales by the Central Bank in view of low reserves. Although the authorities recognize the resultant disparity between the official and parallel exchange rate, the rates in both markets are expected to converge with the implementation of the peace agreement and renewed foreign exchange inflows from oil revenues. As part of an effort to build foreign exchange buffers, the authorities are preparing to establish a foreign exchange auction based-system, which will include input from Fund TA. They also plan to review the operations of the Special Accounts Scheme to create more transparency in the FX market.

13. The authorities are committed to improving financial risk management and regulatory oversight. Already, the BSS has issued a circular on new minimum capital requirements effective end-December 2019: $30 million for foreign banks and $15 million for domestic banks. Further, the BSS is finalizing the bank resolution framework for troubled banks. Meanwhile, all 14 commercial banks which are non-compliant with the BSS minimum statutory requirements have been presented with the options to either: (i) raise capital, (ii) merge with others or (iii) be liquidated. While plans are underway for the BSS to adopt comprehensive banking resolution regulations, desk officers have been deployed to monitor activities at the commercial banks.

14. The BSS will continue to enhance onsite supervision while laying the foundation for risk-based supervision. Realizing the elevated NPLs, the authorities are encouraging commercial banks to address these vulnerabilities, including through strengthening lending practices and implementing recovery efforts.

Structural Reform Measures

15. The authorities recognize the importance of improving governance. In this respect they plan to complete the outstanding BSS and Nilepet financial audits through to 2018. To enhance financial stability, the authorities have appointed a Commissioner for the Financial Intelligence Unit (FIU) to facilitate implementation of the 2012 Anti-money Laundering Act. Relatedly, they are taking steps to strengthen institutions and address governance vulnerabilities, including enhancing the asset declaration process.

16. As part of an effort to enhance infrastructure development, the government has ring-fenced a portion of oil proceeds for the development of roads. The plan is to build roads that

connect urban with rural areas to facilitate the transportation of agricultural produce. This is envisaged to address the huge infrastructural gaps and reduce the cost of doing business.

17. The authorities view economic diversification as part of their medium-term agenda. In this respect, policy efforts will be geared towards promoting increased activity in the agriculture, mining, fishing and construction sectors.

Conclusion

18. Our South Sudanese authorities view the signing of the R-ARCSS as an important milestone towards improved growth and peace prospects. They recognize the enormity of the attendant challenges as well as the important role of the international community in providing resources to finance the country's huge development and humanitarian needs. Further, they value Fund policy advice, and look forward to completion of the 2019 Article IV Consultation.