INTERNATIONAL MONETARY FUND

IMF Country Report No. 20/72

SUDAN

March 2020

2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR 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 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 February 21, 2020 consideration of the staff report that concluded the Article IV consultation with Sudan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 21, 2020, following discussions that ended on December 17, 2019, with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on February 5, 2020 of final report circulated.
- 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 Sudan.

The document listed below has been or will be separately released.

Selected Issues

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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PRESS RELEASE

PR20/83

IMF Executive Board Concludes 2019 Article IV Consultation with Sudan

FOR IMMEDIATE RELEASE

WASHINGTON, DC – **February 21, 2020** the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Sudan.

Regime change has created a window of opportunity for fundamental reforms to address major macro imbalances and lay the groundwork for inclusive growth. However, the challenges facing the new government are daunting. The economy is shrinking, macroeconomic imbalances are large, competitiveness is weak, and the humanitarian situation is dire. Concerns about governance and corruption persist. Sudan's listing as a state sponsor of terrorism by the United States also blocks progress toward HIPC debt relief and the clearance of large arrears to the IMF.

Reflecting weak competitiveness, the poor business environment, and social turmoil, GDP is estimated to have contracted by 2½ percent in 2019. Moreover, the fiscal deficit rose by almost three percentage points to 10.8 percent of GDP in 2019, reflecting ballooning energy subsidies and weak revenue mobilization. With limited external financing, the fiscal deficit has primarily been financed by monetization, fueling a vicious cycle of inflation, exchange rate depreciation, and deficit expansion. Inflation rose to 60 percent in November 2019, while the parallel market exchange rate continues to depreciate strongly. The exchange rate system remains highly distorted with multiple currency practices, and the real exchange rate is substantially overvalued.

The external position is weak, with the current account deficit standing at 7.8 percent of GDP in 2019 and low international reserves ($1.4 billion in October 2019, 2 months of imports). Limited forex for fuel imports has led to rationing, persistent shortages, and disruptions to electricity and food supplies. Public and external debt ratios remain high and unsustainable, and stood at 211.7 percent of GDP and 198.2 percent of GDP, respectively, in 2019.

With large imbalances and loose policies, the outlook is alarming without policy reforms. Absent reforms, the weaknesses in competitiveness and in the business environment will persist. GDP growth would then likely remain negative in the near term, with minimal investment and subdued consumption, while bank fragility will rise. High inflation, continued exchange rate depreciation, and pervasive shortages will continue to aggravate social tensions. The fiscal imbalance would also intensify over the medium term, while the current account deficit would remain large, raising risks of disorderly adjustment. Downside risks to the outlook would dominate, albeit with large margins of uncertainty.

[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.

700 19th Street NW
Washington, DC 20431
USA

Executive Board Assessment[2]

Directors emphasized that gradual exchange rate liberalization is critical for eliminating the distortions that hamper investment and growth. It would bolster competitiveness and transparency, eliminate multiple currency practices and associated distortions, reduce rent-seeking, strengthen central bank independence and boost fiscal revenues. The monetary policy framework needs to be enhanced, and the banking system's ability to sustain shocks needs to be reviewed and strengthened prior to the unification of the exchange rate. Moreover, there is a need to upgrade the central bank law to boost its independence and effectiveness, and curb fiscal dominance. The central bank should continue to upgrade its capacity to supervise and mitigate financial stability risks, including by strengthening banking regulation and supervision and continuing to address AML/CFT deficiencies.

Directors highlighted that substantial consolidation is needed to achieve macroeconomic stability and fiscal sustainability. In this regard, broadening the tax base and strengthening revenue administration are important and would help strengthen governance, transparency and accountability. Stronger public financial management and publication of comprehensive fiscal data would improve governance. Directors called for intensified efforts to mobilize additional domestic revenues to ensure credible fiscal consolidation in 2020. They also emphasized that phasing out fuel subsidies over the medium term is crucial for durable consolidation. Strong information and communication efforts and a substantially expanded social safety net that can credibly be financed with donor assistance will be needed to build public support for reforms.

Directors recognized that Sudan remains in debt distress and is eligible for debt relief under the HIPC Initiative. They acknowledged that Sudan's inclusion in the state sponsors of terrorism list (SSTL) by the United States constitutes one of the obstacles to potential debt relief. Directors encouraged the authorities to continue to engage with international partners to secure comprehensive support for debt relief, respect the Fund's preferred creditor status, and avoid selective debt service payments and non-concessional borrowing. They also emphasized the need to strengthen cooperation with the Fund on policies and payments, including by making regular payments to the Fund at least sufficient to cover obligations falling due, and increasing them as Sudan's payment capacity improves. In this context, Directors welcomed the authorities' interest in a Staff Monitored Program to help build a track record of policy implementation to facilitate debt relief.

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

Table 1. Sudan: Selected Economic Indicators, 2017–20

	2017	2018	2019	2020
		Est.		Proj.
Output and prices		(Annual change in percent)		
Real GDP (market prices)	0.7	-2.3	-2.5	-1.2
Consumer prices (end of period)	25.2	72.9	60.2	70.2
Consumer prices (period average)	32.4	63.3	51.3	66.4
Central government		(In percent of GDP)		
Revenue and grants	7.2	8.9	7.8	6.4
Of which: Oil revenues	0.7	1.1	1.2	0.7
Tax revenue	5.5	6.7	5.4	4.9
Expenditure	13.7	16.7	18.7	21.4
Overall balance	-6.5	-7.9	-10.8	-15.0
Primary balance	-6.0	-7.6	-10.6	-14.7
Monetary sector		(Annual change in percent)		
Broad money	26.5	21.8	66.8	97.2
Reserve money	63.8	170.5	76.5	122.7
Credit to the economy	29.8	21.0	65.8	68.2
Balance of payments	(In percent of GDP, unless otherwise indicated)			
Exports of goods (annual percent change)	31.2	-13.2	-1.6	-0.9
Imports of goods (annual percent change)	10.1	-10.3	-2.3	-3.3
Current account balance (cash basis)	-7.2	-8.7	-7.8	-9.2
External debt 1/	154.5	180.8	198.2	204.3
External debt (in billions of US$)	53.9	55.1	56.3	57.5
Gross international reserves (in billions of US$)	0.7	0.9	1.2	1.1
In months of next year's imports of G&S	1.1	1.3	1.7	1.5
Exchange rate (SDG/US$, period average) 2/	18.1	38.2	60.5	…
Balance of payments				
Nominal GDP (in Millions of SDGs)	830,265	1,370,224	2,033,412	3,355,368

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

1/ GDP estimated at the weighted average of parallel and official exchange rate.

2/ Exchange rate is calculated as the weighted average of official and parallel exchange rate.

INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION

February 5, 2020

KEY ISSUES

Context: Regime change has created a window of opportunity for fundamental reforms to address major macro imbalances and lay the groundwork for inclusive growth. After prolonged protests, President Al-Bashir's government was removed and a transitional government was sworn in August 2019 for a 39-month period, to be followed by general elections. Major challenges lie ahead. The economy is shrinking, fiscal and external imbalances are large, inflation is high, the currency is overvalued, and competitiveness is weak. The humanitarian situation is dire with large numbers of internally displaced people and refugees. U.S. sanctions on trade and financial flows were revoked in October 2017, but Sudan remains on the state sponsors of terrorism list (SSTL), which effectively discourages external investment and blocks progress toward both HIPC debt relief and the clearance of large arrears to the Fund. In this context, staff engagement has intensified to render the necessary policy and technical assistance to help the authorities seize this once-in-a-generation opportunity for reforms. There is broad agreement between the authorities and staff about the key reform priorities, but the authorities have yet to put together a fully coherent and viable plan that enjoys broad public support and can plausibly attract adequate donor financing.

Policy advice:

- Intensified efforts to strengthen governance and institutions, and curb corruption, would be critical for sustaining public support for the government and reforms.

- A unified and market-clearing exchange rate is key to reducing external imbalances and boosting competitiveness, investment, growth, and fiscal revenues.

- Fiscal reforms are critical to address deficit monetization, reduce inflation, and support social and development programs. Energy subsidies should be gradually phased out and adjustment pain mitigated by substantially increased spending on vulnerable groups. The tax base should be broadened, and capital investment increased.

- Additional measures are needed to ensure credible fiscal consolidation in 2020. The 2020 budget as passed incorporates optimistic revenue projections and large expenditure increases. Building public support for commencing energy subsidy reforms, and stronger revenue mobilization efforts, will be key for successful consolidation.

- Central bank independence should be buttressed, and monetary policy should be tightened to curb rising inflationary pressures. The central bank should also continue to strengthen financial sector soundness and mitigate risks, including through enhanced risk-based AML/CFT supervision.

- Reforms should be carefully sequenced and be condition-based rather than time-bound. Notably, an expanded social safety net needs to be in place prior to implementation of potentially disruptive subsidy and exchange rate reforms. The monetary policy framework needs to be enhanced, and the banking system's ability to sustain shocks will need to be reviewed—and strengthened as necessary—prior to the unification of the exchange rate. An extensive information and communication campaign will be critical to strengthen civil society buy-in of these important reforms.

- A critical mass of structural reforms will be needed (together with improved governance and macroeconomic policies) to support higher sustained growth and competitiveness.

- Substantial donor assistance will be needed to ensure orderly and gradual adjustment. While the authorities' attempts to secure external financing have so far been only partly successful, credible implementation of reforms would help to raise donor support.

Past Surveillance: During the 2017 Article IV consultation, Executive Directors called for exchange rate unification and liberalization, fiscal consolidation (notably revenue mobilization and phasing out subsidies), monetary tightening, and structural reforms to achieve macroeconomic stability, address vulnerabilities, and promote inclusive growth. Progress since has been limited: reflecting ballooning energy subsidies and weak revenue mobilization, the fiscal deficit has continued to trend upward, fueling a vicious cycle of monetization, inflation, and exchange rate depreciation.

Approved By

Juha Kähkönen (MCD) and Yan Sun (SPR)

Discussions were held in Khartoum during December 4–17, 2019. The team comprised Daniel Kanda (head), Qiaoe Chen, Atif Chaudry, Mohd S.M. Zaher (all MCD), Marta Spinella (FIN), Abdikarim Farah, (Resident Representative), and Abdelmhmoud Abuelhassan (local economist). The mission met with Finance Minister Ibrahim Elbadawi, Central Bank Acting Governor BadrEldin Abdelrahim Ibrahim, other senior government officials, members of the business and diplomatic communities, and members of civil society organizations.

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ANNEXES

CONTEXT

1. Regime change has created a window of opportunity for fundamental reforms to address major macro imbalances and lay the groundwork for sustained inclusive growth. After prolonged protests beginning in December 2018, ex-President Al-Bashir was removed in April 2019 and replaced, in August 2019, by a Sovereign Council composed of 6 civilian and 5 military members and a civilian cabinet led by a Prime Minister, to govern for a 39-month transitional period, followed by general elections. Key objectives of the new government include pursuing comprehensive peace across the entire country, fundamental economic reforms, strengthening anti-corruption and governance efforts, and re-integrating Sudan into the international community.

2. The new government faces major challenges. The economy is shrinking, fiscal and external imbalances are large, inflation is high, the currency is overvalued, and competitiveness is weak. The humanitarian situation is dire with large numbers of internally displaced people and refugees. U.S. sanctions on trade and financial flows were revoked in October 2017, but Sudan remains on the state sponsors of terrorism list (SSTL), which blocks progress toward HIPC debt relief (Annex II). Large arrears block financing from the Fund, World Bank, and African Development Bank. The authorities have requested a Staff Monitored Program (SMP) to help formulate and implement comprehensive reforms.

3. Social, political, and financial constraints to reform abound. Public tolerance for policy adjustment has been eroded by economic hardship, and while the government enjoys substantial goodwill the window of opportunity for reforms is likely to be limited. There is a need for an extensive information and communication campaign (ICC) to strengthen public support for potentially painful reforms. Also, the social safety net (SSN) is substantially underdeveloped, and rapidly expanding coverage will be a major logistical challenge. Finally, prospects for large external financing—critical for orderly adjustment—remain uncertain despite pledges from Saudi Arabia and the UAE ($2 billion remaining to be disbursed), and the EU (€100 million). The authorities continue to make strong efforts to obtain additional donor financing, but thus far firm commitments have not emerged. Credible implementation of reforms could help to raise donor support.

4. Public confidence in government also needs to be strengthened. This will require improving transparency and enhancing the quality of basic public services particularly at local government level. Civil Society Organizations have also remarked that many legacy issues need to be tackled to provide a vibrant civic space for the free public discussion needed to achieve consensus on difficult reforms.

5. Concerns about governance and corruption persist (Figure 1).[1] While regime change provides opportunity for substantial improvements, Sudan suffers from weak institutional capacity and deep-seated weak governance. Cross-country indicators point to pervasive corruption, lack of judicial independence, and weak rule of law and public-sector accountability. There are widespread

[1] See also accompanying Selected Issues Papers

fiscal governance weaknesses: Sudan publishes little fiscal information; internal monitoring reports are compiled from unreconciled data sources; and spending control and bank account reconciliation need strengthening. Multiple currency practices (MCPs) and associated distortions persist, encouraging rent-seeking and increasing vulnerabilities to corruption.

DEVELOPMENTS, OUTLOOK, AND RISKS

6. The economy shrank in 2018 and 2019. Reflecting weak competitiveness, the poor business environment, and social turmoil, GDP is estimated to have contracted by 2½ percent in 2019, on top of a 2¼ percent contraction in 2018.

7. The fiscal position has deteriorated because of ballooning fuel subsidies and weak revenue mobilization (Tables 1–7; Figures 2–5).

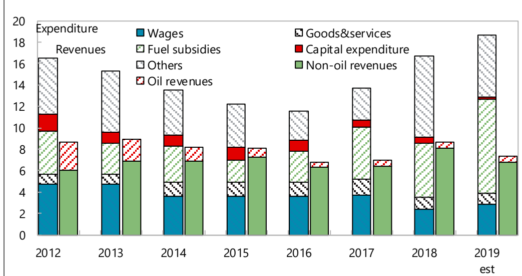
- Revenues and grants increased by 1¾ percentage points to almost 9 percent of GDP in 2018 as exchange rate devaluation boosted customs duty and VAT on imports, but remained among the lowest in the world. In 2019, however, they fell to 7¾ percent of GDP as continued overvaluation of the official and customs duty exchange rates depressed foreign-currency-denominated and import-related revenues.

- Total expenditure (including off-budget implicit fuel subsidies) increased by 3 percentage points to 16¾ percent of GDP in 2018, with ballooning subsidies partly offset by other expenditure tightening. Expenditure increased further by 2 percentage points to 18¾ percent of GDP in 2019 largely due to a continued increase of fuel subsidies.

  - Total (explicit and implicit) fuel subsidies rose by an estimated 7½ percentage points to 11¾ percent of GDP over 2018–19 because of higher international oil prices, exchange rate depreciation, and increased fuel consumption.

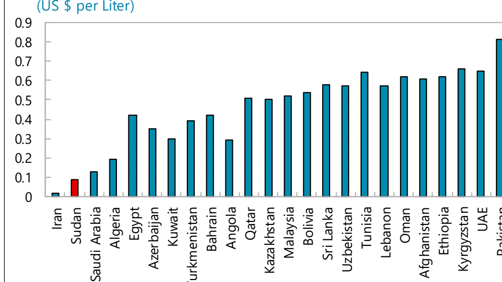
  - In 2018, the wage bill fell by 1¼ percent of GDP, as public workers did not receive a wage increase despite high inflation. There were also moderate cuts to expenditure on goods and services, wheat subsidies, and

Fiscal Developments
(In percent of GDP)



Source: Ministry of Finance of Sudan, IMF staff calculations.

Diesel Prices in Selected Countries 1/
(US $ per Liter)



Source: Globalpetrolprices.com.
1/ Data is for Nov 2019.

Gap Between Domestic and International Fuel Prices

Fuel type	Current domestic prices (SDG/litre)	Current international prices (SDG/litre) 1/	Price increase (percent)	Share in total consumption (percent)
Gasoline	6.4	44.6	601	24.9
Diesel	4.3	43.6	910	54.7
Fuel oil	4.3	32.5	665	5.2
Kerosene	4.1	40.1	876	0.2
LPG	5.2	24.9	380	12.7

1/ Evaluated at exchange rate of SDG 82/US$.

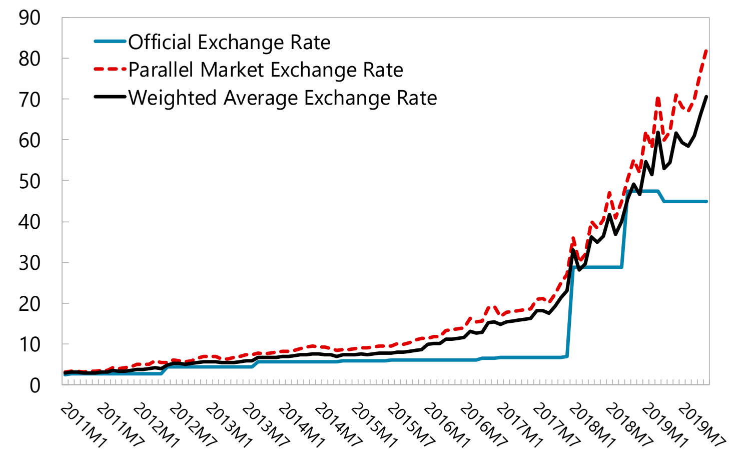
transfers to state governments. In 2019, the wage bill is estimated to have risen by ½ percent of GDP on account of higher wages for some segments of the civil service and the security forces. There were also modest cuts to expenditure on goods and services, and transfers to state governments. Capital expenditure fell by ½ percent of GDP to nearly zero.

- Thus, the fiscal deficit has risen rapidly, from 6½ percent of GDP in 2017 to 10¾ percent of GDP in 2019.

8. With limited external financing, the fiscal deficit has primarily been financed by monetization, fueling a vicious cycle of exchange rate depreciation and deficit expansion. With domestic fuel prices fixed in SDG terms, exchange rate depreciation automatically increases the size of the fiscal subsidy, which in turn increases deficit monetization, leading to pressures on the exchange rate and inflation.

- Despite broad administrative restrictions on repatriation of export proceeds, imports, lending to domestic retail traders, cash withdrawals from banks, and parallel market transactions, continued exchange rate pressures have caused the parallel market exchange rate to depreciate from SDG 27/$ at end-2017 to SDG 85/$ in December 2019.

Exchange Rate (SDG/$)



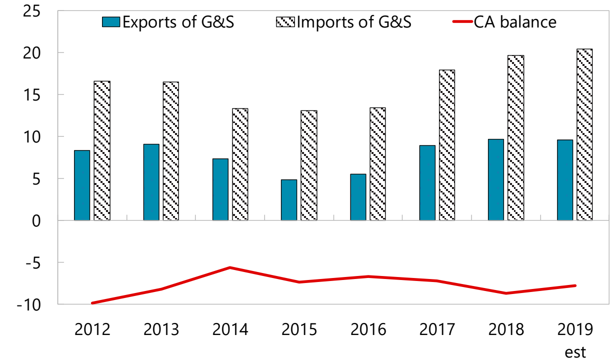
Source: Central Bank of Sudan, IMF Staff calculations.

- Inflation rose to 73 percent in December 2018 before falling to 44 percent in January 2019 from base effects. It has since increased to 60 percent in November 2019.

9. The exchange rate system remains highly distorted. In October 2018, the central bank (official) and commercial bank exchange rates were unified and devalued (from SDG 18/$ to SDG 47.5/$). Subsequently, the official exchange rate was revalued to SDG 45/$ in April 2019 even though the parallel exchange rate continued to depreciate. However, despite the changes to the official rate, forex transactions for the budget continued to use SDG 18/$. Also, the customs duty exchange rate (which was initially part of the official rate) was excluded from the unification and is currently at SDG 15/$. Moreover, the fuel import exchange rate remained at SDG 6.7/$. The parallel market continues to dominate, accounting for about 80 percent of all transactions. Much of the impact of nominal exchange rate depreciation on the REER has been offset by sharp increases in inflation.

10. The external position of Sudan is substantially weaker than implied by fundamentals and desirable policy settings (Annex III). Though the current account deficit (cash basis) is estimated to have decreased from 8¾ percent of GDP in 2018 to 7¾ percent of GDP in 2019 reflecting large grants from Gulf countries, it is weaker than a deficit of 4.3 percent implied by fundamentals, while the REER is overvalued by 36 percent. Gross international reserves are low at $1.4 billion in October 2019 (2 months of imports), far below the 6–8 months suggested by the Fund's reserve adequacy metric. Limited forex for fuel imports has led to rationing, persistent shortages, and disruptions to electricity and food supplies.

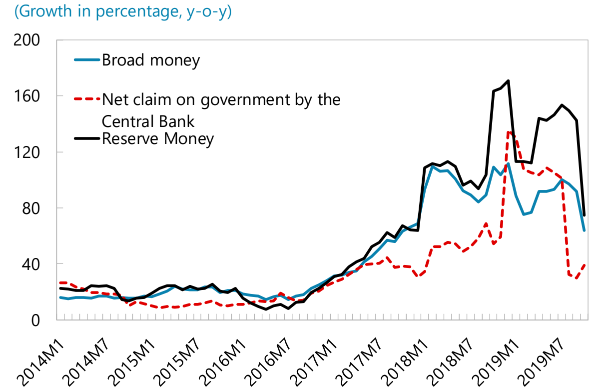
Exports, Imports and CA balance
(In percent of GDP)



Sources: Central Bank of Sudan, and IMF staff calculations.

11. Sudan continues to be in debt distress (see DSA). Public and external debt ratios remain high and unsustainable, with most external debt in arrears. Public and external debt ratios stood at 211.7 percent of GDP and 198.2 percent of GDP, respectively, in 2019.

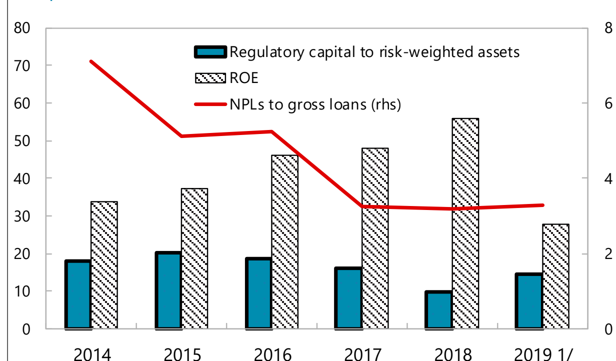
Monetary Aggregates
(Growth in percentage, y-o-y)



Source: Central Bank of Sudan and IMF staff calculations.

12. Monetary aggregates have expanded rapidly, reflecting fiscal deficit monetization and exchange rate devaluation. The current interpretation of Islamic banking precludes conventional interest-rate-based policy instruments in Sudan, and in practice has limited the scope to mop up liquidity via sales of central bank or government paper because of low rates of return offered. Thus, reserve money growth increased sharply from 63.8 percent in 2017 to 171 percent in 2018 partly due to currency depreciation. While the growth rate has since declined, it remains high at 74 percent as of October 2019. Real credit to the private sector contracted by 20 percent in 2018 but has gradually picked up in 2019.

Financial Soundness Indicators
(In percent)



Source: Central Bank of Sudan.
1/ 2019 data are the latest available.

13. The banking sector is fragile, with several banks undercapitalized. Reported nonperforming loan (NPL) ratios significantly underestimate the true state of impairment of bank loans, and even with the low reported NPL estimates twelve banks have capital adequacy ratios below the regulatory 12 percent minimum.[2] Some banks have been undercapitalized for many years. Large U.S. penalties on international banks in 2014 contributed to a sharp decline in correspondent banking lines with Sudanese banks. While sanctions have now been revoked, most correspondent banks have been reluctant to re-establish relationships with Sudanese banks, reflecting concerns with ML/TF risks, AML/CFT deficiencies, and the SSTL. Equity injections into several banks resulted in the authorities owning stakes in 15 of the 37 banks, and restructuring has been lagging.

14. Preliminary bank stress tests indicate some vulnerability to exchange rate depreciation. As of November 2019, 16 out of 37 commercial banks (with more than 40 percent market share) had short net foreign exchange positions, with 6 banks positions outside the regulatory limit.

15. With large imbalances and loose policies, the outlook is alarming without policy reforms. GDP growth is likely to remain negative in the near term, with minimal investment and subdued consumption, while bank fragility will continue to rise. High inflation, continued exchange rate depreciation, and pervasive shortages will continue to aggravate social tensions. Absent corrective measures, the fiscal imbalance would intensify over the medium term, while the current account deficit would remain large, raising risks of disorderly adjustment.

16. Downside risks to the outlook dominate, albeit with large margins of uncertainty (Annex I). Failure to manage expectations and delays in implementing reforms could undermine public support for the government and foster renewed political uncertainty, with attendant risks to the growth outlook. High inflation could have a larger than expected impact on social cohesion, disrupting economic activity. Higher-than-expected oil prices would aggravate fiscal and external imbalances. The key upside risk is progress toward removal from the SSTL and debt relief, which would facilitate higher external inflows and investment. Also, lasting peace in South Sudan could boost oil revenues.

KEY CONSIDERATIONS FOR SUCCESSFUL REFORMS

17. Sudan urgently needs to reestablish macroeconomic stability and create conditions for stronger inclusive growth. This requires liberalizing the exchange rate, revenue measures, and phasing out fuel subsidies, supported by an expanded SSN to mitigate the impact of adjustment on vulnerable groups. Reforms should be carefully sequenced, and condition-based rather than time-bound. Notably, an expanded SSN should be in place prior to implementation of potentially disruptive subsidy reforms. Also, unification of the exchange rate at a sustainable market-clearing level requires introducing adequate monetary policy instruments and bolstering the resilience of the banking system to such changes. Alongside, structural reforms should focus on anti-corruption measures and improving governance and the business environment to sustain macroeconomic

[2] The central bank's definition of NPL only covers the impaired past due installment payments rather than the total loan value.

stability and boost inclusive growth and competitiveness. An extensive information and communication campaign will be critical to strengthen public buy-in of the reforms.

18. An illustrative reform scenario, assuming adequate donor assistance will be forthcoming, could therefore be as follows (Annex IV):

- Begin by addressing the key pre-conditions to enable the commencement of adjustment measures, including (i) a bank-by bank review of resilience to exchange rate, credit, and liquidity shocks, and preparation of measures to address identified vulnerabilities, including reform of the resolution framework and identification of sources of fresh capital if needed, by the end of 2020: Q1; (ii) increase the SSN to cover 60 percent of the population and implement an extensive ICC to foster public acceptance of reforms, by 2020: Q4; and (iii) establish an effective reserve money targeting framework to help contain inflation, by mid-2020.

- Base-broadening revenue measures can commence immediately and should target an increase of at least one percent of GDP over the medium term.

- Measures to strengthen governance and the business environment and curb corruption can commence immediately and are crucial for sustaining public support and unleashing Sudan's growth potential.

  - With banking sector resilience bolstered and an appropriate monetary policy framework in place, all but the customs exchange rate can be unified and liberalized in mid-2020 with minimal expected price impact, particularly given the already large share of the parallel market. Customs exchange rate liberalization and the commencement of energy subsidy reform would be implemented in 2020: Q4 once the expanded SSN is in place. Remaining energy subsidies would be gradually phased out in subsequent years.

Fuel Price Increase in the Illustrative Scenario
(Percentage change)

	Oct-20	Jan-21	Jan-22	Jan-23	Jan-24	Jan-25
Diesel	60	50	50	50	50	43
Gasoline	70	70	60	60	60	44
Fuel Oil	60	60	60	60	50	48
Kerosene	…	60	60	60	50	47
LPG	…	60	60	60	50	18

- Excluding potential bank restructuring costs, the external financing needed to eliminate deficit monetization, increase international reserves to about 3 months of imports, and help stabilize the exchange rate (necessary to prevent large second-round inflationary effects of gradual fuel subsidy removal) would be $6.2 billion over 2020–21, with more needed thereafter.

- These measures and the associated external financing would reduce the fiscal deficit to sustainable levels, strengthen the external position, reduce inflation to single digits, and stabilize the exchange rate, while also supporting significantly higher growth.

19. Reform implementation risks are substantial. The preconditions for adjustment could take significantly more time to implement than anticipated; public reaction to the reforms is uncertain; and capacity weaknesses are substantial. Moreover, the yield from revenue measures could disappoint. Thus, flexibility on reform timelines will be needed. In general, materialization of these risks would cause fiscal adjustment to be more gradual than anticipated, requiring larger donor financing to cover deficits. If the required donor financing is not available, monetization or arrears accumulation would likely be the only financing option, with attendant elevated risks.

POLICY DISCUSSIONS

20. There was broad agreement about key reform priorities, and the authorities had clear policy preferences, but viable plans for subsidy and SSN reforms are not fully developed. The authorities concurred on the need for exchange rate liberalization, revenue mobilization, an expanded SSN, energy subsidy removal, and structural reforms to boost inclusive growth and competitiveness. However, they believed that—subject to available external financing—a larger expansion of the social safety net and higher public wages would pave the way for a more rapid removal of energy subsidies. Staff observed that the implied large external financing would be difficult to obtain, raising risks of a return to monetization. Also, social pressures derailed initial plans for energy subsidy reforms, and a viable plan will only emerge after extensive outreach efforts.

21. The authorities agreed that immediate actions should be taken to intensify their outreach efforts. They have given several media interviews and reached out to political parties, academics and professionals to discuss reform options and plans. Staff welcomed these actions and urged continued and intensified efforts, noting that the ICC should extend beyond key political parties to reach civil society and local communities, and be transparent, explain the rationale for reform, the cost of the status quo, discuss potential adverse effects, present mitigating measures, and seriously address feedback from the public, to secure public support for the reforms. Moreover, surprise announcements of adjustment measures should be avoided.

22. There was consensus that intensified efforts to strengthen governance and institutions, and curb corruption, would be critical for sustaining public support for the government and reforms. Stronger governance would require building a culture of transparency and accountability in public institutions and enterprises grounded in timely publication of comprehensive data and reports, upgrading the public sector regulatory framework to international best practices, and actively engaging civil society and the private sector in curbing corruption. In this regard, the authorities pointed to plans and efforts to strengthen central bank governance, extend the tax net to cover security sector owned companies, and strengthen Public Financial Management. They also requested an IMF comprehensive governance diagnostic mission in early 2020 to help motivate measures for reducing governance and corruption vulnerabilities.

A. Exchange Rate, Monetary, and Financial Sector Policies

23. There was agreement that a unified market-clearing exchange rate is critical for restoring macro stability and strengthening investment and growth. It would bolster competitiveness and transparency, eliminate the MCPs and associated distortions, boost central bank independence, and minimize rent-seeking activities that increase risks of corruption. It would also support fiscal consolidation by boosting import-related and oil revenues. Upfront liberalization of all exchange rates would send a strong signal about the authorities' commitment to reforms, but given the significant impact of changes in the customs rate on inflation a gradual approach would be advisable. The authorities expressed a preference to use a budget exchange rate of SDG 55/$ throughout 2020 to simplify budget management, liberalize all but the customs and budget exchange rates in March/April 2020, and liberalize the customs rate more gradually than staff recommended (from July 2020 to June 2021).

Pros and Cons of Upfront Versus Gradual Exchange Rate Reform		
	Upfront liberalization	**Gradual liberalization**
Pros	Strong signal of commitment to reform Reduce risks of delay and interference of vested interests	Smaller initial impact on prices, and less likely to cause social upheaval More time to ramp up social safety net to mitigate adjustment pain
Cons	Significantly larger upfront impact on prices, on top of the price hikes from reduction of fuel subsidies, which could threaten social cohesion Higher risk of exchange rate overshooting, which would intensify adjustment pain The authorities believe it is the riskier option	Commitment to complete reform is less credible, and higher risks of delays and resistance from vested interests Longer persistence of exchange rate overvaluation, MCPs, and associated distortions, delaying competitiveness and fiscal revenue gains

24. The authorities observed that reducing import tariffs would reduce the inflationary impact of customs rate liberalization and help strengthen the business environment. Staff agreed, noting that customs rate liberalization would raise the average effective tariff rate, and the effective rate of VAT on imports, from about 3 percent and 2.8 percent to 20 percent and 17 percent, respectively. While this would increase fiscal revenues substantially, it would also cause a substantial increase in prices of imported goods and the overall price level, potentially aggravating social tensions. While the VAT rate is broadly in line with regional peers, the high and highly variable tariff structure is a source of economic distortions that would become significantly larger as the effective tariff rises. Moving toward lower and more uniform tariff rates would be appropriate and (together with reducing non-tariff barriers) would also strengthen efforts to join the WTO. The authorities requested Fund technical assistance (TA) to help with the tariff reforms.

25. There was consensus that a new nominal anchor for monetary policy will be needed alongside exchange market reforms, requiring well-sequenced steps. Exchange rate liberalization must be accompanied by the authorities' announcing an end to monetization, and adopting appropriate monetary and exchange rate policies. Notably, effectively managing domestic currency liquidity would help stabilize the exchange rate. Inflation targeting may be an appropriate medium-to long-term objective but cannot be implemented for some time given data and capacity gaps. As an interim step, the authorities intend to adopt a reserve money targeting framework, to be announced and operationalized concurrently with exchange rate liberalization to anchor monetary policy.

26. Staff stressed that monetary policy should be tightened to contain rising inflation. The key to monetary tightening is eliminating deficit monetization. Notwithstanding the limited policy toolkit, the central bank should urgently develop effective monetary instruments with which they could raise market rates of return to appropriate levels, and deploy available instruments, including sales of securities—where higher returns will need to be offered—and consider higher reserve requirements as needed. The authorities concurred and indicated their intention to learn from other Islamic financial regimes about developing the government securities' market and broadening the central bank's monetary policy toolbox.

27. The authorities acknowledged that fiscal dominance has undermined central bank governance. Monetizing the fiscal deficit has led to loss of monetary control by the central bank. Moreover, there is no active monetary policy committee, and little coordination between the central bank and the ministry of finance on liquidity management. Protection of senior central bank staff from political interference and summary dismissal is limited. The authorities informed staff that plans are underway to upgrade the central bank law to boost central bank independence and effectiveness, and that they would seek Fund TA in this regard.

28. There was agreement that the central bank should continue to upgrade its capacity to supervise and mitigate financial stability risks. This would require modernizing banking regulations in line with Islamic Financial Stability Board standards and strengthening coordination between banking regulation and supervision departments. Also stress testing should be conducted frequently to identify and address vulnerabilities in individual banks. Supervisory vigilance should be further strengthened, notably ensuring that all banks respect prudential regulation. The authorities also intend to continue to address AML/CFT deficiencies, improve the understanding of ML/TF risks, increase the effectiveness of the Financial Intelligence Unit (FIUSU), fully implement risk-based AML/CFT supervision, and improve the process of freezing terrorist assets in line with Fund TA.

B. Fiscal Consolidation

29. The authorities agreed that fiscal consolidation over the medium term would buttress macro stability and fiscal sustainability. Fiscal consolidation is the most essential measure to eliminate monetization and stabilize inflation and the exchange rate. A deficit target of one percent of GDP would be an appropriate medium-term fiscal anchor: it is about the maximum that can be financed from non-inflationary domestic sources and would generate a gradual decline in the debt ratio. Given pressing needs for social and capital spending, achieving the deficit target would require substantial revenue mobilization.

30. While full exchange rate liberalization would substantially increase fiscal revenues, the authorities' immediate focus was on base-broadening measures. Staff estimates that revaluation of oil revenues would add 1¾ percent of GDP while higher effective taxation of imports would add 3¼ percent of GDP. In addition, the authorities remarked that base-broadening and administrative measures—notably rationalizing tax exemptions—would increase revenues while strengthening governance, transparency, and accountability. Thus, their immediate focus was to expand the tax net to cover security-sector-owned commercial companies. Staff also encouraged the authorities to streamline tax exemptions embedded in legislation (notably the Investment Law), to contain revenue losses, noting that improving the business environment is a more effective way to increase investment.

31. A major expansion of the SSN would be needed to mitigate adjustment pain and sustain public support for reforms.

- The authorities indicated that about 60 percent of the population (about 4 million families) need assistance. They expressed a preference for a temporary (2–3 year) Quasi-Universal Basic Income (QUBI) scheme covering 80 percent of the population, because with almost-universal coverage, targeting of benefits would be simpler and faster, and the impact on the politically important middle class would be stronger than with a more targeted approach, which would facilitate a more rapid progress in implementing painful reforms. The monthly benefit would be the SDG equivalent of $5 per person, and the QUBI would be implemented with World Bank and UN assistance. They intend to begin in early 2020 with a pilot program covering 4.5 million persons—which would enable them to also make progress on the substantial logistical challenges associated with the payments of benefits across the country—and expand to the QUBI after 6 months.

- The authorities also plan substantial increases in allocations for health insurance coverage and school feeding programs, and the abolition of fees for basic education and health care.

- Staff observed that the QUBI would cost $2 billion (5¼ percent of GDP) a year, which would be difficult to finance given limited donor assistance. Reducing coverage of the QUBI to 60 percent of the population would increase the targeting challenge to a level similar to expanding the existing cash transfer scheme to 4 million families, and the advantages of the QUBI would practically disappear. Moreover, exiting from the QUBI would likely be politically difficult.

- Expanding the existing cash transfer scheme to cover 4 million families with a monthly cash benefit of $20 per family (in the range the World Bank considers to be appropriate) would be significantly less expensive, raising expenditure by about 2½ percent of GDP (full-year basis). Moreover, improved targeting over time would permit higher-than-inflation benefit increases to the most vulnerable while adhering to the overall expenditure envelope.

- The authorities responded that there was scope to reduce spending plans—including the coverage of the QUBI—if envisaged external financing did not materialize. They were also optimistic about the potential yield from revenue measures. Finally, they believed that exiting from the QUBI should be manageable with clear upfront communication.

32. Phasing out fuel subsidies over the medium term is crucial for durably reducing the fiscal deficit and eliminating its monetization. Staff suggested that fuel subsidy reforms should be gradual and commence only after an extensive ICC and a substantial expansion of the SSN are implemented. Additionally, the removal of kerosene and LPG subsidies (which disproportionately benefit the poor) should be backloaded. The authorities initially expressed a preference for substantially faster elimination of subsidies, including (i) eliminating the subsidy on gasoline—primarily affecting the middle class rather than the vulnerable—and significantly reducing the electricity subsidy by March/April 2020, and (ii) phasing out the diesel subsidy in H2 2020. They remarked that (i) there is strong merit in early decisive action to eliminate subsidies and free up resources for more productive uses, (ii) the large public wage increase plus strong ICC would suffice for successful early removal of the gasoline subsidy, (iii) with a credible rollout of a QUBI it should be possible to speed up the removal of diesel subsidy, and (iv) a gradual pace risks reform fatigue and the possibility that donor financing will dry up before subsidies are decisively reduced, with attendant risks to macro stability. While acknowledging these important points, staff still cautioned against rapid fuel subsidy removal given recent international experience suggesting high social sensitivity to such reforms.

33. The 2020 budget as passed will likely prove expansionary, with elevated risks, unless additional measures are taken in 2020. Facing social pressures, the authorities removed all references to fuel subsidy removal in the 2020 budget, and will hold a national conference in March 2020 to achieve a public consensus on the appropriate pace for fuel subsidy removal. At the same time, the full cost of the QUBI was not budgeted, and only the pilot program appears, with greater clarity on available external financing expected after a donor conference in April/May 2020. Revenue projections also appear optimistic, and a large hole in public finances will emerge if they are not realized, requiring additional measures to ensure fiscal consolidation.

- Nominal public wages will be increased by 123 percent to mitigate tensions in an important class of middle-income families without a natural hedge to inflation. Staff acknowledged that public wages had not kept up with inflation since 2017 but cautioned that the planned increase will increase the wage bill by one percent of GDP, and potentially crowd out other needed spending given the uncertainties about external financing.

- The share of state governments in total budgeted revenues is to be increased from 28 percent to 30 percent, with the distribution of transfers adjusted in favor of states with difficult humanitarian conditions.

- Public investment is to be increased to 1¾ percent of GDP.

- Revenues and grants are projected to increase by 9 percent of GDP, reflecting (i) $2 billion in-kind grants from (unidentified) bilateral and multilateral donors, (ii) a non-transparent contribution of $2 billion from security sector owned companies, and (iii) optimistic oil revenue projections that would require sharp increases in oil production to materialize. However, the amounts of grant inflows and receipts from the security sector are uncertain. Moreover, even if they materialize, the two $2 billion receipts are likely one-off, implying that major consolidation would be needed in 2021.

- The large receipt from the security sector raises significant questions, including on oversight of the sector, and how much donor financing is really needed given the apparently large stock of wealth in the security sector. The authorities have indicated plans to place oversight of all public enterprises under the Ministry of Finance to strengthen their governance.

- Overall, the headline budget deficit is projected to decline to 2¼ percent of GDP, while including implicit subsidies would raise the deficit to 7¼ percent of GDP. However, if the expected large receipts fail to materialize the deficit could rise up to 14¾ percent of GDP.

34. Completely fulfilling the authorities' medium-term policy adjustment plans would require successful energy subsidy reforms, a timely exit from the QUBI, and revenue measures. If the authorities' policy preferences are broadly realized, there would be substantial fiscal consolidation over the medium term (Annex IV). However, the frontloaded removal of subsidies would imply much higher inflation (and higher risk of social unrest) in 2020–21 in comparison with staff's illustrative scenario.

- Successful removal of diesel and gasoline subsidies, adoption of a full QUBI, and adjusting transfers to state governments and the wage/GDP ratio in light of different revenue and GDP assumptions would reduce overall expenditure (including implicit subsidies) by 3½ percent of GDP compared to the budget. At the same time, more conservative oil revenue projections, treating the in-kind grants as a financing item, and incorporating the positive impact of exchange rate reforms would cause total revenues to decline by 4¾ percent of GDP relative to the budget. Overall, the fiscal deficit would decline from 10¾ percent of GDP in 2019 to 8½ percent of GDP in 2020, with an associated external fiscal financing need of $4.7 billion. With limited available donor assistance this would imply higher risks of renewed deficit monetization and attendant elevated macroeconomic imbalances.

- For 2021, the complete removal of fuel subsidies would contain expenditure pressures, while customs exchange rate reform would boost revenues considerably. As a result, the fiscal deficit would fall to 5 percent of GDP. In subsequent years, transitioning from the QUBI to a smaller targeted cash transfer scheme would continue to reduce the fiscal deficit. However, additional progress on revenue mobilization would be needed to achieve the medium-term fiscal target.

35. The authorities concurred that public financial management should be strengthened, which also helps improve governance. Key areas include budget planning, fiscal reporting, fiscal risk management, the single treasury account (TSA), and public procurement. New efforts are underway to incorporate a medium-term fiscal framework into budget planning and strengthen the macro-fiscal unit to enhance policy formulation. Good progress has been made in establishing the TSA, but it still needs to be entrenched by improving cash forecasting, extending the setting of cash ceilings for ministries, departments, and agencies from one to three months, improving management of payments, and gradually extending to extrabudgetary funds. Fiscal governance would be substantially improved by publishing comprehensive fiscal data and strengthening public procurement rules.

36. The authorities continue to engage with international partners to secure comprehensive support for debt relief. Discussions continue with the U.S. government on the removal of Sudan from the SSTL. The authorities also reaffirmed their commitment to cooperate with the Fund on policies and payments, including by continuing annual payments on arrears to the Fund of a minimum $10 million, and at least enough to cover Sudan's obligations falling due. They also hope to build a track record of sound economic policies under an SMP, which is a pre-condition to get to the HIPC decision point. Efforts to prepare a full PRSP continue. Staff encouraged the authorities to adopt a prudent debt strategy that minimizes non-concessional borrowing and avoids selective debt servicing of bilateral lenders, to avoid complicating debt relief efforts.

C. Supply-Side Reforms

37. Unlocking Sudan's private sector development potential is key for higher inclusive growth and competitiveness. The IFC and the World Bank, together with donors, have been supporting the authorities' efforts to improve the investment climate, foster Public-Private Dialogue, strengthen the legal and institutional framework for Public-Private Partnerships (PPPs), and support MSME development, focusing on access to finance, business entry and taxation, innovation and entrepreneurship. An IFC private sector diagnostic will be completed around mid-2020 to provide the analytical underpinning for prioritizing economy-wide and sector-specific interventions. In addition, the IFC intends to scale up its advisory services to support the establishment of the new Investment and Private Sector Development Authority and assess investment projects envisaged by the authorities.

OTHER

38. The authorities acknowledged the major shortcomings in macroeconomic data, reflecting capacity constraints, and hope to improve data quality building on Fund TA. National accounts are based on 1968 SNA with a base year of 1981 and have weaknesses in quality and timeliness—the latest data are from 2016. Coverage of FDI, remittances, and gold exports is limited, impairing BOP compilation. Labor market data are practically nonexistent. Coverage of monetary data is not complete as some monetization items are not included in the database.

39. Progress toward an SMP is contingent on adequate progress in finalizing the authorities' reform package and on sufficient external financing assurances from donors. Once sufficient progress has been made on viable plans for subsidy and SSN reforms, and on securing donor financing, a mission will be fielded to negotiate the SMP. Without adequate donor financing, it would be very difficult to finalize an SMP, and Fund engagement might have to be based on surveillance and TA to help mitigate risks.

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40. While regime change has created a window of opportunity for fundamental reforms, the challenges facing the new government are daunting. Macroeconomic imbalances are large, competitiveness is weak, the currency is substantially overvalued, and the humanitarian situation is dire. Sudan's continued listing as a state sponsor of terrorism also blocks progress toward HIPC debt relief and the clearance of large arrears to the IMF. Key elements of a comprehensive reform package include exchange rate liberalization, fiscal revenue mobilization, phasing out fuel subsidies, and increasing social transfers to mitigate adjustment pain. However, social, political, and financial constraints to reform abound, and implementation risks are substantial.

41. Boosting governance and institutions, and curbing corruption, would be critical for sustaining public support for the government and reforms. Stronger governance would require building a culture of transparency and accountability in public institutions and state-owned enterprises grounded in timely publication of comprehensive data and reports, aligning the public sector regulatory framework with international best practices, and encouraging the active engagement of civil society and the private sector in curbing corruption.

42. Reforms should be carefully sequenced, flexible, and condition-based rather than time-bound. Notably, an expanded social safety net needs to be in place prior to implementation of potentially disruptive subsidy and exchange rate reforms. The monetary policy framework needs to be enhanced, and the banking system's ability to sustain shocks will need to be reviewed and strengthened as necessary prior to the unification of the exchange rate. An extensive information and communication campaign will be critical to strengthen public buy-in of these important reforms. Alongside, structural reforms should focus on anti-corruption measures and improving governance and the business environment to sustain macroeconomic stability and boost inclusive growth.

43. Exchange rate liberalization is critical for restoring macro stability and strengthening investment and growth. It would bolster competitiveness and transparency, eliminate the multiple currency practices and associated distortions, minimize rent-seeking activities that increase risks of corruption, strengthen central bank independence, and boost fiscal revenues. Exchange rate liberalization should be preceded by measures to bolster banking sector resilience to exchange rate shocks and to develop an effective monetary policy. Given data and capacity gaps, a reserve money targeting framework should be established first to help curb inflation and support a more stable exchange rate, with inflation targeting as an appropriate medium-to long-term objective.

44. Fiscal dominance has led to loss of monetary control by the central bank and undermined its governance. Protection of senior central bank staff from political interference and summary dismissal is limited. The central bank law should be upgraded to boost central bank independence and effectiveness, and the Fund stands ready to provide TA in this regard. The central bank should also continue to upgrade its capacity to supervise and mitigate financial stability risks, including by modernizing banking regulations, strengthening banking supervision, and continuing to address AML/CFT deficiencies in line with Fund TA.

45. Fiscal consolidation would buttress macro stability and fiscal sustainability. A deficit target of one percent of GDP would be an appropriate medium-term fiscal anchor: it is about the maximum that can be financed from non-inflationary domestic sources and would generate a gradual decline in the debt ratio. While exchange rate liberalization would substantially increase fiscal revenues, broadening the tax base and strengthening revenue administration are also important and would strengthen governance, transparency and accountability. Stronger public financial management and publication of comprehensive fiscal data would improve governance.

46. Additional measures are needed to ensure credible fiscal consolidation in 2020. The 2020 budget incorporates optimistic revenue projections and large expenditure increases. Intensified efforts to build public support for commencing energy subsidy reforms and mobilize additional revenue will be key for successful consolidation.

47. Phasing out fuel subsidies over the medium term is crucial for durably reducing the fiscal deficit and its monetization. Strong information and communication efforts and an expanded social safety net will be needed to build public support for energy subsidy reforms ahead of the national conference in March 2020. Moreover, given pervasive economic hardship and recent international experience the reforms should be gradual, and the removal of kerosene and LPG subsidies (which disproportionately benefit the poor) should be backloaded.

48. A major expansion of the social safety net would mitigate adjustment pain and help sustain public support for reforms. While the authorities' preferred temporary Quasi-Universal Basic Income (QUBI) scheme could facilitate a more rapid progress in implementing painful reforms, it would cost $2 billion a year, which would be difficult to finance. Moreover, exiting from the QUBI would likely be politically difficult. Expanding the existing cash transfer scheme to cover 4 million families with a monthly cash benefit of $20 per family (in the range the World Bank considers appropriate) would be significantly less expensive.

49. Unlocking Sudan's private sector development potential is key for higher inclusive growth and competitiveness. This will require crafting measures, with help from the World Bank and IFC, to improve the business environment considerably, drawing also on the IFC's private sector diagnostic to be completed by mid-2020.

50. Sudan remains in debt distress and is eligible for debt relief under the HIPC Initiative. The authorities should continue to engage with international partners to secure comprehensive support for debt relief and strengthen their cooperation with the Fund on policies and payments.

51. Article VIII issues. The authorities note the findings of MCPs and exchange restrictions and expect that these will be removed as plans for exchange rate reforms are finalized and implemented. The authorities are not requesting approval for the exchange restrictions and MCPs (informational annex), and no approval is recommended, as there is no clear timetable for their removal.

52. Staff proposes that the next Article IV consultation take place on the standard 12-month cycle.

Table 1. Sudan: Selected Economic Indicators, 2017–25 1/

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.		Proj.					
Output and prices	(Annual change in percent)								
Real GDP (market prices)	0.7	-2.3	-2.5	-1.2	-0.6	0.4	1.1	1.5	1.5
Nominal GDP (in millions of SDGs)	830,265	1,370,224	2,033,412	3,355,368	5,819,335	10,517,766	19,463,402	36,474,018	68,765,283
Nominal GDP (in $US million) 2/	45,812	35,891	33,609	34,543	35,042	35,609	36,245	36,878	37,521
Consumer prices (period average)	32.4	63.3	51.3	66.4	74.8	80.2	83.2	85.0	85.7
Central government	(In percent of GDP)								
Revenue and grants	7.2	8.9	7.8	6.4	5.6	5.1	4.8	4.7	4.6
Revenue	7.0	8.7	7.4	6.3	5.5	5.0	4.8	4.7	4.6
Tax revenue	5.5	6.7	5.4	4.9	4.5	4.2	4.1	4.0	4.0
Expenditure 3/	13.7	16.7	18.7	21.4	22.6	22.8	23.1	23.3	23.2
Current 3/	13.0	16.2	18.5	19.4	20.6	20.8	21.1	21.3	21.2
Wage bill	3.7	2.4	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Goods and services	1.5	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Subsidies 3/	4.2	9.6	11.8	12.6	14.1	14.5	15.0	15.2	15.2
Transfers	2.3	2.1	1.7	1.8	1.6	1.4	1.4	1.3	1.3
Other current	0.8	0.8	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Capital	0.6	0.5	0.1	2.0	2.0	2.0	2.0	2.0	2.0
Overall balance 3/	-6.5	-7.9	-10.8	-15.0	-16.9	-17.7	-18.3	-18.6	-18.6
Public debt 2/	159.6	185.6	211.7	227.6	242.5	251.4	254.7	256.0	256.7
Monetary sector	(Annual changes in percent)								
Broad money	68.8	111.8	66.8	97.2	120.5	79.5	79.3	86.0	87.7
Balance of payments	(In percent of GDP, unless otherwise indicated)								
Current account balance (cash basis)	-7.2	-8.7	-7.8	-9.2	-8.2	-10.2	-7.7	-6.3	-5.2
External debt	154.5	180.8	198.2	204.3	211.3	209.7	209.8	211.7	213.0
External debt (in billions of US$)	53.9	55.1	56.3	57.5	58.8	58.5	59.0	60.3	61.6
Gross international reserves (in millions of US$)	725.0	852.9	1,203.0	1,101	877	553	249	150	190
In months of next year's imports of G&S	1.1	1.3	1.7	1.5	1.2	0.8	0.3	0.2	0.2
Memorandum items:									
Exchange rate (SDG/US$, end of period)4/	24.0	45.2	71.92	…	…	…	…	…	…
Exchange rate (SDG/US$, period average) 4/	18.1	38.2	60.50	…	…	…	…	…	…
NEER (2007=100, percent change, period average)	-32.44	-52.22	…	…	…	…	…	…	…
REER (2007=100, percent change, period average)	-13.19	-24.45	…	…	…	…	…	…	…

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ The 2020-2025 projection is based on a no-policy measures assumption.

2/ GDP and public debt estimated at the weighted average of the parallel and official exchange rate.

3/ Including implicit subsidies recorded on central bank's balance sheet.

4/ Exchange rate is calcuated as the weighted average of offical and parallel exchange rate.

Table 2. Sudan: Medium-Term Macroeconomic Outlook, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
		Est.	Est.			Proj.			
Output and prices				(Annual change in percent)					
Real GDP (at market prices)	0.7	-2.3	-2.5	-1.2	-0.6	0.4	1.1	1.5	1.5
Consumer prices (end of period)	25.2	72.9	60.2	70.2	78.1	81.8	84.2	85.5	85.9
Consumer prices (period average)	32.4	63.3	51.3	66.4	74.8	80.2	83.2	85.0	85.7
GDP deflator	28.9	68.9	52.2	67.0	74.5	80.0	83.0	84.7	85.7
Investment and savings				(In percent of GDP)					
Gross domestic expenditure	109.0	109.0	110.3	110.9	109.9	109.6	108.4	107.9	107.0
Final consumption	96.0	93.0	94.3	94.9	93.9	93.6	92.4	91.9	91.2
Gross capital formation	13.0	16.0	16.0	16.0	16.0	16.0	16.0	16.0	15.8
Gross Savings	3.5	5.1	5.0	4.3	5.6	6.0	7.5	8.1	8.8
Central government operations									
Revenue and grants	7.2	8.9	7.8	6.4	5.6	5.1	4.8	4.7	4.6
Revenue	7.0	8.7	7.4	6.3	5.5	5.0	4.8	4.7	4.6
Taxes	5.5	6.7	5.4	4.9	4.5	4.2	4.1	4.0	4.0
Expenditure 1/	13.7	16.7	18.7	21.4	22.6	22.8	23.1	23.3	23.2
Current 1/	13.0	16.2	18.5	19.4	20.6	20.8	21.1	21.3	21.2
Wages	3.7	2.4	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Subsidies 1/	4.2	9.6	11.8	12.6	14.1	14.5	15.0	15.2	15.2
Transfers	2.3	2.1	1.7	1.8	1.6	1.4	1.4	1.3	1.3
Capital	0.6	0.5	0.1	2.0	2.0	2.0	2.0	2.0	2.0
Overall balance	-6.5	-7.9	-10.8	-15.0	-16.9	-17.7	-18.3	-18.6	-18.6
Primary balance	-3.3	-2.6	-1.9	-3.7	-4.1	-4.3	-4.4	-4.4	-4.5
Public debt 2/	159.6	185.6	211.7	227.6	242.5	251.4	254.7	256.0	256.7
Monetary sector				(Annual change in percent, unless otherwise indicated)					
Broad money	68.8	111.8	66.8	97.2	120.5	79.5	79.3	86.0	87.7
Reserve money	63.8	170.5	76.5	122.7	101.0	80.8	80.6	87.4	89.2
Credit to the private sector	38.4	69.3	90.3	71.5	37.5	38.2	38.7	39.1	39.3
Broad money (percent of GDP)	24.5	31.4	35.3	42.2	53.7	53.3	51.7	51.3	51.1
Net claims on government (percent of GDP)	12.5	16.4	21.0	28.5	33.9	37.2	39.1	40.1	40.6
Credit to the private sector (percent of GDP)	8.8	9.0	11.5	12.0	9.5	7.3	5.4	4.0	3.0
External sector				(In percent of GDP, unless otherwise indicated)					
Exports of goods (in US$, annual percent change)	32.5	-15.0	-7.6	0.7	12.0	3.9	7.7	4.0	2.8
Imports of goods (in US$, annual percent change)	9.9	-14.1	-3.0	4.0	2.6	1.7	-0.2	0.8	-1.3
Merchandise trade balance	-8.6	-9.0	-10.3	-10.9	-9.9	-9.6	-8.4	-7.9	-7.0
Current account balance (cash basis)	-7.2	-8.7	-7.8	-9.2	-8.2	-10.2	-7.7	-6.3	-5.2
External debt 2/	154.5	180.8	198.2	204.3	211.3	209.7	209.8	211.7	213.0
External debt (in billions of US$)	53.9	55.1	56.3	57.5	58.8	58.5	59.0	60.3	61.6
Gross international reserves (in millions of US$)	725	853	1,203	1,101	877	553	249	150	190
In months of next year's imports of G&S	1.1	1.3	1.7	1.5	1.2	0.8	0.3	0.2	0.2
Memorandum items:									
Nominal GDP (in billions of SDG)	830.3	1,370.2	2,033.4	3,355.4	5,819.3	10,517.8	19,463.4	36,474.0	68,765.3
Exchange rate (SDG/US$, weighted average)	18.1	38.2	60.5	...	...	...	...	...	...
NEER (2007=100, percent change, period average)	-32.4	-52.2	...	...	...	...	...	...	...
REER (2007=100, percent change, period average)	-13.2	-24.5	...	...	...	...	...	...	...

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Including implicit subsidies recorded on central bank's balance sheet.

2/ GDP estimated at the weighted average of the parallel and official exchange rate.

Table 3a. Sudan: Balance of Payments, 2017–25
(In millions of U.S. dollars)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
Current account balance	-4,611	-4,679	-4,030	-4,602	-4,280	-4,896	-4,161	-3,740	-3,377
Current account balance (cash basis)	-3,297	-3,118	-2,621	-3,192	-2,870	-3,627	-2,806	-2,325	-1,962
Trade balance	-3,935	-3,242	-3,463	-3,759	-3,471	-3,433	-3,041	-2,898	-2,632
Oil	1,235	1,417	1,281	1,294	1,302	1,315	1,314	1,325	1,312
Non-oil	-5,171	-4,658	-4,744	-5,053	-4,773	-4,748	-4,355	-4,223	-3,945
Exports, f.o.b.	4,100	3,485	3,219	3,241	3,629	3,772	4,062	4,224	4,341
Oil	417	520	373	350	334	330	331	334	334
Non-oil	3,683	2,965	2,846	2,891	3,295	3,442	3,731	3,890	4,006
Of which: Gold	1,559	832	711	810	857	895	933	972	1,002
Imports, f.o.b.	8,220	7,065	6,854	7,131	7,315	7,441	7,430	7,487	7,391
Oil	818	897	907	944	968	985	983	991	978
Non-oil	7,402	6,168	5,947	6,187	6,347	6,456	6,446	6,496	6,413
Services (net)	185	339	172	130	216	237	327	366	418
Receipts	1,780	1,511	1,382	1,389	1,506	1,550	1,638	1,687	1,723
Payments	1,595	1,172	1,210	1,258	1,291	1,313	1,311	1,321	1,304
Primary income (net)	-1,651	-1,812	-1,530	-1,620	-1,609	-2,079	-1,798	-1,605	-1,609
Receipts	4	127	404	404	404	404	404	404	404
Payments	1,655	1,939	1,647	1,703	1,717	2,182	1,896	1,708	1,710
Of which: Public interest due	1,351	1,596	1,444	1,444	1,444	1,444	1,444	1,444	1,444
Secondary income (net)	975	375	963	778	799	616	678	763	863
Private	538	24	155	236	271	371	432	517	618
Official	437	351	835	569	555	273	273	273	273
Capital account	152	163	174	200	200	200	200	200	200
Financial account (net)	-3,401	-2,981	-3,646	-4,402	-4,080	-4,696	-3,961	-3,540	-3,177
Direct Investment (net)	-1,065	-1,136	-1,013	-1,176	-1,206	-1,227	-1,225	-1,235	-1,219
Portfolio Investment (net)	22	-3	-3	-3	-3	-4	-4	-4	-4
Other investment (net)	-2,335	-1,822	-2,980	-3,121	-2,646	-3,141	-2,428	-2,201	-1,995
Reserve assets	-23	-21	350	-102	-224	-324	-304	-99	40
Overall balance	-1,059	-1,534	-209	0	0	0	0	0	0
Errors and omissions	1,059	1,534	209	0	0	0	0	0	0
Memorendum items:									
Terms of trade (annual percentage change)	15.8	-3.2	7.3	6.7	-1.1	-1.1	-2.1	-2.1	-2.1
Import prices	2.4	6.5	-1.6	0.4	2.3	2.2	2.1	2.2	2.2
Export prices	18.5	3.1	3.8	5.0	0.8	0.6	0.7	0.8	0.8
Terms of trade (Index, base year=2000)	225.5	218.3	234.3	250.0	247.3	244.6	239.5	234.4	229.5
Import prices	137.2	146.1	143.8	144.3	147.6	150.8	154.0	157.4	160.9
Export prices	309.3	318.9	331.1	347.5	350.2	352.4	354.7	357.4	360.2
External debt (US $, million)	53,857	55,084	56,311	57,546	58,774	58,475	59,049	60,331	61,623
External debt (percent of GDP)	154.5	180.8	198.2	204.3	211.3	209.7	209.8	211.7	213.0
Arrears:	46,547	48,128	49,702	51,279	52,859	54,441	56,027	57,616	59,209
Of which: IMF	1,366	1,341	1,347	1,350	1,352	1,354	1,356	1,359	1,359
Interest		1,596	1,444	1,444	1,444	1,444	1,444	1,444	1,444
Gross International reserves (US$, million)	725	853	1,203	1,101	877	553	249	150	190
Imports coverage (in months)	1.1	1.3	1.7	1.5	1.2	0.8	0.3	0.2	0.2
Nominal GDP (US$, million)	45,812	35,891	33,609	34,543	35,042	35,609	36,245	36,878	37,521

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 3b. Sudan: Balance of Payments, 2017–25
(In percent of GDP)

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.	Proj.					
Current account balance	-10.1	-13.0	-12.0	-13.3	-12.2	-13.7	-11.5	-10.1	-9.0
Current account balance (cash basis)	-7.2	-8.7	-7.8	-9.2	-8.2	-10.2	-7.7	-6.3	-5.2
Trade balance	-8.6	-9.0	-10.3	-10.9	-9.9	-9.6	-8.4	-7.9	-7.0
Oil	2.7	3.9	3.8	3.7	3.7	3.7	3.6	3.6	3.5
Non-oil	-11.3	-13.0	-14.1	-14.6	-13.6	-13.3	-12.0	-11.5	-10.5
Exports, f.o.b.	9.0	9.7	9.6	9.4	10.4	10.6	11.2	11.5	11.6
Oil	0.9	1.4	1.1	1.0	1.0	0.9	0.9	0.9	0.9
Non-oil	8.0	8.3	8.5	8.4	9.4	9.7	10.3	10.5	10.7
Of which: Gold	3.4	2.3	2.1	2.3	2.4	2.5	2.6	2.6	2.7
Imports, f.o.b.	17.9	19.7	20.4	20.6	20.9	20.9	20.5	20.3	19.7
Oil	1.8	2.5	2.7	2.7	2.8	2.8	2.7	2.7	2.6
Non-oil	16.2	17.2	17.7	17.9	18.1	18.1	17.8	17.6	17.1
Services (net)	0.4	0.9	0.5	0.4	0.6	0.7	0.9	1.0	1.1
Primary income (net)	-3.6	-5.0	-4.6	-4.7	-4.6	-5.8	-5.0	-4.4	-4.3
Receipts	0.0	0.4	1.2	1.2	1.2	1.1	1.1	1.1	1.1
Payments	3.6	5.4	4.9	4.9	4.9	6.1	5.2	4.6	4.6
Secondary income (net)	2.1	1.0	2.9	2.3	2.3	1.7	1.9	2.1	2.3
Private	1.2	0.1	0.5	0.7	0.8	1.0	1.2	1.4	1.6
Official	1.0	1.0	2.5	1.6	1.6	0.8	0.8	0.7	0.7
Capital account	0.3	0.5	0.5	0.6	0.6	0.6	0.6	0.5	0.5
Financial account (net)	-7.4	-8.3	-10.8	-12.7	-11.6	-13.2	-10.9	-9.6	-8.5
Direct Investment (net)	-2.3	-3.2	-3.0	-3.4	-3.4	-3.4	-3.4	-3.3	-3.2
Portfolio Investment (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-5.1	-5.1	-8.9	-9.0	-7.6	-8.8	-6.7	-6.0	-5.3
Reserve assets	-0.1	-0.1	1.0	-0.3	-0.6	-0.9	-0.8	-0.3	0.1
Overall balance	-2.3	-4.3	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Errors and omission	2.3	4.3	0.6	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 4a. Sudan: Central Government Operations, 2017–25
(In billions of Sudanese pounds)

	2017	2018	2019	2020		2021	2022	2023	2024	2025
			Est.	Budget.	Proj.			Proj.		
Revenue and grants	**59.8**	**121.4**	**159.2**	**568.3**	**216.2**	**328.0**	**536.3**	**941.3**	**1,710.3**	**3,167.1**
Revenue	58.1	119.3	149.8	412.3	210.8	322.6	530.9	935.9	1,705.0	3,161.7
Of which: Nonoil revenue	51.9	103.9	125.6	304.1	187.2	299.8	513.3	918.3	1,687.2	3,143.9
Taxes	45.3	92.4	110.5	158.9	163.7	261.5	447.0	799.1	1,468.9	2,739.5
Goods and services	30.4	68.2	82.4	113.7	129.2	215.9	381.0	694.8	1,291.7	2,424.5
International trade and transactions	10.7	17.4	19.4	26.0	20.2	20.7	21.0	21.0	21.2	20.9
Income, profits, property and others	4.3	6.8	8.7	19.2	14.4	24.9	45.0	83.3	156.0	294.1
Oil revenue	6.2	15.4	24.2	108.2	23.6	22.8	17.6	17.6	17.8	17.8
Other revenue	6.1	9.1	12.7	145.0	20.7	35.6	63.7	116.5	215.6	401.7
Property income	3.2	5.8	8.9	29.7	14.6	25.0	44.7	81.9	151.8	283.0
Administrative fees	2.0	3.2	3.7	5.3	6.1	10.4	18.7	34.2	63.4	118.2
Others				110.0						
Grants	1.7	2.1	9.4	156.0	5.4	5.4	5.4	5.4	5.4	5.4
Total expenditure 2/	**113.5**	**229.3**	**379.7**	**642.4**	**718.5**	**1,313.1**	**2,399.1**	**4,499.9**	**8,485.9**	**15,986.6**
Expense (current expenditure) 2/	108.2	222.3	376.8	584.4	651.4	1,196.7	2,188.7	4,110.6	7,756.4	14,611.3
Wages	30.4	32.8	58.4	131.1	96.3	167.1	301.9	558.8	1,047.1	1,974.1
Goods and services	12.4	16.1	20.7	35.0	34.2	59.3	107.2	198.3	371.6	700.6
Interest	4.1	3.2	3.6	10.0	9.7	9.7	12.2	10.7	9.6	9.6
Foreign	0.2	0.0	0.4	6.0	0.6	0.6	3.2	1.6	0.5	0.5
Domestic	3.9	3.2	3.1	4.0	9.0	9.1	9.1	9.1	9.1	9.1
Subsidies 2/	35.0	130.9	240.7	255.4	421.4	818.3	1,526.2	2,911.2	5,534.5	10,447.2
of which: Fuel	18.0	114.4	214.8	…	363.0	637.3	1,188.9	2,281.5	4,357.0	8,246.2
Transfers	19.4	28.1	35.1	105.9	60.8	92.2	150.8	264.7	480.9	890.5
Other current	6.9	11.3	18.3	47.0	29.0	50.1	90.4	167.0	312.7	589.3
Of which: Social spending	5.2	10.5	15.0	45.0	23.6	40.7	73.3	135.5	253.6	477.8
Net acquisition of nonfinancial assets	5.3	7.0	2.9	58.0	67.1	116.4	210.4	389.3	729.5	1,375.3
Overall balance 2/	**-53.7**	**-107.9**	**-220.1**	**-74.1**	**-502.3**	**-985.1**	**-1,862.8**	**-3,558.6**	**-6,775.5**	**-12,819.5**
Primary balance 1/ 2/	-49.6	-104.7	-216.5	-64.1	-492.7	-975.5	-1,850.5	-3,547.9	-6,765.9	-12,809.9
Financing	**53.7**	**107.9**	**220.1**	**74.1**	**502.3**	**985.1**	**1,862.8**	**3,558.6**	**6,775.5**	**12,819.5**
Foreign financing	-0.3	3.4	1.6	24.0	3.4	5.8	10.5	19.5	36.5	68.8
Disbursements	0.8	3.9	5.6	34.0	3.4	5.8	10.5	19.5	36.5	68.8
Principal repayments	1.1	0.5	4.0	10.0	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	54.0	104.5	218.4	50.1	499.0	979.3	1,852.3	3,539.1	6,739.1	12,750.8
CBOS	43.3	79.5	200.9	70.9	492.3	967.7	1,831.2	3,500.2	6,666.1	12,613.2
Commercial banks	5.1	3.4	0.4	…	6.7	11.6	21.0	38.9	72.9	137.5
Nonbanks	2.7	16.1	11.2	-19.8	0.0	0.0	0.0	0.0	0.0	0.0
Change in net domestic arrears	2.9	5.5	6.0	-1.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Nominal GDP (SDG in billion)	830.3	1,370.2	2,033.4	2,079.6	3,355.4	5,819.3	10,517.8	19,463.4	36,474.0	68,765.3
Public debt	1,325	2,543	4,305	…	7,638	14,110	26,437	49,572	93,367	176,516
External	1,252	2,412	3,924	…	6,683	11,996	21,509	39,816	75,276	142,788
Domestic 3/	73.3	131.5	380.8	…	955.0	2,113.5	4,927.4	9,755.8	18,091.2	33,787.0

Sources: Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Primary balance minus oil revenue.

2/ Including implicit subsidies recorded on central bank's balance sheet.

3/ Staff estimates and projections.

Table 4b. Sudan: Central Government Operations, 2017–25
(In percent of GDP)

	2017	2018	2019	2020		2021	2022	2023	2024	2025
			Est.	Budget	Proj.			Proj.		
Revenue and grants	**7.2**	**8.9**	**7.8**	**16.9**	**6.4**	**5.6**	**5.1**	**4.8**	**4.7**	**4.6**
Revenue	7.0	8.7	7.4	12.3	6.3	5.5	5.0	4.8	4.7	4.6
Of which: Nonoil revenue	6.3	7.6	6.2	9.1	5.6	5.2	4.9	4.7	4.6	4.6
Taxes	5.5	6.7	5.4	4.7	4.9	4.5	4.2	4.1	4.0	4.0
Goods and services	3.7	5.0	4.1	3.4	3.9	3.7	3.6	3.6	3.5	3.5
International trade and transactions	1.3	1.3	1.0	0.8	0.6	0.4	0.2	0.1	0.1	0.0
Income, profits, property and others	0.5	0.5	0.4	0.6	0.4	0.4	0.4	0.4	0.4	0.4
Oil revenue	0.7	1.1	1.2	3.2	0.7	0.4	0.2	0.1	0.0	0.0
Other revenue	0.7	0.7	0.6	4.3	0.6	0.6	0.6	0.6	0.6	0.6
Property income	0.4	0.4	0.4	0.9	0.4	0.4	0.4	0.4	0.4	0.4
Administrative fees	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Others				3.3						
Grants	0.2	0.2	0.5	4.6	0.2	0.1	0.1	0.0	0.0	0.0
Total expenditure 1/	**13.7**	**16.7**	**18.7**	**19.1**	**21.4**	**22.6**	**22.8**	**23.1**	**23.3**	**23.2**
Expense (current expenditure) 1/	13.0	16.2	18.5	17.4	19.4	20.6	20.8	21.1	21.3	21.2
Wages	3.7	2.4	2.9	3.9	2.9	2.9	2.9	2.9	2.9	2.9
Goods and services	1.5	1.2	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Interest	0.5	0.2	0.2	0.3	0.3	0.2	0.1	0.1	0.0	0.0
Foreign	0.0	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Domestic	0.5	0.2	0.2	0.1	0.3	0.2	0.1	0.0	0.0	0.0
Subsidies 2/	4.2	9.6	11.8	7.6	12.6	14.1	14.5	15.0	15.2	15.2
of which: Fuel	2.2	8.4	10.6	...	10.8	11.0	11.3	11.7	11.9	12.0
Transfers	2.3	2.1	1.7	3.2	1.8	1.6	1.4	1.4	1.3	1.3
Other current	0.8	0.8	0.9	1.4	0.9	0.9	0.9	0.9	0.9	0.9
Of which: Social spending	0.6	0.8	0.7	1.3	0.7	0.7	0.7	0.7	0.7	0.7
Net acquisition of nonfinancial assets (capital exp.)	0.6	0.5	0.1	1.7	2.0	2.0	2.0	2.0	2.0	2.0
Overall balance 1/	**-6.5**	**-7.9**	**-10.8**	**-2.2**	**-15.0**	**-16.9**	**-17.7**	**-18.3**	**-18.6**	**-18.6**
Primary balance	-6.0	-7.6	-10.6	-1.9	-14.7	-16.8	-17.6	-18.2	-18.5	-18.6
Financing	**6.5**	**7.9**	**10.8**	**2.2**	**15.0**	**16.9**	**17.7**	**18.3**	**18.6**	**18.6**
Foreign financing	0.0	0.3	0.1	0.7	0.1	0.1	0.1	0.1	0.1	0.1
Disbursements	0.1	0.3	0.3	1.0	0.1	0.1	0.1	0.1	0.1	0.1
Principal repayments	0.1	0.0	0.2	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Domestic financing	6.5	7.6	10.7	1.5	14.9	16.8	17.6	18.2	18.5	18.5
CBOS	5.2	5.8	9.9	2.1	14.7	16.6	17.4	18.0	18.3	18.3
Commercial banks	0.6	0.2	0.0	...	0.2	0.2	0.2	0.2	0.2	0.2
Nonbanks	0.3	1.2	0.5	-0.6	0.0	0.0	0.0	0.0	0.0	0.0
Change in net domestic arrears	0.4	0.4	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:										
Public debt	159.6	185.6	211.7	...	227.6	242.5	251.4	254.7	256.0	256.7
Of which: External	150.8	176.0	193.0	...	199.2	206.1	204.5	204.6	206.4	207.6
Domestic 2/	8.8	9.6	18.7	...	28.5	36.3	46.8	50.1	49.6	49.1

Sources: Ministry of Finance and Economic Planning; and IMF staff estimates and projections.
1/ Including implicit subsidies recorded on central bank's balance sheet.
2/ Staff estimates and projections.

Table 5. Sudan: Monetary Survey, 2014–20

	2014	2015	2016	2017	2018	2019	2020
						Est.	Proj.
				(In million Sudanese Pounds)			
Net foreign assets	-14,326	-28,466	-38,644	-43,008	-304,027	-295,134	-291,171
Central Bank of Sudan	-17,478	-30,387	-40,201	-46,632	-314,393	-311,268	-315,849
Commercial banks	3,152	1,921	1,556	3,624	10,366	16,134	24,678
Net domestic assets	92,043	122,408	159,134	246,375	734,813	1,013,759	1,708,553
Net domestic credit	98,909	115,722	143,761	203,266	386,050	693,788	1,404,502
Net claims on general government (NCGG)	55,617	63,142	78,014	103,652	225,341	427,387	956,291
Central Bank of Sudan	44,987	49,983	62,308	81,395	225,341	392,415	884,685
Commercial banks	10,629	13,159	15,707	22,257	33,829	34,971	71,606
Claims on Nongovernment sectors	43,292	52,581	65,746	99,614	160,710	266,402	448,211
Public enterprises	6,008	9,071	11,736	24,554	33,294	26,000	40,000
Private sector	35,920	41,606	52,561	72,735	123,107	234,285	401,711
Other	1,364	1,903	1,449	2,325	4,308	6,117	6,500
Other items (net)	-6,865	6,686	15,373	43,110	348,763	319,971	304,051
Broad money (M2)	77,717	93,942	120,489	203,368	430,786	718,625	1,417,383
Money	47,981	57,939	77,163	128,462	263,727	503,038	1,020,515
Currency in circulation	23,343	27,495	38,712	61,455	112,832	201,215	408,206
Demand deposits	29,512	35,111	43,440	74,469	182,178	301,823	612,309
Domestic currency	24,638	30,443	38,451	67,007	150,895	249,994	507,164
Foreign currency	4,874	4,668	4,990	7,462	31,283	51,829	105,145
Quasi-money	29,736	36,004	43,327	74,905	167,059	215,588	396,867
Domestic currency	21,146	27,639	34,420	59,840	92,647	119,560	220,094
Foreign currency	8,590	8,364	8,907	15,065	74,412	96,028	176,774
				(Change in percent, end of period)			
Broad money	17	21	28	69	112	67	97
Money	19	21	33	66	105	91	103
Currency in circulation	22	18	41	59	84	78	103
Demand deposits	15	19	24	71	145	66	103
Quasi-money	13	21	20	73	123	29	84
Savings Deposits	14	20	22	72	134	48	95
Domestic currency	15	27	25	74	92	52	97
Foreign currency	95	96	97	98	99	100	101
Net foreign assets	-3	99	36	11	607	-3	-1
Net domestic assets	13	33	30	55	198	38	69
Net claims on government	14	14	24	33	117	90	124
Credit to the nongovernment sectors	15	21	25	52	61	66	68
Claim on public enterprises	50	51	29	109	36	-22	54
Claim on private sector	9	16	26	38	69	90	71
				(In percent)			
Broad money to GDP	18	18	19	24	31	35	42
Money to broad money	62	62	64	63	61	70	70
Currency in circulation to M2	30	29	32	30	26	28	29
Private sector deposits to M2	55	56	57	58	59	60	60
Net claims on government to GDP	13	12	12	12	16	21	29
Credit to the economy to GDP	10	10	10	12	12	13	12
Velocity (GDP/M2, eop)	6	5	5	4	3	3	3
Foreign currency deposits to M2	17	14	12	11	25	21	20
Money multiplier (M2/reserve money, eop)	1.8	1.8	1.8	1.9	1.5	1.4	1

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 6. Sudan: Summary Accounts of the Central Bank of Sudan, 2014–20

	2014	2015	2016	2017	2018	2019	2020
						Est.	Proj.
	(In millions of Sudanese pounds)						
Net foreign assets	-17,478	-30,387	-40,201	-46,632	-314,393	-311,268	-315,849
Foreign assets	9,009	6,398	6,103	6,838	52,115	68,519	63,938
Of which : Gross international reserve	7,642	5,053	4,583	5,073	40,511	56,266	51,685
SDR holdings	1,063	1,054	1,103	1,214	8,222	7,790	7,790
Foreign liabilities	26,487	36,785	46,304	53,469	366,509	379,787	379,787
Of which : Short-term foreign liabilities	1,722	2,436	4,448	5,335	35,552	45,559	45,559
Net domestic assets	59,822	82,250	105,814	154,129	605,200	824,572	1,458,899
Net domestic credit	52,922	62,118	74,332	99,526	216,111	422,040	914,310
Net claims on general government (NCGG)	44,987	49,983	62,308	81,395	191,512	392,415	884,685
Claims on public enterprises	894	1,170	1,400	1,480	4,707	4,621	4,621
Claims on banks	7,041	10,965	10,625	16,651	19,892	25,003	25,003
Other items (net)	6,900	20,132	31,482	54,603	389,089	407,153	549,211
Reserve money	42,344	51,864	65,613	107,497	290,806	513,304	1,143,050
Currency outside banks	25,060	29,340	40,904	65,241	113,922	218,372	579,777
Reserves of commercial banks	16,089	19,143	21,623	38,990	161,214	80,980	333,470
Required reserves	4,509	5,244	6,164	11,427	25,588	46,666	65,467
Excess reserves	11,568	13,886	15,445	27,549	135,528	28,006	70,144
Cash in vault	1,717	1,845	2,192	3,786	1,089	17,157	45,000
Excess reserves	9,851	12,041	13,253	23,763	134,438	10,848	25,144
Deposits at CBOS included in broad money	1,196	3,380	3,086	3,266	15,671	213,952	229,803
	(Change in percent, end of period)						
Net foreign assets	0.0	-73.9	-32.3	-16.0	-574.2	1.0	-0.5
Foreign assets	-5.1	-29.0	-4.6	12.0	662.2	31.5	22.7
Gross international reserve	-5.4	-33.9	-9.3	10.7	698.5	38.9	27.6
Foreign liabilities	-1.8	38.9	25.9	15.5	585.5	3.6	3.6
Net domestic assets	10.8	37.5	28.6	45.7	292.7	36.2	141.1
Net domestic credit	14.4	17.4	19.7	33.9	117.1	95.3	323.1
Net claims on general government	11.6	11.1	24.7	30.6	135.3	104.9	361.9
Other items (net)	-10.7	191.8	56.4	73.4	612.6	4.6	41.2
Reserve money	16.0	22.5	26.5	63.8	170.5	76.5	122.7
Memorandum items:							
Gross international reserves (in millions of US$)	1,283	832	697	725	853	1,203	1,101

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 7. Sudan: Summary Accounts of the Commercial Banks, 2014–20

	2014	2015	2016	2017	2018	2019	2020
						Est.	Proj.
	(In millions of Sudanese pounds)						
Net foreign assets	3,152	1,921	1,556	3,624	10,366	16,134	24,678
Foreign assets	5,149	3,859	3,724	6,747	28,138	34,654	45,051
Foreign liabilities	1,997	1,937	2,168	3,123	17,772	18,520	20,372
Net domestic assets	52,877	65,471	79,847	142,959	302,381	287,325	754,695
Reserves	18,891	21,819	26,320	48,974	181,609	91,829	307,182
Cash in vaults	1,717	1,845	2,192	3,786	1,089	17,157	171,571
Required reserves	4,509	5,244	6,164	11,427	25,588	46,666	65,467
Other reserves	9,851	12,041	13,253	23,763	22,670	28,006	70,144
Net claims on central government	8,707	11,113	12,365	17,463	22,128	23,052	56,606
Claims on state & local government	1,923	2,046	3,342	4,794	11,701	11,919	15,000
Claims on non-government sectors	42,398	51,410	64,347	98,134	156,002	259,351	456,531
Non-bank financial institutions	1,364	1,903	1,449	2,325	4,308	6,117	6,500
Other items, net	-19,041	-20,917	-26,526	-26,406	-69,058	-98,826	-80,624
Deposits	53,178	63,066	78,691	138,646	302,283	303,459	779,373
Demand deposits	24,258	29,115	37,236	65,436	147,012	87,871	382,506
Domestic currency	19,384	24,448	32,246	57,974	115,729	71,176	309,830
Foreign currency	4,874	4,668	4,990	7,462	31,283	16,695	72,676
Quasi-money deposits (time & saving)	28,920	33,951	41,455	73,210	155,271	215,588	396,867
Domestic currency	20,330	25,587	32,548	58,145	80,859	112,270	206,673
Foreign currency	8,590	8,364	8,907	15,065	74,412	103,318	190,194
Memorandum items:	(In percent)						
Credit to deposits	99.7	102.4	101.7	86.8	62.8	97.0	67.8
Reserves to deposits	35.5	34.6	33.4	35.3	60.1	30.3	39.4
Required reserves to deposits	8.5	8.3	7.8	8.2	8.5	15.4	8.4
Excess reserves to deposits	18.5	19.1	16.8	17.1	7.5	9.2	9.0
Cash to deposits	3.2	2.9	2.8	2.7	0.4	5.7	22.0
Claims on government to reserves	56.3	60.3	59.7	45.4	18.6	38.1	23.3

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

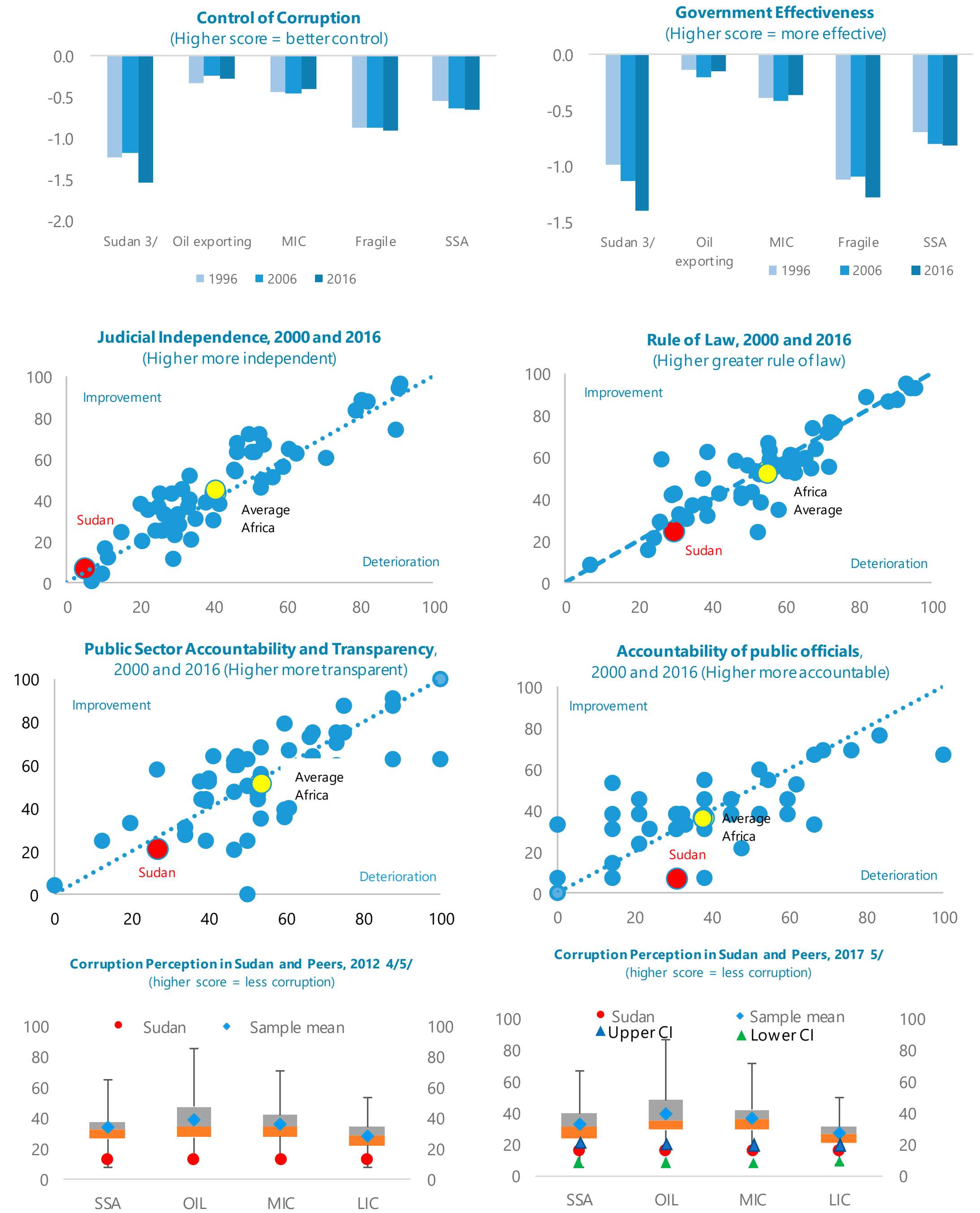
Table 8. Sudan: Financial Soundness Indicators
(In percent)

	2016	2017	2018	2019 1/
Capital Adequacy				
Regulatory capital to risk-weighted assets	18.7	16.2	9.9	14.5
Regulatory Tier I capital to risk-weighted assets	16.2	12.9	7.3	10.0
Asset composition and quality				
Gross NPLs to gross loans	5.2	3.3	3.2	3.3
NPLs net of provisions to core capital	13.0	4.8	8.7	5.4
NPLs net of provisions to gross loans	2.1	0.6	0.7	0.7
Loans' provision to NPLs	60.0	81.3	72.1	78.5
Gross NPLs to gross loans	5.2	3	3.2	3.3
Foreign currency loans to total loans	4.4	3.8	17.9	14.8
Deposits and investment accounts to total assets	63.0	71.5	n.a.	75.6
Foreign currency deposits to total deposits	19.0	18.2	39.9	29.7
Off-balance sheet commitments to total assets	22.6	21.2	n.a.	20.4
Earnings and Profitability				
ROA (before tax)	4.7	3.8	4.9	1.8
ROE(before tax)	46.1	48.0	95.0	27.9
Liquidity				
Cash in vault to total assets	2.1	2.1	1.0	2.2
Liquid assets to total assets	35.1	37.3	51.6	50.2
Liquid assets to total short-term liabilities	88.0	82.2	112.0	107.4

Source: Central Bank of Sudan.

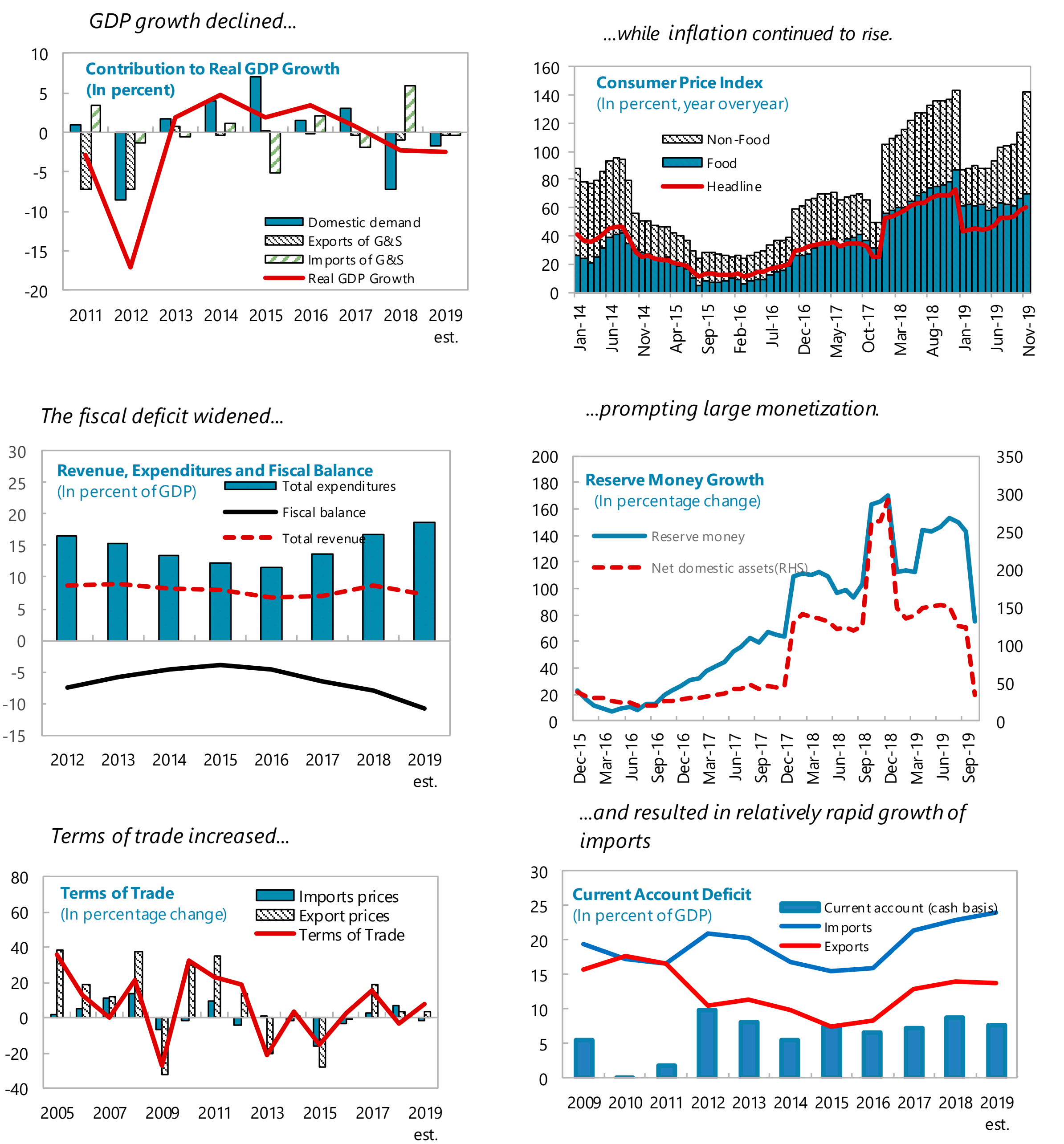
1/ Data for 2019 is up to July.

Figure 1. Sudan: Selected Governance Indicators 1/2/3/



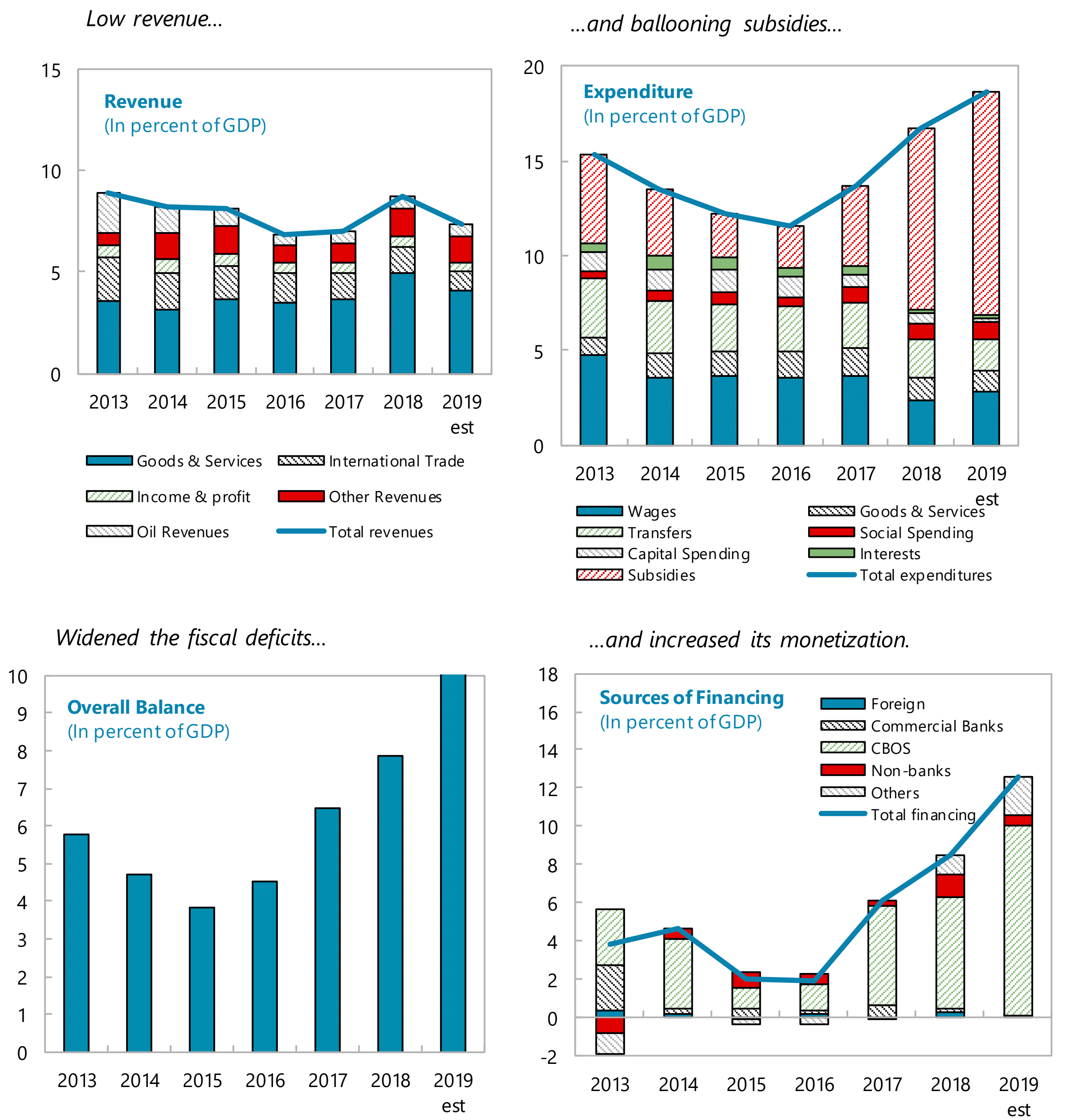
Sources: Worldwide Governance Indicators, D. Kaufmann (Natural Resource Governance Institute and Brookings Institution) and A. Kraay (World Bank), 2017; Ibrahim Index of African Governance, Transparency International, and IMF staff calculations.
1/ Use of these indicators should be considered carefully, as they reflect perceptions-based data.
2/ World Governance Indicator scores are normalized each year to mean zero and hence measure relative performance.
3/The key components of Ibrhim Index of African Governance are classified in four categories, including safety & rule of law, participation & human rights, sustainable economic opportunity and human development. The index provide data for 54 African countries for the year from 2008-2017. Indicators for the index are collected from 35 independent sources, such as UN agencies, the World Bank and African Development Bank, data projects, and surveys. Therefore, it also includes perceptions-based data.
4/ Confidence interval is not available.
5/ The gray and orange bars represent the distance of the 3rd and 1st qunatile from the median of selected groups.

Figure 2. Sudan: Selected Economic Indicators



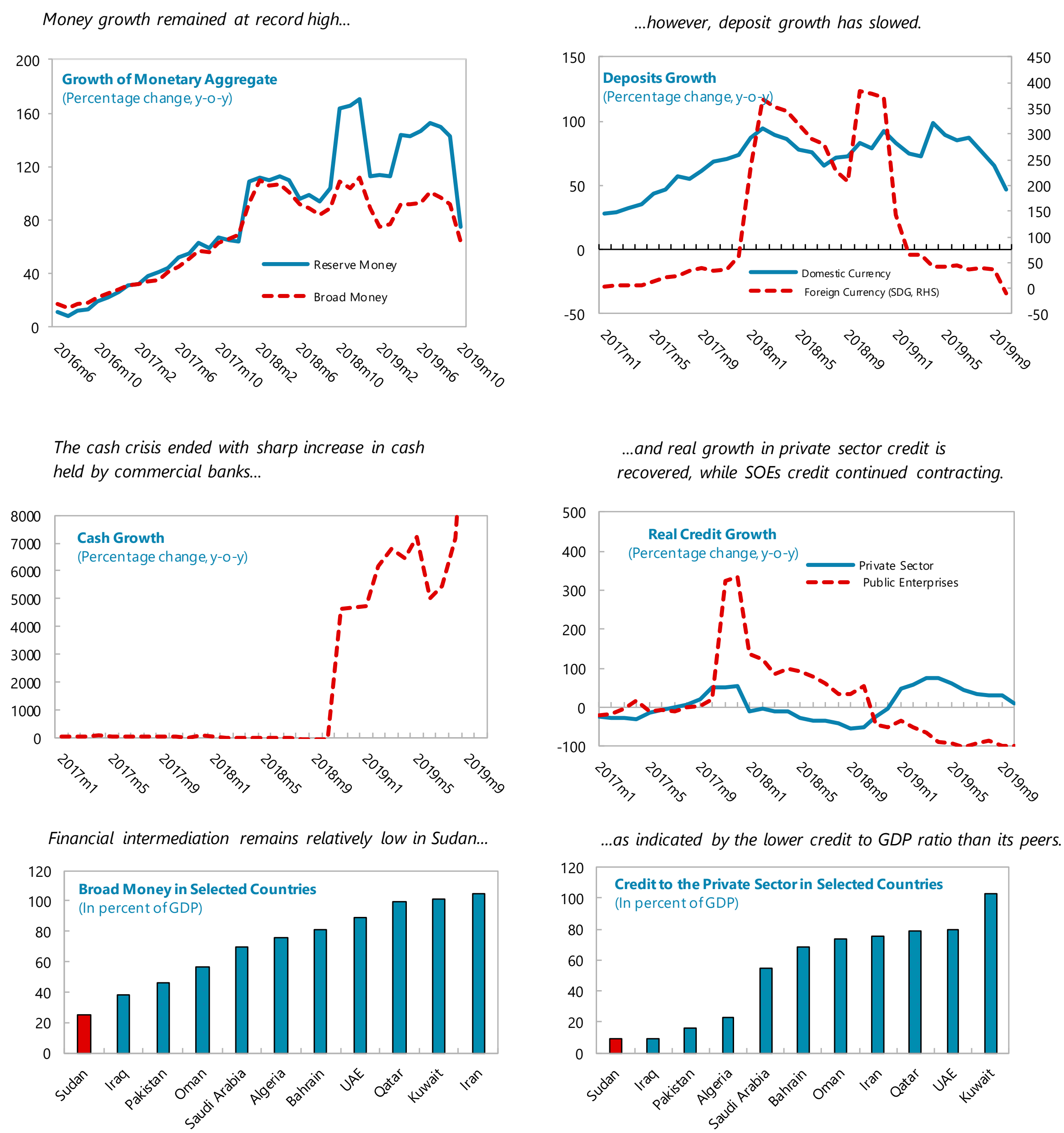
Sources: Sudanese authorities; and IMF staff calculations.

Figure 3. Sudan: Fiscal Sector



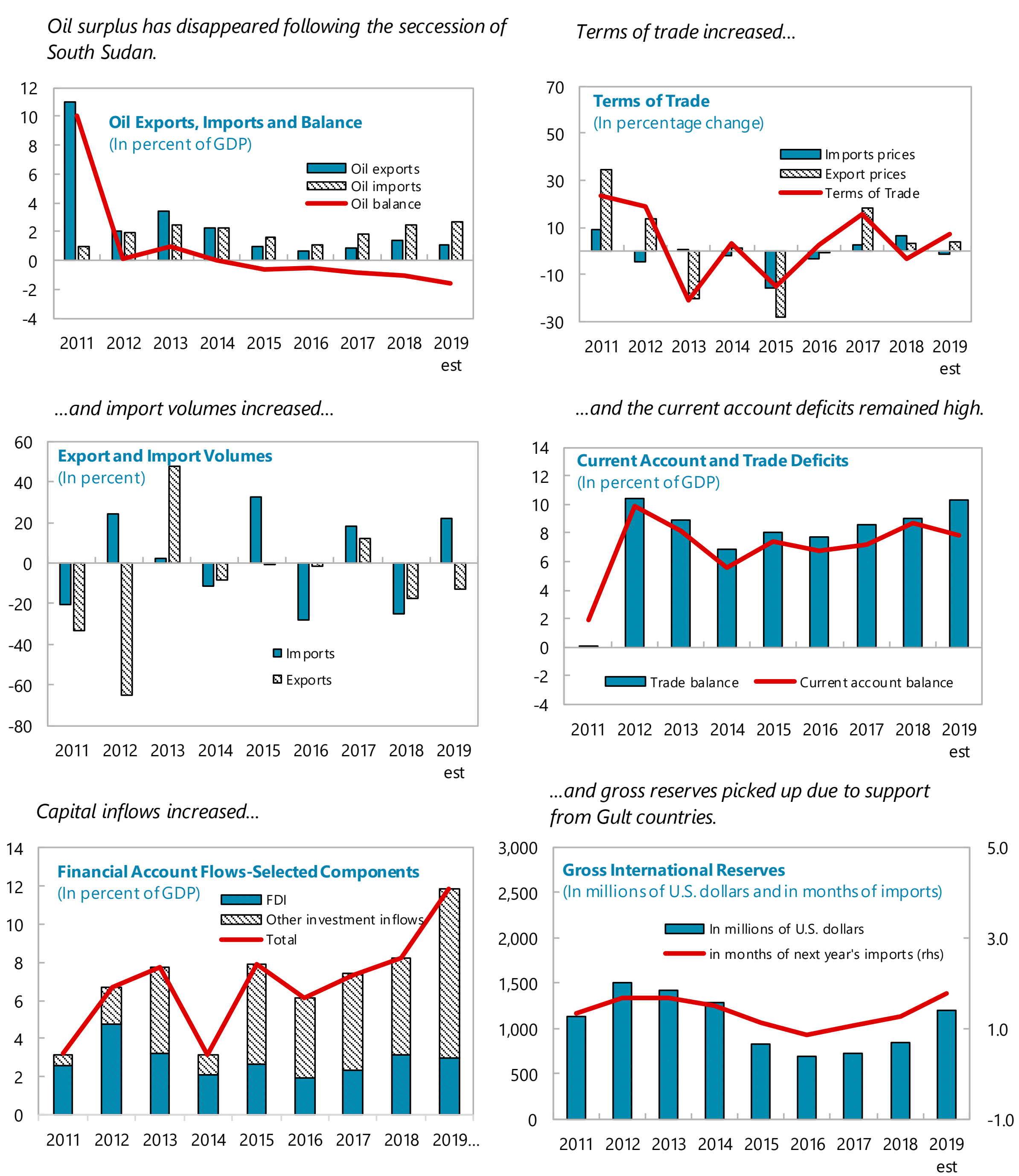
Sources: Sudanese authorities, and IMF Staff estimates.

Figure 4. Sudan: Monetary Sector



Sources: World Economic Outlook, Central Bank of Sudan, and IMF staff calculations.

Figure 5. Sudan: External Sector



Sources: Central Bank of Sudan; and IMF Staff calculations.

Annex I. Risk Assessment Matrix 1/

Source of Risks	Relative/ Likelihood	Impact if Realized	Policy Responses
Global			
1. Weaker-than-expected global growth. Idiosyncratic factors in the U.S (medium risk), Europe (high), China (high), and stressed emerging markets (medium) feed off each other to result in a synchronized and prolonged growth slowdown	***Medium/ High***	***Medium*** Lower exports, FDI and deteriorating external balance. Rising pressure on the exchange rate and reserves. Lower growth.	Greater exchange rate flexibility would help cushion the shock and prevent reserve losses. Fiscal consolidation, focusing on decisive phasing out of energy subsidies and revenue mobilization, to create room for higher social and infrastructure spending while supporting external adjustment.
2. **Intensification of geopolitical tensions and security risks** (e.g., in the Middle East) cause socio-economic and political disruption, disorderly migration, volatile commodity prices, and lower confidence.	***High***	***Medium to High*** Lower remittances and weaker external balance. Lower growth and high inflation.	Strengthen domestic revenue mobilization to increase social safety nets. Governance and structural reforms to boost inclusive growth.
3. Higher energy prices, due to steeper-than-anticipated export declines in some producers, possibly prompted by political disruptions, amid supply bottlenecks.	***Medium***	***Medium to High*** Higher export receipts but more than offset by higher import bill. Rising pressure on the exchange rate, reserves, and fiscal balance via fuel subsidies.	Remove fuel subsidies Greater exchange rate flexibility to reduce external pressures and improve competitiveness.
Regional			
4. Oil production in South Sudan increases following peace agreement	***High***	***High*** Reduction in fiscal and internal imbalances and inflation.	Greater scope to increase exchange rate flexibility and phase out fuel subsidies to boost competitiveness and support fiscal consolidation.
Country Specific			
6. Larger than expected impact of loose policy settings on macro stability	***High***	***High*** Sharp increases in inflation and exchange rate depreciation, potentially undermining social cohesion.	Exchange rate liberalization to boost competitiveness and fiscal revenues. Revenue mobilization. Phase out fuel subsidies to help tighten fiscal and monetary policies
7. Renewed domestic unrest from continued economic hardship	***Medium/ High***	***High*** Political instability and limited reform progress	Careful sequencing. Implementation of painful adjustment measures only after scaling up the SSN and extensive information and communications campaign deployed to secure public support.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). 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 as of the time of discussions with the authorities.

Annex II. Path to Debt Relief

1. **Sudan is eligible for debt relief under the HIPC initiative but has yet to meet all the qualifications.** In particular, it needs to obtain assurances from bilateral official and commercial creditors that they are willing to consider providing debt relief. Progress, however, has been blocked because Sudan remains on the SSTL, which prevents the United States from offering aid (including debt relief) and impedes the reaching of consensus on debt relief in the Paris Club. Sudan currently meets the following conditions for the HIPC initiative:

- Sudan faces an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; and

- It has developed an Interim Poverty Reduction Strategy (I-PRSP) document. Sudan's I-PRSP and the Joint Staff Advisory Note were discussed at the IMF's and World Bank's Executive Boards in September 2013. The Government is implementing the Interim-PRSP and started the process of preparing a full PRSP.

2. **To reach the HIPC Decision Point, Sudan would need to undertake the following:**

- Obtain assurances of support for HIPC debt relief from a large majority of creditors representing at least 70 percent of HIPC-eligible debt;

- Establish with the IMF an adequate track record of strong policy performance in the period leading up to the Decision Point, under an SMP judged by the Executive Board to meet the policy standards associated with upper-credit tranche arrangements; and

- Clear its arrears with the IMF and have a fully-financed plan and a timetable to clear arrears with the World Bank and the African Development Bank to restore its eligibility to borrow from these sources.

3. **The resources required for the IMF's participation in the HIPC Initiative have not yet been identified.** As the costs to the IMF for providing debt relief to Sudan were not included in the original costing estimates for the HIPC Initiative, additional financing will need to be secured when Sudan is ready to clear its arrears and embark on the HIPC Initiative. As of end-December 2019, Sudan's outstanding arrears to the IMF stood at SDR 964.12 million.

Annex III. External Stability Assessment

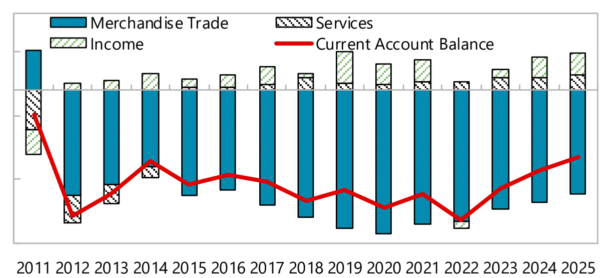
The external position of Sudan in 2019 was substantially weaker than implied by fundamentals. Despite repeated nominal devaluations in 2018 and a depreciating parallel exchange rate, the current account deficit has continued to worsen amid accelerating inflation and weak responses by exports and imports. At the same time, exchange rate restrictions and multiple-currency practices exacerbate economic distortions and undermine export competitiveness. To reduce external imbalances and enhance resilience, the authorities need to tighten fiscal and monetary policies, eliminate deficit monetization, remove multiple exchange rate practices and allow for greater exchange rate flexibility, and undertake urgent structural reforms to improve export competitiveness.

Current Account

Background

1. **The current account deficit (cash basis) decreased to an estimated 7.8 percent of GDP in 2019 from 8.6 percent in 2018.** Grants from friendly countries improved the current account, while the trade balance was broadly the same as in 2018. The trade deficit accounts for most of the current account deficit. The economy is yet to fully adjust to the sharp decline in exports following the loss of three-quarters of its oil production with secession of South Sudan in 2011. In U.S. dollar terms, imports in 2019 are estimated to be lower than 2018 due to suppressed demand, but exports are also lower due to lackluster exports in gold and oil sectors, leaving the trade balance somewhat higher in 2019. The large trade deficit continues to reflect overvalued exchange rates, slow recovery in oil production, and large dependence on imported food.

Current Account Balance (cash basis)
(In percent of GDP)



Source: Central Bank of Sudan and IMF Staff forecasts

Assessment

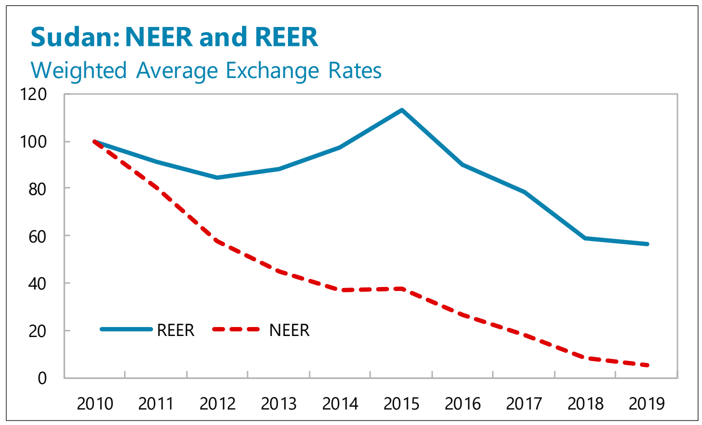
2. **Results from the EBA-lite analysis suggest that Sudan's external position was substantially weaker than implied by fundamentals and desirable policy settings.** In 2019, the model estimates that the cyclically-adjusted current account deficit was 7.8 percent of GDP while the multilaterally-consistent cyclically-adjusted current account norm was -4.3 percent. The underlying CA gap was therefore assessed to be -3.6 percent of GDP, of which -0.6 percent could be explained by deviation of the authorities' current policies from the desirable policies, especially with regards to a large and growing fiscal deficit, less than desired growth in reserves and contracting private credit. The remaining large unexplained portion of the CA gap, however, suggests that the model does not capture well the specific set of external constraints Sudan faces, such as being placed in U.S. State sponsors of terrorism list which is blocking access to external financing, and having arrears to most

of the creditors. The EBA-lite also does not incorporate the structural break caused by the 2011 secession of South Sudan.

Real Effective Exchange Rate

Background

3. In April 2019, the customs rate and the commercial bank rate were revalued. The customs rate was revalued from SDG18/$ to SDG15/$ and commercial bank rate was revalued from SDG47.5/$ to SDG45/$ despite a depreciating parallel exchange rate. Both exchange rates have remained constant thereafter. The budget exchange rate (used for fiscal operations) has remained constant at SDG18/$ while the parallel exchange rate continues to depreciate. Currently, there are five exchange rates: (i) the budget rate (SDG 18/$) for government transactions; (ii) the official central and commercial bank rate for formal private sector transactions (SDG 45/$); (iii) the fuel exchange rate (SDG 6.7/$) for fuel imports; (iv) the customs duty rate (SDR15/$) for the calculation of import duty; and (v) the parallel market rate (SDG 85/$) where all other transactions (about 80 percent of total) take place.



Assessment

4. The EBA-lite Current Account model estimates that, despite pronounced currency depreciation during the year, the REER remains overvalued by 36 percent. The REER overvaluation estimated by the model reflects both Sudan's large current account deficit and relatively low elasticity of the current account to real depreciation—estimated to be -0.1 based on the differences in the estimated elasticities of exports (-0.4) and imports (0.2) weighted by the country's export- and import-to-GDP ratios in 2018 (14 percent and 24 percent, respectively). The low elasticity implies that reducing the current account deficit by 1 percent of GDP requires about 10 percent real depreciation, which in turn implies that 36 percent depreciation in the REER is necessary to close the estimated CA gap of-3.6 percent of GDP. Other indicators also point to overvaluation of REER, including: (i) persistent current account deficit, (ii) remaining large gap between the official and the parallel market exchange rates; (iii) much higher inflation relative to trading partners, while official exchange rates are fixed (iv) low international reserves, and (iii) continued accumulation of external arrears. This REER overvaluation estimate would be even higher if the one-off grants received from the Gulf countries, which resulted in a smaller current account deficit in 2019, are excluded.

Capital and Financial Flows

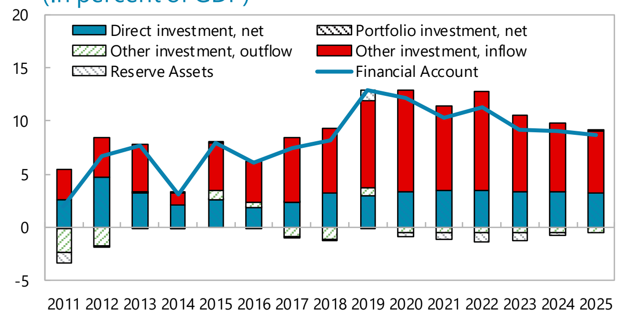
Background

5. **Capital flows in Sudan are dominated by Foreign Direct Investment (FDI) and Other Inflows (averaging around 40 percent and 60 percent, respectively, in 2014–18).** FDI declined to $1 billion in 2019 (3.0 percent of GDP), lower than the $1.1 billion of FDI recorded in 2018. The decrease in FDI was due to sustained social protests in 2019 that constrained investors and economic activity. Other Inflows, mostly to official sectors representing the overdue debt principal and penalty interest payments, increased to $2.7 billion from $2.2 billion in the previous year due to a $500 Million deposit made by Saudi Arabia and UAE in the Central Bank of Sudan Account.

Assessment

6. **The recent easing of U.S. sanctions is unlikely to affect either the level or the composition of capital flows in the short term.** Sudan is yet to be removed from the U.S. list of State Sponsors of Terrorism (SSTL), further limiting the country access to certain external resources. Potentially slow progress on reforms and sizeable external debt and arrears would also be a drag on capital flows.

Capital Flows
(In percent of GDP)



Reserves

Background

7. **Gross international reserves were estimated at $1.2 billion (1.7 months of imports) at end-2019,** a slight increase from $852 million in 2018. The reserves increased after deposits received by the Central Bank of Sudan from Saudi Arabia and the UAE.

Assessment

8. **With the sizeable external imbalances and limited access to external financing, there is little prospect of reserves increasing over the medium term under current policies.** As a result, reserves are projected to remain at about 1 month of imports in the medium term, far below the traditionally recommended minimum of 3 months of imports or the 6–8 months suggested by the IMF's reserve adequacy metric.[1]

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[1] International Monetary Fund, 2013, "Assessing Reserve Adequacy for Low-Income Countries," IMF Policy Paper, November (Washington, D.C.: International Monetary Fund). The optimal reserve level is assessed based on the cost of balance of payments crises, the opportunity cost of holding reserves of ½ percent, and an estimated annual marginal return on capital of 6 percent for Sudan.

EBA-Lite Assessment Results (Percent of GDP)	
CA-Actual	-7.8
Cyclical Contributions (from model)	0.1
Cyclically adjusted CA	-7.9
CA-Norm	-4.7
Cyclically adjusted CA Norm	-4.8
Multilaterally Consistent Cyclically adjusted CA Norm	-4.3
CA-Gap	-3.6
of/which Policy gap	3.5
REER Gap	35.5
CA-Fitted	-0.6
Residual	-7.2
Natural Disasters and Conflicts	0.6

Annex IV. Baseline and Policy Reform Scenarios

1. **The baseline projections (Tables 1–8) are based on the assumption that there are no policy changes implemented over the medium term.** As a result, the fiscal deficit continues to balloon, inflation continues to rise, growth remains negative in the near term, the current account deficit continues to be large, and international reserves become depleted.

2. **While a budget was passed in late December, it gives an incomplete picture of the authorities' policy intentions and is unlikely to be viable in its current form without substantial additional measures.** Notably, (i) planned energy subsidy reforms were removed at the last minute and decisions on that issue deferred to a national conference in March; (ii) plans for establishing a QUBI are not fully incorporated in the budget—which only incorporates the pilot program for 4.5 million persons; and (iii) the budget incorporates very optimistic revenue projections, and there is a significant likelihood that if those revenue expectations do not materialize their planned expenditures will need to be reconsidered. Given these large margins of uncertainty, the 2020 budget numbers were not directly incorporated in the baseline but are shown in a separate column.

3. **Against this background, staff prepared two scenarios—the authorities preferred reform scenario and staff's illustrative reform scenario**—to highlight the differences between the authorities' policy preferences (assuming they can muster sufficient political support and donor financing to fully implement their proposed reform package) and staff recommendations. Key differences between the two scenarios are as follows (Table):

- **Exchange rate policy.** Given the importance of exchange rate reforms for strengthening competitiveness and governance, limiting the scope for corruption, and substantially increasing fiscal revenues, staff recommended that full exchange rate liberalization be completed by the end of 2020. The authorities however expressed a preference for completing exchange rate liberalization by mid-2021—in part reflecting a concern that a more rapid pace in addition to the planned rapid energy subsidy removal might create significant public backlash. At the same the authorities preferred to liberalize all but customs and budget rates in March/April 2020, whereas staff advice was to do this in mid-2020 after key preconditions are met. Moreover, the authorities preferred to use a budget exchange rate of SDG 55/$ throughout 2020—still significantly lower than the parallel rate and thus entailing revenue losses—while staff advice was to liberalize the budget rate together with the other rates in mid-2020, which would boost revenues while minimizing risks of continuation of distortions that could severely undermine the overall reform effort. In both staff and the authorities' scenarios it is envisaged that average tariffs would be cut to 10 percent over the same horizon as customs exchange rate reform to help mitigate its inflationary impact. Finally, staff recommended taking measures to tighten monetary policy and help stabilize the exchange rate in the first three years of reform to minimize the large second round inflationary effects of gradual energy subsidy removal—at the cost of some increase in the REER and reduced growth—whereas the rapid pace of reforms in the authorities' scenario would make this unnecessary in that case.

- **Energy subsidy reform.** Staff recommended gradual removal of subsidies over the medium term. The authorities however preferred a significantly faster pace, with gasoline and diesel subsidies (about 80 percent of the total) eliminated in 2020 and the remainder soon thereafter. Given the enormous gap between domestic retail fuel process and international cost recovery prices, the rapid subsidy removal of the authorities implies much higher inflation in 2020–21 than in staff's scenario. As a result, nominal GDP in the authorities' scenario is also much higher than in staff's scenario.

- **Social safety net.** Staff recommenced expanding the SSN to cover 4 million families (about 60 percent of the population) at $20 per family per month, with a total annual cost of $960 million. The authorities however expressed a preference for a temporary (2½ year) QUBI covering 80 percent of the population at $5 per person, which would cost about $2 billion per year until removed. Once removed, they would transition to a traditional cash transfer scheme covering about 30 percent of the population.

- **Fiscal revenue measures.** The authorities immediate focus was on expanding the tax net to cover security sector owned companies, and notably on the $2 billion contribution expected from these companies in 2020. Beyond that, a comprehensive plan for further widening the tax base had not yet been developed. Staff's scenario envisages additional base-broadening measures over the medium term, including streamlining the tax exemptions embedded in the Investment Law.

- **Fiscal expenditure plans.** On public wages, staff recommendation was for public wages to keep up with inflation. The authorities however preferred a significantly higher increase in 2020 (123 percent), permanently raising the public wage bill by ¾ percent of GDP. With a higher revenue/GDP ratio in staff's scenario, transfers to states (30 percent of total revenues) are also higher. In addition, capital expenditure rises at a faster pace in staff's scenario.

- **External balance.** With a more appreciated REER path in staff's scenario, current account adjustment is also more gradual. International reserves paths in both scenarios are set at three months of imports.

- **Financing gap.** Although the authorities' fiscal deficit in 2020 is somewhat smaller than that of staff (in percent of GDP), and both scenarios target international reserves at three months of imports, the significant differences in nominal GDP and the exchange rate paths imply that the 2020 financing need under the authorities' scenario is substantially higher than that of staff, thus entailing a significantly higher risk that the required financing would not be forthcoming, with destabilizing effects.

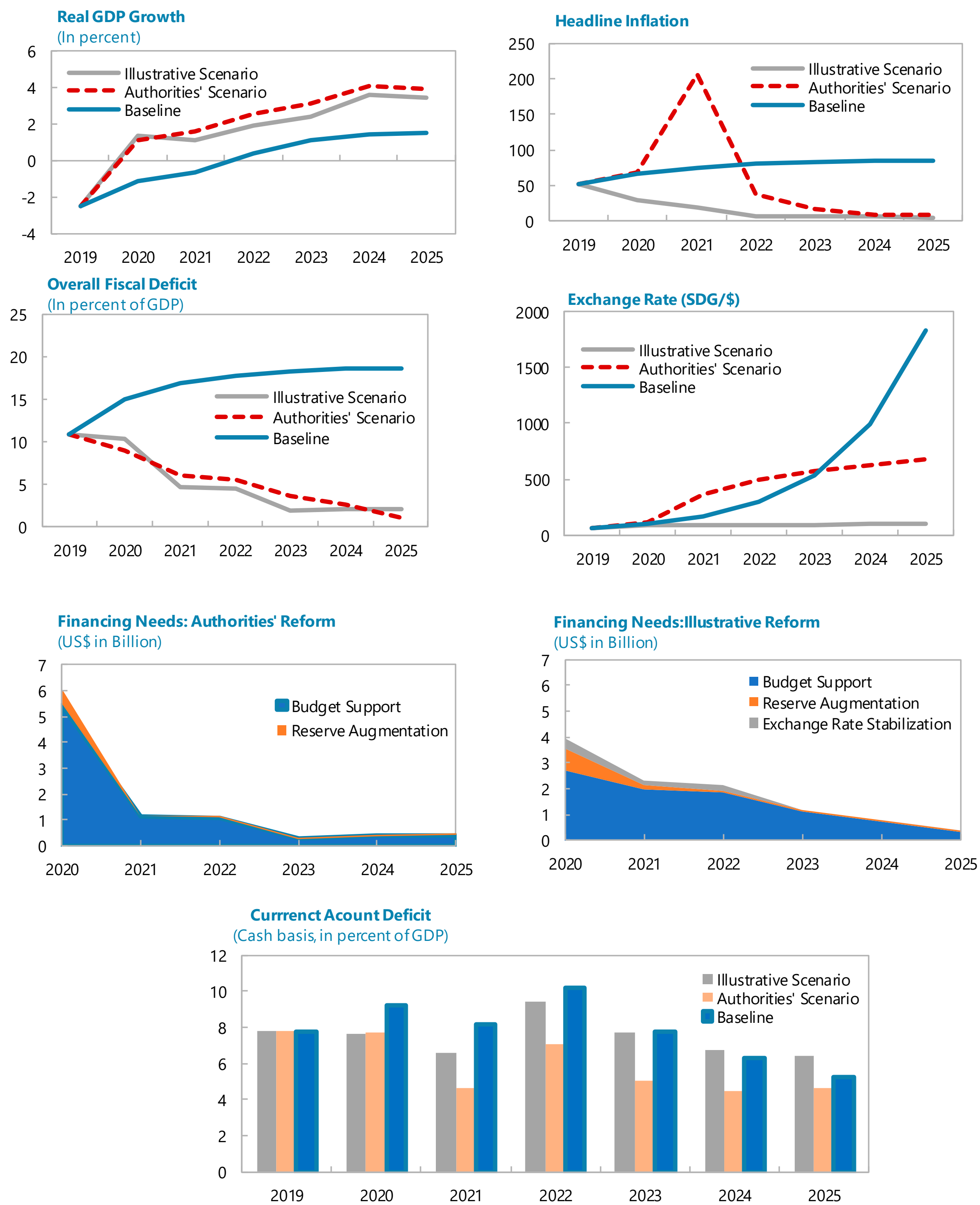
Table 1. Sudan: Reform Scenarios, 2019–25

	Authorities' Prefered Reform Scenario								Staff Illustrative Reform Scenario						
	2019	2020		2021	2022	2023	2024	2025	2019	2020	2021	2022	2023	2024	2025
	Est.	Budget	Proj.			Proj.			Est.			Proj.			
Output and prices						(Annual changes in percent)									
Real GDP (market prices)	-2.5	2.9	1.4	1.4	2.6	3.1	4.0	3.9	-2.5	1.4	1.1	1.9	2.4	3.6	3.4
Nominal GDP (Billions SDG)	2,033	2,080	3,500	10,913	15,332	18,366	20,826	23,412	2,033	2,702	3,244	3,511	3,813	4,175	4,523
Consumer prices (period average)	51.3	30.0	68.6	206.8	37.1	16.3	9.1	8.2	51.3	30.2	19.4	6.5	6.2	5.8	4.8
Central government						(Percent of GDP)									
Revenue and grants	**7.8**	**16.9**	**12.2**	**14.5**	**14.3**	**14.3**	**14.2**	**14.1**	**7.8**	**14.1**	**17.1**	**16.5**	**16.8**	**16.8**	**16.8**
Taxes	5.4	4.7	5.7	8.2	9.1	9.2	9.3	9.3	5.4	8.3	11.9	12.4	12.8	12.9	13.0
Goods and services	4.1	3.4	4.2	5.8	6.2	6.3	6.4	6.5	4.1	6.2	8.3	8.5	8.6	8.7	8.7
International trade and transactions	1.0	0.8	1.0	1.9	2.2	2.3	2.2	2.2	1.0	1.7	2.9	3.0	3.1	3.2	3.2
Others	0.4	0.5	0.4	0.5	0.6	0.6	0.6	0.6	0.4	0.4	0.7	0.9	1.1	1.1	1.1
Oil revenue	1.3	3.2	2.3	4.7	3.6	3.5	3.4	3.3	1.3	4.3	3.7	2.7	2.7	2.6	2.5
Other revenue	0.6	4.3	3.8	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6	0.6
Grants	0.5	4.6	0.5	1.0	1.0	0.9	0.9	0.9	0.5	0.9	0.8	0.7	0.7	0.7	0.7
Total expenditure 1/	**18.7**	**19.1**	**20.6**	**19.6**	**19.2**	**16.6**	**16.7**	**16.6**	**18.7**	**23.0**	**23.2**	**22.1**	**20.5**	**19.4**	**17.8**
Wages	2.9	3.9	3.7	3.7	3.7	3.7	3.7	3.7	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Goods and services	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Interest	0.2	0.3	0.3	0.2	0.6	0.3	0.1	0.1	0.2	0.4	0.4	0.7	0.4	0.3	0.3
Subsidies	11.8	7.6	7.5	1.5	1.4	1.4	1.3	1.3	11.8	10.8	8.5	6.8	5.4	3.4	1.3
Of which: Fuel	10.6	...	5.8	0.0	0.0	0.0	0.0	0.0	10.6	9.5	6.9	5.3	4.0	2.1	0.0
Wheat	1.0	...	1.5	1.4	1.4	1.3	1.3	1.2	1.0	1.1	1.5	1.4	1.4	1.3	1.3
Electricity	0.3	...	0.2	0.1	0.0	0.0	0.0	0.0	0.3	0.2	0.1	0.0	0.0	0.0	0.0
Transfers	1.7	3.2	3.7	4.4	4.3	4.3	4.3	4.2	1.7	4.2	5.1	5.0	5.1	5.1	5.1
Social spending	0.7	1.3	2.5	7.6	5.4	3.1	3.1	3.1	0.7	2.5	3.1	3.1	3.1	3.1	3.1
Net acquisition of nonfinancial assets	0.1	1.7	1.7	1.0	2.5	2.5	3.0	3.0	0.1	1.0	2.0	2.5	2.5	3.5	4.0
Others	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Overall balance 1/	**-10.8**	**-2.2**	**-8.4**	**-5.1**	**-4.9**	**-2.3**	**-2.6**	**-2.5**	**-10.8**	**-9.0**	**-6.1**	**-5.6**	**-3.7**	**-2.6**	**-1.0**
Non Oil Balance	**-12.2**	**-5.4**	**-10.7**	**-9.8**	**-8.5**	**-5.8**	**-6.0**	**-5.8**	**-12.2**	**-13.3**	**-9.9**	**-8.3**	**-6.4**	**-5.2**	**-3.5**
Monetary sector						(Annual changes in percent)									
Broad money	66.8	50.0	73.5	64.9	31.2	18.2	16.1	14.5	66.8	35.9	23.1	11.8	26.2	14.7	14.8
Balance of payments						(In percent of GDP, unless otherwise indicated)									
Current account balance (cash basis)	-7.8	...	-7.7	-4.6	-7.1	-5.0	-4.4	-4.6	-7.8	-7.6	-6.6	-9.4	-7.8	-6.7	-6.5
External debt (in billions of US$)	54.6	...	61.1	58.2	57.9	57.6	58.9	60.2	54.6	59.7	59.2	58.7	58.3	59.1	60.0
Gross international reserves (in millions of US$	1203	...	1788	1829	1882	1934	1988	2044	1203	2061	2243	2302	2357	2411	2466
In months of imports	1.9	...	3.0	3.0	3.0	3.0	3.0	3.0	1.9	3.0	3.0	3.0	3.0	3.0	3.0
External Financing Gap (Millions US$)	...	...	**5,296**	**1,298**	**1,260**	**457**	**573**	**592**	**...**	**3,954**	**2,281**	**2,123**	**1,198**	**762**	**404**
Of which: Budget Support	...	...	4,711	1,256	1,208	404	518	537	...	2,719	1,941	1,879	1,144	708	349
Reserve Augmentation	...	...	585	42	53	52	54	56	...	858	183	59	54	54	55
Exchange Rate Satbilization	...	...								377	158	185	0	0	0
Exchange Rates (Period Averages)															
Parallel Exchange Rate	69.4		116.8	358.3	491.2	571.4	623.7	674.5	69.4	85.4	85.4	85.4	90.3	95.6	100.2
Budget Exchange Rate	18.0	55	55	358.3	491.2	571.4	623.7	674.5	18.0	79.1	85.4	85.4	90.3	95.6	100.2
Official Rate	45.6	…	106.2	358.3	491.2	571.4	623.7	674.5	45.6	75.3	85.4	85.4	90.3	95.6	100.2
Weighted Average	60.5	…	106.9875	358.3	491.2	571.4	623.7	674.5	60.5	83.9	85.4	85.4	90.3	95.6	100.2

Source: Ministry of Finance and IMF Staff estimates.

1/ Including implicit subsidies.

Figure 1. Sudan: Baseline and Reform Scenarios



Source: IMF staff estimates.

INTERNATIONAL MONETARY FUND

SUDAN

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

February 5, 2020

Approved By
Juha Kähkönen (IMF) and Marcello Estevão (IDA)

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

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	*Debt is unsustainable*
Application of judgment	*No*

This debt sustainability analysis (DSA) confirms that Sudan continues to be in debt distress. Both public and external debt ratios remain high, and the bulk of external debt is in arrears. Consistent with the results of past DSAs, Sudan's external debt is assessed to be unsustainable. All external debt indicators breach their indicative thresholds under the baseline scenario, and stay above the thresholds throughout the time horizon of the analysis. It is therefore critical for Sudan to undertake sound economic policies, including a prudent borrowing strategy, and to continue garnering support for debt relief.

BACKGROUND AND RECENT DEVELOPMENTS

1. **Sudan's economy has never fully adjusted to the secession of South Sudan in 2011, which resulted in a sharp decline in its oil exports and fiscal revenues.** Sudan lost about 75 percent of oil production, 66 percent of exports, and half of fiscal revenues after the secession.[1] Despite the U.S. revocation of commercial sanctions in October 2017, Sudan remains on the U.S. list of state sponsors of terrorism, (SSTL), which hinders external investment, progress toward HIPC debt relief and the clearance of large arrears, including to the Fund and the World Bank. The economy is shrinking, fiscal and external imbalances are large, inflation is high, the currency is overvalued, and competitiveness is weak. The humanitarian situation is dire with large numbers of internally displaced people and refugees. The new civilian-led government have shown willingness to reform and stabilize the shrinking economy and re-engage Sudan with the international community, but the social situation remains fragile.

2. **Economic performance deteriorated in 2019.** The economy contracted by 2.5 percent in 2019 after contracting by 2.2 percent in 2018. Inflation rose significantly after currency devaluation and reached 73 percent in end-2018. Following a decline in January 2019 due to base effects, inflation has continued to rise, reaching 60 percent in November 2019, reflecting loose fiscal and monetary policies and exchange rate depreciation. The fiscal deficit continued widening in 2019 to 10.8 percent of GDP, mainly financed through monetization.[2] The external current account deficit (cash basis) remained large at 7.8 percent of GDP in 2019. International reserves however increased to $1.4 billion (2 months of imports) in October 2019 due to support from Gulf countries.

3. **Prospects for debt relief.** Sudan has yet to meet all the requirements for reaching the decision point and qualify for HIPC debt relief. The normalization of relations with external creditors, including multilateral institutions and bilateral creditors, is a key precondition for debt relief. The Sudanese authorities have requested a Staff Monitored Program (SMP) with the IMF which would be contingent on the finalization of the authorities' reform package and on sufficient external financing assurances from donors. Outreach to the donor community to raise the needed funds has intensified as has the dialogue with creditors to garner support for debt relief. In addition, given the significant debt statistic gaps, IFIs and private sector representatives are working with the authorities to reconcile external debt data.

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[1] Sudan and South Sudan also reached the so-called "zero option" agreement in September 2012, whereby Sudan would retain all external liabilities after the secession of South Sudan, provided that the international community gave firm commitments to the delivery of debt relief within two years. Absent such a commitment, Sudan's external debt would be apportioned with South Sudan based on a formula to be determined. The two parties have agreed to extend this agreement on several occasions.

[2] The difference between the on-budget and true fiscal deficits is the implicit subsidies not reported in the budget but financed through monetization by the central bank.

STRUCTURE OF DEBT

4. Sudan's debt data quality and coverage remain limited.[3] Historical debt data were provided by the Sudanese authorities, complemented by information obtained during the 2011 external debt reconciliation exercise, as well as Fund and World Bank staffs' estimates. The External Debt Unit at the CBOS produces comprehensive quarterly and annual report on external debt and data are collected by using primary information from both the MOFEP and the lenders, but they are not always verified with actual cash flows in the corresponding bank accounts. The external debt reports are not consistent with other related fiscal report as well. There are considerable information gaps between the IMF maintained dataset and the external debt report, mostly due to difficulties in obtaining data on the terms of the loans and breakdown of existing debt. In case of data discrepancies projections were based on a prudential approach, to avoid underestimation of debt. Debt data covers mainly central government, as state and local government are not allowed to borrow according to the Constitution, while other public entities in general government are still not captured in the debt coverage. Letter of guarantees (LG) are issued by the central bank on request of the Ministry of Finance and Economic Development (MOFEP) as a hybrid financing instrument used mainly to fund development projects. However reporting issues of LGs were identified by the IMF technical assistance (TA) mission, where the central government budget recorded the full amount of LG as debt when they were issued only as commitment.[4] External debt is defined based on currency.

Subsectors of the public sector	Check box
1 Central government	X
2 State and local government	X
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)	X
7 Central bank (borrowed on behalf of the government)	
8 Non-guaranteed SOE debt	

1 The country's coverage of public debt	The central, state, and local governments, government-guaranteed debt		
	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	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	0 percent of GDP	0	
4 PPP	35 percent of PPP stock	0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5 percent of GDP	5	
Total (2+3+4+5) (in percent of GDP)		5.0	

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

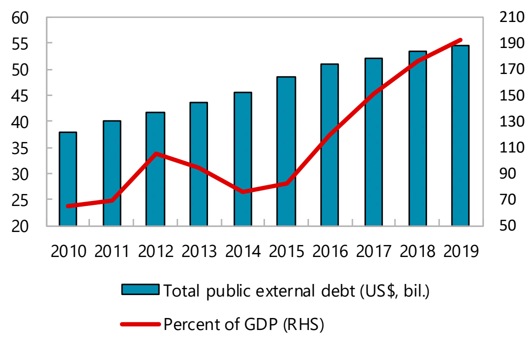
5. Sudan's PPG external debt remains very high. External debt amounts to about $55 billion, or193 percent of GDP at end-2019, rising from 176 percent of GDP in 2018 due to large currency depreciation from SDG45/$ to SDG72/$ on a weighted average basis.

[3] External debt data were partially updated in December 2019 during the Article IV consultation mission.

[4] The breakdown of individual components is not available.

6. The structure of external debt has been stable over the last decade (Figures 1 and 2). About 85 percent of the external debt was in arrears in 2019. The bulk is public and publicly guaranteed (PPG) debt ($54.6 billion, of which 85 percent are in arrears), mainly owed to bilateral creditors and roughly equally divided between Paris Club ($20.5 billion) and non-Paris Club ($20.8 billion) credit. About $1.8 billion is private debt owed to suppliers. The principal of PPG in arrears is about $10. 9 billion, and the rest are interests in arrears.

Figure 1. Sudan: Stock of PPG External Debt, 2010–19



Source: Sudanese authorities, World Bank, and IMF staff estimates.

Figure 2. Sudan: Structure of PPG External Debt

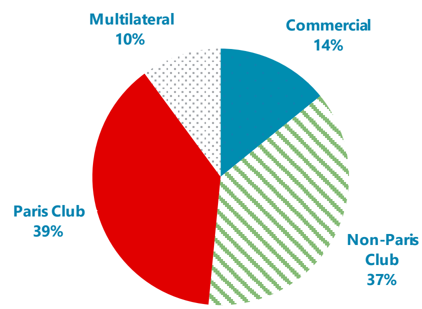


Figure 3. Sudan: Structure of Public and Publicly Guaranteed External Debt

	2010		2019	
	In US$ million	In percent	In US$ million	In percent
Total PPG	37,927.00	100	54,560.09	100
Multilateral	5,196.00	13.7	5,467.50	10.0
Bilateral	27,762.56	73.2	41,258.60	75.6
Paris	13,957.14	36.8	20,550.10	37.7
Non-Paris	13,805.43	36.4	20,158.50	36.9
Commercial	4,968.44	13.1	7,833.90	14.4

Source: Sudanese authorities; and IMF staff estimates.

7. Sudan's total public debt reached 211.7 percent of GDP by end-2019. The bulk of the public debt is external debt. Domestic debt only accounts for 10 percent of GDP. Total external debt will continue to dominate public debt in Sudan. Despite very limited access to new external financing, the total debt burden continues to grow at a very high rate due to the continued depreciation of the SDG and to rising outstanding interest and fee payments and charges maturing on the existing debt in arrears.

Debt Carrying Capacity

8. **Sudan's debt carrying capacity remains weak even after the introduction of a composite indicator in the new LIC-DSF to replace the World Bank CPIA scores.**[5] The Sudan's Composite Indicator (CI) index, has been calculated based on the October 2019 WEO and the World Bank's 2018 CPIA, is 1.882, indicating that the county's debt-carrying capacity is weak in the revised LIC-DSA framework. Corresponding thresholds changes are noted in the text table. PV of debt-to-exports threshold was increased compared to the previous DSF, from 100 to 140 percent. Debt service-to-export and to-revenue thresholds were lowered respectively from 15 to 10 percent and from 18 to 14 percent. Total public debt benchmark has been reduced from 38 percent to 35 percent of GDP.

Sudan: Debt Carrying Capacity and Thresholds

Debt Carrying Capacity		
Final	based on current vintage	based on previous vintage
Weak	Weak 1.88	Weak 1.87
Applicable Thresholds and Benchmark		
External debt burden thresholds		
PV of debt in % of:		
Exports	140	100
GDP	30	30
Debt service in % of		
Exports	10	15
Revenue	14	18
Total public debt benchmark		
PV of total public debt in percent of GDP	35	38

DEBT SUSTAINABILITY ANALYSIS

A. Underlying Assumptions

9. **The macroeconomic assumptions underlying this DSA have been updated based on developments in 2019 (Box 1).** The baseline scenario assumes a deteriorating fiscal deficit mainly due to weak revenue mobilization, continue depreciation of the exchange rate and ballooning fuel subsidies. As in the past, this DSA does not assume arrears clearance, possible external debt relief, or debt apportionment between Sudan and South Sudan in its baseline or alternative scenarios.

[5] The CI captures the impact of the different factors through a weighted average of the country's real GDP growth, remittances, international reserves, and world growth and the CPIA score. The details on the methodology can be found in the new LIC-DSF guidance note: https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/02/14/pp122617guidance-note-on-lic-dsf

Box 1. Macroeconomic Assumptions 2019–39

Natural resources. Oil is increasingly less important for the Sudan economy. Production is at 72 thousand barrels/day in 2019, showing a continued decline. Ageing oil fields along with moderate exploration keep oil production flat over the medium term. Price projections are guided by the IMF's latest World Economic Outlook (WEO). The price of Sudan's crude oil is projected to average $60/barrel in the medium term. The limited production results in increasing imports of crude oil and corresponding higher costs of fuel subsidies also due to the fuel import exchange rate being fixed at SDG 6.7/$ (the official exchange rate is currently at SDG 45/$ and the dominant parallel market at SDG 85/$ in December 2019).

Real sector. Real GDP growth rate is expected to contract by 2.5 percent in 2019 driven by weak competitiveness, poor business environment and the results of social turmoil. Real growth is expected to further contract by 1.2 and 0.6 percent in 2020 and 2021, respectively. Absent reforms, growth will turn positive only after 2021, reaching 1.5 percent in 2025, and remaining subdued in the longer term. The projections mainly reflect the baseline scenario assumptions, in which no active policy measures will be taken as the new civilian government is still working on a comprehensive reform plan. With an overvalued exchange rate, weak business environment, loose fiscal policies financed by money creation, macro imbalances will continue to widen, further compromising growth prospects. Inflation is projected to increase from about 51 percent in 2019 to about 86 percent in 2025. The nominal exchange rate will continue to depreciate dramatically.

Fiscal sector. The baseline fiscal deficit is projected to deteriorate over the medium term to 18.6 percent in 2025, reflecting a combination of revenue losses arising from the substantial use of the overvalued official exchange rate for government transactions and tariff collection, dwindling revenues, and rising fuel subsidy spending. Over the longer run and through 2039, the primary deficit is expected to stabilize at about 18.8 percent of GDP. Under these assumptions, the domestic debt-to-GDP ratio is projected to continue to rise and debt to remain unsustainable.

External sector. The current account deficit is expected to remain elevated over the medium term, at about 5.2 percent of GDP by end-2025, reflecting the effects of the large fiscal deficit and overvalued exchange rate. In the long run, imports are expected to contract and the trade balance to slowly improve in absolute terms, even if it is projected to remain elevated. The deficit will be financed by foreign direct investment and modest external debt accumulation.

External debt. Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans are expected to continue to be limited, at about 0.12 percent of GDP during 2019–39. In line with the latest newly contracted debt, the share of new concessional loans is assumed at around one-third. It is assumed that Sudan will continue not to service obligations arising from the stock of arrears. Consequently, the effective interest rate is declining because the interest payment decrease overtime while the stock of debt continues to grow. In addition, the projected financing gaps are added to the external debt stock.

Financing assumption. Given the large external arrears and limited depth in domestic financial market, staff assumes that the bulk of government's financing comes from the central bank's direct monetization in the medium term, while financing from other domestic creditors will increase in the longer term. Staff also applied the latest available market interest rate (which in real terms is negative) on government bonds in the projections as commercial banks have limited investment options and investing in government bonds will help reduce losses relative to holding cash.

B. External Debt Sustainability

10. Sudan's external debt stock remains unsustainable under the baseline scenario (Figure 1 and Table 1). All PPG external debt indicators continue to breach their indicative thresholds throughout the 20-year projection period. The present value (PV) of PPG external debt is at about 163.4 percent of GDP at end-2019—more than threefold the 30 percent threshold for weak policy performers—and is projected to stay above the threshold through the projection period.[6] Similarly, in 2019, the PV of debt-to-exports is about 1193.3 percent, well above the respective threshold. Debt service to exports and debt service to revenue will continue to increase steadily over the long term. In particular, debt service will increase by $512 million due to the scheduled interest payment to Saudi Arabia and U.A.E in 2022. Under the reform scenario the debt path improves but remains unsustainable without debt relief.

11. Sudan's external debt outlook is vulnerable to a range of shocks (Figure 1 and Table 3). The PV of debt-to-GDP is most vulnerable to combined shock, while the PV of debt-to-exports and debt service-to-exports ratios are most vulnerable to an export shock. In the combined shock scenario, key variables including real GDP growth, primary balance, exports, other flows are adjusted by 0.5 standard deviation from their historical averages and exchange rate depreciates by 51 percent, the PV of debt-to-GDP ratio would increase from 163 percent to 196 percent.

C. Overall Risk of Public Debt Distress

12. Public debt remains unsustainable and the public DSA continues to mirror the trends and results of the external DSA (Figure 2 and Table 2). Sudan has a full Islamic banking system, where profit margins (i.e. the traditional interest rate) are set based on the underlying project's return and it remains at 12-15 percent even after inflation rose to about 70 percent in 2019. Even though, the debt ratios remain at relatively high levels in the long term. The present value of public debt is about 212.9 percent of GDP at end of 2019 and will remain above the threshold through the projection period reaching 420 percent of GDP by 2039. Similarly, the PV of public debt to revenue will increase from its current already very high level of 2718.7 percent by end of 2019 to an extreme level of about 9465.9 percent by 2039. The rapidly rising historical scenario is in large part due to the structural break caused by the separation of South Sudan which led to negative historical averages.

13. The public DSA bound tests show that public debt path is most vulnerable to real GDP growth. (Table 4).

14. There is a significant difference in the projections in the current DSA compared to the previous DSA (Figure 3 and Table 4). The main driver of the difference is due to the large depreciation of parallel market exchange rate and mounting inflation. Additionally, reduced fiscal space further compressed debt repayment capacity which contributed to increased arrears and worsening debt carrying capacity. It is to be expected that being the DSA 2013 compiled with the older model could have also impacted some discrepancies in the results of the analysis.

[6] Ratios in terms of GDP are calculated using a weighed exchange rate between the official and the parallel market rate.

15. The realism tools highlight the magnitude of the fiscal adjustment and uncertainty around the baseline (Figure 4). The realism tool shows any adjustment that is greater than 2.5 percent of GDP over a 3-year period in the top quartile of adjustments within the sample. A significant large fiscal adjustment of 4 percent of GDP may be needed to stay within financing constrains and enhance confidence during the reform episode. While the magnitude of the fiscal adjustment is large, the authorities will have to implement a similarly large fiscal adjustment as part of the policy reform package. The large fiscal consolidation might create a temporary drag on growth, but on the other hand continued monetization of the costs deriving from huge implicit fuel subsidies by the central bank also led to severe decline in growth. The large residual highlights the difficulty in capturing the multiple distortions currently affecting the Sudanese economy, especially the multiple currency practices and continued depreciation of the parallel market exchange rate and the poor quality and timeliness of data, especially related to fiscal and balance of payment accounts. The authorities' published national account is outdated with a base year of 1981/82, and data on investment and consumption lack of accuracy. Therefore, staff is not able to provide a proper analysis of contribution of investment to real GDP and its developments.

CONCLUSIONS

16. Sudan's external debt remains in distress and unsustainable. The normalization of relations with external creditors, including multilateral institutions and bilateral creditors, is a key precondition for debt relief. The results of this DSA are broadly unchanged from previous DSAs, as no major policy correction has been undertaken and no debt relief has been granted to Sudan. The economy continues to shrink, fiscal and external imbalances widen, inflation is high, the currency is overvalued, and competitiveness is weak. Under these conditions it is impossible for Sudan to service its disproportionate debt. In addition, the debt burden increases over time as the amounts needed to close projected financing gaps are added to the outstanding debt stocks. In the long term, all public and public-guaranteed external debt burden ratios remain well above their respective indicative thresholds. Public debt remains unsustainable, driven mostly by external debt dynamics.

17. Further efforts are needed for Sudan to obtain much-needed debt relief and regain access to external financing. Sudan needs to: (i) continue to step up outreach efforts to its creditors to garner broad support for debt relief; (ii) continue to cooperate with the IMF on economic policies and payments with a view to establishing a track record of sound macro policies; (iii) renew the commitment to develop a full-fledged PRSP; and (iii) minimize new borrowing on non-concessional terms, since it further increases the future debt burden, and instead secure foreign support on highly concessional terms to finance necessary development and infrastructure expenditures. Furthermore, the major shortcomings in macroeconomic data, in terms of quality and timeliness, need to be addressed as they impair economic analysis and creates uncertainty on the potential reform outcome.

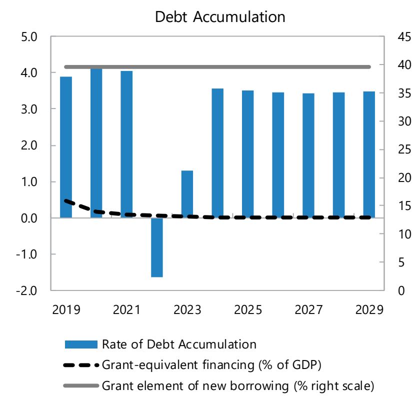
18. Authorities' views. The authorities concurred with staff that absent reforms, debt restructuring and access to debt relief, the current economic prospects appear bleak and debt will remain unstainable. They are engaged in designing a reform plan which will address the main sources of imbalances and boost inclusive growth, including: liberalization of the exchange rate, revenue measures and phasing out of fuel subsidies, accompanied by an expansion of social safety nets to mitigate the impact of adjustment on vulnerable groups and measures to fight corruption, improve governance and the business environment. The authorities continue to engage with creditors and are intensifying outreach efforts to the donors' community to pave the way toward debt relief They have been petitioning key donors for the de-listing of Sudan from the SSTL and have requested an IMF Staff Monitored Program to help reestablish macroeconomic stability and create conditions for stronger, broad-based economic growth.

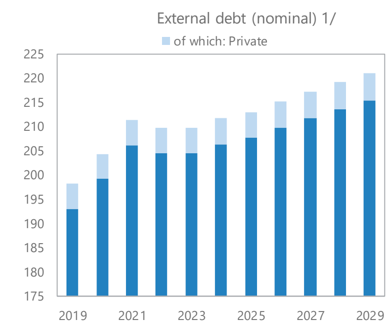
Table 1. Sudan: External Debt Sustainability Framework, Baseline Scenario, 2016-2039

(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/	180.8	198.2	204.3	211.3	209.7	209.8	211.7	221.0	240.1	102.8	211.9
of which: public and publicly guaranteed (PPG)	176.0	193.0	199.2	206.1	204.5	204.6	206.4	215.3	232.9	99.9	206.5
Change in external debt	26.3	17.4	6.2	7.0	-1.6	0.1	1.8	1.9	1.8		
Identified net debt-creating flows	58.9	19.9	19.0	16.9	16.4	12.5	10.6	6.5	3.8	19.4	12.2
Non-interest current account deficit	12.7	11.7	13.1	12.0	12.3	10.8	10.0	5.5	1.7	8.2	9.6
Deficit in balance of goods and services	9.0	10.3	13.1	12.1	11.9	10.6	10.1	7.5	1.7	3.1	10.1
Exports	13.9	13.7	13.4	14.7	14.9	15.7	16.0	18.0	23.0		
Imports	23.0	24.0	26.5	26.8	26.8	26.3	26.1	25.6	24.6		
Net current transfers (negative = inflow)	-1.0	-2.9	-2.3	-2.3	-1.7	-1.9	-2.0	-3.1	-7.0	-2.1	-2.4
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	4.8	4.3	2.2	2.1	2.2	2.1	1.9	1.0	7.1	7.2	1.9
Net FDI (negative = inflow)	3.2	3.0	3.4	3.4	3.4	3.4	3.5	4.1	5.6	2.9	3.6
Endogenous debt dynamics 2/	43.0	5.1	2.5	1.5	0.6	-1.7	-2.9	-3.1	-3.5		
Contribution from nominal interest rate	0.3	0.3	0.2	0.2	1.4	0.7	0.2	0.1	0.0		
Contribution from real GDP growth	4.5	4.9	2.3	1.3	-0.8	-2.3	-3.0	-3.2	-3.5		
Contribution from price and exchange rate changes	38.2	...	...	...	...	...	...	...	...		
Residual 3/	-32.6	-2.5	-12.8	-9.9	-18.0	-12.4	-8.7	-4.6	-2.0	-6.5	-8.6
of which: exceptional financing	-4.4	-4.7	-4.6	-4.5	-4.5	-4.4	-4.3	-4.1	-3.6		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	149.1	163.4	163.0	164.7	160.4	158.9	159.7	166.6	180.1		
PV of PPG external debt-to-exports ratio	1071.2	1193.3	1216.1	1123.5	1073.4	1010.2	996.1	923.2	783.8		
PPG debt service-to-exports ratio	9.1	9.5	9.2	8.3	44.9	21.9	6.1	3.4	0.4		
PPG debt service-to-revenue ratio	14.5	17.7	19.6	21.9	133.0	71.6	20.8	13.9	2.1		
Gross external financing need (Million of U.S. dollars)	6164.0	5386.9	6116.7	5833.8	8000.6	6393.2	5322.1	4003.9	3259.6		
Key macroeconomic assumptions											
Real GDP growth (in percent)	-2.3	-2.5	-1.2	-0.6	0.4	1.1	1.5	1.5	1.5	-0.8	0.5
GDP deflator in US dollar terms (change in percent)	-19.8	-3.9	4.0	2.1	1.2	0.6	0.3	-0.2	-0.2	-3.9	0.3
Effective interest rate (percent) 4/	0.1	0.1	0.1	0.1	0.7	0.3	0.1	0.0	0.0	0.3	0.2
Growth of exports of G&S (US dollar terms, in percent)	-15.1	-7.9	0.6	10.9	3.6	7.1	3.7	3.7	3.7	-4.7	3.3
Growth of imports of G&S (US dollar terms, in percent)	0.2	-2.1	13.7	2.5	1.7	-0.1	0.9	0.9	0.9	0.3	1.9
Grant element of new public sector borrowing (in percent)	...	39.6	39.6	39.6	39.6	39.6	39.6	39.6	39.6	...	39.6
Government revenues (excluding grants, in percent of GDP)	8.7	7.4	6.3	5.5	5.0	4.8	4.7	4.5	4.4	10.4	5.1
Aid flows (in Million of US dollars) 5/	102.2	157.3	56.7	33.7	19.5	11.3	6.8	2.4	1.5		
Grant-equivalent financing (in percent of GDP) 6/	...	0.5	0.2	0.1	0.1	0.0	0.0	0.0	0.0	...	0.1
Grant-equivalent financing (in percent of external financing) 6/	...	99.2	97.9	96.5	94.1	90.0	83.8	61.4	44.7	...	81.8
Nominal GDP (Million of US dollars)	35,891	33,609	34,543	35,042	35,609	36,245	36,878	39,286	44,366		
Nominal dollar GDP growth	-21.7	-6.4	2.8	1.4	1.6	1.8	1.7	1.2	1.2	-4.5	0.9
Memorandum items:											
PV of external debt 7/	153.9	168.6	168.2	169.9	165.6	164.1	164.9	172.3	187.3		
In percent of exports	1105.5	1231.3	1254.7	1159.0	1108.4	1043.6	1029.1	954.7	815.1		
Total external debt service-to-exports ratio	9.1	9.5	9.2	8.3	44.9	21.9	6.1	3.4	0.4		
PV of PPG external debt (in Million of US dollars)	53508.9	54903.9	56305.9	57700.6	57123.5	57582.5	58876.9	65439.5	79900.1		
(PVt-PVt-1)/GDPt-1 (in percent)		3.9	4.2	4.0	-1.6	1.3	3.6	3.5	3.4		
Non-interest current account deficit that stabilizes debt ratio	-13.6	-5.7	6.9	5.0	13.9	10.7	8.1	3.6	-0.1		

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.

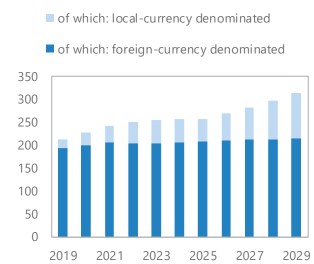
Table 2. Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2016-2039

(In percent of GDP, unless otherwise indicated)

	Actual			Projections								Average 6/	
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029	2039	Historical	Projections
Public sector debt 1/	**127.9**	**159.6**	**185.6**	**211.7**	**227.6**	**242.5**	**251.4**	**254.7**	**256.0**	**312.8**	**418.3**	**109.7**	**260.1**
of which: external debt	**118.8**	**150.8**	**176.0**	**193.0**	**199.2**	**206.1**	**204.5**	**204.6**	**206.4**	**215.3**	**232.9**	**99.9**	**206.5**
Change in public sector debt	35.7	31.7	26.0	26.1	15.9	14.8	8.9	3.3	1.3	15.0	7.7		
Identified debt-creating flows	**33.5**	**33.2**	**26.0**	**20.8**	**10.7**	**9.6**	**5.3**	**-1.1**	**-3.8**	**10.1**	**3.2**	**11.0**	**6.7**
Primary deficit	**4.1**	**6.0**	**7.6**	**10.7**	**14.7**	**16.8**	**17.6**	**18.2**	**18.5**	**18.8**	**18.8**	**3.9**	**17.3**
Revenue and grants	7.0	7.2	8.9	7.8	6.4	5.6	5.1	4.8	4.7	4.5	4.4	**10.7**	**5.2**
of which: grants	0.3	0.2	0.2	0.5	0.2	0.1	0.1	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	11.1	13.2	16.5	18.5	21.1	22.4	22.7	23.1	23.2	23.2	23.2	**14.7**	**22.5**
Automatic debt dynamics	**29.4**	**27.2**	**18.4**	**10.1**	**-3.9**	**-7.2**	**-12.3**	**-19.4**	**-22.4**	**-8.6**	**-15.6**		
Contribution from interest rate/growth differential	-4.8	-4.4	-3.1	-1.2	-7.2	-12.5	-16.7	-23.8	-26.8	-13.3	-20.6		
of which: contribution from average real interest rate	-1.8	-3.5	-6.8	-6.0	-9.7	-14.0	-15.8	-21.0	-23.1	-8.9	-14.7		
of which: contribution from real GDP growth	-3.1	-0.9	3.7	4.8	2.5	1.4	-0.9	-2.8	-3.7	-4.3	-5.9		
Contribution from real exchange rate depreciation	34.3	31.6	21.4	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other 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	0.0	0.0		
Residual	**2.2**	**-1.4**	**0.0**	**16.6**	**8.5**	**10.6**	**8.0**	**8.9**	**9.5**	**9.5**	**9.5**	**1.7**	**10.0**
Sustainability indicators													
PV of public debt-to-GDP ratio 2/	**...**	**...**	**186.1**	**212.9**	**229.6**	**245.2**	**253.2**	**256.3**	**257.7**	**315.2**	**420.7**		
PV of public debt-to-revenue and grants ratio	**...**	**...**	**2100.1**	**2718.7**	**3563.1**	**4350.0**	**4965.6**	**5298.9**	**5496.5**	**7049.8**	**9465.9**		
Debt service-to-revenue and grants ratio 3/	**17.4**	**20.4**	**17.1**	**18.8**	**43.2**	**72.4**	**203.2**	**167.5**	**128.6**	**375.6**	**1030.9**		
Gross financing need 4/	5.3	7.4	9.2	12.1	17.5	20.8	28.0	26.3	24.6	35.6	64.6		
Key macroeconomic and fiscal assumptions													
Real GDP growth (in percent)	3.5	0.7	-2.3	-2.5	-1.2	-0.6	0.4	1.1	1.5	1.5	1.5	**-0.8**	**0.5**
Average nominal interest rate on external debt (in percent)	0.2	0.2	0.2	0.2	0.2	0.1	0.9	0.4	0.1	0.0	0.0	**0.4**	**0.2**
Average real interest rate on domestic debt (in percent)	-12.3	-17.2	-38.2	-32.8	-33.7	-35.9	-37.7	-38.6	-39.1	-5.9	-5.8	**-14.4**	**-27.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	43.2	27.2	14.2	...	...	...	...	...	...	...	...	**9.4**	**...**
Inflation rate (GDP deflator, in percent)	20.7	28.9	68.9	52.2	67.0	74.5	80.0	83.0	84.7	19.7	19.7	**28.3**	**57.8**
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.3	19.4	22.4	9.3	12.9	5.4	1.7	2.8	2.2	1.5	1.5	**-1.5**	**3.8**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-31.7	-25.8	-18.3	-15.4	-1.3	1.9	8.7	14.9	17.3	3.7	11.1	**-25.3**	**5.7**
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	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, state, and local governments, government-guaranteed debt. 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.

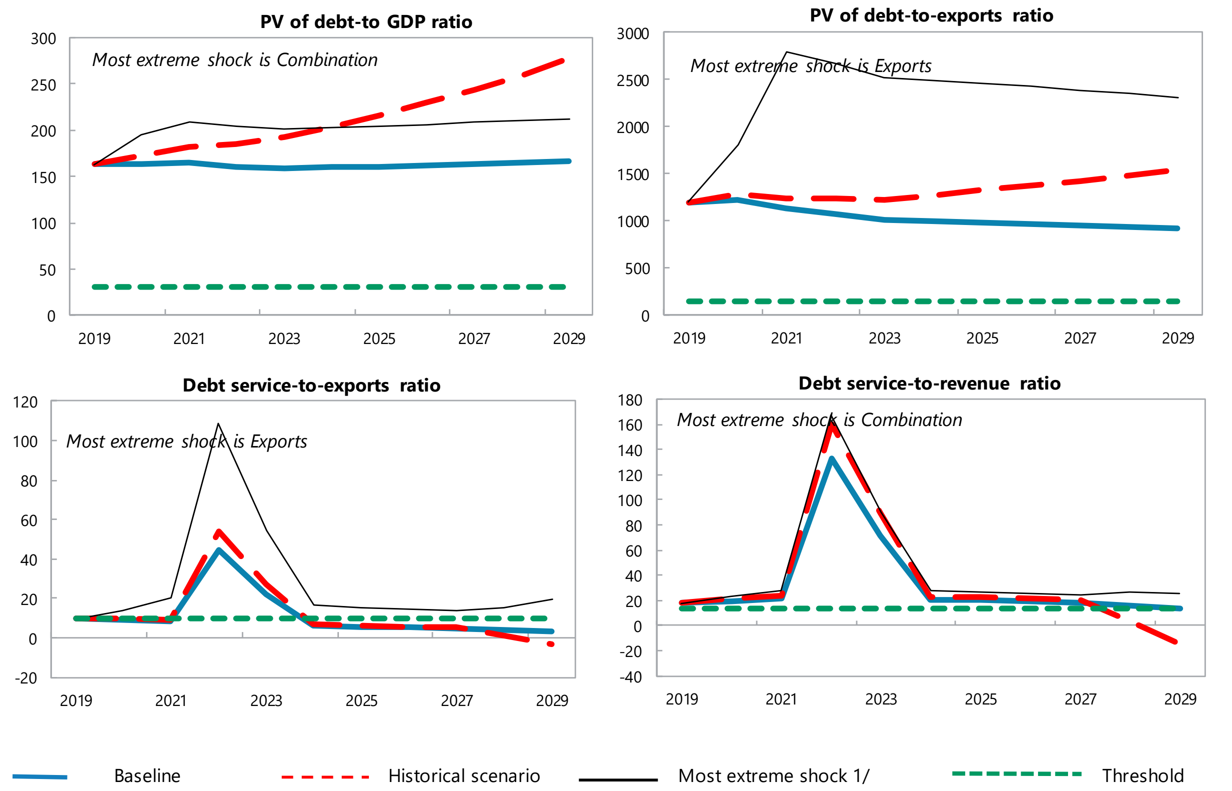
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

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 4. Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2019–2029



Customization of Default Settings	Size	Interactions
Standardized Tests		Yes
Tailored Tests		
Combined CLs	No	
Natural Disasters	n.a.	n.a.
Commodity Prices [2/]	No	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%	
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	7	7

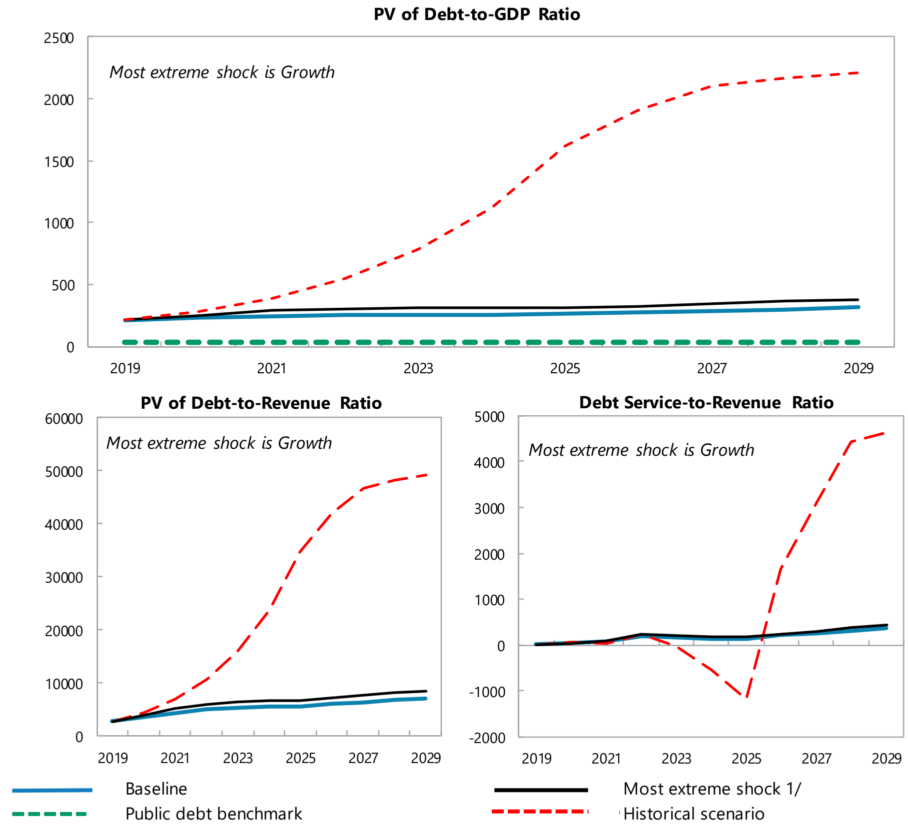
* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

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 5. Sudan: Indicators of Public Debt under Alternative Scenario, 2019–2039
(In percent)



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	0%	0%
Domestic medium and long-term	93%	93%
Domestic short-term	7%	7%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	1.1%	1.1%
Avg. maturity (incl. grace period)	22	22
Avg. grace period	7	7
Domestic MLT debt		
Avg. real interest rate on new borrowing	-45.2%	-45.2%
Avg. maturity (incl. grace period)	25	25
Avg. grace period	0	0
Domestic short-term debt		
Avg. real interest rate	-42.8%	-42.8%

* 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. Sudan: Sensitivity Analysis for Key Indicators of Public and publicly Guaranteed External Debt, 2019–2029

(In Percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of debt-to GDP ratio											
Baseline	163	163	165	160	159	160	160	162	164	165	167
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	163	172	181	185	193	204	216	230	244	260	277
B. Bound Tests											
B1. Real GDP growth	163	181	203	197	195	196	197	199	201	203	205
B2. Primary balance	163	163	165	160	159	160	160	162	164	165	167
B3. Exports	163	172	183	179	177	178	179	182	184	185	186
B4. Other flows 3/	163	164	167	163	161	162	163	165	166	168	169
B5. Depreciation	163	181	183	179	177	178	179	181	183	184	186
B6. Combination of B1-B5	163	196	209	204	202	203	204	206	208	210	212
C. Tailored Tests											
C1. Combined contingent liabilities	163	163	165	160	159	160	160	162	164	165	167
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	163	163	165	160	159	160	160	162	164	165	167
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	1193	1216	1124	1073	1010	996	982	967	952	938	923
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	1193	1283	1238	1239	1228	1274	1324	1369	1418	1474	1536
B. Bound Tests											
B1. Real GDP growth	1193	1216	1124	1073	1010	996	982	967	952	938	923
B2. Primary balance	1193	1216	1124	1073	1010	996	982	967	952	938	923
B3. Exports	1193	1813	2793	2675	2522	2489	2455	2421	2387	2350	2306
B4. Other flows 3/	1193	1224	1138	1088	1024	1010	996	981	966	951	936
B5. Depreciation	1193	1216	1130	1080	1017	1003	988	974	959	944	929
B6. Combination of B1-B5	1193	1510	1142	1815	1710	1686	1663	1638	1614	1588	1562
C. Tailored Tests											
C1. Combined contingent liabilities	1193	1216	1124	1073	1010	996	982	967	952	938	923
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	1193	1216	1124	1073	1010	996	982	967	952	938	923
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	10	9	8	45	22	6	6	5	5	4	3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	10	10	9	54	27	7	6	6	5	1	-4
B. Bound Tests											
B1. Real GDP growth	10	9	8	45	22	6	6	5	5	4	3
B2. Primary balance	10	9	8	45	22	6	6	5	5	4	3
B3. Exports	10	13	20	109	54	16	15	14	13	15	20
B4. Other flows 3/	10	9	8	45	22	6	6	5	5	5	5
B5. Depreciation	10	9	8	45	22	6	6	5	5	4	4
B6. Combination of B1-B5	10	11	14	75	37	11	10	9	9	9	9
C. Tailored Tests											
C1. Combined contingent liabilities	10	9	8	45	22	6	6	5	5	4	3
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	10	9	8	45	22	6	6	5	5	4	3
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	18	20	22	133	72	21	20	19	19	16	14
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	18	21	24	160	89	23	22	21	21	3	-14
B. Bound Tests											
B1. Real GDP growth	18	22	27	164	88	26	25	24	23	20	17
B2. Primary balance	18	20	22	133	72	21	20	19	19	16	14
B3. Exports	18	20	24	144	79	25	24	24	23	27	36
B4. Other flows 3/	18	20	22	134	72	22	21	20	19	19	19
B5. Depreciation	18	22	24	148	80	23	23	22	21	19	18
B6. Combination of B1-B5	18	23	28	167	91	27	26	26	25	27	26
C. Tailored Tests											
C1. Combined contingent liabilities	18	20	22	133	72	21	20	19	19	16	14
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	18	20	22	133	72	21	20	19	19	16	14
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.

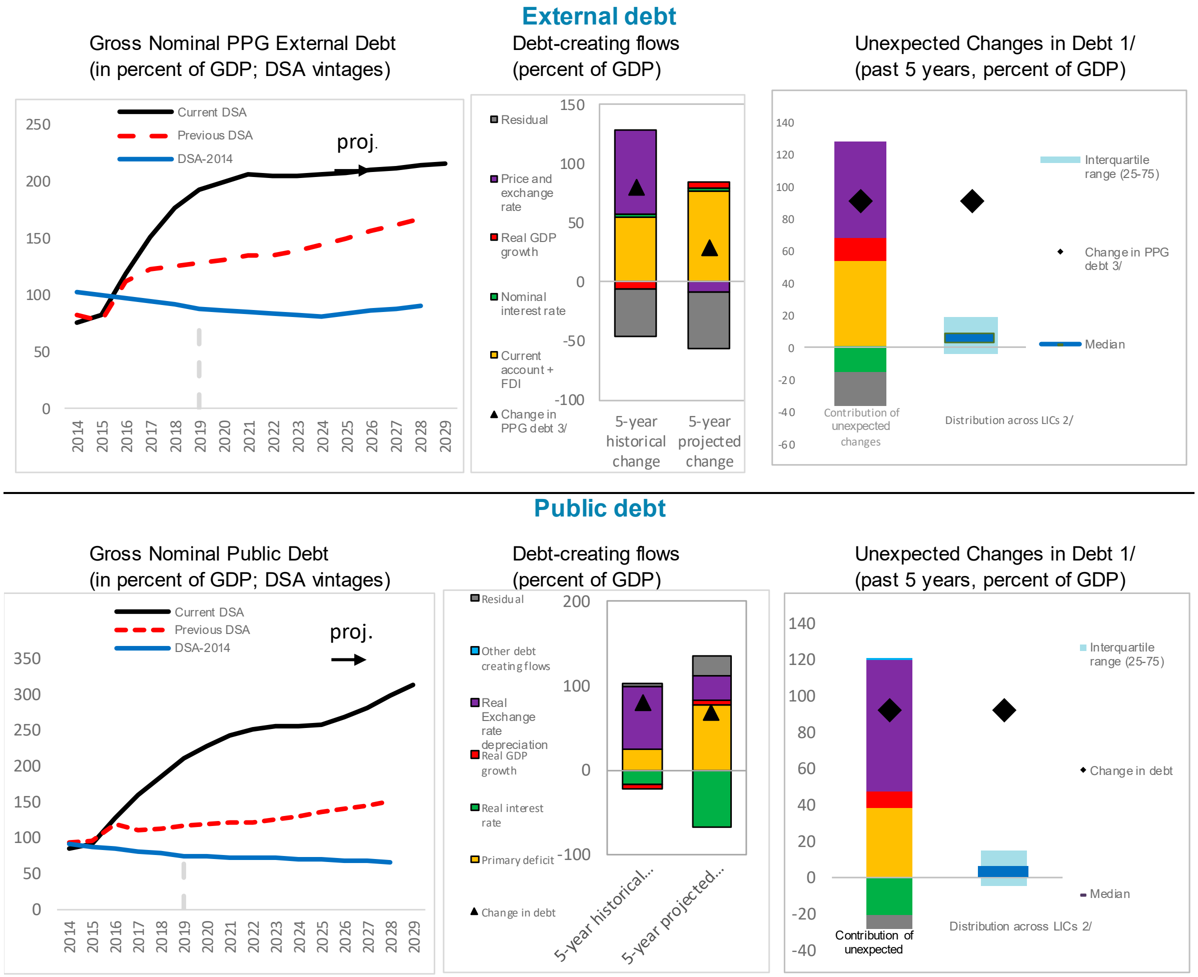
Table 4. Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2019–2039

(In percent)

	Projections 1/										
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
PV of Debt-to-GDP Ratio											
Baseline	**213**	**230**	**245**	**253**	**256**	**258**	**259**	**271**	**284**	**300**	**315**
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	**213**	**283**	**392**	**551**	**781**	**1120**	**1622**	**1907**	**2103**	**2169**	**2208**
B. Bound Tests											
B1. Real GDP growth	**213**	**252**	**294**	**304**	**308**	**310**	**312**	**326**	**341**	**361**	**379**
B2. Primary balance	**213**	**232**	**250**	**257**	**259**	**260**	**260**	**272**	**284**	**300**	**315**
B3. Exports	**213**	**233**	**255**	**264**	**267**	**269**	**270**	**282**	**296**	**312**	**327**
B4. Other flows 3/	**213**	**231**	**248**	**256**	**259**	**261**	**262**	**274**	**287**	**303**	**318**
B5. Depreciation	**213**	**212**	**224**	**230**	**232**	**232**	**232**	**241**	**251**	**263**	**274**
B6. Combination of B1-B5	**213**	**190**	**210**	**214**	**216**	**216**	**217**	**227**	**238**	**251**	**264**
C. Tailored Tests											
C1. Combined contingent liabilities	**213**	**235**	**249**	**256**	**258**	**259**	**260**	**271**	**284**	**300**	**315**
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	**213**	**232**	**260**	**277**	**288**	**294**	**297**	**309**	**324**	**341**	**357**
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	2,719	3,563	4,350	4,966	5,299	5,496	5,612	5,987	6,340	6,708	7,050
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	2,719	4,353	6,870	10,653	15,915	23,565	34,769	41,804	46,616	48,194	49,148
B. Bound Tests											
B1. Real GDP growth	2,719	3,895	5,202	5,956	6,369	6,615	6,759	7,207	7,626	8,061	8,466
B2. Primary balance	2,719	3,603	4,430	5,032	5,351	5,537	5,642	6,008	6,354	6,716	7,055
B3. Exports	2,719	3,613	4,526	5,168	5,519	5,731	5,856	6,245	6,609	6,978	7,306
B4. Other flows 3/	2,719	3,583	4,397	5,020	5,358	5,559	5,677	6,056	6,412	6,779	7,117
B5. Depreciation	2,719	3,309	3,994	4,516	4,793	4,955	5,042	5,333	5,600	5,872	6,125
B6. Combination of B1-B5	2,719	2,970	3,744	4,207	4,460	4,612	4,701	5,013	5,311	5,621	5,910
C. Tailored Tests											
C1. Combined contingent liabilities	2,719	3,641	4,416	5,020	5,342	5,529	5,637	6,004	6,351	6,715	7,054
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	2,719	3,594	4,603	5,438	5,944	6,259	6,437	6,845	7,226	7,622	7,993
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	19	43	72	203	167	129	127	210	261	322	376
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2019-2029 2/	19	56	42	226	(22)	(534)	(1,173)	1,651	3,109	4,428	4,644
B. Bound Tests											
B1. Real GDP growth	19	47	89	250	211	167	167	251	306	375	439
B2. Primary balance	19	43	83	225	184	142	138	210	259	320	374
B3. Exports	19	43	73	206	170	132	130	213	264	331	396
B4. Other flows 3/	19	43	73	204	168	129	128	211	261	325	381
B5. Depreciation	19	36	60	181	143	104	103	169	209	255	294
B6. Combination of B1-B5	19	35	68	190	151	113	110	176	218	270	315
C. Tailored Tests											
C1. Combined contingent liabilities	19	43	93	220	181	139	136	210	259	320	374
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	19	43	84	243	221	188	191	236	277	330	392
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 6. Sudan: Driver of Debt Dynamics – Baseline Scenario



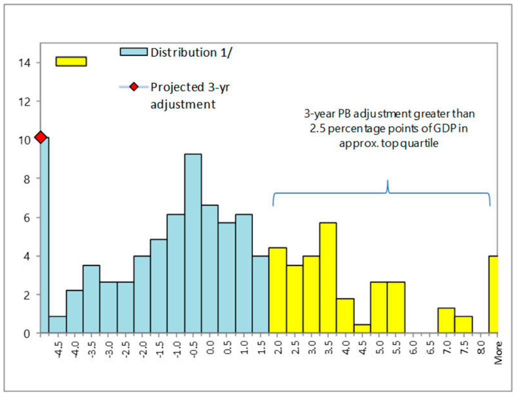
1/ Difference between anticipated and actual contributions on debt ratios.

2/ Distribution across LICs for which LIC DSAs were produced.

3/ Given the relatively low private external debt for average low-income countries, a ppt change in PPG external debt should be largely explained by the drivers of the external debt dynamics equation.

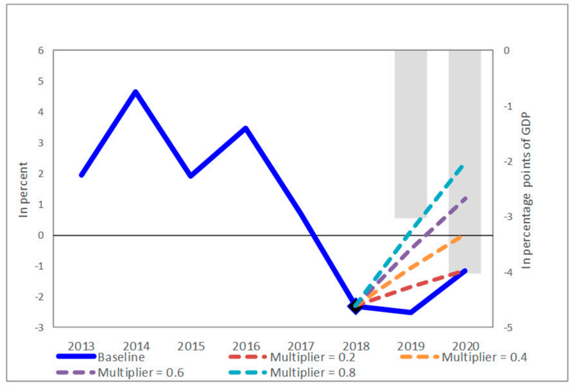
Figure 7. Sudan: Realism Tools

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).

INTERNATIONAL MONETARY FUND

SUDAN

February 5, 2020

STAFF REPORT FOR THE 2019 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

Middle East and Central Asia Department
(In consultation with other departments and the World Bank)

CONTENTS

RELATIONS WITH THE FUND

(As of December,31 2019)

Membership Status

Joined September 5, 1957; Article VIII.

General Resources Account

	SDR Million	Percent Quota
Quota	169.70	100.00
Fund holdings of currency (Holdings Rate)	314.48	185.31
Reserve Tranche Position	0.01	0.01

SDR Department

	SDR Million	Percent Quota
Net cumulative allocation	177.99	100.00
Holdings	123.90	69.61

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-by Arrangements	94.96	55.66
Trust Fund	59.23	34.90
Extended Arrangements	50.30	29.64

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	6/25/1984	6/24/1985	90.00	20.00
Stand-By	2/23/1983	3/9/1984	170.00	170.00
Stand-By	2/22/1982	2/21/1983	198.00	70.00

Overdue Obligations and Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs)
The projection of charges and interest assumes that overdue principal as of December31, 2019 will remain outstanding, but forthcoming obligations will be settled on time.

	Overdue	Forthcoming				
	December31, 2019	2020	2021	2022	2023	2024
Principal	203.98					
Charges/Interest	760.14	3.24	3.22	3.22	3.22	3.22
Total	**964.12**	**3.24**	**3.22**	**3.22**	**3.22**	**3.22**

Exchange Rate Arrangement

The legal tender is the Sudanese pound, which replaced the Sudanese dinar in proportion SDG 1=SDD 100 in mid-2007. The de jure exchange rate arrangement is managed floating. Because the Sudanese pound has stabilized within a 2 percent band against the U.S. dollar since end-January 2018, with one realignment in October 2018, the de facto exchange rate arrangement was reclassified to stabilized from other managed, effective January 22, 2018. However, in 2019, the government of Sudan used SDG18/$ for its transactions and SDG15/$ for the calculation of customs import duty.

Sudan maintains the following measures subject to Fund jurisdiction under Article VIII, Sections 2 (a) and 3: (i) An exchange restriction arising from the government's limitations on the availability of foreign exchange and the allocation of foreign exchange to certain priority items; (ii) A multiple currency practice and exchange restriction arising from the establishment of an official exchange rate (the CBOS rate) for use in all government exchange transactions which in practice differs by more than 2 percent from the rate used by commercial banks; (iii) A multiple currency practice and exchange restriction arising from large spreads between the CBOS rate and the parallel market exchange rate due to the CBOS' limitation on the availability of foreign exchange which channels current international transactions to the parallel market; and (iv) An exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports.

Sudan is on a 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on November 29, 2017.

FSAP Participation

The Financial Sector Assessment Program (FSAP) mission took place in December 2004. The Financial System Stability Assessment report was discussed by the Executive Board on April 29, 2005.

Resident Representative

The Fund's Resident Representative in Khartoum is Mr. Abdikarim Farah since May 2017.

Technical Assistance

The following table provides a summary of the technical assistance provided since January 2018, both from headquarters and from the IMF's Middle East Technical Assistance Center (METAC).

Technical Assistance from the Fund, 2018–19		
Subject	**Timing**	**Counterpart**
Fiscal Affairs Department		
Strengthening identification, monitoring and management of fiscal risks related to SOEs (METAC)	April 2018 and February 2019	MOF
Comprehensive, credible, and policy-based budget preparation (METAC)	April and July 2018	MOF
Treasury Single Account and cash management (METAC)	April 2018, February 2019	MOF
Strengthen revenue administration management and governance arrangements (METAC)	April 2018, July, November 2019	MOF
Improve customs administration and core functions	December 2018 and November 2019	MOF
Support the introduction of medium-term fiscal framework (METAC)	Feb 2018	MOF
Monetary and Capital Markets Department		
Improve risk-based supervision (METAC)	August 2018	CBOS
Enhancing credit registry functioning (METAC)	June 2018 and October 2019	CBOS
Statistics Department		
National Accounts (METAC)	January 2018, February 2019	CBS
Consumer Price Index (METAC)	February 2019	CBS
Financial Soundness Indicators	May 2018	CBOS
Legal Department		
AML/CFT legal, supervisory and FIU Framework	October 2018, April and May 2019	CBOS

BANK-FUND COLLABORATION

Joint Management Action Plan, July 2019–June 2020 (As of January 24, 2020)			
Title	**Products**	**Provisional schedule of missions**	**Expected delivery**
	A. Mutual Information on Relevant Work Program		
Bank work program for the next 12 months	**Economic policy analysis and advice**		
	• Sudan Water Sector Review	Mar 2018	May 2020
	• Sudan Systematic Country Diagnostics	N/A	Jun 2020
	• Agriculture Value Chain Analysis		
	Technical assistance		
	• Sudan Poverty Assessment		
	• Sudan Strengthening Social Safety Net Programs	N/A	Jun 2020
	• Strengthening Pandemic Preparedness in Sudan		Feb 2020
	• Financial Sector Capacity Building 2	N/A	Sep 2019
	• Sudan Health Systems Strengthening	N/A	Aug 2021
	• Supporting Private Sector Development Agenda in Sudan		Jun 2021
	for Youth Employment		Jun 2020
	• Financing Education in Sudan: Mobilizing Resources and Strengthening the Efficiency and Equity of Public Funding		Feb 2020
	• Sudan Energy Sector Recovery Technical Assistance		
	• Strengthening Sub-National Fiscal Policy Management		
			Jan 2021
			Sep 2020
Fund work program for the next 12 months	**Macroeconomic policy analysis and advice**		
	• Article IV consultation	Dec 2019	Dec 2019
	Technical assistance		
	• Medium-term Fiscal Framework (follow up)- METAC	Q3 2019	Q3 2019
	• Strengthen revenue administration	Q3 2019	Q3 2019
	• Risk-based Supervision	Q3 2018	
	• Enhancing credit registry	Q3 2018	Q4 2019
	• Improving Compliance Risk Management	Q4 2019	Q1 2020
	B. Requests for Work Program Inputs		
Fund requests to Bank	• Periodic update on activities • Reports, macroeconomic and financial data to be shared regularly • Fund staff to participate in review of key analytical work	Ongoing	
Bank requests to Fund	• Periodic update on technical assistance activities • Macroeconomic and financial data to be shared regularly	Ongoing	
	C. Agreement on Joint Products and Missions		
Joint products in the next 12 months	• Debt sustainability analysis	Jan 2020	Jan 2020

STATISTICAL ISSUES

Assessment of Data Adequacy for Surveillance
General: Sudan's data provision has some shortcomings but is broadly adequate for surveillance. Areas that needs further improvements, include upgrading the base year, coverage, periodicity and timeliness of national accounts and balance of payment data; improving labor market and direct investment data; and providing more detailed and comprehensive fiscal accounting. The Central Bureau of Statistics (CBS) should be enhanced with the authority and resources to compile and disseminate official statistics and coordinate the national statistical work program. Retooling the CBS' computing infrastructure should also be accorded high priority.
National accounts: The CBS lacks a comprehensive data collection program and relies largely on administrative reporting. Economic surveys were last conducted in the 1970s and 1980s, and the benchmarks derived from these surveys inform current estimates of value added. Informal activities are not covered and are likely to be significant in areas such as retail trade and construction. Sudan's national accounts data are based on the System of National Accounts 1968 (*SNA 1968*), and the base year of the existing GDP constant price series (by activity and by expenditure) is very old, 1981/1982. National accounts statistics are compiled with a lag exceeding three years; and there are no national accounts or industrial production data at sub annual frequencies. On the expenditure side, data are lacking on final consumption by households, investment, and changes in stocks. A National Household Budget and Poverty Survey was conducted in 2014 and it could be used for the rebase of the national accounts. Improving annual source data, both administrative and survey sources, is essential and the development work on regional GDP needs to be incorporated into the ongoing annual estimates. The adoption of updated statistical guidelines (*2008 SNA*), rebasing of the national accounts, and developing procedures to improve the timeliness of GDP estimates should be among core objectives. There is also an urgent need to increase funding to the CBS and to rebuild its capacity for conducting household, agricultural, and enterprise surveys.
Price statistics: The Consumer Price Index (CPI) is compiled using weights based on a household expenditure survey conducted over four months during 2007. Ideally, weights should be based on an annual household survey and should not be more than five years old so as to ensure that the index remains representative of current expenditure patterns. In 2014, the CBS published a Producer Price Index (PPI) for the manufacturing sector covering 2009-13, but this index seems to have been discontinued. An economic census would be needed to develop the PPI.
Government finance statistics: Data reported to MCD are broadly adequate, with the main revenue, expenditure, and financing items reported monthly using an economic classification with a lag of about one-and-a-half month. The data are for the central government only. While the allocation of resources by the finance ministry to the various ministries is reported, their actual expenditures are not. GFS data are compiled and disseminated by the chamber of accounts within the finance ministry. There is no comprehensive data reconciliation of government claims on and

liabilities to the banking system. There has been some progress in implementing GFS classifications at the level of state governments. Priority should be given to the compilation of consolidated GFS for the general government with the objective of producing a statement of government operations, compilation of PSDS, and timely dissemination of GFS and PSDS to STA.
Monetary and financial statistics (MFS): Sudan has received significant technical assistance to improve the collection, compilation, and dissemination of monetary and financial statistics, and all major recommendations have been implemented. The Central Bank of Sudan (CBS) reports the Standardized Report Forms 1SR for the central bank and 2SR for the other depository corporations for publication in *International Financial Statistics* on a monthly basis. Data quality could be further improved by minimizing the discrepancies in reporting inter-bank positions. There is a need to develop a work program to compile MFS for other financial corporations, particularly insurance corporations and pension funds. Sudan reports some data and indicators to the Financial Access Survey (FAS), including the two indicators (commercial bank branches per 100,000 adults and ATMs per 100,000 adults) adopted by the UN to monitor Target 8.10 of the Sustainable Development Goals (SDGs).
Financial sector statistics: The authorities compile financial soundness indicators (FSIs) on a monthly basis and provide them to MCD staff. An FSI mission in May 2018 assisted in compiling a set of core and encouraged FSIs for deposit takers with quarterly frequency. Following the mission, a few pending compilation issues were addressed; as a result, FSI data and metadata are ready for posting on the IMF's FSI website upon the authorities' approval.
External sector statistics: Data quality has improved as a result of intense technical assistance (TA). Quarterly balance of payments (BOP) and annual international investment position (IIP) data are reported in the format of the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*), but there are several areas requiring improvement, particularly with regard to direct investment (DI) and estimation of informal trade. STA recommended a collaborative approach with regional offices of the Ministry of Investment, Central Bureau of Statistics (CBS), and CBOS branches focusing on key reporters, to keep costs to a minimum. For estimating informal trade, past TA advice was to coordinate with the Anti-Smuggling Unit (Ministry of Interior), Sudan Customs Authority, and the Directorate of Foreign Trade (of the CBS). Further improvements require strengthening inter-institutional cooperation and staff capacity, implementing past TA advice. The CBOS could consider compiling the data template on international reserves and foreign currency liquidity for better monitoring reserve assets.

Data Standards and Quality
Sudan participates in the Enhanced General Data Dissemination System (e-GDDS) but has not yet launched National Summary Data Page. E-GDDS metadata and plans for improvement need to be updated. No data ROSC is available.
Reporting to STA
The last annual data reported for the *Government Finance Statistics Yearbook* covers only budgetary central government up to 1999. No monthly and quarterly fiscal data are reported for the *International Financial Statistics (IFS)*. No data is reported to the IMF and World Bank Quarterly Public Sector Debt Statistics (QPSDS) database. The reporting of external trade statistics for inclusion in the *Direction of Trade Statistics (DOTS)* database is done with significant lags. National accounts data are not provided for publication in the *IFS*. The CBOS compiles and reports monetary statistics regularly to STA for publication in the *IFS*. The CBOS also reports to STA quarterly balance of payments and annual IIP data on the basis of the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The authorities should submit updated e-GDDS metadata for dissemination on the Dissemination Standards Bulletin Board.

Sudan: Table of Common Indicators Required for Surveillance (As of January 24, 2020)					
	Date of Latest Observation	Date Received	Frequency of Data[3]	Frequency of Reporting[3]	Frequency of Publication[3]
Exchange Rates	Dec. 2019	Jan. 2020	D	M	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Nov. 2019	Dec. 2019	M	BM	M
Reserve/Base Money	Nov. 2019	Dec. 2019	M	M	M/W
Broad Money	Nov. 2019	Dec.2019	M	M	M/W
Central Bank Balance Sheet	Nov.2019	Dec. 2019	M	M	M
Consolidated Balance Sheet of the Banking System	Nov. 2019	Dec. 2019	M	M	M
Consumer Price Index	Nov. 2019	Jan. 2020	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[2]–Central Government	Sept. 2019	Dec. 2019	M	I	I
External Current Account Balance	2019: Q3	Dec. 2019	Q	Q	Q
Exports and Imports of Goods and Services	2019: Q3	Dec. 2019	Q	Q	Q
GDP/GNP	2016	March 2019	A	A	A
Gross External Debt	2016	May 2019	I	I	A

[1] Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.

[2] Foreign, domestic bank, and domestic nonbank financing.

[3] Daily (D); Weekly (W); Monthly (M); Monthly/Weekly (M/W); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

Statement by Dumisani Hebert Mahlinza, Executive Director for Sudan and Muayad Ismail, Advisor to Executive Director
February 21, 2020

I. INTRODUCTION

1. Our Sudanese authorities thank staff for the constructive engagement and candid discussions during the recent Article IV Consultation mission in Sudan. They broadly concur with staff's analysis and key reform priorities. However, they are still in the process of building consensus on the sequence and pace of economic reforms needed to restore macroeconomic stability and support the development agenda.

II. CONTEXT

2. The rapid deterioration in economic and social conditions in recent years, amid a political impasse, sparked protests across Sudan that culminated in regime change in April 2019. After months of protracted social unrest, a power-sharing deal was agreed in August 2019, which paved the way for the formation of the Transitional Government of Sudan.

3. Since coming into power, the new government inherited daunting legacy challenges, including a shrinking economy, large fiscal and external imbalances, high inflation, a difficult humanitarian situation, and substantial governance challenges. At the same time, the designation of Sudan as a State Sponsor of Terrorism (SST) has prevented the country from progressing towards debt relief and clearance of arrears to the Fund. This has also weighed heavily on correspondent banking relationships.

4. Recognizing these challenges, the new government has prioritized the implementation of fundamental economic reforms, reintegration of Sudan into the global economy, and promotion of peace across the country. They have intensified efforts towards restoring macroeconomic stability and supporting social development. During the first four months in office, they have also made good progress in peace talks with the armed rebels. At the same time, efforts to normalize relations with the U.S. government to remove Sudan from the SST list and pave the way for debt relief have commenced.

5. In an effort to build consensus towards economic reforms, the authorities have intensified media interviews and are reaching out to political parties, academia, and professionals to discuss reform options and plans. In addition, they plan to hold a national economic conference in March 2020, to determine reform priorities as well as the pace and sequence of key policy measures, including fuel subsidy reforms. Subsequently, a donor conference to mobilize financial resources to support Sudan's economic reforms is expected to take place in April/May 2020.

III. KEY REFORM PRIORITIES

6. Faced with a challenging socio-economic environment, and a fragile political climate, the authorities recognize the urgency of reforms to restore macroeconomic stability and place the economy on a sustainable growth path. They concur that reforms should be properly sequenced, flexible and condition-based. They also recognize the important role that the international community can play in easing the burden of reforms. In this respect, they view the strengthening of social safety nets, subsidy reform, prudent fiscal management, and reform of the monetary policy framework as important priorities.

A. Reforming Fuel Subsidies

7. The authorities concur that fiscal consolidation is critical to restore macroeconomic stability and create fiscal space for priority social and capital spending. To this end, the authorities intend to fully remove fuel subsidies over the near to medium terms. As a first step in this process, they partially removed subsidies on commercial fuel in February 2020. At the same time, they have intensified outreach efforts to strengthen public support for comprehensive fuel subsidy reform and look forward to the outcomes of the national economic conference to determine the pace of the reform.

B. Strengthening Social Safety Nets

8. To mitigate the impact of fiscal adjustment on the vulnerable households, the authorities have commenced preparatory work to strengthen social safety nets with the support from the World Bank and United Nations. To this effect, they intend to adopt a Quasi-Universal Basic Income (QUBI) scheme with near-universal coverage, given the pervasiveness and high rate of poverty. A broader QUBI coverage is also more suited to deal with targeting and logistical challenges than a more targeted approach. Relatedly, the authorities plan to leverage fintech to enhance QUBI outreach and utilize data from the national registry and the forthcoming population census to improve QUBI targeting going forward. Further, the authorities plan to increase public wages that have been frozen since 2017 despite the massive increase in inflation. At the same time, the authorities intend to increase spending on education and health to achieve the 2030 Sustainable Development Goals.

C. Enhancing Revenue Mobilization

9. The authorities have recently completed a comprehensive stock take of the existing tax policies and practices to inform policy formulation. Accordingly, they plan to rationalize tax exemptions and broaden the tax base, including through extending tax coverage to the security sector's commercial companies. At the same time, the authorities envisage a significant increase in grants and loans. They also expect that ongoing efforts to recover stolen government assets and their subsequent sale will yield additional revenues. Further, the authorities are considering an increase in the customs rate which is expected to augment revenues from customs duty and import VAT. This increase will, however, be gradual to moderate the effects on the already high

inflation rate. In addition, the authorities note that a tariff reform would be needed and have requested technical assistance from the Fund in this area.

D. Improving Public Financial Management

10. The authorities plan to strengthen public financial management, reform state-owned enterprises, and overhaul the public procurement system to address governance weaknesses and reduce expenditure leakages. Further, they intend to improve budget planning through the adoption of a medium-term fiscal framework and strengthen the capacity of the macro-fiscal unit in the Ministry of Finance and Economic Planning (MOFEP). Efforts are also underway to operationalize the treasury single account to enhance the capacity of the MOFEP to control public finances. At the same time, the authorities have recently taken measures to incorporate all public enterprises, including the security sector's commercial companies, under MOFEP's oversight. They have also implemented measures to reduce the monetization of the fiscal deficit. In this connection, the authorities appreciate the Fund's technical assistance on the management of fiscal risks.

E. Restoring Monetary and Exchange Rate Stability

11. Tightening monetary policy remains critical to efforts to contain rising inflation and exchange rate pressures. Accordingly, the authorities plan to keep central bank financing of the budget within the statutory limits while employing available monetary policy instruments to mop-up excess liquidity. In the same vein, the authorities have fully liberalized artisanal gold market, which would help contain monetary expansion associated with gold purchases by the Central Bank of Sudan (CBOS) and subsequently ease inflationary pressures.

12. Work is underway to amend the CBOS Act to strengthen its autonomy and improve the effectiveness of monetary policy transmission in line with best practice. In this context, the authorities have requested technical assistance (TA) from the Fund to advance efforts in this area. They also intend to adopt a reserve money targeting framework in the short to medium term to help anchor inflation and lay the foundation for the adoption of an inflation targeting regime in the longer term.

13. The authorities recognize the importance of unifying multiple exchange rates to restore macroeconomic stability and strengthen competitiveness. They however prefer a more gradual pace of unification to minimize the impact on inflation and provide more room to strengthen social safety nets and cushion vulnerable households.

F. Strengthening Financial Sector Resilience

14. The authorities plan to continue modernizing banking regulations and strengthening supervisory capacity to preserve financial stability and enhance resilience. In particular, they are working on augmenting bank capitalization, reviewing options for voluntary bank mergers, and mitigating exchange rate risks. At the same time, work is underway to address deficiencies in the

AML/CFT framework through operationalizing risk-based AML/CFT supervision, strengthening the capacity of the Financial Intelligence Unit, and improving the efficacy of AML/CFT supervisory actions in line with the Fund TA recommendations.

IV. STRUCTURAL REFORMS

15. The authorities have stepped up efforts to strengthen governance, improve the business environment, and boost private investment. To this end, they recently approved a set of laws to fight corruption and unlawful enrichment and expedite recovery of stolen government assets, including a law to establish an independent anti-corruption commission.

16. In addition. they are amending the Investment Law, fostering dialogue with the private sector, and strengthening legal and institutional frameworks for Public-Private Partnerships (PPPs) with support from the World Bank and IFC. Further, they plan to promote financial inclusion through enhancing access to finance for MSMEs while leveraging fintech and the electronic mobile payments system to extend financial coverage to remote areas.

V. CONCLUSION

17. The authorities remain committed to implementing prudent macroeconomic policies and structural reforms to restore macroeconomic stability and support economic recovery. In this context, they have formally requested a Staff Monitored Program (SMP) to anchor economic reforms and catalyze support for debt relief. They recognize the importance of donor support to facilitate the implementation of economic reforms and look forward to assistance in this regard. Finally, the authorities wish to reiterate their appreciation to the Fund for the advice and technical assistance provided thus far and look forward to additional support in the implementation of reforms.