INTERNATIONAL MONETARY FUND

IMF Country Report No. 21/70

REPUBLIC OF SOUTH SUDAN

April 2021

STAFF-MONITORED PROGRAM AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SOUTH SUDAN

In the context of the Staff-Monitored Program and Request for Disbursement under the Rapid Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Acting Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 30, 2021, following discussions that ended on February 22, 2021, with the officials of the Republic of South Sudan on economic developments and policies underpinning the IMF arrangements under the Staff-Monitored Program and Request for Disbursement under the Rapid Credit Facility. Based on information available at the time of these discussions, the Staff Report was completed on March 17, 2021.
- A **Debt Sustainability Analysis** prepared by the Staffs of the IMF and the International Development Association (IDA).
- A **Statement by the Executive Director** for the Republic of South Sudan

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

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PRESS RELEASE

PR21/94

IMF Executive Board Approves US$ 174.2 Million Emergency Assistance for South Sudan to Address the COVID-19 Pandemic

FOR IMMEDIATE RELEASE

- *The economy has been hit hard by the COVID-19 pandemic and economic activity is projected to contract by 4.2 percent in FY20/21. The pandemic-related oil price shock and devastating floods have led to an economic downturn.*
- *A Rapid Credit Facility (RCF) disbursement in the amount of US$174.2 million will provide financing for urgent balance of payments needs.*
- *The authorities have started addressing macroeconomic imbalances and governance vulnerabilities by taking measures to strengthen fiscal discipline, remove distortions in the foreign exchange market and improve transparency.*

Washington, DC – **March 30, 2021:** The Executive Board of the International Monetary Fund (IMF) today approved a disbursement of SDR 123 million (50 percent of quota or about US$ 174.2 million) to South Sudan under the Rapid Credit Facility (RCF). This is the second IMF financial assistance to South Sudan since it joined the IMF in 2012. The disbursement will help finance South Sudan's urgent balance of payments needs and provide critical fiscal space to maintain poverty-reducing and growth-enhancing spending.

A sharp decline in international oil prices triggered by the pandemic and devastating floods have eroded economic gains of the peace process. The economy is slated to contract by 4.2 percent in FY20/21. The economic downturn widened the fiscal and the balance of payments deficits, opening large financing gaps in the absence of concessional financing. In the past, the monetization of the fiscal deficit resulted in high inflation and significant exchange rate depreciation. A modest economic recovery is projected in FY21/22 on the heels of oil price recovery.

The authorities have embarked on reforms to restore macroeconomic stability. Since October 2020, the authorities have stopped monetary financing of the deficit which, along with the forex auctions, have helped stabilize the exchange rate. Revenue mobilization measures, including phasing out some tax exemptions, have bolstered domestic non-oil revenue in recent months. A Staff Monitored Program (SMP) will help in creating the conditions for strong and inclusive growth by restoring fiscal discipline, implementing a rules-based monetary policy framework, and addressing distortions in the foreign exchange market.

The authorities are committed to strengthening governance and accountability through public financial management reforms. The transparency of the use of the RCF resources will be achieved through regular reports and audits. The SMP will foster greater transparency of government operations while strengthening governance and reducing vulnerabilities.
At the conclusion of the Board discussion, Mr. Mitsuhiro Furusawa, Deputy Managing Director and Acting Chair, made the following statement:

"South Sudan has been hit hard by the COVID-19 pandemic, lower international oil prices, and severe floods in recent months. These challenges have led to urgent balance of payments and

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fiscal financing needs and reversed early economic gains from political stability. The IMF's emergency financing under the Rapid Credit facility would help meet priority spending needs, catalyze donor support, and foster critical economic reforms envisaged under the Staff-Monitored Program. Prudent fiscal and monetary policies are necessary to promote macroeconomic stability.

"Restoring fiscal discipline is key to macroeconomic stabilization and debt sustainability. It is important that the authorities remain committed to executing the remainder of the FY20/21 and FY21/22 budgets without arrears accumulation and no recourse to monetary financing. Revenue mobilization measures and expenditure rationalization would ensure adequate resource allocation for priority expenditure, including vaccinations, salaries, and critical investments. To maintain debt sustainability, the authorities must remain committed to nonconcessional financing and limiting external borrowing to only finance critical infrastructure and COVID-related spending.

"Discontinuation of deficit monetization is critical to enhancing the credibility of the macroeconomic framework. Foreign exchange reforms should aim to phase out economic distortions, reduce vulnerabilities, and support economic diversification. Effectively implementing the reserve money targeting framework and reducing distortions in the FX market would support monetary and financial stability.

"Strengthening governance is crucial for efficient use of public funds and building credibility with public and development partners. In this regard, it will be important to accelerate public financial management reforms, including implementing steps that would strengthen the macro-fiscal framework and the budget process; implement the Treasury Single Account; and improve cash management. The authorities should remain committed to ensuring transparency in the use of RCF resources by publishing monthly reports on pandemic-related spending and making public quarterly audits by the Auditor General."

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

March 17, 2021

STAFF-MONITORED PROGRAM AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Context. South Sudan is a very fragile post-conflict country. After five years of civil conflict, the warring parties came to an agreement for power-sharing in September 2018 and formed a unity government in February 2020. However, peace remains fragile in the face of difficult humanitarian and economic conditions. Already very high levels of poverty and food insecurity have been exacerbated by severe flooding in recent months. The floods (the worst in 60 years) have killed livestock, destroyed food stocks, and damaged crops ahead of the main harvest season. South Sudan's economy has been hit hard by lower international oil prices following the COVID-19 pandemic.

Request for Rapid Credit Facility (RCF) and Staff-Monitored Program (SMP). In light of the urgent balance of payments (BOP) need caused by the pandemic which, if not addressed would result in an immediate and severe economic disruption, the authorities are seeking assistance under the RCF for 50 percent of quota (SDR 123 million, or about US$176 million), of which about half will be used to support the budget and the other half to replenish largely depleted international reserves. In addition, a March 31-December 31, 2021 SMP (presented to the Board for information) will help guide policy implementation and provide time to develop an appropriately ambitious medium-term reform strategy that could eventually be supported by an Extended Credit Facility (ECF). The SMP would also help the authorities restore credibility with donors and improve prospects for concessional financing.

Staff's view. Staff supports the authorities' request for the RCF given the urgent nature of the BOP need and based on strong policy commitments under the SMP articulated in the attached Memorandum of Economic and Financial Policies, that focus on: prudent fiscal and monetary policies to restore macroeconomic stability; FX reforms towards a market-based exchange rate system; and public financial management (PFM) reforms to address governance and corruption. South Sudan has adequate capacity to repay the Fund. The main downside risk to the program, although with low probability, is a potential return to hostilities due to very difficult humanitarian and economic conditions exacerbated by the economic crisis and devastating floods. On the upside, higher oil prices would support an economic rebound and peace dividends could be higher than expected.

Approved By
Catherine Pattillo (AFR) and Guillaume Chabert (SPR)

An IMF team, consisting of Mr. Niko Hobdari (Head), Ms. Elaine Abomwesigwa, Mr. Ayman Alfi, Ms. Natalia Koliadina, Ms. Ursula Wiriadinata (all AFR), Mr. Tohid Atashbar (SPR), and Mr. Hoth Tot Chany (IMF Resident Representative office in Juba) held discussions with Minister of Finance and Planning, Hon. Athian Ding Athian; Central Bank Governor, Mr. Dier Tong Ngor; and other senior government officials by teleconference during February 8–22, 2021. Mr. Garang (OED) participated in policy discussions. The Executive Director, Ms. Mannathoko and her alternates (all OED) joined the opening and closing meetings. Ms. Amparo Gamboa González and Ms. Francine Nyankiye, and Mr. Rogelio Celaya and Mr. Fernando Morán Arce (all AFR) contributed to the preparation of this report.

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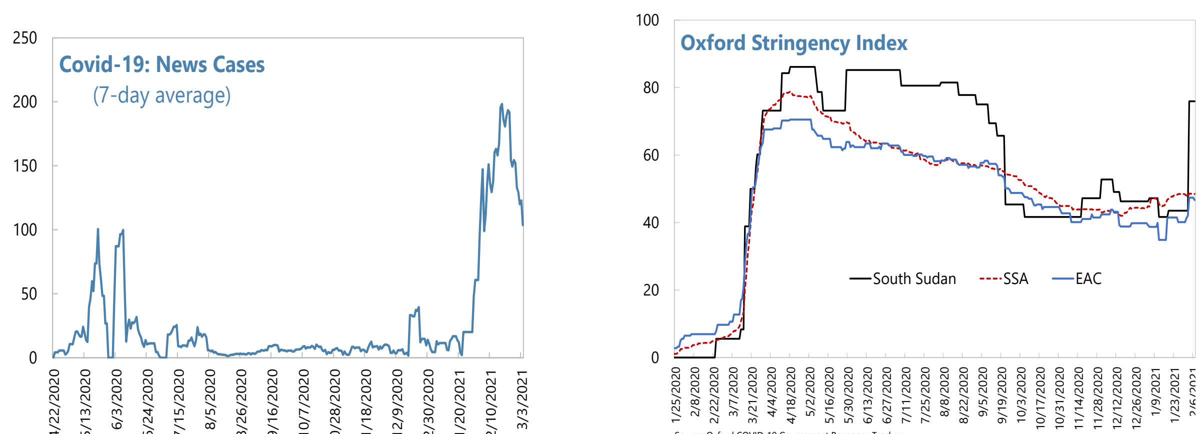
CONTEXT

1. **The Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCSS) rekindled the peace process and state building.** After five years of civil conflict, the warring parties came to an agreement for power-sharing in September 2018. Notwithstanding some delays, the main milestones have been met with the formation of the unity government in February 2020, the agreement on the number of states and the appointment of ten state governors. The peace-building process has been tentative though, owing to factional differences.

2. **South Sudan is a very fragile post-conflict state.** About 40 percent of the population remain internally displaced or live as refugees in neighboring countries, and more than 80 percent live below the poverty line. The country has a very limited social safety net system and very low spending on health and education, which are largely reliant on donor support. Food insecurity remains persistently elevated across most of the country, with more than half of the population in need of food assistance. The humanitarian crisis has been exacerbated by severe flooding in recent months, the worst in 60 years. It has affected more than 1 million people (about 10 percent of the population), killed livestock, destroyed food stocks, and damaged crops ahead of the main harvest season. Aid agencies are warning of a looming famine in parts of the country.

3. **The authorities took early measures to contain the health impact of the pandemic.** They implemented pre-emptive measures in February, before the first positive case was recorded in the country on April 10. Some measures—such as school closures—were relaxed in May but reinstated in February 2021 following a surge in COVID-19 infections (Text Figure 1). South Sudan has adopted stricter restrictions than other countries in SSA and in the East African Community. The risks of COVID-19 remain particularly high for the displaced persons' camps and settlements. Beyond health, the pandemic has affected the economy (¶6), creating immediate and large external financing needs (¶5).

Text Figure 1. Republic of South Sudan: COVID-19 Cases and Oxford Stringency Index

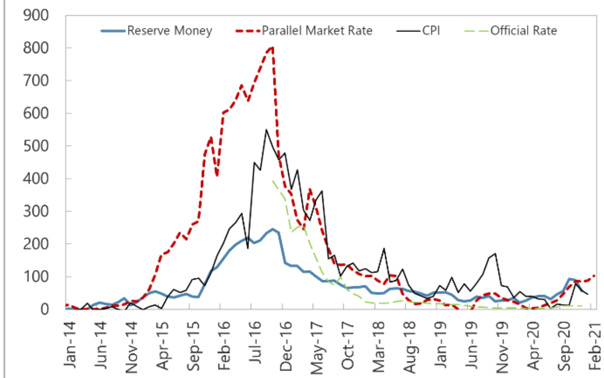


Source: Oxford COVID-19 Government Response Tracker.

Source: Our World in Data.

4. **Macroeconomic policies have been procyclical since independence.** Being oil-dependent, with almost all export proceeds and nearly 90 percent of fiscal revenue generated by oil, South Sudan is particularly susceptible to external shocks. However, the authorities built little buffers during periods of high oil prices. As a result, following the 2014 and 2020 oil price shocks, the authorities resorted to monetary financing of large fiscal deficits, contributing to rapid exchange rate depreciation (Text Figure 2).

Text Figure 2. South Sudan: Money, Inflation, and Exchange Rate



Sources: South Sudanese authorities; and IMF staff calculations.

5. **The authorities have requested an SMP combined with a second disbursement under the RCF.** South Sudan has significant BOP financing needs due to the oil price shock following the pandemic and devastating floods in parts of the country but has very little access to concessional financing. Donors are increasing their financial support to mitigate the impact of the floods, but the amounts committed to date are short of the needs (additional food imports are estimated at over US$400 million). The BOP gap is estimated to have widened under the baseline, as the estimated positive impact of the recent oil price recovery has been insufficient to offset the adverse impact of recent floods (Table 5). An RCF disbursement will alleviate urgent BOP needs which, if not addressed, would result in an immediate and severe economic disruption. The SMP would help strengthen macroeconomic stability and establish a track record towards an upper credit tranche financial arrangement (such as an ECF). By improving PFM systems, the SMP would also help the authorities restore credibility with the donors that was undermined by weak governance and wide-spread corruption and improve prospects for concessional financing.

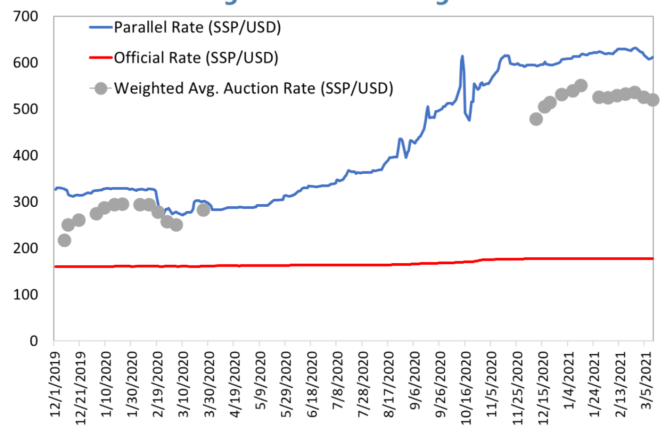
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

6. **The pandemic has reversed the economic gains from improved political stability following the 2018 revitalized peace agreement (Tables 1-4).** Economic growth rebounded sharply in FY19/20 reaching 13.2 percent. Inflation declined from 125 percent in FY17/18 to 35 percent in FY19/20 and the exchange rate stabilized. However, the sharp decline in international oil prices following the pandemic has severely impacted the economy. Economic activity is projected to contract by 4.2 percent in FY20/21. This mainly reflects the contraction in the oil and agricultural sectors—the two largest sectors in the economy—due to the oil price collapse and the devastating floods. The baseline is for a modest recovery of real GDP growth in FY21/22, and for a gradual decline in inflation, on the basis of the expected continued recovery in international oil prices and commitment to terminate monetary financing of the deficit (see ¶8 and ¶15). Oil production, which recovered significantly following the 2018 peace agreement due to reopening of oil fields closed during the civil war, is projected to grow modestly in the near term. This reflects an expectation of subdued investments in the sector, in light of continued uncertainty on both international oil prices and domestic political stability.

7. Resumption of monetary financing in the wake of the pandemic led to a rapid depreciation of the exchange rate in the parallel market and a spike in inflation. Following a sharp decline in oil revenue following the pandemic and given limited access to external financing, the authorities ran expenditure arrears (including on salaries) and resorted to monetary financing of the deficit. The latter led to a significant increase in reserve money: about 45 percent between March and September 2020. This monetary expansion exacerbated the pressure on the South Sudanese Pound (SSP), contributing to a sharp SSP depreciation in the parallel market and a pickup in inflation. Most consumer goods, including food, are imported and the pass-through of parallel market exchange rate depreciation to consumer prices is very high and almost instantaneous.

8. Monetary financing of the deficit was discontinued, which stabilized the exchange rate but distortions in the FX market remain significant. Starting from October 2020, following a resolution of the Council of Ministers, the monetization of the deficit was terminated, and the government has refrained from accessing the overdraft facility at the BOSS even for short-term cash management purposes. This has contributed to a relative stability of the exchange rate in the parallel market since November. The official exchange rate has barely moved since the pandemic, however, resulting in a very high premium of the exchange rate in the parallel market relative to the official rate (currently over 200 percent) (Text Figure 3). This creates significant distortions in the FX market that hamper economic growth and provide opportunities for rent-seeking.

Text Figure 3. Parallel Market , Official, and Average Auction Exchange Rate



Sources: South Sudanese authorities

9. The RCF disbursement that was approved by the IMF Board in November 2020 was used to reduce wage and salary arrears. The payment of such arrears is the main poverty-reducing instrument currently available to the authorities in the absence of budget-funded transfer mechanisms and against the background of low-paid high government employment, including in health and education sectors. The authorities have converted most of the US$52 million RCF disbursement at the official exchange rate (174 SSP/US$) and used the proceeds to clear two months of wage and salary arrears (five months of salary arrears remain outstanding as of end-January). The BOSS has started weekly FX auctions to sell some of the FX disbursed under the RCF. As of mid-March, some US$24 million of the RCF disbursement has been auctioned, with the weighted average exchange rate ranging between 80 and 90 percent of the parallel market rate (Text Figure 3). The proceeds from the difference between the exchange rate at which the RCF funds are being sold at auctions and the official rate that was used to reduce the outstanding stock of the MOFP overdraft to the BOSS (MEFP ¶4), contributing to a reduction in reserve money which has in turn helped bring relative stability in the FX market.

10. The near-term outlook is very uncertain with risks tilted to the downside. A faster-than-projected global recovery would lead to higher oil prices, which would boost both oil and non-oil growth. However, the adverse impact of the recent floods could be larger than currently anticipated. In addition, a prolonged period of low oil prices would undermine economic recovery and could lead to the resumption of monetary financing of the deficit, putting pressure on the exchange rate and inflation. Interference by vested interests could also impede the implementation of envisaged FX market reforms towards a market-determined exchange rate (see ¶17). A potential delay in this area would undermine confidence in the authorities' ability to implement reforms, depriving the economy from the expected increase in private FX inflows and donor support.

THE STAFF-MONITORED PROGRAM

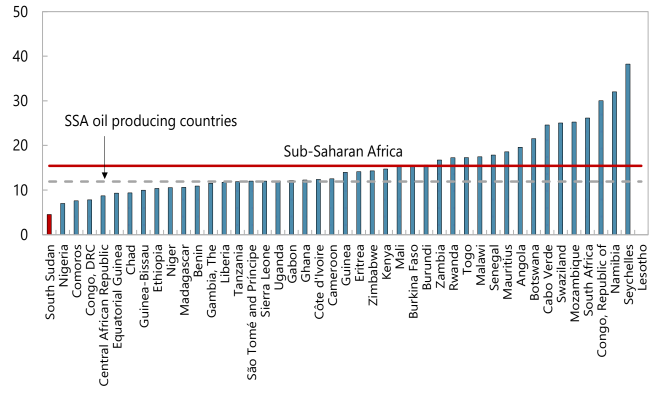
11. The authorities and staff agreed on macroeconomic policies and reforms underpinning a nine-month SMP. A package of measures underpinning the SMP will (i) foster macroeconomic stability to create conditions for strong and inclusive growth by restoring fiscal discipline, implementing a rules-based monetary policy framework, and addressing distortions in the FX market; and (ii) increase transparency in government operations aiming to strengthen governance and reduce opportunities for rent-seeking. Capacity building activities from the Fund and other development partners will foster the implementation of policies and reforms underpinning the SMP.

A. Restoring Fiscal Discipline

12. Fiscal policy under the SMP will support macroeconomic stabilization and debt sustainability. This will be achieved by containing fiscal deficits and refraining from deficit monetization and non-concessional borrowing. Specifically, the authorities are committed to execute the remainder of the FY20/21 and the FY21/22 budgets without arrears accumulation and no recourse to monetary financing. This will be achieved via revenue mobilization measures and expenditure rationalization to ensure adequate resource allocation for priority expenditure including salaries, social spending, critical investments, and peacebuilding. To maintain debt sustainability, the authorities are committed to limiting external borrowing to only finance critical infrastructure and COVID-related spending, and to consult with the IMF prior to contracting any non-concessional borrowing. The authorities will ensure timely payments of wages and salaries starting from March 2021 and reduce the stock of wage and salary arrears to 3 months by the end of FY20/21 (from 5 months currently). Salary arrears will be eliminated during FY21/22. Against this background and given extremely limited access to concessional financing in the immediate future, staff estimates a fiscal financing gap of about 2.3 percent of GDP in FY20/21 and about 2 percent of GDP in FY21/22 (Table 6).

13. Strengthening government revenue is essential for macroeconomic stabilization and creating fiscal space in support of economic development. South Sudan is highly dependent on volatile oil revenues, which currently represent about 90 percent of total government revenue, and the value of such revenue in SSP is constrained by its conversion at an appreciated official exchange rate relative to the one prevailing in the parallel market. In addition, non-oil revenue collections remain low compared with other countries (Text Figure 4). The authorities are taking several steps to increase revenue.

Text Figure 4. Sub-Saharan Africa: Non-Oil Tax Revenue, 2019
(percent of GDP)



Source: IMF, *World Economic Outlook*, October 2020.

- **Non-oil revenue.** The authorities have stepped up domestic revenue mobilization, which has succeeded in generating a significant increase in non-oil revenue in FY20/21 (some SSP 1 billion per month, equivalent to about 1.1 percent of GDP per year), with additional effects expected in FY21/22 (MEFP ¶17). The main measures include: (i) phasing out tax exemptions; (ii) increasing domestic rates to bring them closer to the level prevailing in other EAC countries (such as excise and business profit tax rates); and (iii) modernizing the National Revenue Authority, including digitalizing the collection of taxes, and aligning the method for the classification of goods by customs with international best practice. The authorities are also considering replacing the sales tax with a value added tax (VAT) and are seeking IMF technical assistance to help them in this reform.

- **Oil revenue and external financing.** The envisaged FX market reforms (see ¶17 below) will increase the SSP equivalent of oil revenue. Such reforms would also boost the SSP value of external financing, including the forthcoming disbursement under the RCF, a portion of the proceeds of which will be auctioned by the BOSS on behalf of the government (MEFP ¶11). More broadly, FX market reforms would also directly and indirectly boost revenues by encouraging FDI inflows and reducing resource misallocations in the economy.

14. The government will prioritize spending to ensure timely payment of wages and salaries and adequate funding of social and priority investment spending.

- **Wages and salaries.** The payment of wages and salaries will be prioritized. Given the lack of targeted support for vulnerable groups, payment of wages and salaries for government employees (such as for health workers, teachers, and civil servants) is one of the few poverty-reducing instruments available to the authorities, since it provides support to government workers and their extended families across the country. To that end and to address a high turnover among civil servants, the authorities are committed to gradually reduce outstanding salary arrears with the aim of eliminating them by end-December 2021. The authorities intend to keep nominal wages unchanged in FY21/22 given the tight financing constraints. This would imply a significant decline in real wages given high inflation, which could undermine morale and poverty reduction objectives. To help avoid such outcomes, staff urged the authorities to consider nominal wage adjustments to protect the purchasing power of government workers, and to consider expenditure reallocation to make this possible.

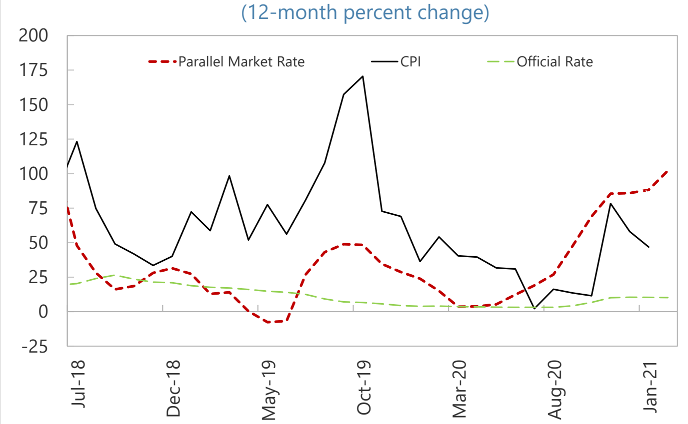
- **Social support programs.** The authorities and staff discussed potential compensating mechanisms to protect vulnerable groups from the envisaged FX reforms discussed below. These could include explicit subsidies in the budget to replace the implicit subsidies associated with access to FX at the official exchange rate. The FX reforms would, on balance, result in savings to the budget since the explicit subsidies would be targeting specific goods and services, whereas the adjustment of the official exchange rate would increase oil revenues in SSP. Nevertheless, to contain the cost of such subsidies in the budget, staff advised the authorities to consider replacing such block subsidies with more targeted ones (Box 1). The FX reform is also expected to unlock the cash-transfer programs supported by the World Bank through the United Nations Office for Project Services that is targeted to the most vulnerable parts of the population.
- **Funding for COVID-19 vaccination.** South Sudan's severely underfunded and underdeveloped healthcare system is inadequate for dealing with highly contagious viruses such as COVID-19. Mass vaccination of the population is complicated by large numbers of displaced population and poor health infrastructure. The authorities expect to receive vaccines covering 20 percent of population through the COVID-19 Vaccines Global Access (COVAX) program coordinated by the World Health Organization (WHO), and they are working on a national vaccine deployment plan to ensure that 40 percent of the population are vaccinated by end-2022 (MEFP ¶3). Preliminary staff estimates suggest that the distribution cost of vaccinating 40 percent of the population is about US$32 million and the cost of procuring vaccines for the additional 20 percent targeted by the authorities is about US$28 million, for a total of about US$60 million (about 1.1 percent of GDP). The WHO estimates about 10 percent of the population will be vaccinated by June 2021, an additional 10 percent by end-2021 and the remaining 20 percent in 2022. While the authorities will prioritize vaccine-related spending in the FY21/22 budget, significant donor financing would be needed to fully execute the envisaged vaccination plan.
- **Critical infrastructure investments.** The focus of public infrastructure investments will continue to be on expanding the national and regional road network, consistent with the multi-year investment plan announced in 2019 that aims at reducing the high transportation cost and improving the distribution of in-kind foreign aid (such as basic goods and medicines) to the regions. The authorities will use proceeds from 10,000 barrels of oil per day to fund such projects for the remainder of FY20/21 and for FY21/22 (less than the 30,000 barrels per day announced in 2019 due to the cash squeeze from lower oil prices in the wake of the pandemic).

Box 1. How to Mitigate the Impact of FX Reform on Prices of Critical Goods

International experience shows that when the official exchange rate is allowed to adjust to equilibrate FX demand and supply as envisaged under the SMP (see ¶17 below), it tends to converge towards the level of the exchange rate in the parallel market. For South Sudan this suggests that the SSP/US$ exchange rate would eventually converge to the level prevailing in the FX auctions (or an increase of over 200 percent).

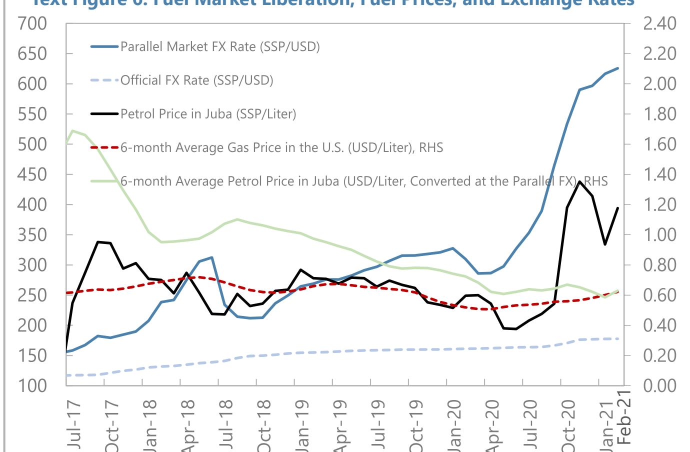
Staff analysis suggests that changes to the reference rate would not lead to a material increase in consumer prices, as such prices in South Sudan are tightly linked to changes in the exchange rate in the parallel market (Text Figure 5) and the policies envisaged in the SMP should stabilize the parallel market rate. However, changes in the reference rate could put pressure on the prices of some critical goods (fuel, electricity, water, basic food, and medicine) that have been benefiting from access to FX at the more appreciated reference rate.

Text Figure 5. South Sudan: Inflation and Exchange Rate
(12-month percent change)



Sources: South Sudanese authorities; and IMF staff calculations.

Text Figure 6. Fuel Market Liberation, Fuel Prices, and Exchange Rates



Sources: South Sudanese authorities, .

The implicit subsidy provided through the official rate to the fuel and electricity sectors, for example, amounts to an estimated ¾ percent of GDP. For fuel, the implicit subsidy is provided via Trinity Energy, the government contractor in the fuel market, which accounts for about 30 percent of the fuel market, whereas the rest of the market is liberalized and fuel prices at the pump follow the dynamics of the exchange rate in the parallel market (Text Figure 6). Trinity then sells fuel in its gas stations at about 20 percent lower than in privately run gas stations. The implicit fuel subsidy is estimated to be some US$ 1 million per month (¼ percent of GDP per year). For electricity, the authorities granted Juba Electricity Distribution Company (JEDCO), the government contractor for electricity provision, access to purchase foreign exchange of US$3 million per month at the official rate. At the current 200 percent parallel market FX premium, this preferential access indicates an implicit subsidy of about US$ 2 million per month (½ percent of GDP per year).

To protect the vulnerable groups from the pressure on the prices of such critical goods, the authorities have several options:

- One option is to provide explicit subsidies to Trinity and JEDCO, combined with a commitment to keep the price of fuel and electricity they offer unchanged. This has the benefit that it can be implemented quickly and help avoid the impact of exchange rate reforms on vulnerable groups immediately. However, such subsidies are not well targeted and international experience suggests that higher income households are one of the main beneficiaries.

Box 1. How to Mitigate the Impact of FX Reform on Prices of Critical Goods (concluded)

- To contain the cost of such untargeted subsidies in the budget, the authorities can consider replacing them over time with more targeted subsidies for the poor to promote universal access of those goods and services. For electricity and water consumption, for example, the authorities can introduce lifeline tariffs, which are designed as subsidized rates for a first block of consumption to cover basic needs of low-income households, whereas the better-off households that consume larger amounts of such goods/services would pay cost-recovery tariffs.
- Other options that can be implemented over time include expanding existing cash support programs, such as South Sudan Safety Net Project (SSSNP) funded by the World Bank that currently targets up to 430,000 people in about 65,000 households in the most vulnerable communities. Part of the additional revenue generated from the adjustment in the official rate can be used to increase the amount of cash transfers provided through the SSSNP aiming to reach those vulnerable groups that are most affected by the unification process.

Staff urges the authorities to work closely with the World Bank in designing social safety nets and subsidies to help avoid adverse distributional impact from the beginning while at the same time contain the fiscal costs over time.

B. Monetary and Exchange Rate Policies

15. Reserve money targeting is the only feasible monetary policy regime for South Sudan at the current juncture, given the low level of reserves and lack of policy credibility (Annex I). The BOSS will operationalize its money targeting framework, using reserve money as the operational target for monetary policy to bring inflation under control, targeting 10 percent growth in reserve money in 2021 (MEFP ¶9). The authorities are committed to continuing the policy of no monetary financing of the deficit (MEFP ¶6), and the government will not access the overdraft facility at the BOSS to reduce fiscal dominance and thus support the BOSS to implement effectively its reserve money targeting framework. With support from IMF TA, the BOSS is strengthening its liquidity forecasting process and working to expand the range of monetary policy instruments. In addition, to increase the operational independence of the BOSS, the BOSS and MOFP are working on finalizing an agreement to have the budget cover the costs of liquidity operations by the BOSS (MEFP ¶9–10).

16. The authorities intend to rebuild the depleted international reserves to enhance the credibility of macroeconomic policy framework and the ability to effectively respond to future crises. South Sudan's current level of international reserves falls far short of what is needed to operate a credible monetary and FX framework (Annex I). To that end, the authorities and staff agreed to use about half (US$87 million) of the disbursement under the proposed RCF to build international reserves. The authorities also intend to develop, in collaboration with IMF staff, a plan for using revenue windfalls, including a combination of repaying expensive external debt and building buffers through reserve accumulation in the Oil Revenue Stabilization Account (MEFP ¶13).

17. The authorities and staff reached agreement on FX market reforms that will phase out economic distortions, reduce rent seeking, and support economic diversification. The distortions from the large premium of the exchange rate in the FX auctions and the parallel market relative to the indicative (official) rate––currently at over 200 percent––significantly hamper economic activity, discourage FX inflows from investors and donors, and create opportunities for rent seeking. The agreed FX reforms have two key components:

- ***First, an immediate liberalization of the FX market for private and official flows (MEFP ¶11)***. These reforms include allowing banks to participate in weekly FX auctions organized by the BOSS starting from the beginning of the SMP, and to operate freely in the FX market, including buying and selling private FX inflows and donor financial support at competitive exchange rates. As was the case with the November 2020 RCF disbursement, the portion of the forthcoming RCF disbursement that goes to the budget will also be auctioned. In addition, the BOSS will consider increasing the amount of FX sold in the weekly auctions, including part of the FX from oil revenues, if needed to mop up excess liquidity consistent with the reserve money targets and macroeconomic stabilization objectives.
- ***Second, a gradual adjustment of the official rate to allow for an orderly transition to a unified exchange rate in the market (MEFP ¶12).*** This will be done by limiting the adjustment of the reference rate, which will be used only for transactions between the government and BOSS. The agreed gradual adjustment in the reference rate would allow the authorities to put in place subsidy programs to protect vulnerable groups from the increases in prices of critical goods that have been benefitting from access to FX at the more appreciated referenced rate (Box 1). Provided that the authorities adhere to their commitment of no further monetary financing of the deficit, the exchange rate unification is expected to be achieved around the time of the first SMP review (September 2021).

C. Debt Management

18. Maintaining debt sustainability and alleviating the risk of debt distress require avoiding expensive foreign borrowing. The authorities are committed to refrain from contracting non-concessional debt subject to limited and well-targeted exceptions (MEFP ¶15). To this end, the authorities ended the use of oil advances and cancelled the arrangement with Sahara Energy in November 2020. The outstanding balance will be repaid with three oil cargoes in March, June, and September 2021. South Sudan does not currently have external arrears. Its debt is assessed to be sustainable albeit the risk of debt distress remains high. Going forward fiscal discipline and macroeconomic stability will improve access to concessional financing and thus will help the authorities avoid expensive external borrowing, including expensive and non-transparent oil advances. The authorities agreed to resort to non-concessional borrowing only if: (i) debt management operations improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the national development program or for critical COVID-related spending, and for which concessional financing is not available. To improve debt management, the authorities will set up a debt unit at the MOFP and develop a framework for monitoring debt obligations. The authorities requested technical assistance from the IMF to improve the quality and timeliness of debt data.

D. Strengthening Governance

19. Strengthening governance is essential for efficient use of public funds and building credibility with the public and development partners. The shortcomings in PFM, exacerbated by limited capacity and weak institutions, have contributed to a credibility gap with donors, limiting access to concessional financing and resulting in aid being disbursed almost exclusively through third parties outside government systems. The authorities have started to address governance weaknesses. They have discontinued the use of oil advances for budget financing, which has improved budget transparency and oil management. The PFM Oversight Committee—with participation from the government, development partners and civil society—along with a Technical Committee and a Secretariat, all established by Executive Order of the MOFP in April 2020, has been important for overseeing budget implementation and advising on resource allocation. The authorities are planning to strengthen the anti-corruption framework by criminalizing corruption offenses and implementing an asset declaration regime. Additionally, they will bring legal and institutional frameworks in line with the requirements under the United Nations Convention Against Corruption and apply for membership in the regional FATF-styled body (the Eastern and South African Anti-Money Laundering Group) (MEFP ¶16).

20. The authorities have identified PFM priorities and are working with the IMF and other development partners on implementing the targeted reforms in this area. The Cabinet will adopt a PFM concept note as soon as the COVID-related restrictions on official meetings are lifted and no later than end-June 2021. The concept note outlines a 2021 Immediate Action Plan for reforms in this area consistent with R-ARCSS PFM priorities. The SMP-supported PFM reforms in 2021 will focus on: strengthening the macro-fiscal framework and budget process; starting the implementation of the Treasury Single Account (TSA); improving cash management practices; establishing a public procurement and asset disposal authority; and strengthening the Anti-Corruption Commission and the Audit Chamber. The authorities have also committed to take steps to increase transparency on oil production, marketing, and contracts (MEFP ¶17).

SMP AND RCF MODALITIES, RISKS, AND CAPACITY TO REPAY THE FUND

21. Staff supports the authorities' request a nine-month SMP covering the period of March 31–December 31, 2021. Performance under the SMP will be monitored through quarterly reviews of quantitative targets and structural benchmarks (MEFP Tables 1 and 2). The SMP and Board consideration of the RCF request is subject to a prior action related to the issuance of a Circular by the BOSS containing the agreed FX reforms and making them effective on April 1, 2021. The program has six quantitative targets and five structural benchmarks. The Technical Memorandum of Understanding (TMU) contains definitions of the quantitative targets and structural benchmarks. It also specifies data required to monitor the program that the government will need to provide to Fund staff on a timely basis. The first test date is June 30, 2021 and the review is expected to be completed by end-September 2021. The second test date will be September 30, 2021, and the completion of the second review by end-2021 could be combined with a request for an ECF.

22. The proposed RCF disbursement will help meet urgent BOP needs. An RCF disbursement in the amount of 50 percent of quota (SDR 123 million or about US$176 million) will provide BOP and budget support. Of this, about half (US$89 million) is proposed for fiscal financing (which would close about 60 percent of the estimated fiscal gap) to limit the extent of fiscal consolidation that would lead to cuts in priority spending, and the remainder (US$87 million) to support international reserve accumulation. The remaining fiscal financing gap in FY20/21 is expected to be closed by a combination of FX profits related to the RCF disbursement (see ¶17 and MEFP ¶11), concessional loans, and further fiscal consolidation if necessary.

23. Program implementation is subject to risks on both sides.

- **Upside risks** arise from a faster-than-projected recovery, supported by a stronger rebound in the oil sector and peace dividends. Oil production is expected to increase on the back of recovering oil prices and continued progress in peacebuilding.
- **Downside risks** are dominated by political risks and weak capacity. Political risks remain high, given weak government unity, high governance and corruption vulnerabilities, widespread poverty and food insecurity, and the significant number of displaced people and demobilized military lacking formal job opportunities. In addition, the authorities' weak capacity might undermine the implementation of envisaged reforms. The inability to access concessional financing might trigger accumulation of arrears, and monetary financing of the deficit.

24. South Sudan's capacity to repay its obligations to the Fund is adequate (Table 7) but subject to risks. South Sudan's debt is assessed to be sustainable with a high risk of debt distress. While Fund exposure to South Sudan is expected to remain manageable, there are downside risks on their capacity to repay the Fund given the very fragile political situation and low gross international reserves. On the upside, South Sudan's capacity to repay will be strengthened following the completion of financial transfers to Sudan under the Transitional Financial Arrangement in mid-2022 (around 4 percent of GDP).

CAPACITY DEVELOPMENT

25. The *R-ARCSS* and improved engagement with the Fund boosted the authorities' resolve for reforms. The authorities are committed to strengthening PFM. Performance in implementing the most recent PFM TA recommendations has been good (in contrast with past experiences). CD activities underlying the SMP will focus on the most critical needs and will be delivered gradually, in line with implementation capacity (Annex II).

26. Limited absorptive capacity is a risk for CD delivery. Historically, CD traction has been low and the implementation of TA recommendations has been slow, due to the lack of leadership, weak governance, high staff turnover and limited institutional memory.

STAFF APPRAISAL

27. South Sudan's economy has been hit hard from the COVID-19 pandemic and devastating floods. These shocks have reversed some of the economic gains from improved political stability following the 2018 revitalized peace agreement. The economy is expected to contract sharply in FY20/21, to be followed by a modest recovery in FY21/22 on the heels of oil price recovery.

28. Policy adjustments in recent months have stabilized the exchange rate in the parallel market. Resumption of monetary financing in the wake of the pandemic, following the sharp decline in oil revenue and given limited access to external financing, led to a rapid depreciation of the exchange rate in the parallel market and a spike in inflation. Since September 2020, however, the authorities have appropriately discontinued the monetary financing of the deficit. This welcome policy adjustment has contributed to a relative stability of the exchange rate in the parallel market. Staff supports the authorities' commitment to continue the policy of no further monetary financing of the deficit and targeting a prudent increase in reserve money going forward.

29. Creating additional fiscal space for priority spending requires raising government revenue while refraining from non-concessional borrowing to maintain debt sustainability. Staff supports the domestic revenue mobilization measures being undertaken by the authorities, including revenue administration reforms and adjustment in tax rates towards levels prevailing in other EAC countries, which would create fiscal space for priority spending. South Sudan is at high risk of debt distress, as a combination of past non-concessional borrowing and the current relatively low level of international oil prices. Staff therefore urges the authorities to uphold their commitment to refrain from non-concessional borrowing, including expensive and non-transparent oil advances, with a view to maintain debt sustainability.

30. Rebuilding depleted international reserves is critical to enhance the credibility in the authorities' macroeconomic policy framework. Staff urges the authorities to gradually increase international reserves to facilitate their ability to respond effectively to future shocks. If international oil prices continue to increase, staff urges the authorities to repay expensive external debt and also save any revenue windfall in the Oil Revenue Stabilization Account once the spending authorized under the budget has been fully executed, and avoid ad-hoc spending increases in FY20/21.

31. A unified and market determined exchange rate is essential to eliminate the current distortions in the FX market and support economic diversification. Staff welcomes the FX market reforms introduced by the authorities, effective from the beginning of the SMP, including to open up FX auctions to banks and to allow them to operate freely in the FX market for buying and selling private FX inflows and donor financial support at competitive exchange rates. Staff urges the authorities to steadfastly implement the adopted strategy for the gradual adjustment of the reference rate until the objective of a unified exchange rates is achieved as expected around September 2021.

32. **Strengthening PFM systems is essential for efficient use of public funds and building credibility with the public and development partners.** Staff urges the authorities to implement in a timely manner the planned PFM reforms, including on strengthening the macro-fiscal framework and budget process, starting the implementation of the Treasury Single Account, improving cash management practices, establishing a public procurement and asset disposal authority, and strengthening the Anti-Corruption Commission and the Audit Chamber.

33. **Staff supports the authorities' request for an RCF disbursement equivalent to 50 percent of South Sudan's quota (SDR 123 million) and for a nine-month SMP.** Steadfast and successful implementation of the SMP is key to establishing a strong track record of performance. To mitigate the potential risks from capacity constraints, the IMF will support the authorities' efforts in all policy areas covered by the SMP through tailored technical assistance.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2017/18–2024/25[1]

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Prel.	Est.			Projections		
			(Annual percent of change, unless otherwise indicated)					
Output, prices, and exchange rate								
Real GDP (percent change)	-2.4	3.4	13.2	-4.2	2.2	2.6	4.7	6.0
Oil	3.8	12.7	26.4	-3.0	3.1	1.2	1.7	5.7
Non-oil	-6.2	-2.7	0.5	-5.0	1.6	3.6	6.8	6.1
Inflation (average)	125.8	48.9	35.0	45.0	22.6	16.0	12.1	11.7
Oil GDP (percent of GDP)	73.2	66.2	62.4	60.2	61.7	52.8	59.8	61.6
GDP deflator	65.1	54.2	-1.9	47.8	37.7	13.1	13.4	10.4
Official exchange rate (SSP/US$, average)	128.0	152.4	160.8					
Official exchange rate (SSP/US$, end period)	140.2	158.6	163.7	...	...	...	...	...
Parallel market exchange rate (SSP/US$, average)	220.0	251.3	307.6	...	...	...	...	...
Money and credit								
Broad money	63.9	27.4	40.8	29.4	...	...	...	...
Reserve money	29.3	16.9	42.3	10.0	...	...	...	...
Credit to non-government sector	96.5	-13.6	35.1	10.1	...	...	...	...
M2/GDP (percent)	20.0	16.0	20.2	18.5	...	...	...	...
			(Percent of GDP, unless otherwise indicated)					
Central government budget								
Total revenues and grants	34.1	31.8	29.5	24.6	31.2	31.3	30.9	31.8
Of which: Oil	29.2	27.9	25.5	21.0	27.2	26.8	26.3	27.1
Of which: Non-oil tax revenue	4.4	3.9	4.0	3.6	4.0	4.5	4.6	4.7
Of which: Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	37.5	32.9	39.5	27.8	33.1	30.9	30.1	31.6
Current	37.1	32.0	35.8	23.2	28.1	24.4	22.8	22.9
Of which: transfers to Sudan	19.0	13.4	13.1	8.1	10.2	5.7	4.4	4.4
Net acquisition of non-financial assets	0.4	0.9	3.8	4.3	5.0	5.5	5.8	6.7
Overall balance (cash)	-3.4	-1.0	-10.0	-3.2	-1.9	0.4	0.8	0.2
Change in arrears	3.9	2.4	-3.4	-0.7	-0.9	-1.0	-1.5	-2.0
of which: salary arrears	...	...	...	-0.7	-0.9	...	...	...
Overall balance (accrual balance)	-7.3	-3.5	-6.6	-2.5	-1.0	1.4	2.3	2.2
Public debt								
Total public debt[2]	46.1	32.7	40.4	41.8	38.0	36.7	33.0	29.7
Of which: external public debt	37.8	26.7	28.0	25.3	22.1	21.6	19.5	18.6
External sector								
Exports of goods and services	74.8	67.1	63.6	61.5	62.9	62.1	61.0	62.8
Imports of goods and services	104.2	48.4	77.6	84.4	76.8	81.0	81.8	86.9
Current account balance (including grants)	-2.6	-0.7	-4.9	-6.6	-1.4	0.7	0.6	-1.8
Current account balance (excluding grants)	-30.9	-24.4	-25.2	-32.5	-23.5	-28.3	-29.3	-31.9
Gross foreign reserves (millions of US dollars)	33.0	31.1	48.0	133.2	154.7	190.3	267.0	330.5
Gross foreign reserves (in months of imports)	0.2	0.1	0.1	0.4	0.4	0.5	0.6	0.7
Memorandum items:								
Population (millions)	12.8	13.2	13.6	14.0	14.4	14.8	15.2	15.7
Oil production (millions of barrels)	43.6	49.1	62.1	60.2	62.1	62.8	63.9	67.5
South Sudan's oil price (U.S. dollars per barrel)	58.6	62.9	49.3	47.9	54.7	53.4	54.5	55.6
Brent price (U.S. dollars per barrel)	60.6	64.9	51.3	49.9	56.7	55.4	56.5	57.6
Nominal GDP (billions of SSP)	446	711	789	1,117	1,572	1,824	2,165	2,531
Nominal GDP (billion US$)	3.5	4.7	4.9	4.8	5.5	5.5	5.8	6.1
External debt (millions US$)	1,202	1,196	1,350	1,304	1,376	1,359	1,305	1,313
GNI per capita (US dollars)	190.3	301.5	318.9	313.0	351.0	341.4	426.2	430.5
Nominal GDP (percent change)	61.1	59.4	11.0	41.6	40.7	16.0	18.7	16.9

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

[1] The fiscal year runs from July to June.

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

Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2017/18–2024/25[1]

(In billions of South Sudanese pounds)

	2017/18	2018/19	2019/20		2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Prel.	Budget	Est.	Projections				
Total revenue and grants	**152.1**	**226.2**	**265.4**	**232.8**	**274.7**	**489.6**	**571.1**	**669.0**	**805.5**
Total oil revenues	130.3	198.2	235.5	201.1	234.7	426.8	489.0	569.5	686.5
Government share from oil exports	130.3	198.2	235.5	201.1	234.7	426.8	489.0	569.5	686.5
Non-oil tax revenue	19.7	28.0	29.9	31.8	40.0	62.9	82.1	99.6	119.0
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**167.3**	**233.5**	**311.5**	**311.9**	**310.0**	**519.9**	**563.6**	**651.6**	**800.9**
Current expenditure	165.3	227.1	194.0	282.1	259.7	441.3	445.0	493.4	580.1
Salaries	24.8	24.4	35.5	36.5	50.0	81.7	100.3	119.0	139.2
Operating expenses	23.4	69.5	24.8	82.7	57.1	94.3	109.4	129.9	151.9
Interest	1.4	3.9	1.3	16.4	14.3	14.3	13.8	13.2	15.1
Transfers to states	8.7	14.6	15.5	11.7	11.8	26.7	42.4	53.4	66.0
Conditional transfers	8.6	4.6	2.6	4.8	4.3	10.7	19.3	24.9	31.6
Current transfers to states	8.6	4.4	2.5	3.6	4.3	8.0	11.6	14.2	17.2
Capital transfers to states	0.0	0.2	0.1	1.2	0.0	2.7	7.7	10.7	14.4
Transfers to oil producing states (5%)	0.1	4.4	6.6	6.0	7.2	13.4	19.3	23.7	28.7
Block grants to states	0.0	5.6	3.7	0.8	0.3	2.7	3.9	4.7	5.7
Transfers to Sudan	84.6	95.0	85.9	103.6	90.6	159.8	103.4	95.1	112.3
Transportation and transit fees	31.9	35.9	32.4	22.0	44.6	71.0	83.4	95.1	112.3
Financial transfer	52.6	68.2	53.5	81.7	46.0	88.7	20.0	0.0	0.0
Arrears repayment	…	…	…	…	0.0	0.0	18.2	32.5	50.6
Other expenses	22.5	19.7	30.9	31.2	35.8	64.5	75.7	82.7	95.6
Subsidies and transfers to public enterprises	20.8	10.4	17.4	20.5	23.8	40.9	44.4	45.5	51.9
Emergency contingency fund	0.1	0.0	3.5	0.0	0.0	0.0	3.9	4.7	5.7
Peace agreement	1.6	9.2	10.0	10.7	12.0	23.6	27.4	32.5	38.0
Net acquisition of non-financial assets	1.9	6.5	117.5	29.8	48.0	78.6	100.3	125.7	170.2
Domestically financed	1.9	6.5	117.5	19.2	42.5	19.6	25.1	31.4	42.5
Foreign financed	0.0	0.0	0.0	10.6	5.5	58.9	75.2	94.3	127.6
Covid-19 Fund					2.3	10.0	5.0	0.0	0.0
Overall balance (cash)	**-15.1**	**-7.3**	**-46.1**	**-79.1**	**-35.2**	**-30.3**	**7.5**	**17.5**	**4.6**
Change in arrears	17.4	17.2	-26.6	-26.6	0.0	0.0	-18.2	-32.5	-50.6
Overall balance (accrual balance)	**-32.5**	**-24.6**	**-19.5**	**-52.4**	**-35.2**	**-30.3**	**25.8**	**50.0**	**55.3**
Statistical discrepancy	-6.7	-16.9	-8.6	16.6	0.0	0.0	0.0	0.0	0.0
Financing	**39.2**	**41.5**	**28.1**	**69.1**	**9.1**	**-1.2**	**-44.9**	**-63.4**	**-55.3**
Domestic (net)	44.6	42.4	-18.0	-7.4	23.0	0.0	-18.2	-32.5	-50.6
Net credit from the central bank	10.4	5.7	8.7	8.7	23.0	0.0	0.0	0.0	0.0
Net credit from commercial banks	16.9	19.5	0.0	10.6	0.0	0.0	0.0	0.0	0.0
Change in arrears	17.4	17.2	-26.6	-26.6	0.0	0.0	-18.2	-32.5	-50.6
Foreign (net)	-5.5	-0.9	0.0	76.4	-13.8	-1.2	-26.6	-30.9	-4.6
Disbursement	48.2	59.1	24.7	179.5	30.8	42.9	43.1	48.3	54.0
of which : RCF (Nov 2020)					17.0	…	…	…	…
of which : FX profit sharing					7.9	…	…	…	…
Amortization	-53.6	-60.0	-24.7	-103.1	-44.6	-44.1	-69.7	-79.3	-58.7
Financing gap	0.0	0.0	46.1	0.0	26.1	31.5	19.1	13.4	0.0
Memorandum items:									
Non-oil domestic current fiscal balance [2]	-58.8	-99.6	-71.6	-140.6	-121.8	-205.4	-240.3	-275.0	-320.1
Oil production (millions of barrels)	43.6	49.1	58.3	62.1	60.2	62.1	62.8	63.9	67.5
Nominal GDP (bn of South Sudanese pounds)	445.9	710.6	788.9	788.9	1,116.8	1,571.7	1,823.9	2,164.5	2,531.2

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

[1] The fiscal year runs from July to June.

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

Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2017/18–2024/25[1]

(In percent of GDP)

	2017/18	2018/19	2019/20		2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Prel.	Budget	Est.	Projections				
Total revenue and grants	**34.1**	**31.8**	**33.6**	**29.5**	**24.6**	**31.2**	**31.3**	**30.9**	**31.8**
Total oil revenues	29.2	27.9	29.9	25.5	21.0	27.2	26.8	26.3	27.1
Government share from oil exports	29.2	27.9	29.9	25.5	21.0	27.2	26.8	26.3	27.1
Non-oil tax revenue	4.4	3.9	3.8	4.0	3.6	4.0	4.5	4.6	4.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**37.5**	**32.9**	**39.5**	**39.5**	**27.8**	**33.1**	**30.9**	**30.1**	**31.6**
Current expenditure	37.1	32.0	24.6	35.8	23.2	28.1	24.4	22.8	22.9
Salaries	5.6	3.4	4.5	4.6	4.5	5.2	5.5	5.5	5.5
Operating expenses	5.2	9.8	3.1	10.5	5.1	6.0	6.0	6.0	6.0
Interest	0.3	0.6	0.2	2.1	1.3	0.9	0.8	0.6	0.6
Transfers to states	2.0	2.1	2.0	1.5	1.1	1.7	2.3	2.5	2.6
Conditional transfers	1.9	0.6	0.3	0.6	0.4	0.7	1.1	1.2	1.2
Current transfers to states (to MoP 3%)	1.9	0.6	0.3	0.5	0.4	0.5	0.6	0.7	0.7
Capital transfers to states (1%)	0.0	0.0	0.0	0.2	0.0	0.2	0.4	0.5	0.6
Transfers to oil producing states (5%)	0.0	0.6	0.8	0.8	0.6	0.8	1.1	1.1	1.1
Block grants to states	0.0	0.8	0.5	0.1	0.0	0.2	0.2	0.2	0.2
Transfers to Sudan	19.0	13.4	10.9	13.1	8.1	10.2	5.7	4.4	4.4
Transportation and transit fees	7.2	5.0	4.1	2.8	4.0	4.5	4.6	4.4	4.4
Financial transfer	11.8	9.6	6.8	10.4	4.1	5.6	1.1	0.0	0.0
Arrears repayment	…	…	…	…	0.0	0.0	1.0	1.5	2.0
Other expenses	5.0	2.8	3.9	4.0	3.2	4.1	4.1	3.8	3.8
Subsidies and transfers to public enterprises	4.7	1.5	2.2	2.6	2.1	2.6	2.4	2.1	2.0
Emergency contingency fund	0.0	0.0	0.4	0.0	0.0	0.0	0.2	0.2	0.2
Peace agreement	0.4	1.3	1.3	1.4	1.1	1.5	1.5	1.5	1.5
Net acquisition of non-financial assets	0.4	0.9	14.9	3.8	4.3	5.0	5.5	5.8	6.7
Domestically financed	0.4	0.9	14.9	2.4	3.8	1.3	1.4	1.5	1.7
Foreign financed	0.0	0.0	0.0	1.3	0.5	3.8	4.1	4.4	5.0
Covid-19 Fund			0.0		0.2	0.6	0.3	0.0	0.0
Overall balance (cash)	**-3.4**	**-1.0**	**-5.8**	**-10.0**	**-3.2**	**-1.9**	**0.4**	**0.8**	**0.2**
Change in arrears	3.9	2.4	-3.4	-3.4	0.0	0.0	-1.0	-1.5	-2.0
Overall balance (accrual)	**-7.3**	**-3.5**	**-2.5**	**-6.6**	**-3.2**	**-1.9**	**1.4**	**2.3**	**2.2**
Statistical discrepancy	-1.5	-2.4	-1.1	2.1	0.0	0.0	0.0	0.0	0.0
Financing	**8.8**	**5.8**	**3.6**	**8.8**	**0.8**	**-0.1**	**-2.5**	**-2.9**	**-2.2**
Domestic (net)	10.0	6.0	-2.3	-0.9	2.1	0.0	-1.0	-1.5	-2.0
Net credit from the central bank	2.3	0.8	1.1	1.1	2.1	0.0	0.0	0.0	0.0
Net credit from commercial banks	3.8	2.7	0.0	1.3	0.0	0.0	0.0	0.0	0.0
Change in arrears	3.9	2.4	-3.4	-3.4	0.0	0.0	-1.0	-1.5	-2.0
Foreign (net)	-1.2	-0.1	0.0	9.7	-1.2	-0.1	-1.5	-1.4	-0.2
Disbursement	10.8	8.3	3.1	22.8	2.8	2.7	2.4	2.2	2.1
of which: RCF (Nov 2020)					1.5	…	…	…	…
of which: FX profit sharing					0.7	…	…	…	…
Amortization	-12.0	-8.4	-3.1	-13.1	-4.0	-2.8	-3.8	-3.7	-2.3
Financing gap	0.0	0.0	5.8	0.0	2.3	2.0	1.0	0.6	0.0
Memorandum items:									
Non-oil domestic current fiscal balance [2]	-13.2	-14.0	-9.1	-17.8	-10.9	-13.1	-13.2	-12.7	-12.6
Oil production (millions of barrels)	43.6	49.1	58.3	62.1	60.2	62.1	62.8	63.9	67.5
Nominal GDP (bn of South Sudanese pounds)	445.9	710.6	788.9	788.9	1,116.8	1,571.7	1,823.9	2,164.5	2,531.2

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

[1] The fiscal year runs from July to June.

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

Table 3. Republic of South Sudan: Monetary Accounts, June 2017–June 2021

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

	2017	2018	2019	2020	2021
	Jun	Jun	Jun	Jun	Jun
	Actual			Projections	
			Monetary Survey		
Net foreign assets	**-72.8**	**-75.1**	**-86.9**	**-65.4**	**-80.4**
Claims on nonresidents	57.1	87.0	55.3	89.3	108.9
Central bank	46.2	53.1	4.9	21.3	28.8
Commercial banks	13.7	33.9	50.3	68.1	80.1
Liabilities to nonresidents	131.0	162.1	142.1	154.8	189.4
Central bank	58.3	69.3	23.1	23.6	31.2
Commercial banks	72.7	92.8	119.0	131.2	158.2
Net domestic assets	**127.1**	**164.1**	**200.2**	**225.1**	**299.9**
Net domestic credit	91.4	124.7	148.4	206.4	230.6
Net claims on central government	86.1	114.2	139.4	194.1	217.1
Claims on other sectors	5.3	10.5	9.1	12.2	13.5
Other items (net)	35.7	39.4	51.8	18.7	69.4
Broad money	**54.3**	**89.0**	**113.4**	**159.7**	**206.6**
Currency outside banks	13.5	27.1	36.9	59.5	74.3
Transferable deposits	31.3	50.3	87.4	130.9	130.9
o/w: in foreign currency	23.9	38.9	49.2	58.8	85.8
Other deposits	9.5	11.6	10.8	12.0	12.0
o/w: in foreign currency	4.8	4.2	3.4	3.3	4.0
			Central Bank		
Net foreign assets	**-12.0**	**-16.2**	**-18.2**	**-2.3**	**-2.4**
Claims on nonresidents	46.2	53.1	4.9	21.3	28.8
Liabilities to nonresidents	58.3	69.3	23.1	23.6	31.2
Net domestic assets	**81.2**	**105.6**	**122.8**	**151.1**	**166.0**
Net domestic credit	18.3	31.8	35.3	78.7	100.2
Claims on commercial banks	0.0	0.1	2.8	2.0	0.5
Net claims on central government	16.4	26.8	32.5	76.7	99.6
Claims on central government	21.8	34.3	39.3	79.3	136.9
Liabilities to central government	5.4	7.5	6.8	2.6	37.3
Other items (net)	62.9	73.8	87.4	72.4	65.9
Monetary base	**69.2**	**89.5**	**104.6**	**148.8**	**163.7**
Currency in circulation	17.0	30.5	42.8	67.3	73.0
Liabilities to commercial banks	49.9	56.0	58.8	77.6	86.3
Liabilities to other sectors	2.3	3.0	2.9	4.0	4.4
Memorandum items:					
Money multiplier	0.8	1.0	1.1	1.1	1.3
Share of foreign currency deposits to total deposits	0.7	0.7	0.5	0.4	0.6
Monetary base (year-on-year change in percent)	67.8	29.3	16.9	42.3	10.0
Broad money (year-on-year change in percent)	87.2	63.9	27.4	40.8	29.4

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

Table 4. Republic of South Sudan: Balance of Payments, 2017/18–2024/25[1]

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

	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Act.	Act.	Est.			Projections		
Current account balance	**-91**	**-32**	**-242**	**-317**	**-79**	**38**	**37**	**-111**
Trade Balance	149	267	-37	-440	-61	-304	-432	-645
Exports of goods	2,568	3,103	3,089	2,912	3,424	3,384	3,515	3,792
Oil	2,552	3,086	3,061	2,883	3,393	3,351	3,481	3,756
Nonoil	16	17	27	29	31	33	35	36
Imports of goods	-2,418	-2,836	-3,126	-3,352	-3,485	-3,688	-3,947	-4,437
Balance of Services	-675	-707	-648	-658	-701	-733	-778	-823
Exports of services	38	24	34	34	34	34	34	34
Imports of services	-713	-731	-682	-692	-735	-767	-812	-857
o/w: oil-related	-444	-457	-438	-435	-461	-478	-510	-541
of which non-oil	-269	-274	-244	-257	-274	-289	-303	-316
Income	-551	-698	-552	-460	-528	-519	-494	-477
Wages of expatriate oil workers	-134	-136	-150	-162	-168	-168	-195	-221
Investors' profits	-442	-563	-348	-254	-341	-347	-309	-274
Investment income (net)	-18	-20	-78	-68	-47	-39	-33	-34
Current Transfers (net)	985	1,106	996	1,241	1,211	1,594	1,742	1,835
General government	0	0	0	0	15	30	30	30
Workers' remittances (net)	53	58	77	81	86	91	95	100
Financial transfers to Sudan	-409	-335	-468	-212	-351	-69	0	0
Other sectors	1,132	1,183	1,247	1,372	1,461	1,542	1,614	1,687
Capital and financial account	**42**	**14**	**120**	**-55**	**-36**	**-68**	**-2**	**170**
Capital account	161	123	0	0	0	0	3	18
Financial account	-119	-109	120	-55	-36	-68	-5	152
Foreign direct investment[2]	-19	-79	-18	47	48	44	113	180
of which: non-oil	0	0	22	24	24	24	24	24
Other investment	-100	-30	138	-102	-112	-117	-28	44
Overall balance	**-49**	**-19**	**-122**	**-372**	**-115**	**-30**	**36**	**60**
Errors and omissions	33	365	141	0	0	0	0	0
Financing	**16**	**-347**	**-19**	**-85**	**-21**	**-36**	**-77**	**-63**
Change in net foreign assets of the central bank	16	-347	-19	-85	-21	-36	-77	-63
of which : Change in gross reserves (Increase -)	20	2	-17	-85	-21	-36	-77	-63
Change in liabilities to non-residents	-4	-349	-2	0	0	0	0	0
Financing gap	0	0	0	457	137	66	41	4
Prospective RCF from the IMF	…	…	…	172	…	…	…	…
Prospective financing from the World Bank	…	…	…	20	…	…	…	…
Residual financing gap	…	…	…	265	137	…	…	…
Memorandum items:								
Current account balance including transfers (percent of GDP)	-2.6	-0.7	-4.9	-6.6	-1.4	0.7	0.6	-1.8
Current account balance excluding transfers (percent of GDP)	-30.9	-24.4	-25.2	-32.5	-23.5	-28.3	-29.3	-31.9
South Sudan oil price (dollars per barrel; weighted average)	58.6	62.9	49.3	47.9	54.7	53.4	54.5	55.6
Gross foreign reserves (millions of US dollars)	33	31	48	133	155	190	267	330
In months of current year's imports of goods and services	0.1	0.1	0.1	0.4	0.4	0.5	0.6	0.7
Oil production (millions of barrels)	43.6	49.1	62.1	60.2	62.1	62.8	63.9	67.5
Nominal GDP (billions of U.S. dollars)	3.5	4.7	4.9	4.8	5.5	5.5	5.8	6.1

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

[1] The fiscal year runs from July to June.

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

Table 5. Republic of South Sudan: Projected External Financing Requirements and Sources for FY20/21[1]

	USD million		Percent of GDP	
	2020 RCF	Latest	2020 RCF	Latest
Current account	-191	-317	-4.5	-6.6
Trade balance	-268	-440	-6.3	-9.2
Exports of goods and services	2,534	2,946	59.6	61.5
Exports of goods	2,497	2,912	58.7	60.8
of which : oil	2,464	2,883	57.9	60.2
Imports of goods and services	-3,418	-4,044	-80.4	-84.4
Imports of goods	-2,765	-3,352	-65.0	-70.0
of which : oil imports	-245	-366	-5.8	-7.6
of which: non-oil imports	-2,520	-2,986	-59.3	-62.4
of which : food imports	-964	-1,414	-22.7	-29.5
Primary income balance	-297	-460	-7.0	-9.6
Secondary income balance	990	1,241	23.3	25.9
of which : grants	1,139	1,372	26.8	28.6
Capital and financial accounts	-64	-53	-1.5	-1.1
of which:				
Net foreign direct investments	47	47	1.1	1.0
Government net borrowing	-58	-99	-1.4	-2.1
Gross financing	183	127	4.3	2.6
of which: commercial borrowing	100	74	2.4	1.5
Principal payment	241	226	5.7	4.7
Financing gap (excess of financing -)	220	457	5.2	9.5
Additional financing sources	0	89	0.0	1.9
IMF (net)	0	176	0.0	3.7
Prospective RCF Disbursements	0	176	0.0	3.7
Repayments	0	0	0.0	0.0
Reserve accumulation (increase -)	0	-87	0.0	-1.8
Remaining financing gap	220	368	5.2	7.7

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

[1] The fiscal year runs from July to June.

Table 6. Republic of South Sudan: Central Government Financial Operations for FY20/21

	Billion of SSP			Percent of GDP		
	2020 RCF	Budget	Latest	2020 RCF	Budget	Latest
Total revenue and grants	**249.2**	**197.1**	**274.7**	**27.8**	**17.6**	**24.6**
Oil revenues[1]	228.6	152.7	234.7	25.5	13.7	21.0
Non-oil tax revenue	20.6	44.4	40.0	2.3	4.0	3.6
Total expenditure	**268**	**286**	**310**	**29.9**	**25.6**	**27.8**
Current expenditure	250.3	210.2	259.7	27.9	18.8	23.2
Salaries	35.9	64.6	50.0	4.0	5.8	4.5
of which : Salary arrears	0.0	21.9	7.3	0.0	2.0	0.7
Operating expenses	71.7	32.5	57.1	8.0	2.9	5.1
Interest	9.7	2.2	14.3	1.1	0.2	1.3
Oil-sector-related domestic transfers	13.8	7.7	11.8	1.5	0.7	1.1
Conditional transfers	5.5	2.8	4.3	0.6	0.2	0.4
Transfers to Ministry of Petroleum (3%)	4.1	2.8	4.3	0.5	0.2	0.4
Capital generation fund	1.4	0.0	0.0	0.2	0.0	0.0
Transfers to oil producing states and communities (5%)	6.9	4.6	7.2	0.8	0.4	0.6
Block grants to states	1.4	0.3	0.3	0.2	0.0	0.0
Transfers to Sudan	90.9	60.8	90.6	10.1	5.4	8.1
Transportation and transit fees	49.3	39.7	44.6	5.5	3.6	4.0
Financial transfer	41.6	21.1	46.0	4.6	1.9	4.1
Other expenses	28.3	42.3	35.8	3.2	3.8	3.2
Transfers to states (GRSS resources)	13.4	23.8	23.8	1.5	2.1	2.1
Emergency contingency fund	1.4	6.5	0.0	0.2	0.6	0.0
Peace agreement	13.4	12.0	12.0	1.5	1.1	1.1
Net acquisition of non-financial assets	17.4	56.9	48.0	1.9	5.1	4.3
of which : Road project	0.0	21.7	35.0	0.0	1.9	3.1
Covid-19 Fund	0.0	19.3	2.3	0.0	1.7	0.2
Overall balance (cash)	**-18.4**	**-89.3**	**-35.3**	**-2.1**	**-8.0**	**-3.2**
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0
Financing	**-6.8**	**11.6**	**9.1**	-0.8	1.0	0.8
Domestic (net)	5.5	30.9	23.0	0.6	2.8	2.1
Net credit from the central bank	5.5	30.9	23.0	0.6	2.8	2.1
Net credit from commercial banks	0.0	0.0	0.0			
Foreign (net)	-12.3	-19.2	-13.8	-1.4	-1.7	-1.2
Disbursement	38.5	21.8	30.8	4.3	1.9	2.8
of which: RCF	11.0	9.1	17.0	1.2	0.8	1.5
of which : RCF FX Profit Sharing	0.0	0.0	7.9	0.0	0.0	0.7
Amortization	-50.8	-41.0	-44.6	-5.7	-3.7	-4.0
Financing gap	25.3	77.6	26.1	2.8	7.0	2.3
in mn USD	*119.8*	*456.6*	*141.3*			
Prospective RCF	…	…	20.3	…	…	1.8
of which: RCF FX Profit Sharing	…	…	3.8	…	…	0.3
Unidentified additional financing	…	…	5.8	…	…	0.5

[1] Everything else the same, the lower official exchange rate in the latest budget translates to a lower oil revenues in SSP.

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

Table 7. Republic of South Sudan: Capacity to Repay the Fund

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund obligations based on existing credit (in millions of SDRs)												
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	7.38	7.38	7.38	7.38	7.38
Charges and interest	0.00	0.00	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Fund obligations based on existing and prospective credit (in millions of SDRs)												
Principal	0.00	0.00	0.00	0.00	0.00	0.00	0.00	19.68	31.98	31.98	31.98	31.98
Charges and interest	0.00	0.00	0.04	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05	0.05
Total obligations based on existing and prospective credit												
In millions of SDRs	0.00	0.00	0.04	0.05	0.05	0.05	0.05	19.73	32.03	32.03	32.03	32.03
In millions of US$	0.00	0.00	0.03	0.04	0.04	0.04	0.04	14.21	23.06	23.06	23.06	23.06
In percent of gross international reserves	0.00	0.00	0.02	0.02	0.02	0.01	0.01	3.41	4.41	3.55	2.99	2.47
In percent of exports of goods and services	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.35	0.55	0.52	0.51	0.48
In percent of debt service1	0.00	0.00	0.01	0.01	0.01	0.01	0.02	8.06	10.86	10.76	9.69	8.78
In percent of GDP	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.22	0.34	0.32	0.30	0.28
In percent of quota	0.00	0.00	0.02	0.02	0.02	0.02	0.02	8.02	13.02	13.02	13.02	13.02
Outstanding Fund credit												
In millions of SDRs	0.00	36.90	159.90	159.90	159.90	159.90	159.90	140.22	108.24	76.26	44.28	12.30
In millions of US$	0.00	51.25	222.08	222.08	222.08	222.08	222.08	194.75	150.33	105.92	61.50	17.08
In percent of gross international reserves	0.00	106.84	166.74	143.60	116.69	83.16	67.20	46.69	28.78	16.28	7.98	1.83
In percent of exports of goods and services	0.00	1.64	7.54	6.42	6.50	6.26	5.80	4.86	3.58	2.41	1.37	0.36
In percent of debt service1	0.00	4.93	74.83	79.07	77.51	74.95	108.25	110.44	70.77	49.40	25.85	6.50
In percent of GDP	0.00	1.04	4.64	4.04	4.04	3.82	3.65	3.07	2.22	1.47	0.81	0.21
In percent of quota	0.00	15.00	65.00	65.00	65.00	65.00	65.00	57.00	44.00	31.00	18.00	5.00
Memorandum items:												
Nominal GDP (in millions of US$)	4,663	4,906	4,790	5,498	5,500	5,821	6,093	6,345	6,765	7,206	7,567	8,181
Exports of goods and services (in millions of US$)	3,127	3,122	2,946	3,458	3,418	3,549	3,826	4,009	4,198	4,394	4,485	4,805
Gross international reserves (in millions of US$)	31.09	47.97	133.19	154.66	190.31	267.04	330.49	417.08	522.40	650.48	771.02	935.21
Debt service (in millions of US$)	414.50	1039.84	296.77	280.86	286.53	296.29	205.16	176.34	212.42	214.41	237.92	262.77
Quota (millions of SDRs)	246	246	246	246	246	246	246	246	246	246	246	246
SDR per US Dollar	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72	0.72

Sources: IMF staff estimates and projections.

Annex I. Monetary Policy Framework in the Republic of South Sudan

De jure, South Sudan operates a money targeting framework with a floating exchange rate. However, during periods of low oil prices the authorities have resorted to monetary financing of large fiscal deficits, abandoning the money targets. High rates of money growth during such periods have led to rapid exchange rate depreciation and inflation spikes. Addressing fiscal dominance is a prerequisite for stabilizing the exchange rate and inflation and avoiding repeated cycles of rapid depreciation and high inflation. In staff's view, given the acute shortage of FX reserves, a money targeting framework in the context of a floating exchange rate regime is the only realistic choice as an inflation anchor for South Sudan right now. Once fiscal discipline and macro stabilization has been achieved, the authorities could consider other monetary framework alternatives – from hard pegs (e.g., currency board) to inflation targeting.

A. Background

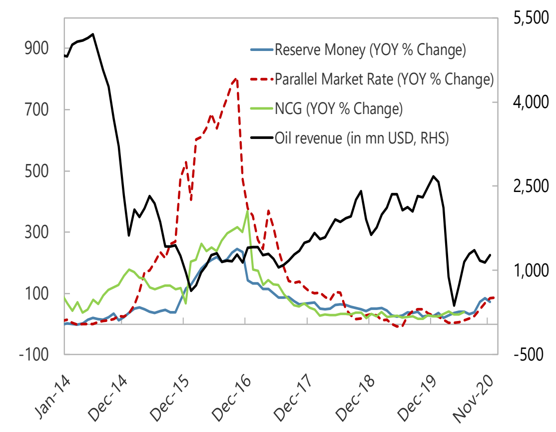
1. **South Sudan introduced its currency (the South Sudanese Pound) upon independence in July 2011.** In the first week of the new currency, after independence, the exchange rate was determined by a central bank auction. The de jure exchange rate arrangement was a conventional peg against the U.S. dollar.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

2. **On December 15, 2015, the BOSS moved to a de jure flexible exchange rate arrangement and adopted a money targeting framework.** Under the framework, the BOSS adopted price stability as the primary objective and, given the undeveloped nature of the financial system, set reserve money as an intermediate target for monetary policy. Immediately after adopting the floating exchange rate regime, the exchange rate depreciated by over 80 percent. Under this regime, the BOSS started to supply FX to commercial banks in auctions and an indicative (official) exchange rate was determined from the auction rate and the rate charged by commercial banks. All government transactions started to be carried out at the indicative rate. The reform, which also included the abolition of all major exchange controls, was successful in initially reducing the spread between the indicative and parallel market rates.

3. **However, soon after the money targeting framework was introduced, the authorities resorted to monetary financing of a large fiscal deficit following a sharp decline in international oil prices, a pattern that has repeated during the current oil price shock.** The money targets were abandoned during this period and the high rate of money growth led to rapid exchange rate depreciation in the parallel market and a spike in inflation. Continued deterioration in the political and economic situation soon led to the re- introduction of a multiple exchange rate system, with the BOSS abolishing its foreign exchange auctions in 2017. Since September 2017, the

exchange rate followed a depreciating trend within a 2 percent band against the U.S. dollar. Accordingly, the de facto exchange rate arrangement was classified as crawl-like, effective September 2017. Money growth started to slow down towards end-2017 leading to a gradual stabilization of the exchange rate. This period of macroeconomic stability continued until the start of the pandemic in March 2020. Following the sharp decline in oil revenues from the pandemic, the authorities resumed monetary financing of the deficit, which led to high money growth, exchange rate depreciation and rising inflation (Text Figure 1).

Text Figure 1. South Sudan: Oil Revenue, Monetary Financing and Exchange Rate



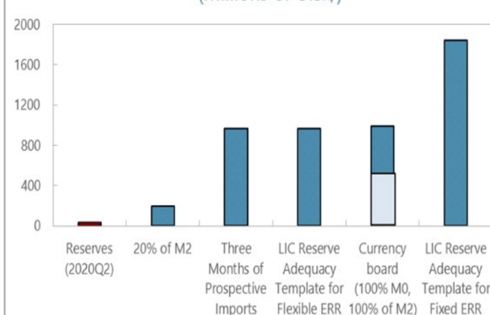
Sources: South Sudanese authorities, and IMF staff calculations.

B. Options for Monetary Policy Framework

4. **Fiscal sustainability and central bank independence are preconditions for the success of any monetary policy framework.** International experience has shown that a key prerequisite for low and stable inflation is sound and sustainable fiscal policy. By containing debt build-up or the need for monetary financing of the deficit, this minimizes fiscal dominance and facilitates the central bank's job in pursuing price stability. Once these conditions are in place, there are three main policy frameworks that provide a nominal anchor for monetary policy. These include: 1) money targeting; 2) exchange rate pegs (such as a currency board, and a fixed exchange rate regime); and 3) inflation targeting.

5. **An exchange rate peg and inflation targeting are not viable for South Sudan as monetary policy frameworks at the current juncture.** An exchange rate peg has the advantage of providing a clear nominal anchor for monetary policy, and of anchoring public expectations for inflation (Text Table 1). A hard peg, such as a currency board, could be more effective in addressing fiscal dominance as such a regime specifically prohibits monetary financing of the deficit, and thus can potentially lead to a more prudent fiscal behavior. But a peg requires a much higher level of reserves. The reserve adequacy metric used by the IMF for low-income countries experiencing credit constraints (IMF, 2016), for example, suggest that South Sudan's reserves should be about US$2 billion under a fixed exchange rate regime. This is higher than under the traditional rules of thumb—3 months of imports or 20 percent of M2 (Text Figure 2). The reserve requirement for a currency board would be between US$½–1 billion (depending on the monetary aggregate used, i.e., monetary base or M2). Given South Sudan's poor inflation track record, these reserve metrics are likely to define a lower bound, and a higher level of reserves is likely to be needed under each regime. With South Sudan's

Text Figure 2. South Sudan: Reserve Adequacy
(Millions of U.S.$)



Sources: South Sudanese authorities; and IMF staff calculations.

international reserves currently hovering around US$50 million or less and no prospect for a material increase soon, an exchange rate peg is thus not feasible for South Sudan in the near term.

Text Table 1. Tradeoffs of Fixed versus Flexible Exchange Rate Regimes

Flexible	Fixed

PROS
• Offers automatic stabilizers
    • Oil price collapse→ FX depreciate → non-oil exports more competitive, imports more expensive
• Supports financial sector development
• Requires less reserves to be credible
 	
CONS
• Finding the "right" ER flexibility is difficult
    • Price discovery in illiquid markets is difficult
    • Excessive volatility is costly
• Susceptible to Dutch disease
    • high oil prices → SSP appreciates → non-oil exports not competitive → low non-oil sector growth
	PROS
	• As an anchor for monetary policy, fixed ER is straightforward
	• Potentially more effective in addressing fiscal dominance
	    • i.e., a currency board prohibits monetary financing of the deficit. Note: evidence is mixed.
	
	CONS
	• Require large reserves to be credible
	    • Low oil-price regime last >5 years; w/o large reserves, fixed ER not sustainable
	• w/o reserves: High risk of disorderly FX adjustments
	• Procyclical monetary policy
	    • Oil price collapse→ depreciation pressure → MP needs to tighten to maintain peg
	• Resource misallocation can hinder economic diversification
	    • overvalued SSP → non-oil exports not competitive

6. Money targeting is the only feasible monetary policy regime for South Sudan for now, provided that fiscal dominance is eliminated. In countries with high inflation (as is the case in South Sudan), experience has shown that money-based stabilizations have quickly brought inflation under control. Peru, for example, undertook a money-based stabilization program in the early 1990s, using base money as the main intermediate target for monetary policy. This arrangement brought hyperinflation quickly to an end (Mishkin and Savastano, 2000). Other successful stabilization programs had a similar approach: tightening monetary policy early and sharply, and not easing it until stability had clearly been restored (Berg, et al 2003), with tight monetary policy aimed at reducing overshooting of the exchange rate and subsequent high inflation. In South Sudan, rapid base money growth in recent years was the driver of the increase in broad monetary aggregates. The growth in broad money had, in turn, been a key contributor to the rise in the parallel market premium. Thus, moderating the increase in base money under the recently announced money targeting framework, with support from responsible fiscal policies, can stabilize the exchange rate and inflation.

7. Once a low inflation level has been reached, alternative monetary frameworks could be considered. A monetary targeting framework relies on relationships between inflation and the growth in narrow and broad monetary aggregates. While such a relationship tends to be strong in a high inflationary environment, it typically becomes unstable at low levels of inflation. At that stage monetary policy needs to be more finely calibrated, and a price-based framework relying on interest rate signals, as opposed to the quantity-based monetary targeting, may become more effective in stabilizing inflation. Therefore, at a later time, reserve money is expected to be replaced with a policy interest rate as the operational target.

C. Operational Aspects

8. **Implementing monetary operations within the operational framework requires that the BOSS is equipped and organized to monitor and forecast bank reserves.** Excess reserves will best serve as the operational target within the monetary targeting framework, as this can be directly influenced by monetary policy instruments and can be monitored at a high frequency using the central bank's balance sheet. Therefore, measuring banks' excess reserves at the BOSS will require additional attention in distinguishing mandatory and voluntary holdings within the current stock of bank reserves. This aspect specifically requires targeted assessment and inputs from the Banking Supervision Department. At a more general level, there would be advantages to developing a dedicated Liquidity Monitoring and Forecasting Unit to coordinate the inputs and outputs for this process. The monetary program should be translated into quarterly reserve money targets that would be consistent with reducing inflation. Subsequently, the reserve money path is disaggregated into monthly operational targets that would guide frequent monetary policy discussions and related operations to lower inflation.

9. **Monetary targeting frameworks rely on daily operations and constant monitoring.** Because velocity of money (defined as nominal GDP divided by broad money) and the money multiplier (defined as broad money divided by base money) may not be stable, projections should be updated regularly to incorporate new information and accommodate changes in the underlying economic relationships. Base money targets will need to be adjusted accordingly, albeit at a lower frequency—quarterly or semi-annually—to strike a balance between the incorporation of new information and the need to anchor expectations through sticking to a pre-announced path for money.

10. **The monetary operational toolkit needs modifications, starting immediately with the current reserve requirement (RR) framework, and as the BOSS plans to introduce market-based instruments.** While using RR remains appropriate in South Sudan's financial structure context, making the tool effective requires that the compliance and monitoring is adequate, with punitive penalties for noncompliance. Other adjustments in design of the RR framework can help to make the tool relevant to the country context, particularly where South Sudan struggles with high deposit and transactional dollarization. Introducing market-based instruments requires a gradual and easily manageable approach, given capacity constraints. Starting with a single sterilization instrument (a term deposit arrangement) and implementing an overnight Standing Liquidity Facility are incremental steps that are attainable in the near- to medium-term.

Annex II. Capacity Development Strategy for the Republic of South Sudan in FY2020–22

A. Capacity Development Assessment

1. Capacity development (CD) activities in South Sudan have been affected by country's fragility, political instability, and low implementation capacity. South Sudan's engagement with the Fund has been strengthening. The 2019 Article IV mission took place in Juba, for the first time since the relapse to war in 2016 and followed by a staff visit and several TA missions. South Sudan formally joined East AFRITAC in May 2020. Since then, East AFRITAC provided technical assistance and CD assessments in several areas including financial sector supervision, government finance statistics, and macro-fiscal analysis. Following the formation of the unity government in February 2020 demand for CD activities has increased, as the authorities embarked on the implementation of reforms envisaged by the Resolution of the Conflict in South Sudan (R-ARCSS). It was further boosted by a closer engagement with the Fund, including the RCF disbursement in November 2020 (the first-ever Fund disbursement to South Sudan). Performance in implementing the most recent PFM TA recommendations has been good.

B. Capacity Development (CD) Priorities

2. CD priorities in FY20–21 support the authorities' objectives set out in the R-ARCSS. CD activities will focus on (i) strengthening governance; (ii) improving domestic revenue mobilization; (iii) implementing reserve money targeting framework; and (iv) alleviating distortions in the FX market. CD activities will continue to support work on the quality and timeliness of data. Specifically, the authorities would like the Fund to support the following CD areas:

- **PFM:** the preparation of the PFM medium-term strategy; strengthening cash management, implementing the TSA, and arrears management. The delivery of CD in most of these areas is ongoing and will be amended as needed to support policies underpinning the SMP.
- **Domestic revenue mobilization:** the authorities are likely to request the IMF support in modernizing the National Revenue Authority (expanding the digitalization of tax collection, facilitating regional tracking of imported goods, and aligning the estimation method for the valuation of imports subject to custom duties with international best practice). The authorities may also need support in (i) phasing out tax exemptions; and (ii) harmonizing domestic tax rates with those in other EAC countries (such as excise and business profit tax rates). The authorities are also considering replacing the sales tax with a value added tax (VAT) and are seeking IMF TA in this area.
- **Monetary and exchange rate policies:** the authorities requested a diagnostic mission to ensure that BOSS has the capacity and the tools to conduct its essential functions. The authorities have already requested TA on operationalizing the reserve money targeting framework; providing advice on alleviating distortions in the FX market; improving the conduct of FX auctions; and developing a crisis resolution framework.

- **Data integrity:** The quality and timeliness of data are important for policy development and program implementation. Potential topics for CD activities include assistance in fiscal, monetary, external sector statistics, debt data, price statistics and the compilation of national accounts.

Priorities	Objectives
Tax Policy and Administration	Broadening the revenue base (including by adopting a VAT in due course) with a view to reducing reliance on volatile oil revenues and supporting fiscal consolidation; Building a model for projecting non-oil revenue; Streamlining customs procedures to support diversification of exports.
PFM	Adopting an MTFF and a fiscal responsibility law; Strengthening legislation, processes, and institutions with a view to improving the efficiency of public spending, particularly capital spending.
Fiscal Reporting (Accounting and Statistics)	Refining the public sector institutional table to improve coverage of all public entities and their classification; Collecting financial data for the Budgetary Central Government, including the detailed breakdown of non-oil and oil revenue; Reviewing the bridge table to facilitate Government Finance Statistics compilation; Improving budget classification in line with internationally accepted guidelines and consistency of above- and below-the-line data through reconciliation to reduce the statistical discrepancy in fiscal accounts.
Expenditure Policy (Subsidies)	Developing strategy and timetable to reduce oil, water and electricity subsidies while protecting the most vulnerable segments of society.
Financial Integrity (Withdrawal of CBRs—AML/CFT)	Firming up specific recommendations to deal with the loss of U.S. dollar CBRs and monitoring their progress. In addition, improving AML/CFT framework with a view to regaining CBRs over time.
Monetary/Macro-Prudential Policy (Inflation Forecasting and Policy Analysis)	Finalizing core forecasting model and developing forecasting infrastructures to allow for rigorous forecasting process to be implemented; Developing new modalities of foreign exchange intermediation to the market to support transition to a flexible exchange rate; Improving capacity at the BNA to interpret results from forecasting models for policy analysis and decision-making purposes.
Sectoral Data (National Accounts)	Improving timeliness and methodology of national accounts data; Preparing plan for compilation of new reference series and estimates for key informal activities; Preparing for transition to 2008 SNA and publishing update GDP data as these become available.
Price Statistics	Improving compilation methods in the short-term, developing a medium-term plan to improve the collection of consumer prices and expanding the index coverage.
Sectoral Data (Monetary / Financial Statistics)	Helping ensure that BNA will be able to regularly report the appropriately compiled FSIs to the Fund.
Sectoral Data (External Sector Statistics)	Improving data coverage, timeliness, and access to relevant source data; Reducing the discrepancies between IIP and BOP data.

C. Authorities' Views

3. The authorities concurred with the CD priorities listed above. They noted that CD activities should support the implementation of reforms envisaged by R-ARCSS and SMP implementation. The authorities have been pleased with CD delivery by the IMF and AFRITAC East. They expressed interest in other CD topics, including developing liquidity management instruments by BOSS and debt management. Based on the discussions with the authorities at the time of the 2019 Article IV Consultation mission and subsequent missions, the following CD priorities and objectives have been included in the CD Country Strategy Note for South Sudan for FY2020–22.

Appendix I. Letter of Intent

Juba, Republic of South Sudan
March 17, 2021

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

Dear Ms. Georgieva:

1. The Republic of South Sudan has continued to make progress towards implementing the Revitalized Agreement for Resolution of Conflict in South Sudan (R-ARCSS) of September 2018. Following the formation of the unity government in February 2020, agreement on the reconstitution of the Revitalized Transitional National Legislative Assembly (R-TNLA) (our Parliament) and the number of states was reached, and state governors of all 10 states have now been appointed.

2. Improved political stability resulted in significant immediate economic gains, but the COVID-19 pandemic and severe floods have hit our economy hard. The floods (the worst in 60 years) have killed livestock, destroyed food stocks, and damaged crops ahead of the main harvest season. This has given rise to increasing risks of famine in parts of the country, exacerbating a situation of already high food insecurity where more than half of the population was already in need of food assistance. We now project an economic contraction of 4.2 percent in FY20/21 and inflation is expected to increase further due to a shortfall in domestic food production and exchange rate pressures. We expect government revenues this fiscal year to decline by about 20 percent in real terms relative to last year due to the decline in oil prices and oil production. The disbursement under the Rapid Credit Facility (RCF) in November 2020 has eased the impact on the budget from the collapse in oil revenue, but the fiscal financing gap remains high.

3. We have implemented our commitments under the first RCF disbursement, including by ensuring the transparent allocation of RCF resources, tightening macroeconomic policies to stabilize the economy, and stepping up public financial management (PFM) reforms. Specifically: (i) the RCF disbursement was used to repay salary arrears, the only available vehicle to provide social support, with the payments done through the Integrated Financial Management Information System (IFMIS); (ii) we have tightened fiscal policy by discontinuing monetary financing of the deficit and refraining from oil advances since October 2020; (iii) the 2015 audited financial statement of the Bank of South Sudan (BOSS) is published on the BOSS website, we are finalizing the audit of the financial statements of the BOSS for 2016-2018, which we plan to publish no later than end-June 2021, and

we are planning to finalize the BOSS financial statements for 2019 and 2020 within this year; and (iv) we have made important progress on governance reforms as discussed below.

4. We are requesting emergency funding from the IMF under the RCF to finance our urgent balance of payment and fiscal needs in the amount of SDR 123 million, or 50 percent of quota (about US$176 million). While we expect these funds to be disbursed to the BOSS, considering a sizable fiscal gap in FY20/21 – SSP 26.1 billion (about 2.3 percent of GDP) – we ask for about half of this support (US$89 million) to be made available to the budget by having it on-lent by the BOSS to the government on the same terms as obtained from the IMF, using the dedicated account at the BOSS that was created for the first RCF disbursement in November 2020. The amount of U.S. dollars allocated for budget support will be sold in FX auctions (conducted by the BOSS on behalf of the government), and the proceeds in SSP will be credited to the dedicated account at the BOSS that was created for the first RCF disbursement in November 2020. We have already prepared, in consultation with Fund staff, a memorandum of understanding (MOU) between the Ministry of Finance and Planning (MOFP) and the BOSS, stipulating responsibilities for servicing in a timely manner the financial obligations to the IMF for this disbursement under the RCF.

5. We are committed to transparency in the use of these resources to support essential pandemic-related spending. We will ensure that all such transactions are recorded in IFMIS. We will publish all pandemic-related procurement contracts and other related documentation, along with the names of awarded companies and their beneficial ownership information within three months after contract signing, and publish the ex-post validation of delivery of the contracts within one year after the contract signing. We will publish reports on pandemic-related spending on monthly basis. In addition, the Auditor General will conduct and publish an audit of all spending from this account on a quarterly basis. All the information listed will be published on the website of the MOFP as soon as they are completed.

6. The government and the BOSS are strongly committed to implementing the economic reforms outlined in the R-ARCSS. To that end, the focus of our economic reform program in the near term will be on restoring macroeconomic stability, strengthening the monetary policy framework, reducing distortions in the FX market, and strengthening governance:

- Restoring fiscal discipline and maintaining debt sustainability. The FY20/21 and FY21/22 budgets will be executed without recourse to monetary financing with a view to stabilize the exchange rate and lower inflation. This will be achieved via reforms to strengthen non-oil revenue mobilization measures and expenditure reallocation to ensure adequate resource allocation for priority spending including salaries, social spending, critical investments, and peacebuilding. We will also refrain from contracting non-concessional debt, except for: (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) transactions that finance, while avoiding excessive external borrowing, critical investment projects with a high social and economic return that are integral to our national development program or for critical COVID-related spending, and for which concessional financing is not available. We will consult with the IMF staff prior to contracting any new non-concessional debt.

- Strengthening the monetary policy framework and improving the functioning of the FX market. The BOSS will operationalize the monetary policy framework based on reserve money targeting, by starting to set quarterly reserve money targets and working to develop monetary instruments to steer reserve money consistent with the targets. In addition, to alleviate distortions in the FX market we will embark on FX market reforms. These include putting in place institutional and operational requisites for transition to unification of exchange rate and allowing banks to operate in the FX market without restrictions and to participate in the weekly FX auctions currently being conducted by the BOSS. To ensure a smooth implementation of these FX reforms, we will aim for a gradual realignment of the reference exchange rate with the one prevailing in the FX auctions, as discussed in the attached Memorandum of Economic and Financial Policies (MEFP).
- Strengthening governance. We have started to implement reforms aimed at strengthening our PFM systems, which are critical for supporting good governance and transparency, and for effectively delivering the essential goods and services on which citizens and economic development rely. Consistent with the Immediate Action Plan for PFM reforms, which is part of the PFM concept note that will be approved by the Cabinet as soon as the COVID-related restrictions on official meetings are lifted and no later than end-June 2021, the focus of reforms in this area during 2021 will be on: strengthening the macro-fiscal framework and budget process; starting the implementation of the Treasury Single Account; improving cash management practices; establishing a public procurement and asset disposal authority; strengthening the Anti-Corruption Commission and the Audit Chamber; and starting the rollout of the electronic payroll for government employees using the biometric system. We will also increase the transparency on oil production, marketing, and contracts.

7. In support of our reform agenda and program, the Government of South Sudan (GOSS) requests an IMF Staff-Monitored Program (SMP) from March 31 to December 31, 2021. We consider the SMP to be essential in supporting our macroeconomic and stabilization efforts, building a track record of sound policy towards a future Fund-supported program, and an indispensable further step towards deepening relations with the international community, including the mobilization of critical financial support at concessional terms from our Development Partners. The enclosed MEFP and the Technical Memorandum of Understanding (TMU) provide comprehensive details of our reform agenda and program.

8. We will not introduce measures and policies that would compound our balance-of-payments difficulties and will not impose new or intensify existing trade restrictions. We will also not introduce or intensify existing restrictions on payments and transfers for current international transactions or multiple currency practices; or enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles or Agreement. The GOSS will provide IMF staff with such information as may be requested in connection with the progress made in implementing the economic and financial policies and in achieving the objectives of the program. The GOSS authorizes the IMF to publish this letter, the attached MEFP and TMU, and the related staff report, and the debt sustainability analysis (DSA) prepared by the IMF and World Bank staffs, including placement of these documents on the IMF website.

9. In line with the IMF safeguards policy, the BOSS is committed to undergo a safeguards assessment before the approval of any new subsequent arrangement by the IMF Executive Board. It will continue to provide IMF staff with access to its most recently completed audit reports and authorize the BOSS' external auditors, who were contracted by the National Audit Chamber, to hold discussions with IMF staff.

Sincerely yours,

/s/	/s/
Hon. Mr. Athian Ding Athian Minister, Ministry of Finance and Planning	Mr. Dier Tong Ngor Governor, Bank of South Sudan

Attachments: I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Attachment I. Memorandum of Economic and Financial Policies

Juba, Republic of South Sudan, March 17, 2021

A. Recent Macroeconomic Developments

1. **The pandemic has reversed economic gains from improved political stability following the 2018 revitalized peace agreement.** Economic growth rebounded sharply in FY19/20 reaching 13.2 percent. Inflation declined from 125 percent in FY17/18 to 35 percent in FY19/20 and the exchange rate stabilized. However, the economy reversed its course and is projected to contract by 4.2 percent in FY20/21, affected by the global pandemic and devastating floods. Facing the collapse of oil exports and government revenue, and in the absence of concessional financing, we accumulated domestic expenditure arrears, including on government wages and salaries, and resorted to monetary financing of the deficit. The resulting increase in reserve money in the wake of the pandemic led to a rapid exchange rate depreciation in the parallel market and a spike in inflation.

2. **The BOSS has stopped monetary financing of the fiscal deficit and resumed FX auctions in recent months, which has stabilized the exchange rate in the parallel market.** To avoid a money growth-exchange rate depreciation-inflation spiral, in October 2020 the Cabinet directed the MOFP to stop accessing the overdraft facility at the BOSS. In addition, the BOSS resumed FX auctions in December 2020, selling to FX bureaus some of the proceeds of the RCF that were disbursed in November 2020. These actions have helped stabilize reserve money balances, contributing in turn to a relatively stable exchange rate in the parallel market since November.

3. **The COVID-19 pandemic has exposed weaknesses in our health care system that is severely underfunded.** Our health care system is unable to deal with the highly contagious and life-threatening virus. We introduced measures to contain the health impact of the pandemic in early 2020, even before the first positive case was recorded in the country. We temporarily relaxed the precautionary measures during the summer, but decided to reimpose them in February 2021, in response to the latest surge in infections. We are currently coordinating with COVID-19 Vaccines Global Access (COVAX) to start delivering vaccines covering 20 percent of our population. In addition, we are working on a national vaccine deployment plan that aims to vaccinate 40 percent of our population by end-2022. Fully funding this plan will require donor support, given the large fiscal gaps for the remainder of FY20/21 and for FY21/22 (see below).

B. The Implementation of Commitments under the First RCF Disbursement

4. **We have implemented our commitments under the first RCF disbursement.** We have ensured the transparent allocation of RCF resources and reinvigorated PFM reforms. Specifically:

- **Ensuring transparent use of Fund resources.** In the absence of government-run social assistance programs, we decided to use the first RCF disbursement to clear two months of wage and salary arrears. This played an important role in supporting the incomes of government employees and their extended families across the country, including for health care workers and teachers. Most of the RCF disbursement (about U$46.3 million out of the US$52.3 million total disbursement) was converted in December 2020 at the official exchange rate of 174 SSP/US$, and the BOSS has started weekly FX auctions to sell some of the FX disbursed under the RCF. As of March 17, 2021, about US$24 million of the RCF disbursement has been auctioned at an exchange rate ranging between 80 and 90 percent of the parallel market rate. The BOSS is using the proceeds from the difference between buying at the official rate and selling at a higher rate in the FX auctions to reduce the outstanding stock of the MOFP overdraft to the BOSS, consistent with the reserve money targets under the SMP (see ¶9 below). To ensure transparency of the use of RCF resources, the MOFP opened a dedicated sub-account in the Integrated Financial Management Information System (IFMIS) to record the payment of wage and salary arrears financed by the RCF disbursement.

- **Achieving timely and accurate financial reporting.** The BOSS has published its 2015 audited financial statement. We are finalizing the audit of the financial statements of the BOSS for 2016-2018, which are expected to be published no later than end-June 2021, and we are planning to finalize those for 2019 and 2020 by the end of 2021. The BOSS will provide IMF staff with access to the most recently completed audit reports of the BOSS and authorize IMF staff to hold discussions with the BOSS' external auditors.
- **Improving governance by strengthening public financial management (PFM).** The Cabinet will approve as soon as the COVID-related restrictions on official meetings are lifted and no later than end-June 2021 a PFM Concept Strategy Note, which includes an Immediate Action Plan for PFM reforms. The focus of PFM reforms in 2021 will be on strengthening the macro-fiscal framework and budget process; starting the implementation of the Treasury Single Account; improving cash management practices; establishing a public procurement and asset disposal authority; strengthening the Anti-Corruption Commission and the Audit Chamber; and starting the rollout of the electronic payroll for government employees using the biometric system. We will also enhance the information on oil production and oil-related contracts (see ¶16 below). In addition, with assistance from the IMF, World Bank, and other development partners, we are developing a medium-term PFM Strategy.

C. Economic Policies Under the SMP

5. **The government and the BOSS are strongly committed to implementing the economic reforms outlined in the R-ARCSS.** Our immediate goal is to restore macroeconomic stability to create conditions for robust and inclusive growth. To that end, the focus of our economic reform program in the near term will be on improving revenue collection while continuing our policy of no BOSS financing of the budget, strengthening the monetary policy framework, and reducing distortions in the FX market. To avoid further accumulation of expenditure arrears we will reorient spending within the budget limits to mitigate the impact of stabilization and FX market reforms on vulnerable groups and to expand health expenditure to address the COVID-19 health related challenges. At the same time, we will continue with our reforms to strengthen governance and the

business environment, with a view to increase the transparency and efficiency of government spending and to support private sector activity towards higher and more inclusive growth. We will expand our consultation and communication with the civil society to strengthen public buy-in of these reforms.

D. Fiscal policy

6. **We will maintain fiscal discipline for the remainder of FY20/21 and in FY21/22.** We will finance fiscal deficit with non-inflationary financing and without resorting to non-concessional debt. To this end, going forward we will continue our policy of no BOSS financing of the budget that we started in October 2020. We will also ensure that external borrowing is limited to finance only critical infrastructure and COVID-related spending to maintain debt sustainability (see ¶15 below). Within these constraints, we will ensure adequate financing of priority spending, including wages and salaries, health and education expenditures, and other critical social spending, while containing lower priority and *ad hoc* spending requests by strengthening commitment control. We are committed to pay on time wages and salaries starting from March 2021, and aim to reduce wage and salary arrears to 3 months at the end of FY20/21 (from 5 months currently) and to eliminate entirely such arrears during FY21/22.

7. **Strengthening revenue collection is essential for supporting development spending and maintaining public debt sustainability.** South Sudan is highly dependent on volatile oil revenues, which currently represent about 90 percent of total government revenue, while non-oil revenue collections remain low relative to our peers. We are implementing steps to boost domestic revenue mobilization, and the FX reforms outlined below are expected to result in higher oil revenue equivalent in SSP. Specifically:

- **Phasing out tax exemptions**. A resolution phasing out numerous tax exemptions was approved by the Cabinet in October 2020 and has started to generate important revenue gains: average monthly non-oil revenue following these changes has increased to about SSP 3.5 billion per month, compared to about SSP 2.6 billion on average in FY19/20. Going forward, we plan to further reduce tax exemption by further implementing the Cabinet resolution. We are not going to introduce any new tax exemptions (holidays) during the SMP and we will discontinue any tax exemptions/holidays which were not approved by the National Assembly. Any future tax policy changes would take effect only after approval by the National Assembly.
- **Adjusting tax rates.** Our tax rates are generally lower than other countries in the region, including members of the East African Community (EAC). The Finance Bill for FY20/21 that is awaiting approval by the Cabinet includes increases in several tax rates, including excise and business profit tax rates. These changes are expected to generate additional revenue of about SSP 12 billion on an annual basis. Going forward, we plan to gradually adjust tax rates in line with the levels prevailing in the other members of the EAC. To that end, we intend to shift from the sales tax to value added tax (VAT). Accordingly, we will seek IMF technical assistance to help develop a VAT Policy Paper and VAT Bill.

- **Expanding digitalization and modernizing tax collections systems**. The National Revenue Authority (NRA) has recently digitalized the collection of custom duties, which account for about 10 percent of our non-oil tax revenue, including through the introduction of e-invoicing, and operationalization of the control room for-real time collection. With assistance from the African Development Bank (AfDB), the NRA is also working to allow the interfacing its IT system with that in the other EAC countries, to allow for regional tracking of imported goods. The estimation method for the valuation of imports subject to custom duties has also been recently aligned with international best practice. These changes have resulted in a significant improvement in the revenue collection from custom duties. The NRA plans to expand the digitalization of tax collection to other domestic taxes, including the business profit, excise, sales and withholding taxes and other non-oil taxes.
- **Strengthening the NRA.** We are currently screening the former directorates of taxation and customs employees and redeploying to NRA structures based on merits and competencies. We are also deploying NRA revenue officers to all revenue generating agencies, expanding digitalization, conducting training and other capacity building activities of NRA staff/employees, and enhancing tax-payers' education.

8. We will seek to contain non-priority expenditure to allow for the reallocation of spending towards the main government priorities. As discussed in ¶6 above, our priority is to ensure timely payment of wages and salaries, health and education spending, and funding of critical infrastructure investment. Given limited scope to raise revenue and little space for borrowing in the near term, we will review our spending plans and seek to delay non-priority spending. We will also seek to develop, in collaboration with our development partners, social support programs, such as cash-transfer program supported by the World Bank through United Nations Office for Project Services, to help the most vulnerable parts of the population.

E. Monetary Policy and Exchange Rate Reform

9. We will operationalize our monetary policy framework that is based on reserve money targets, while preparing to transition to an interest rate-based monetary policy operational framework in the medium to long term.

- **The BOSS will use reserve money as the operational target for monetary policy under the SMP.** We will seek to contain the growth in broad money (M2) with a view to help stabilize the macroeconomic environment, support price stability, and restore investor confidence. To achieve this, the BOSS will use base money (comprised of currency in circulation and commercial bank balances with the BOSS) as an operational target for monetary policy. Specifically, we will target a base money growth of 10 percent in 2021, and consistent with this objective we have set quarterly targets for reserve money. We will disaggregate this quarterly reserve money path into monthly operational targets that would guide frequent monetary policy discussions and related operations to stabilize the exchange rate and reduce inflation.

- **The BOSS will take steps to operationalize the liquidity forecasting process**. These include: (i) establishing a separate liquidity unit in the BOSS and creating an inter-agency liquidity working group by including members from all relevant departments and authorities (including the Cash Management Unit at the MOFP, see ¶17 below) and to start meeting regularly; (ii) preparing a summary version of a daily liquidity monitoring table to allow the BOSS management to assess the evolution of liquidity and market conditions; and (iii) starting the process of getting reliable data - initially by requesting daily reports from commercial banks.

10. We will expand the range of monetary instruments to facilitate the implementation of our reserve money targeting framework. With IMF technical assistance, we will strengthen our operational monetary policy framework. This includes expanding the range of monetary instruments, such as introducing BOSS bills and term deposits. However, the use of such instruments to drain excess liquidity, which is a persistent feature in our system, has a significant financial cost. To that end, the BOSS and MOFP are working to finalize an agreement to allow for such costs to be borne automatically by the budget, so as increase the operational independence of the BOSS towards achieving the inflation objective.

11. We believe that FX market reforms are necessary to reduce the current significant distortions and support the diversification of South Sudan's economy away from oil. The large premium of the exchange rate prevailing in the FX auctions relative to the reference exchange rate creates significant economic distortions and inefficiencies that hamper economic activity, discourage FX inflows from investors and donors, and are an impediment to business activity and lending due to the uncertain availability of FX. We are therefore taking several steps to gradually liberalize the FX market, including to: (i) put in place institutional and operational requisites for transition to a market driven exchange rate and to build the capacity of market participants to manage exchange rate risks; (ii) allow commercial banks to participate in the weekly FX auctions being conducted by the BOSS starting from the beginning of the SMP; (iii) sell the full amount of the forthcoming RCF disbursement that goes to the budget (US$89 million) in these FX auctions; and (iv) consider increasing the amount of FX sold in the weekly auctions if needed to mop up excess liquidity consistent with the reserve money targets and macroeconomic stabilization objectives, including by selling part of the FX from oil revenues at the auctions. In addition, banks will be allowed to operate in the FX market, including buying and selling private FX inflows and donor financial support at competitive exchange rates that are expected to be guided by the exchange rates set at the weekly FX auctions and prevailing market rates. FX auctions for banks would not include a maximum bid rate. These FX market reforms will be formalized in a BOSS circular (**prior action**) and will become effective on April 1, 2021. We have requested technical assistance from the IMF to review and help us strengthen our weekly FX auction system, with a view to accommodate effectively the inclusion of banks in such auctions and other measures needed to develop an effective interbank FX market that are critical for making our economy attractive to foreign investments and increasing donor inflows.

12. A key objective of our FX market reforms is to unify the reference exchange rate with that in the FX auctions. The package of policies we are implementing concomitantly with these FX reforms—especially the discontinuation of monetary financing of the deficit and a moderate targeted increase in reserve money—are expected to contain pressure on the exchange rate in the parallel market. Our experience shows that most consumer prices respond almost instantaneously to changes in the exchange rate in the parallel market. Therefore, stabilizing the parallel market exchange rate should not lead to a material increase in consumer prices as the reference rate adjusts, except for some critical goods and services that have been benefitting from access to FX at the reference rate (such as the case of petroleum products and electricity). We will therefore adjust the reference rate gradually to ensure that we manage effectively any short-term impact of the FX reforms on the prices of such critical goods and services that can adversely affect vulnerable groups. This gradual adjustment, which will be introduced as part of the FX reforms and included in the BOSS circular discussed in ¶11 above, would allow us to deal with any unexpected effects on consumer prices, including to introduce, if needed, explicit subsidies in the budget to support vulnerable groups. Through these reforms we are committed to align the reference rate with the rate prevailing in the FX auctions towards end-September 2021. We will review the exchange rate policy and discuss ways to better target any explicit subsidies as discussed above in the context of the first SMP review that is tentatively scheduled for August 2021.

13. We plan to rebuild our depleted international reserves, with a view to enhance the credibility in our macroeconomic policy framework and to facilitate our ability to respond effectively to future crises. Our current level of international reserves falls way short of what we believe South Sudan needs in order to operate a credible monetary and FX framework––at least US$450 million. To that end, we will use about half (US$87 million) of the RCF disbursement that we are requesting to build international reserves (see Table 1). We will also develop, in collaboration with the IMF, a plan for building economic buffers through reserve accumulation and saving oil revenue windfalls in the Oil Revenue Stabilization Account (once spending authorized under the budget has been fully executed).

14. We will enhance the transparency of monetary data and FX operations. We will publish in the BOSS website: (i) the main monetary aggregates on monthly basis with a lag of less than 4 weeks; and (ii) the results of FX auctions at the end of the business day in the day of the auction.

F. Debt Management

15. We will refrain from contracting non-concessional debt subject to limited and well-targeted exceptions. Maintaining fiscal discipline will help us avoid expensive external borrowing, including non-transparent oil advances. To improve debt management, the Loan Committee will be reconstituted by end-June 2021 under the Debt Management Department at the MOFP. This would help strengthen the assessment, evaluation, and monitoring of our debt obligations. We will also improve the quality and timeliness of debt data, in collaboration with the IMF. We contracted in October 2020 a non-concessional loan from Afreximbank of US$250 million to mitigate the impact of the pandemic and ensure orderly economic adjustment to the oil price shock. About US$70 million from this loan has already been withdrawn to fund critical infrastructure investments, and the remainder (net of associated transaction fees), was planned to be disbursed in FY21/22. In light of the recent recovery in international oil prices, the Cabinet will consider cancelling any undisbursed amounts and return the unused funds. Going forwards, we will only resort to non-concessional borrowing if either: (i) debt management operations improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to our national development program or for critical COVID-related spending, and for which concessional financing is not available. We will consult with the IMF staff prior to contracting any new non-concessional debt. Aside from these exceptions, we will not contract new non-concessional loans during the SMP.

G. Strengthening Governance

16. We have stepped up the implementation of reforms aimed at increasing transparency and reducing corruption. We have discontinued using oil advances for budget financing, which has improved budget transparency and oil management and we have set up a strong governance structure. We are planning to strengthen the anti-corruption framework by criminalizing corruption offenses and implementing an asset declaration regime. We are planning to bring legal and institutional frameworks in line with the requirements under the United Nations Convention Against Corruption. We will apply for membership in the regional FATF-styled body (the Eastern and South African Anti-Money Laundering Group).

17. We have identified the PFM priorities and are working with the IMF and other development partners on implementing the targeted reforms in this area. Strong PFM systems are critical for supporting good governance and transparency, and for effectively delivering the essential goods and services on which citizens and economic development rely. To that end, with continued support of the leadership of the PFM Oversight Committee that was established in April 2020, we will keep the momentum of PFM reforms. The Cabinet will adopt a PFM concept note as soon as the COVID-related restrictions on official meetings are lifted and no later than end-June 2021 (**structural benchmark**), which outlines a 2021 Immediate Action Plan for reforms in this area consistent with R-ARCSS PFM priorities that are implementable now. On this basis, the focus of PFM reforms in 2021—which will be supported with technical assistance by the IMF, World Bank, and other development partners—will be on the following areas:

- Improving our macro-fiscal framework, building a dedicated team for working on it, and improving the source data (particularly on oil revenues). This work has been supported by technical assistance from AFRITAC East.
- Developing proactive cash management through realistic cash forecasts, operationalizing the TSA, and channeling all cash flows through the Consolidated Fund. We will revive the Cash Management Committee and strengthen the Cash Management Unit (CMU) at the MOFP by the time of the first review (**structural benchmark** for June 2021). The CMU would prepare the FY21/22 annual cash plan as soon as the preliminary budget estimates for FY21/22 have been produced (June 2021).
- The CMU will make by June 2021 make a comprehensive review of the expenditures in the cash plan and together with Budget make a proposal for programming the expenditures according to government priorities and cash available (**structural benchmark** for

September 2021). We have requested TA from the IMF to strengthen commitment controls under IFMIS, with a view to link our cash forecasts to the government spending priorities and prevent the accumulation of expenditure arrears.

- We will strengthen the implementation of the TSA by consolidating all government accounts held at the BOSS by the time of the first review (**structural benchmark** for June 2021).
- We will gradually phase out the payment in cash of salaries for government workers, and pilot the payment of salaries through bank accounts for MOFP employees by June 2021 and start the roll out to other MDAs by September 2021 (**structural benchmarks** for June and September 2021).
- We will establish a public procurement and asset disposal authority and strengthen the Anti-Corruption Commission and the Audit Chamber.
- We will start the rollout of the electronic payroll for government employees using the biometric system.
- We will enhance the information on oil production and oil-related contracts, including by, starting in June 2021 posting in the website of the Ministry of Petroleum the amount of oil production and exports and new oil contracts on a monthly basis by the end of the following month.

H. Program Modalities and Monitoring

18. Performance under the SMP will be monitored through quarterly reviews of quantitative targets and structural benchmarks (Tables 1 and 2). The program has one prior action, six quantitative targets, and five structural benchmarks. The quantitative targets are described in Table 1, and the prior action and structural benchmarks in Table 2. The Technical Memorandum of Understanding (TMU) contains definitions of the quantitative targets and structural benchmarks. It also specifies data required to monitor the program that the government will need to provide to IMF staff on a timely basis. The first test date is June 30, 2021 and the review is expected to be completed by end-September 2021. The second test date will be September 30, 2021, and the completion of the second review by end-2021 could be combined with a request for an ECF.

19. We will set up an institutional framework to monitor program execution and improve data collection. The institutional framework will comprise key decision makers on economic and financial matters, notably the Minister of Finance and Planning, the Minister of Petroleum, and the Governor of BOSS. They will be assisted by a Technical Committee (TC) that will monitor execution of the SMP and report on a regular basis. This TC will comprise senior officials from the MOFP, the Ministry of Petroleum, the BOSS, the National Bureau of Statistics, and other institutions that are key to ensuring adequate execution of the program.

Table 1. Republic of South Sudan: Quantitative Targets[1]

	end-Jun 2021	end-Sep 2021
Central government's primary cash budget deficit (ceiling: in billions of SSP)	10.0	20.0
Central bank net credit to the central government (ceiling: in billions of SSP)[2]	0.0	0.0
Contracting or guaranteeing of non-concessional borrowing (continuous ceiling: in millions of USD)[3]	0.0	0.0
Average net international reserve (floor: in millions of U.S. dollars)[4]	85.0	100.0
Clearance of salary arrears (floor: in billions of SSP)	7.3	11.0
Average reserve money growth (ceiling: in percentage points)[5]	5.0	10.0

[1] Numbers are cumulative from March 30, 2021, unless stated otherwise.

[2] Numbers are cumulative changes from March 30, 2021. NCG should be zero in at least half of the quarter and never higher than 5 percent of quarterly revenue.

[3] Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program or for critical COVID-related spending, and for which concessional financing is not available.

[4] Targets on NIR for end-June and end-September 2021 are defined as the cumulative changes of the average stock of NIR during, respectively, June and September 2021 relative to the stock of NIR on March 30,2021.

[5] Limits on reserve money growth for end-June and end-September 2021 are defined as the cumulative changes of the average reserve money during, respectively, June and September 2021 relative to the reserve money stock at end-March 2021.

Table 2. Republic of South Sudan: Prior Action and Structural Benchmarks

Measures	Target Date	Objectives
1. BOSS to issue a circular to formalize FX market reforms making them effective on April 1, 2021 (¶11 and ¶12)	Prior action	
2. Cabinet to adopt a PFM concept note that includes a 2021 Immediate Action Plan for reforms in this area consistent with R-ARCSS PFM priorities (¶17)	June 2021	
3. Consolidate GoSS bank accounts in BSS, allowing deficits on Treasury bank accounts covered from surpluses on other MoFP bank accounts (¶17)	June 2021	Enhance public fund management especially on liquidity management
4. Cash Management Unit (CMU) will be formally established within the Treasury with a dedicated team of staff (¶17)	June 2021	Enhance public fund management especially on liquidity management
5. MoFP will gradually phase out the use of cash for payment of salaries to all public servants and mandate the use of bank accounts, and:		Enhance public fund management
a. Pilot these new arrangements in the MoFP (¶17)	June 2021	
b. Gradually roll-out to selected MDAs (¶17)	September 2021	
6. CMU will make a comprehensive review of the expenditures in the cash plan and together with Budget make a proposal for programming the expenditures according to GoSS priorities (¶17)	September 2021	Improve budget transparency and credibility

Attachment II. Technical Memorandum of Understanding

Juba, Republic of South Sudan, March 17, 2021

1. This Technical Memorandum of Understanding (TMU) defines the quantitative targets and structural benchmarks for monitoring the performance of South Sudan under the Staff Monitored Program (SMP). In addition, the TMU specifies the data to be provided to the IMF for program monitoring purposes, and the periodicity and deadlines for the transmission of the data.

2. The SMP will be monitored based on six quarterly quantitative targets (QTs) and five structural benchmarks listed in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). The QTs are expressed as cumulative changes of the corresponding stock variables since the beginning of the SMP, March 30, 2021. The QTs are as follows.

i. ceiling on the central governments primary deficit;
ii. ceiling on the central bank net credit to the central government;
iii. continuous ceiling on contracting or guaranteeing of external non-concessional borrowing;
iv. floor on the average net international reserves (NIR);
v. floor on clearance of salary arrears; and
vi. ceiling on the average reserve money growth.

QUANTITATIVE TARGETS

3. **Primary cash budget deficit of the central government** is measured as the sum of net foreign financing and net domestic financing minus interest payments. Central government includes all line ministries and agencies controlled by the government. Net foreign financing is the difference between disbursements and amortization of any external loans both concessional and non-concessional, internationally-issued bonds, and any other forms of liabilities by the central government to nonresidents. Net domestic financing is defined as the sum of net financing from the Bank of South Sudan (BOSS), and other depository corporations (ODCs). Net financing from the BOSS /(ODCs) is equal to the change in net claims on the central government from the BOSS/ODCs between the start and end of the relevant period, as obtained from the Monetary Survey. For the purposes of the program, all claims and liabilities of the central government to the BOSS and ODCs denominated in foreign currency will be valued at the program exchange rate of 174 SSP/US$.

4. **Net credit to the central government by the BOSS** (NCG) is defined as change in the stock of net credit to the central government by the BOSS. For the purposes of the program, all claims and liabilities of the central government to the BOSS denominated in foreign currency will be valued at the program exchange rate of 174 SSP/US$.

5. **Net international reserves (NIR)** of the BOSS are defined as reserve assets of the BOSS net of short-term external liabilities of the BOSS. Reserve assets are defined as foreign assets readily available to, and controlled by, the BOSS and exclude pledged or otherwise encumbered foreign

assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Reserve assets must be denominated and settled in a convertible foreign currency. Short-term foreign liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BOSS. This excludes SDR allocations as they are of a long-term nature. For program-monitoring purposes, official reserve and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock denominated in SDR, EUR and GBP at program exchange rates of, respectively, 1.44, 0.83 and 0.71 against the US dollar. The NIR limits for end-June and end-September 2021 are defined as the cumulative changes of the average NIR daily stocks during, respectively, June and September 2021 relative to the NIR stock at end-March 2021.

6. **Contracting or guaranteeing of new non-concessional external debt by the central government** applies to debt to non-residents at non-concessional terms. For the purposes of the program, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)), attached in Annex I). This quantitative target will be assessed on a continuous basis starting from March 30, 2021.

- **For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows:** the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt.
- Discussion on the contracting and/or guaranteeing of any new non-concessional debt will only be undertaken after consultation with the IMF. Exceptions to the zero program target for non-concessional debt may apply for debt that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) transactions that finance, while avoiding excessive external borrowing, critical investment projects with a high social and economic return that are integral to national development program or for critical COVID-related spending, and for which concessional financing is not available.

7. **Clearance of salary arrears** will be measured by the net change in the stock of salary arrears at end-June and end-September 2021 relative to end-March 2021.

8. **Reserve money** is defined as the sum of local currency circulating outside of banks, total reserves for banks (required and excess) at the BOSS. For program purposes, limits on reserve money growth for end-June and end-September 2021 are defined as the cumulative changes of the average reserve money during, respectively, June and September 2021 relative to the reserve money stock at end-March 2021.

PROGRAM MONITORING AND REPORTING REQUIREMENTS

9. The monitoring of quantitative targets and structural benchmarks will be the focus of the quarterly assessment report to be prepared by the authorities at the end of each quarter. The information on implementation and/or execution of structural benchmarks under the program will be reported to IMF staff within two weeks after their programmed implementation date. The status of implementation of other structural program measures will also be reported to IMF staff within the same time frame.

10. The authorities will report the information specified in Table 1 below according to the reporting periods indicated. More generally, the authorities will provide IMF staff with all information required for effective follow-up on economic policy implementation.

11. The authorities agree to consult IMF staff on any new external debt proposals. They will report to IMF staff on the signing of any new external debt arrangements and the conditions pertaining to such debt.

Table 1. Republic of South Sudan: Data to be Reported for Program Monitoring

Reporting Agency	Type of data	Frequency	Submission Lag
MOFP	Table of government fiscal operations	Monthly	4 weeks
	Estimated government tax revenue	Monthly	4 weeks
	Estimated oil production and revenue	Monthly	4 weeks
	Stock of salary arrears of the Central Government	Monthly	4 weeks
	Budget execution report	Quarterly	4 weeks
	Disbursements of External Debt including Newly Contracted Debt of Government	Quarterly	4 weeks
	Projected external debt service	Quarterly	4 weeks
BOSS	BOSS balance sheet	Monthly	4 weeks
	Monetary Survey	Monthly	4 weeks
	Detailed FX Auction Results	Weekly	1 week

Annex III. Guidelines on External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)):

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

  (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

  (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

  (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessee retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

- Under the definition of debt set out in this paragraph, arrears, penalties, and judicially-awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

March 17, 2021

STAFF-MONITORED PROGRAM AND REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT—DEBT SUSTAINABILITY ANALYSIS

Approved By

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

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

Relative to the last assessment in November 2020, the baseline in this Debt Sustainability Analysis (DSA) has slightly higher oil prices and higher need for food imports due to severe flooding, which has destroyed food stocks and crops ahead of the main harvest season, but is otherwise broadly unchanged.

South Sudan's debt is assessed to be sustainable with a high risk of debt distress for both external and overall public debt.[1] *Specifically, there are temporary breaches in two out of seven debt indicators under the baseline scenario (debt service-to-revenues ratio of external public debt, and present value (PV) of debt-to-GDP ratio of overall public debt). These breaches suggest a high risk of external and overall public debt distress. However, all external and overall public debt indicators are expected to be below the respective thresholds from 2024/25 onwards, contingent on the authorities' commitment to policy adjustment needed to cap the deficit over the medium term together with increased concessional financing. South Sudan's external and overall debt are therefore assessed to be sustainable. Risks to this assessment are tilted to the downside, including in relation to the implementation of policy adjustment and limited access to concessional loans.*

[1] South Sudan's debt-carrying capacity remains rated "weak" with composite indicator score of 1.20 according to the October 2020 vintage of World Economic Outlook and the World Bank's 2019 Country Policy and Institutional Assessment index.

BACKGROUND

A. Public Debt Coverage

1. **The DSA covers central government debt and debt issued by the central bank on behalf of the government.** South Sudan faces significant weaknesses with the availability of debt data. Complete information about SOE debt and government guarantees is unavailable, and this leads to the omission of SOEs in the DSA.[2] The size of government guarantees is negligible; thus, the contingent liability stress test includes only SOE debt and financial market shocks. The external debt is defined using the currency criterion.

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

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

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

2. **Access to data remains a constraint, despite the authorities' efforts to improve the availability of data.** The authorities are receiving technical assistance (TA) from both the IMF and the World Bank on Public Financial Management (PFM) reforms—including the relocation of the Loan Committee to the Ministry of Finance and Planning, which is expected to lead to improvements in the quality of public debt and fiscal data.

B. Debt Developments

3. **South Sudan has reached a debt restructuring agreement with Qatar National Bank (QNB), putting an end to external debt distress.** South Sudan was in debt distress, owing to external debt arrears, and its debt was assessed to be unsustainable in the 2019 DSA. A short-term trade facility provided by QNB fell into arrears in 2015. In addition, South Sudan fell behind on payments to Sudan in 2015 and

[2] Addressing the lack of coverage of SOE will require significant efforts in terms of data gathering and possibly technical support to produce the information.

2016 under the Transitional Financial Arrangement (TFA) but cleared these arrears in 2018.[3] In July 2020, the authorities reached a debt restructuring agreement with QNB, which resulted in a significant reduction of the net present value of the borrowing (42 percent). The government started servicing the loan in October 2020 and is now current on all its external debts.

4. **South Sudan's external public debt was estimated at US$1,355 million (41 percent of GDP) as of end-June 2020 (Text Table 1).** Debt to the World Bank amounted to US$79 million on IDA terms, while debt to the African Development Bank (AfDB) amounted to US$28 million. US$150 million had been borrowed from China Exim Bank to upgrade the Juba International Airport. Debt to the QNB amounted to US$627 million. Oil-related short-term loans have declined significantly, from an estimated US$338 million in March 2019 to US$99 million in June 2020. As shown in Text Table 1, relatively few counterparties account for most of South Sudan's gross external debt. In FY19/20 around 81 percent of total loans (46 percent: QNB loans; 35 percent: oil advances and Afreximbank loans) are highly non-concessional. South Sudan has not requested to participate in the Debt Service Suspension Initiative.

Text Table 1. Republic of South Sudan: External Borrowing[1]

	2017/18		2018/19		2019/20	
	USD Million	Share	USD Million	Share	USD Million	Share
Multilateral						
IDA	53	4%	53	4%	79	6%
AfDB	28	2%	28	2%	28	2%
Bilateral						
China EXIM Bank	100	8%	150	13%	143	11%
Commercial						
QNB	627	52%	627	52%	627	46%
AFREXIM	108	9%	0	0%	379	28%
Oil advances	216	18%	338	28%	99	7%
Arrears to Sudan	70	6%	0	0%	0	0%
Total external debt outstanding	**1,202**	100%	**1,196**	100%	**1,355**	100%
External debt to GDP ratio	1,202	37.8	1,196	26.7	1,355	28.3
Domestic debt to GDP ratio	265	8.3	229	6.0	596	12.5
Total public debt to GDP ratio	1,466	46.1	1,424	32.7	1,952	40.8

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

[1]Fiscal year runs from July to June.

5. **Slightly higher oil production and faster oil-price recovery relative to the projections in the 2020 DSA have modestly improved South Sudan's debt-servicing capacity.** The latest oil production data from the authorities show slightly higher oil production of about 170 barrels per day (bpd) in February 2021 compared to the about 165 bpd for the same period assumed in the 2020 DSA. The latest WEO also projects higher oil prices in 2021 and the next few years; the projected average Brent oil prices for 2021 and 2022 are 58.5 and 54.8, respectively in the February 2021 WEO compared to 43.8 and 45.6, respectively, in

[3] Under the agreement signed with Sudan in 2012, the South Sudanese government agrees to deliver a payment-in-kind of 10 million barrels of oil per year until FY20/21. In FY 2015/16, South Sudan accumulated payment arrears on the TFA to Sudan of US$291 million. Note: the fiscal year in South Sudan runs from July to June.

October 2020 WEO. As more than 90 percent of total exports and government revenue come from oil, these positive oil-sector developments improved South Sudan's debt-servicing capacity.

6. **South Sudan's domestic debt had been low at below 10 percent of GDP prior to the COVID-19 crisis.** Domestic debt is mostly in the form of loans from the central bank. The government had stopped monetary financing since late 2017, which helped lower inflation and stabilize the exchange rate. However, the COVID-19 crisis had triggered some monetary financing, increasing domestic debt by around 5 percentage points in FY19/20. Following a Cabinet Resolution in October 2020, there has been no further monetary financing of the budget since September 2020. While there are no arrears on domestic debt instruments, the authorities have domestic arrears related to salaries and goods and services. The current estimate of salary arrears is 2 percent of GDP, or 5 months of salaries. The authorities' PFM reform strategy includes the review, verification and clearance of all other arrears.

7. **The Transitional Financial Arrangement (TFA) with Sudan (around 5 percent of GDP) puts significant pressure on the budget, but the agreement will end in mid-2022 opening considerable fiscal space.** Financial transfers to Sudan accounted for around 20 percent of government's total expenditure, on average, in the past 4 years (18 percent in FY19/20). The forthcoming completion of the TFA will allow for smaller debt accumulation, a more robust debt profile, and thus lower borrowing cost in the relatively near future.

UNDERLYING ASSUMPTIONS

8. **Under the baseline scenario, some recovery is expected next year, and solid growth in oil and non-oil sectors are expected over the medium term (Text Table 2).** Assuming continued progress in peace agreement and PFM reforms, despite a slowdown in FY20/21 due to the COVID-19 pandemic and severe flooding, medium-to-long-term growth prospects remain favorable as South Sudan started from a very low base following the civil war. Progress in the peace agreement, improved macroeconomic stability, and recovery in oil prices should support an overall growth of 6 percent in the medium to long term. Text Table 2 presents the main macro-framework assumptions in the current baseline scenario, as well as those of the previous DSA. Relative to the November 2020 DSA, the overall growth in FY20/21 is lower by about 0.6 percentage point, as the gain from slightly higher oil production based on latest data is insufficient to offset the adverse impact of the severe flooding, which has killed livestock and destroyed food stocks and crops ahead of the main harvest season.

9. **The authorities remain committed not to contract oil advances and refrain from taking highly non-concessional loans.** The authorities have almost entirely paid back the residual oil advances contracted in the past (around US$138 million remains in June 2020) and have not relied on such expensive and non-transparent financing since May 2020. Further, the November 2020 DSA assumed the authorities would access a US$30 million loan from IDA and a US$100 million loan from a Non-Paris Club (NPC) creditor in FY20/21 and FY21/22. However, these assumptions are unlikely to materialize, and in the absence of access to concessional financing, the authorities contracted a US$250 million facility from Afreximbank to alleviate the cash gap in the wake of the pandemic. US$70 million of the US$250 million

facility was disbursed in FY20/21.[4] Although the Afreximbank loan is highly non-concessional compared to the IDA and NPC loans, the amount of disbursement is much smaller, US$70 million versus US$130 million for FY20/21. As a result, the new Afreximloan does not lead to a significant change in South Sudan's debt sustainability. In light of the recent oil-price recovery, the authorities will consider cancelling the undisbursed amounts. In that case, the debt sustainability would improve since the current assessment assumes the remaining Afreximbank facility would be disbursed in FY21/22.[5]

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

	2019/20	2020/21	2021/22	2022/23	2023/24	2029/30
	Projection					
Real GDP growth (annual percent change)						
2021 DSA	13.2	-4.2	2.2	2.6	4.7	6.4
2020 DSA	13.2	-3.6	0.0	2.5	5.5	6.4
Real oil GDP growth (annual percent change)						
2021 DSA	26.4	-3.0	3.1	1.2	1.7	5.0
2020 DSA	26.4	-5.9	0.0	3.1	6.1	5.0
Current Account Balance (percent of GDP)						
2021 DSA	-2.7	-6.6	-1.4	0.7	0.6	-1.3
2020 DSA	-2.7	-4.5	-2.3	0.7	-1.3	-2.7
Exports of goods and services (percent of GDP)						
2021 DSA	64.6	61.5	62.9	62.1	61.0	58.7
2020 DSA	64.6	59.6	61.1	61.7	61.8	59.6
Imports of goods and services (percent of GDP)						
2021 DSA	79.5	84.4	76.8	81.0	81.8	82.2
2020 DSA	79.5	80.4	79.0	83.0	85.6	84.8
Primary deficit (percent of GDP)						
2021 DSA	-5.1	-1.9	-1.0	1.2	1.4	0.6
2020 DSA	-5.1	-1.0	-0.1	2.7	2.4	0.5
Revenue and grants (percent of GDP)						
2021 DSA	29.7	24.6	31.2	31.3	30.9	31.7
2020 DSA	29.7	27.8	29.2	29.4	29.5	29.2
Primary expenditures (percent of GDP)						
2021 DSA	34.8	26.5	32.2	30.1	29.5	31.2
2020 DSA	34.8	28.8	29.3	26.7	27.1	28.8

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

[4] Relative to the previous Afreximbank loan, the financial terms of the new loan improve slightly.

[5] For FY21/22, this DSA assumes US$30 million disbursement from IDA but zero from an NPC creditor; the remaining Afreximbank facility would approximately replace the earlier assumption of US$ 100 million NPC loan.

10. The authorities' commitment to fiscal prudence, which underpins the DSA, is based on a combination of automatic adjustment and policy measures.

- The composition of public spending incorporates a mechanical adjustment mechanism, as the Transitional Financial Arrangement (TFA) payments to Sudan (about 4 percent of GDP) and the transfers to oil producing states (about 1 percent of GDP) are indexed to oil prices.
- The payment of wages, which suffers regular delays and arrears, will be prioritized, notably as it is the main poverty-reducing instrument currently available to the authorities, in the absence of budget-funded transfer mechanisms.

11. The fiscal and BOP financing gaps in FY20/21 and FY21/22 after the first RCF disbursement will be closed with a combination of the second RCF disbursement, grants, concessional loans, and further consolidation if necessary. Specifically, about US$90 million of the US$177 million prospective RCF disbursement will be used to close around 64 percent of the fiscal financing gap in FY20/21 and US$87 million will be used to inject BOSS foreign reserves. The remaining some US$ 50 million fiscal financing gap is expected to be closed by a combination of concessional loans and FX profits from the RCF disbursement which will be auctioned by BOSS on behalf of the government (MEFP ¶11). In April 2020, the World Bank provided US$7.6 million in support for the South Sudan COVID-19 Response Plan, activating a Contingency Emergency Response Component (CERC) under the ongoing Provision of Essential Health Services Project (PHESP) (US$ 5 million) and reprogramming some remaining funds from the earlier activated Ebola CERC (US$2.6 million). The World Bank is processing additional financing of US$5 million under the COVID-19 Fast Track Facility to replenish the already activated CERC. In addition, an amount of US$1.58 million was approved and transferred to the WHO to support the procurement of personal protective equipment and diagnostics in the country. Project interventions under the Safety Net Project (US$40 million) and the Enhancing Community Resilience and Local Governance Project (US$45 million) projects, which are expected to start disbursing in FY21/22, will also be critical for alleviating the socio-economic impact of COVID-19 in target areas.

12. The realism tools flag some optimism on primary balance and pessimism on growth compared to historical performance, but staff is of the view that the projections are reasonable. The baseline scenario implies an improvement of the primary balance from -5.1 percent of GDP in FY19/20 to 1.2 percent of GDP in FY22/23. Staff is of the view that this is realistic, as part of the adjustment stems from the mechanical impacts of the oil-price recovery and the expiration of the TFA agreement with Sudan (about 4 percent of GDP). In addition, the recent revitalized peace agreement, ongoing progress in PFM reforms, and the authorities' commitment to prudent debt management and fiscal and monetary policies are expected to support the fiscal adjustment. The baseline scenario predicts 2.1 percent real GDP growth in FY21/22, significantly lower than suggested by the realism tool (about 12 percent). Staff considers the realism tool to be overly overoptimistic on growth, as it is considerably affected by the exceptional recovery in oil production (about 25 percent) from June 2019 until the pandemic hit. This development is unlikely to repeat in the near future given the recent oil price collapsed and the depth of the current crisis.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

13. **SSD's debt carrying capacity remains classified as weak (Text Table 3).** The classification of debt carrying capacity is guided by the composite indicator (CI) score, which is determined by the World Bank's Country Policy and Institutional Assessment (CPIA) and other variables, such as real GDP growth and import coverage of foreign exchange reserves. South Sudan's latest CI score is 1.20 based on the October 2020 WEO and 2019 CPIA. This classification remains unchanged from the assessment in the 2020 DSA.

14. **Given the importance of oil price developments, a tailored stress test for lower oil prices was conducted.** In addition to standard stress tests, the commodity price stress test has been applied. The commodity price stress test features one standard deviation decline in oil prices and 6-year period for closing the financing gap that arises.

Text Table 3. Republic of South Sudan: Debt Carrying Capacity and Thresholds

Country	South Sudan
Country Code	733

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage
Weak	Weak 1.20	Weak 1.54

Applicable thresholds

APPLICABLE EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

New framework		Cut-off values	
Weak	CI <	2.69	
Medium	2.69	≤ CI ≤	3.05
Strong	CI >	3.05	

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

15. Despite the COVID-19 shock, the PV of external-debt-to-GDP ratio under the baseline scenario is projected to remain below the 30 percent threshold, albeit marginally (Figure 1 and Table 1). The PV of debt-to-GDP ratio is projected to be at 28 percent in FY20/21, slightly below the indicative threshold of 30 percent, as oil prices were hit by the global shocks. The ratio gradually declines over the remaining projection period as oil prices recover and stabilize at about 25 percent in the medium term. The PV of debt-to-exports ratio is at 45 percent in FY20/21 under the baseline scenario, and expected to remain relatively stable over the projection period at this level, significantly below the respective threshold of 150 percent.

16. The external debt liquidity indicators breach the threshold until FY23/24 under the baseline scenario due to the large impact of the pandemic on oil prices, and the high debt service of commercial external debt (Figure 1 and Table 1). The debt service-to-revenue ratio exceeds the thresholds until FY23/24 mainly due to the collapse in oil prices combined with the repayment of commercial external debt. However, the ratio is projected to steadily improve and stay well below the thresholds from FY24/25 onwards. The external debt service-to-exports ratio is expected to be marginally below the threshold in FY20/21, improve over time, and stay well below the threshold from FY24/25 onwards.

17. Applying standard stress tests on top of the global shocks from COVID-19 results in longer breaches in the debt service-to-exports ratio (Figure 1 and Table 1). Specifically, under the most extreme shock scenario (i.e., a combination of shocks), the PV of debt-to-GDP and debt service-to-revenue ratios breach the threshold over the projection period, by a large amount for some years. Furthermore, under the scenario of further commodity price shock, the debt service-to-exports ratio exceeds the threshold for multiple years. The PV of debt-to-exports ratio under all scenarios is below the threshold throughout the projection period.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

18. Under the baseline scenario, total public debt as a share of GDP breaches its indicative threshold of 35 percent in FY21/22 and FY22/23 while it is expected to gradually decline below the threshold from FY23/24 onwards (Figure 2 and Table 2). Public sector debt is projected to increase from 33 percent in FY18/19 to 42 percent in FY20/21, during which domestic debt is projected to increase from 6 percent in FY18/19 to 16 percent in FY20/21. Public sector debt is expected to decline afterwards reflecting the authorities' commitment to fiscal discipline. In particular, the PV of public-debt-to-GDP ratio is expected to improve to around 37 percent, remain below the 35 percent threshold from FY23/34 onwards, and stabilize at around 25 percent in the medium-to-long term. Under the most extreme shock scenario, all debt indicators are expected to breach the threshold over the projection period by significant amount for some years.

RISK RATING AND VULNERABILITIES

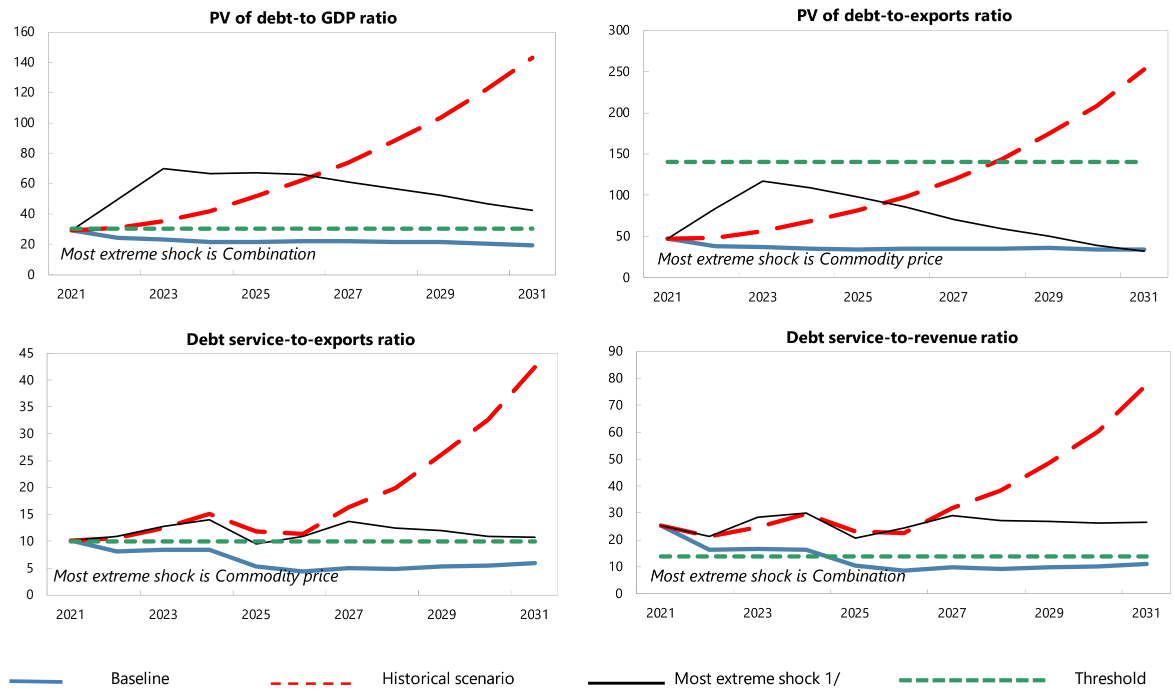
19. Staff assesses South Sudan's external and overall public debt to be sustainable with a high risk of debt distress for both external and domestic public debt. This assessment is subject to uncertainties as it critically hinges on the authorities' commitments to continue avoiding oil advances, adopt prudent monetary and fiscal policies, and continue PFM reforms. The sustained implementation of these commitments would open access to concessional loans and significantly higher amounts of grants, as well as lead to a more resilient economy—all important determinants of future debt sustainability. With these commitments, as shown in Figure 5, all public external debt indicators are expected to be below the thresholds and the risk of external debt distress is expected to be moderate starting from FY24/25. Total public debt indicators in the medium term mainly reflect the total external debt indicators since the domestic debt level is low and projected to remain relatively low given the extremely limited depth of the domestic financial market in South Sudan.

20. There are substantial downside risks to the baseline scenario. Besides subdued oil prices, the risks include extended lockdown measures, deadlock in implementing sustainable peace, lack of political commitment to implement strong macroeconomic adjustment measures, suboptimal resource allocation, including insufficiently efficient public investment, and protracted rent seeking behavior and corruption. These risks of prolonged fragility underscore the importance of a commitment to internal peace, economic reforms, and close cooperation with the international community.

AUTHORITIES' VIEWS

21. The authorities agreed with the assessment of the DSA. They recognized the importance of remaining current on their debts, discontinuing oil advances, avoiding highly non-concessional borrowings, and the prudent fiscal and monetary policies discussed in the staff report to improve South Sudan's debt sustainability.

Figure 1. Republic of South Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, FY2021–31[1/]



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

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

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	100%
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	4.1%	4.1%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	12	12
Avg. grace period	3	3

* 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.

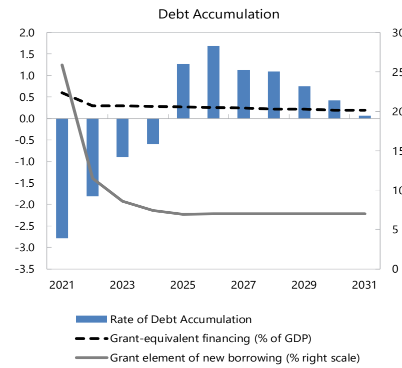
Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in or before 2031. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress 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.

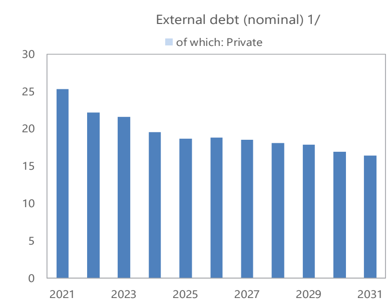
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

Table 1. Republic of South Sudan: External Debt Sustainability Framework, Baseline Scenario, FY2020–41
(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 8/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
External debt (nominal) 1/	**28.0**	**25.3**	**22.1**	**21.6**	**19.5**	**18.6**	**18.8**	**16.4**	**15.6**	**24.1**	**19.4**
of which: public and publicly guaranteed (PPG)	**28.0**	**25.3**	**22.1**	**21.6**	**19.5**	**18.6**	**18.8**	**16.4**	**15.6**	**24.1**	**19.4**
Change in external debt	1.3	-2.7	-3.1	-0.6	-2.0	-0.9	0.2	-0.5	1.9		
Identified net debt-creating flows	**4.0**	**6.8**	**0.1**	**-2.1**	**-3.5**	**-2.3**	**-0.9**	**-1.7**	**4.6**	**-1.6**	**-0.9**
Non-interest current account deficit	**3.3**	**5.2**	**0.6**	**-1.4**	**-1.2**	**1.3**	**1.8**	**3.1**	**4.7**	**2.9**	**1.2**
Deficit in balance of goods and services	14.0	22.9	13.9	18.9	20.8	24.1	24.6	28.3	37.2	**3.5**	**22.3**
Exports	63.6	61.5	62.9	62.1	61.0	62.8	63.2	56.6	39.1		
Imports	77.6	84.4	76.8	81.0	81.8	86.9	87.8	84.9	76.3		
Net current transfers (negative = inflow)	-20.3	-25.9	-22.0	-29.0	-29.9	-30.1	-30.4	-30.2	-36.5	**-20.5**	**-28.6**
of which: official	0.0	0.0	-0.3	-0.5	-0.5	-0.5	-0.5	-0.4	0.0		
Other current account flows (negative = net inflow)	9.7	8.2	8.8	8.7	7.9	7.3	7.6	5.0	4.0	**19.9**	**7.5**
Net FDI (negative = inflow)	**0.4**	**-1.0**	**-0.9**	**-0.8**	**-1.9**	**-3.0**	**-2.4**	**-4.8**	**0.0**	**0.8**	**-2.2**
Endogenous debt dynamics 2/	**0.3**	**2.6**	**0.4**	**0.1**	**-0.4**	**-0.6**	**-0.3**	**0.1**	**-0.1**		
Contribution from nominal interest rate	1.6	1.4	0.8	0.7	0.6	0.6	0.6	0.8	0.7		
Contribution from real GDP growth	-3.3	1.2	-0.5	-0.6	-1.0	-1.1	-0.9	-0.7	-0.8		
Contribution from price and exchange rate changes	2.0	...	...	...	...	...	...	...	...		
Residual 3/	**-2.6**	**-9.6**	**-3.2**	**1.5**	**1.5**	**1.4**	**1.1**	**1.2**	**-2.7**	**5.6**	**-0.2**
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators											
PV of PPG external debt-to-GDP ratio	**31.4**	**29.3**	**23.9**	**23.0**	**21.2**	**21.5**	**22.2**	**19.3**	**18.4**		
PV of PPG external debt-to-exports ratio	**49.3**	**47.6**	**38.1**	**37.1**	**34.8**	**34.2**	**35.2**	**34.1**	**47.0**		
PPG debt service-to-exports ratio	**33.3**	**10.1**	**8.1**	**8.4**	**8.3**	**5.4**	**4.4**	**6.0**	**4.6**		
PPG debt service-to-revenue ratio	**71.8**	**25.2**	**16.4**	**16.6**	**16.5**	**10.6**	**8.7**	**11.0**	**7.7**		
Gross external financing need (Million of U.S. dollars)	1221.8	498.6	265.3	165.8	113.3	101.4	138.9	142.4	906.2		
Key macroeconomic assumptions											
Real GDP growth (in percent)	13.2	-4.2	2.2	2.6	4.7	6.0	5.0	4.4	6.0	**5.6**	**2.7**
GDP deflator in US dollar terms (change in percent)	-7.0	1.9	12.3	-2.5	1.1	-1.2	-0.9	3.0	3.0	**-4.8**	**1.8**
Effective interest rate (percent) 4/	6.3	5.0	3.8	3.2	2.8	3.0	3.1	4.8	5.4	**1.5**	**3.5**
Growth of exports of G&S (US dollar terms, in percent)	-0.1	-5.7	17.4	-1.1	3.8	7.8	4.8	0.5	-15.3	**207.4**	**4.5**
Growth of imports of G&S (US dollar terms, in percent)	68.6	6.2	4.4	5.6	6.8	11.2	5.2	7.7	-3.2	**5.6**	**6.6**
Grant element of new public sector borrowing (in percent)	...	25.9	11.5	8.6	7.4	6.9	7.0	7.0	5.8	**...**	**11.2**
Government revenues (excluding grants, in percent of GDP)	29.5	24.6	31.2	31.3	30.9	31.8	32.1	30.9	23.6	**32.2**	**30.3**
Aid flows (in Million of US dollars) 5/	0.0	0.0	30.0	30.0	30.0	30.0	30.0	30.0	30.0		
Grant-equivalent financing (in percent of GDP) 6/	...	0.6	0.3	0.3	0.3	0.3	0.3	0.2	0.1	**...**	**0.3**
Grant-equivalent financing (in percent of external financing) 6/	...	25.9	11.5	8.6	7.4	6.9	7.0	7.0	5.8	**...**	**11.2**
Nominal GDP (Million of US dollars)	4,906	4,790	5,498	5,500	5,821	6,093	6,345	8,527	13,866		
Nominal dollar GDP growth	5.2	-2.4	14.8	0.0	5.8	4.7	4.1	4.2	-7.5	**-2.3**	**4.5**
Memorandum items:											
PV of external debt 7/	31.4	29.3	23.9	23.0	21.2	21.5	22.2	19.3	18.4		
In percent of exports	49.3	47.6	38.1	37.1	34.8	34.2	35.2	34.1	47.0		
Total external debt service-to-exports ratio	33.3	10.1	8.1	8.4	8.3	5.4	4.4	6.0	4.6		
PV of PPG external debt (in Million of US dollars)	1540.0	1403.2	1316.4	1267.2	1234.3	1307.9	1410.8	1647.4	2548.7		
(PVt-PVt-1)/GDPt-1 (in percent)		-2.8	-1.8	-0.9	-0.6	1.3	1.7	0.1	0.9		
Non-interest current account deficit that stabilizes debt ratio	2.0	7.9	3.7	-0.8	0.8	2.1	1.7	3.6	2.8		

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





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

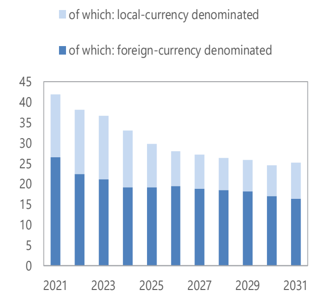
Table 2. Republic of South Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2020–41

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
	2020	2021	2022	2023	2024	2025	2026	2031	2041	Historical	Projections
Public sector debt 1/	**40.4**	**41.8**	**38.0**	**36.7**	**33.0**	**29.7**	**28.0**	**25.1**	**24.6**	**44.6**	**30.6**
of which: external debt	**28.0**	**25.3**	**22.1**	**21.6**	**19.5**	**18.6**	**18.8**	**16.4**	**15.6**	**14.3**	**19.4**
Change in public sector debt	7.7	1.4	-3.8	-1.4	-3.7	-3.3	-1.7	0.6	2.3		
Identified debt-creating flows	**7.2**	**-2.1**	**-6.6**	**-2.3**	**-3.8**	**-2.5**	**-1.3**	**0.1**	**2.1**	**-17.5**	**-2.1**
Primary deficit	**7.9**	**1.9**	**1.0**	**-1.2**	**-1.4**	**-0.7**	**-0.1**	**0.3**	**-0.7**	**-3.4**	**-0.1**
Revenue and grants	29.5	24.6	31.2	31.3	30.9	31.8	32.1	30.9	23.6	**37.5**	**30.9**
of which: grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	37.5	26.5	32.2	30.1	29.5	31.1	32.0	31.3	22.9	**34.1**	**30.8**
Automatic debt dynamics	**-0.7**	**-4.0**	**-7.6**	**-1.1**	**-2.4**	**-1.8**	**-1.2**	**-0.2**	**2.8**		
Contribution from interest rate/growth differential	-2.2	-1.2	-4.1	-1.8	-2.5	-2.2	-1.6	-0.6	0.5		
of which: contribution from average real interest rate	1.6	-3.0	-3.2	-0.8	-0.9	-0.4	-0.2	0.5	1.8		
of which: contribution from real GDP growth	-3.8	1.8	-0.9	-1.0	-1.6	-1.9	-1.4	-1.0	-1.3		
Contribution from real exchange rate depreciation	1.5	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual	**0.5**	**0.7**	**-0.7**	**1.6**	**0.2**	**-0.3**	**0.1**	**0.9**	**2.5**	**16.6**	**0.4**
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	**44.3**	**43.7**	**37.1**	**35.2**	**31.9**	**29.6**	**28.3**	**25.3**	**24.7**		
PV of public debt-to-revenue and grants ratio	**150.2**	**177.8**	**119.0**	**112.4**	**103.2**	**93.1**	**88.2**	**81.6**	**105.0**		
Debt service-to-revenue and grants ratio 3/	**72.2**	**25.9**	**18.2**	**19.1**	**18.9**	**18.2**	**18.7**	**16.9**	**18.7**		
Gross financing need 4/	29.2	8.2	6.7	4.8	4.4	5.1	5.9	5.5	3.7		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	13.2	-4.2	2.2	2.6	4.7	6.0	5.0	4.4	6.0	**5.6**	**3.8**
Average nominal interest rate on external debt (in percent)	6.5	5.1	3.6	2.8	2.4	2.6	2.7	4.1	4.6	**3.2**	**3.4**
Average real interest rate on domestic debt (in percent)	5.8	3.5	1.7	0.9	0.5	0.7	0.7	2.1	2.6	**0.4**	**1.4**
Real exchange rate depreciation (in percent, + indicates depreciation)	6.0	...	...	...	...	...	...	...	...	**58.2**	
Inflation rate (GDP deflator, in percent)	-1.9	47.8	37.7	13.1	13.4	10.4	10.0	7.8	-5.8	**83.6**	**16.5**
Growth of real primary spending (deflated by GDP deflator, in percent)	31.2	-32.3	24.1	-3.9	2.4	11.7	8.0	4.7	-1.2	**109.1**	**3.0**
Primary deficit that stabilizes the debt-to-GDP ratio 5/	0.2	0.5	4.8	0.2	2.3	2.5	1.5	-0.3	-3.0	**10.5**	**1.3**
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

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

Public sector debt 1/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

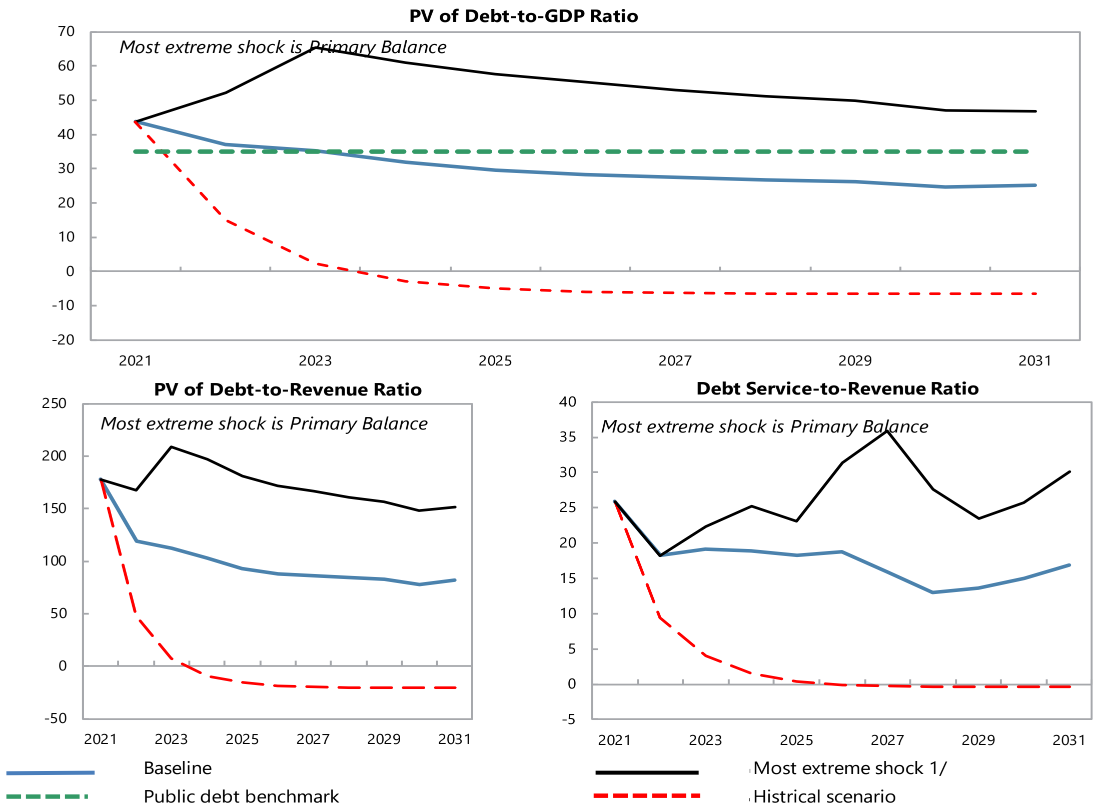
3/ Debt service is defined as the sum of interest and amortization of medium and long-term, and short-term debt.

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

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

Figure 2. Republic of South Sudan: Indicators of Public Debt Under Alternative Scenarios, FY2021–31



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	60%	60%
Domestic medium and long-term	40%	40%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	4.1%	4.1%
Avg. maturity (incl. grace period)	12	12
Avg. grace period	3	3
Domestic MLT debt		
Avg. real interest rate on new borrowing	-5.6%	-5.6%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	0%	0%

* 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 2031. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY2021–31

(in percent)

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of debt-to GDP ratio											
Baseline	29.3	23.9	23.0	21.2	21.5	22.2	21.9	21.6	21.3	20.1	19.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	29.3	**30.6**	**35.0**	**41.8**	**51.5**	**62.1**	**73.7**	**87.7**	**103.5**	**122.1**	**143.2**
B. Bound Tests											
B1. Real GDP growth	29.3	**31.2**	**35.5**	**32.7**	**33.1**	**34.3**	**33.6**	**33.0**	**32.4**	**30.5**	29.1
B2. Primary balance	29.3	**32.9**	**41.6**	**39.9**	**40.3**	**41.9**	**42.4**	**41.8**	**40.7**	**38.3**	**37.2**
B3. Exports	29.3	28.0	**39.3**	**37.3**	**37.5**	**37.9**	**35.5**	**33.2**	**31.1**	28.1	25.7
B4. Other flows 3/	29.3	**32.4**	**40.4**	**38.3**	**38.6**	**38.6**	**36.0**	**33.6**	**31.4**	28.3	25.8
B5. One-time 30 percent nominal depreciation	29.3	**30.8**	25.5	23.2	23.5	24.5	24.5	24.5	24.4	23.3	22.6
B6. Combination of B1-B5	29.3	**49.3**	**69.6**	**66.5**	**66.9**	**66.1**	**61.2**	**56.6**	**52.4**	**46.8**	**42.3**
C. Tailored Tests											
C1. Combined contingent liabilities	29.3	27.9	27.2	25.4	25.6	26.8	26.8	26.4	26.1	24.8	24.1
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	29.3	**41.0**	**59.1**	**56.3**	**54.5**	**50.4**	**41.9**	**34.0**	27.5	21.1	16.2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	47.6	38.1	37.1	34.8	34.2	35.2	35.3	35.4	35.9	34.2	34.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	47.6	48.7	56.4	68.6	82.0	98.3	118.8	**143.9**	**174.6**	**208.0**	**252.8**
B. Bound Tests											
B1. Real GDP growth	47.6	38.1	37.1	34.8	34.2	35.2	35.8	36.3	37.4	36.0	36.9
B2. Primary balance	47.6	52.3	66.9	65.5	64.3	66.3	68.3	68.6	68.7	65.2	65.7
B3. Exports	47.6	50.4	75.8	73.3	71.7	71.9	69.7	67.4	66.4	61.4	60.1
B4. Other flows 3/	47.6	51.6	64.9	62.9	61.5	61.1	59.0	57.0	55.9	51.5	50.3
B5. One-time 30 percent nominal depreciation	47.6	38.1	31.9	29.5	29.1	30.1	31.2	32.2	33.7	32.9	34.1
B6. Combination of B1-B5	47.6	65.7	72.8	86.2	84.2	82.7	79.3	75.8	73.8	67.4	65.1
C. Tailored Tests											
C1. Combined contingent liabilities	47.6	44.4	43.8	41.6	40.8	42.4	43.2	43.3	44.0	42.2	42.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	47.6	84.2	117.4	109.3	97.8	86.2	70.2	59.0	50.2	39.4	32.2
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	**10.1**	8.1	8.4	8.3	5.4	4.4	5.1	4.9	5.3	5.5	6.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	**10.1**	**10.6**	**12.4**	**15.1**	**11.8**	**11.4**	**16.3**	**20.0**	**26.2**	**32.7**	**42.5**
B. Bound Tests											
B1. Real GDP growth	**10.1**	8.1	8.4	8.3	5.4	4.4	5.1	4.9	5.3	5.5	6.1
B2. Primary balance	**10.1**	8.1	9.0	9.6	6.6	7.1	9.2	9.1	9.7	9.9	**11.1**
B3. Exports	**10.1**	8.9	**10.6**	**11.4**	7.8	7.6	**10.3**	9.9	**10.4**	**10.4**	**11.2**
B4. Other flows 3/	**10.1**	8.1	9.0	9.5	6.5	6.9	8.8	8.5	8.9	8.9	9.5
B5. One-time 30 percent nominal depreciation	**10.1**	8.1	8.4	8.1	5.2	4.2	4.4	4.2	4.7	4.9	5.5
B6. Combination of B1-B5	**10.1**	8.9	**11.4**	**12.0**	8.3	9.8	**11.9**	**11.5**	**12.0**	**11.9**	**12.7**
C. Tailored Tests											
C1. Combined contingent liabilities	**10.1**	8.1	8.7	8.6	5.6	4.7	5.4	5.2	5.6	5.8	6.3
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	**10.1**	**11.0**	**12.7**	**14.0**	9.5	**10.9**	**13.7**	**12.5**	**12.0**	**11.0**	**10.8**
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	**25.2**	**16.4**	**16.6**	**16.5**	10.6	8.7	9.9	9.4	9.9	10.1	11.0
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	**25.2**	**21.4**	**24.7**	**29.7**	**23.3**	**22.4**	**31.8**	**38.3**	**48.7**	**60.4**	**77.8**
B. Bound Tests											
B1. Real GDP growth	**25.2**	**21.4**	**25.6**	**25.4**	**16.3**	13.3	**15.0**	**14.0**	**14.5**	**14.7**	**15.7**
B2. Primary balance	**25.2**	**16.4**	**17.9**	**18.9**	13.0	13.9	**17.9**	**17.5**	**18.0**	**18.3**	**20.2**
B3. Exports	**25.2**	**15.8**	**17.6**	**18.8**	12.8	12.4	**16.5**	**15.4**	**15.4**	**15.1**	**15.5**
B4. Other flows 3/	**25.2**	**16.4**	**17.8**	**18.8**	12.8	13.5	**16.9**	**15.8**	**15.7**	**15.4**	**15.8**
B5. One-time 30 percent nominal depreciation	**25.2**	**21.1**	**21.4**	**20.7**	13.1	10.6	10.8	10.1	10.6	10.9	11.7
B6. Combination of B1-B5	**25.2**	**21.4**	**28.6**	**29.8**	**20.6**	**24.4**	**29.0**	**27.1**	**26.8**	**26.1**	**26.6**
C. Tailored Tests											
C1. Combined contingent liabilities	**25.2**	**16.4**	**17.2**	**17.0**	11.1	9.2	10.4	10.0	10.5	10.7	11.6
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**25.2**	**18.9**	**22.5**	**25.7**	**17.8**	**20.8**	**26.2**	**22.6**	**20.7**	**18.5**	**17.4**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

Table 4. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public Debt FY2021–31

	Projections 1/										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
PV of Debt-to-GDP Ratio											
Baseline	**44**	**37.1**	**35.2**	31.9	29.6	28.3	27.5	26.8	26.3	24.8	25.3
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	**44**	15	2	-3	-5	-6	-6	-6	-6	-6	-6
B. Bound Tests											
B1. Real GDP growth	**44**	**43**	**48**	**43**	**40**	**38**	**37**	**36**	**35**	34	34
B2. Primary balance	**44**	**52**	**65**	**61**	**58**	**55**	**53**	**51**	**50**	**47**	**47**
B3. Exports	**44**	**42**	**49**	**45**	**43**	**41**	**39**	**37**	**36**	33	33
B4. Other flows 3/	**44**	**45**	**50**	**47**	**44**	**42**	**40**	**38**	**36**	33	33
B5. One-time 30 percent nominal depreciation	**44**	**39**	34	29	25	22	19	16	13	10	8
B6. Combination of B1-B5	**44**	**47**	**50**	**45**	**45**	**45**	**46**	**46**	**47**	**46**	**47**
C. Tailored Tests											
C1. Combined contingent liabilities	**44**	**44**	**42**	**38**	**36**	34	33	32	31	30	30
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	**44**	**43**	**40**	**37**	35	33	32	31	30	28	29
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	177.8	119.0	112.4	103.2	93.1	88.2	86.4	84.3	82.5	78.1	81.6
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	178	48	8	-9	-16	-18	-20	-20	-20	-20	-21
B. Bound Tests											
B1. Real GDP growth	178	119	112	103	93	88	86	84	82	78	81
B2. Primary balance	178	168	209	197	181	172	167	161	156	148	151
B3. Exports	178	133	156	147	135	129	123	117	112	104	106
B4. Other flows 3/	178	143	161	151	140	132	126	120	114	106	107
B5. One-time 30 percent nominal depreciation	178	124	110	94	79	67	58	50	41	31	26
B6. Combination of B1-B5	178	152	161	145	140	140	144	146	148	144	152
C. Tailored Tests											
C1. Combined contingent liabilities	178	140	133	123	112	106	103	100	98	93	97
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	178	151	140	131	116	108	103	98	95	90	93
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	25.9	18.2	19.1	18.9	18.2	18.7	15.9	13.0	13.6	15.0	16.9
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2021-2041 2/	26	9	4	2	0	0	0	0	0	0	0
B. Bound Tests											
B1. Real GDP growth	26	18	19	19	18	19	16	13	14	15	17
B2. Primary balance	26	18	22	25	23	31	36	28	23	26	30
B3. Exports	26	18	20	21	20	22	23	19	20	21	23
B4. Other flows 3/	26	18	20	21	20	24	23	20	20	21	23
B5. One-time 30 percent nominal depreciation	26	16	19	18	17	16	13	9	9	10	10
B6. Combination of B1-B5	26	19	23	22	22	23	20	18	21	23	25
C. Tailored Tests											
C1. Combined contingent liabilities	26	18	20	20	19	22	19	14	14	16	18
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	26	22	21	20	18	18	16	15	16	17	19
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

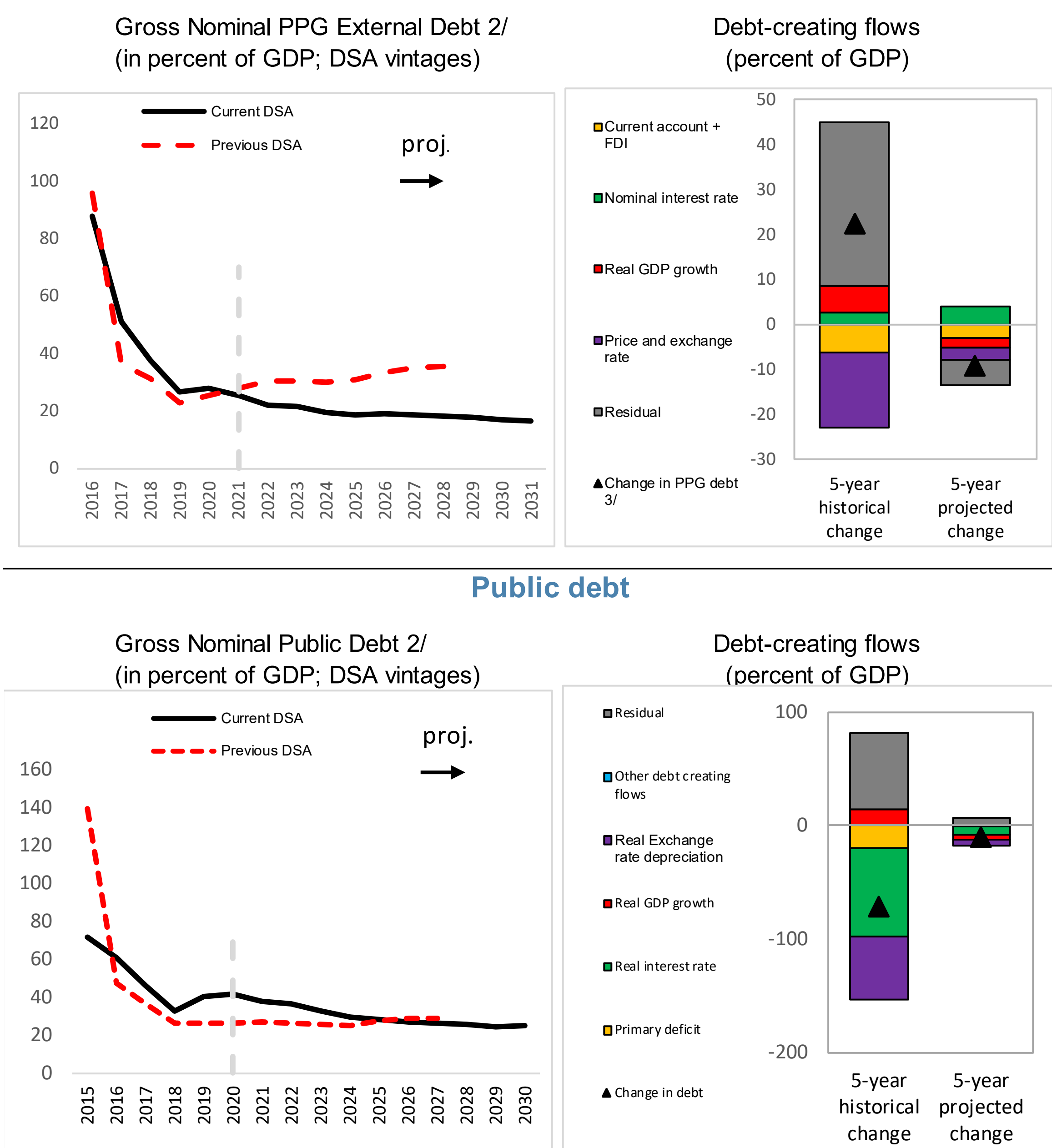
Sources: Country authorities; and staff estimates and projections.

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

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

3/ Includes official and private transfers and FDI.

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

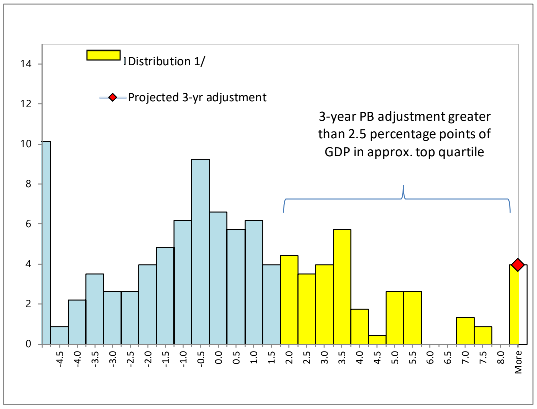


1/ Analyses on unexpected changes in debt are unavailable due to the lack of data.

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

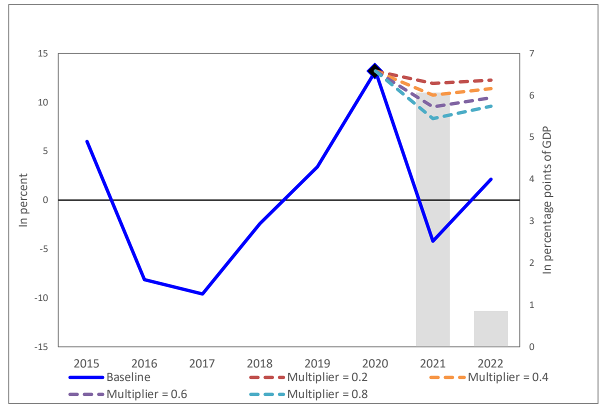
Figure 4. Republic of South Sudan: Realism Tools

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



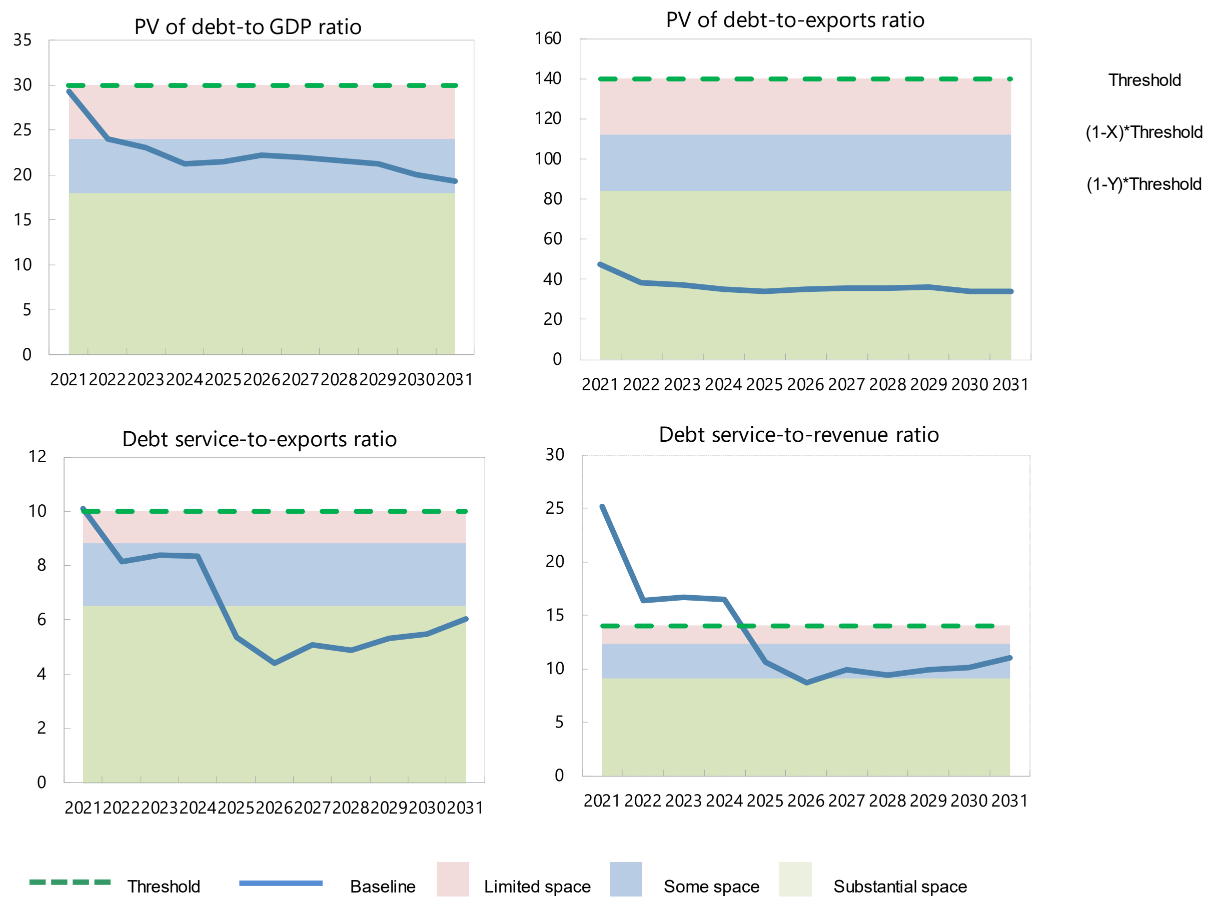
1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



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

Figure 5. Republic of South Sudan: Qualification of the Moderate Category, FY2021–31[1/]



Sources: Country authorities; and staff estimates and projections.

1/ For the PV debt/GDP and PV debt/exports thresholds, x is 20 percent and y is 40 percent. For debt service/Exports and debt service/revenue thresholds, x is 12 percent and y is 35 percent.

Statement by the Executive Director, Ms. Ita Mary Mannathoko,
and the Advisor of the Executive Director, Mr. James Alic Garang
March 30, 2021

I. Introduction

1. Our South Sudanese authorities appreciate the constructive engagement with Fund staff during the recent mission negotiations. They seek Executive Directors' support for their request for a Staff-Monitored Program (SMP) and a second disbursement under the Rapid Credit Facility (RCF-2). The SMP and RCF-2 are essential to catalyze critical donor support and help address the country's pressing financing needs.

2. The economy has been severely impacted by the COVID-19 pandemic alongside the most damaging floods in 60 years and the collapse in oil prices last year. These multiple shocks stalled the country's recovery from the 2014 commodity price shock, and delayed the dividend expected by the people of South Sudan from the country's 2018 Revitalized Peace Agreement. Macroeconomic imbalances have widened, and past gains are being reversed, even as underlying fragilities are amplified by the current crises.

3. To bridge additional external and fiscal financing gaps, the authorities are requesting 50 percent of quota under the RCF-2 to mitigate the effects of the pandemic and multiple shocks, while the SMP policies will help to anchor their medium-term reform agenda. The authorities have fulfilled their commitments under the RCF-1 LOI, including by ensuring full transparency in the use of COVID-related resources.

4. The financial audit of RCF-1 is expected to be published by end-June 2021. The authorities also commit to publish the crisis mitigation transactions for RCF-2 on the government's website. The Bank of South Sudan (BOSS) will maintain a dedicated COVID-19 account. Consistent with the provisions in the PFM Act 2011, financial statements will be published online to ensure integrity, accountability, and transparency in the use of COVID-19 funds. The authorities also commit to undergo a safeguards assessment ahead of an ECF arrangement.

5. As noted by staff, South Sudan has no established social safety net system or budget-funded transfer mechanism. The first emergency financing disbursement of 15 percent of quota enabled the government to extend support by paying off part of the outstanding wage and salary arrears, which in turn fed into the traditional extended family support system. These payments have among other things, helped to sustain social stability and provide cash that is shared with relatives and friends in need, in rural communities. Given post-conflict fragilities, informality, and the absence of government social safety nets, beyond the limited UN feeding and similar support in settlement camps and schools, the extended family system remains the main channel for support to vulnerable households and also helps to maintain peace. Going forward, with oil and non-oil receipts improving, the authorities are confident that all past salary arrears will be paid off in the near-to-medium term.

II. Impact of the COVID-19 Pandemic

6. After the first case of the COVID-19 reported on April 10, 2020, inflection rates have been rising on the back of an underfunded health system and the second wave of the pandemic.

Infections will likely continue to increase until a vaccine is secured and evenly distributed. Despite limited resources, South Sudan is participating in the COVAX facility and received an initial 132,000 doses of Astra Zeneca vaccines this week (covering 0.9 percent of the population). Authorities hope to cover about 40 percent of the population by end-2022. The coverage of the remaining 20 to 30 percent required for herd immunity would, however, require sizable external support.

7. The economic fallout from the pandemic, oil and flood shocks has been significant. Scarring is likely to be extensive, elevating already high poverty levels and food insecurity. Sizable impacts on agriculture and oil production have led to severe revenue constraints, hampering the government's ability to respond with assistance to the vulnerable, as the country could not access financing that would relieve the fiscal gap. GDP is estimated to have contracted substantially, with the growth rate reaching -4.2 percent in FY20/21 down from 13.2 percent in FY19/20. Consistent with the contraction in output and elevated health expenditure, the fiscal balance is projected to widen to -5.2 in FY20/21 from -3.8 percent in FY19/20. International reserves remain low, covering about 0.4 months of imports for the FY20/21. The rapid depreciation of the exchange rate has also generated inflationary pressure. Economic activity is expected to pick up, assuming upside risks materialize, including the peace dividend, oil price recovery, and an increase in oil production.

III. The Government Response to the Pandemic

8. Early in March 2020, South Sudan took decisive measures to contain the virus and moderate the economic fallout from the pandemic. The authorities took prompt actions under the High-level Taskforce on COVID-19 (HLTF), closing schools, restricting gatherings, and suspending international passenger flights. This slowed down infections and saved lives. With partner support grants were provided to states for the education and health sectors, while the RCF-1 resources helped to increase poverty-reducing spending. The containment measures were relaxed temporarily, but the second wave of the pandemic necessitated new containment measures, further limiting economic activity.

9. The BOSS implemented accommodative monetary policy measures to sustain liquidity in the economy, including by cutting its policy rate from 15 percent to 13 percent and reserve requirement from 20 percent to 18 percent in April 2020. It cushioned vulnerable businesses by urging commercial banks to undertake debt restructuring for viable but distressed customers. Monetary policy rates were, however, reversed from 13 percent to 15 percent in November 2020 to counter inflation. They also took measures, including heightened supervision, while monitoring financial risks, strengthening the oversight, and providing FX for medicine, electricity, and water.

IV. Staff-Monitored Program Modalities

10. The country's leadership, including the President and Council of the Ministers, has endorsed the reform package under the SMP. Upon securing political buy-in in the near term, the authorities will issue a circular announcing the FX reforms, signaling a commitment to the SMP covering end-March through end December 2021. They will monitor performance under the SMP through quarterly reviews of quantitative targets and structural benchmarks (highlighted in Tables 1 and 2 of the MEFP). In addition, a team comprising key economic sectors will be constituted to monitor program implementation and improve data collection and quality. Overall,

the Government finds the outlined criteria for the reviews feasible and instrumental, paving the way for future ECF negotiations.

V. Policy Measures

11. With the support of the SMP, the authorities plan a range of policy reforms and liberalization measures.

Fiscal Policy

12. The authorities remain committed to pursuing fiscal and debt sustainability through fiscal discipline, strong governance and transparency, and a commitment to the policy objectives under the SMP. They will pursue revenue-enhancing measures as the crisis abates and commit to avoiding non-concessional borrowing or oil advance contracts; and relying more on grants and concessional financing. On capital spending to support recovery, they will only borrow for critical projects with positive returns, such as roads connecting states to the capital, Juba.

13. The authorities plan to broaden the tax base and automate government processes to increase tax receipts, in line with the EAC convergence criteria. In this context, the National Revenue Authority (NRA) is digitalizing all customs receipts and plans to cover the entire country in the medium-term, as peacebuilding gets entrenched. The authorities also expect to move from sales tax to VAT, with Fund technical support, advancing SMP-supported revenue reforms.

14. The authorities also commit to expenditure rationalization measures to ensure debt sustainability while directing spending toward priorities such as social protection and arrears clearance. The FY20/21 budget will refrain from monetary financing, and phase out tax exemptions, as social spending and arrears clearance are prioritized. The authorities will also seek capacity development assistance from the IMF to professionalize the NRA and rebuild policy credibility.

Monetary, Exchange Rate, and Financial Sector Policies

15. The BOSS plans to operationalize reserve money targeting to rein in inflation. Monetary policy will target base money growth of 10 percent in 2021 and associated quarterly targets for reserve money to contain inflation. The central bank is pursuing operational autonomy in the medium term and working to transition to an interest rate-based monetary framework. The authorities aim to reduce an existing overdraft to government and to purchase FX from oil receipts in order to build reserves, stabilize the FX market and support price stability.

16. The central bank commits to a strategy to open up the FX auction system and liberalize FX market. This will allow commercial banks to participate in FX auctions and ensure that FX transactions occur at a market-determined rate. Under revamped guidelines to authorized dealers, from April 2021, the central bank will limit adjustment in the reference rate to smooth transactions and intervene only to correct disorderly market conditions.

17. The BOSS will work with commercial banks to resolve undercapitalization and strengthen bank resilience. It will encourage banks to raise capital and merge where feasible, or otherwise liquidate if necessary. Planned measures to strengthen financial stability include enhancing asset quality, lowering NPLs, strengthening bank governance, and deepening the financial

sector regulatory and supervisory framework. The authorities have finalized the 2015–18 BOSS audits and expect to complete the 2019 and 2020 audits this year.

Structural Reforms and Capacity Development

18. The authorities are committed to key structural reforms needed to support a resilient and inclusive economy. This includes promoting good governance, strengthening AML/CFT, intensifying the fight against corruption, and improving the business environment. They have finalized the Concept Note for the PFM Reform Strategy and will accelerate PFM reforms, including by implementing the Immediate Action Plan under the PFM Reform Strategy approved by the Oversight Committee in February 2021. Notable progress has been made to strengthen the macro-fiscal framework and budget processes; operationalize the Treasury Single Account (TSA); and improve cash and debt management by setting up related units, as the key elements of the SMP-supported PFM reforms in 2021. Additional priorities will be focused on strengthening the Anti- Corruption Commission and the National Audit Chamber. Additional measures will support training, implement the asset declaration process, and criminalize corruption offenses.

19. They remain committed to improving key economic statistics, especially those relating to the national accounts, balance of payments, and debt. They have also requested Fund TA to enhance the monetary policy framework, introduce term deposits, initiate treasury bill issuance, and complete the NRA functionality, with a view to implementing revenue-based reforms and enhanced automation of customs systems.

VI. Conclusion

20. Our South Sudanese authorities reaffirm their commitment to prudent macroeconomic policies laying a solid foundation for durable, and inclusive growth once the pandemic subsides. They note that policy efforts to unlock economic growth potential and attain key development objectives articulated in the National Development Strategy 2018–21, with the support of the SMP are important. The authorities look forward to Executive Directors' support for the SMP and emergency financing to bolster their current efforts under extremely difficult conditions, to contain the spread of the pandemic and foster recovery. The authorities hope this Fund support will also catalyze donor and MDB support.