December 2003
IMF Country Report No. 03/390

Sudan: 2003 Article IV Consultation and First Review of the 2003 Staff-Monitored Program—Staff Report; and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2003 Article IV consultation with Sudan and first review of the 2003 staff-monitored program, the following documents have been released and are included in this package:

- the staff report for the 2003 Article IV consultation and first review of the 2003 staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on **August 28, 2003,** with the officials of Sudan on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on October 20, 2003**. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during its October 31, 2003 discussion** of the staff report that concluded the Article IV consultation.

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

To assist the IMF in evaluating the publication policy, reader comments are invited and may be sent by e-mail to publicationpolicy@imf.org.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: http://www.imf.org

Price: $15.00 a copy

International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

SUDAN

Staff Report for the 2003 Article IV Consultation and First Review of the 2003 Staff-Monitored Program

Prepared by the Middle Eastern and Policy Development and Review Departments

(In consultation with the Finance, Fiscal Affairs, Legal, Monetary and Financial Systems, and Statistics Departments)

Approved by Mohammad Shadman-Valavi and Matthew Fisher

October 20, 2003

- The discussions for the 2003 Article IV consultation and midyear review of the 2003 Staff-Monitored Program took place in Khartoum from August 16–28, 2003. The staff team included Messrs. Shabsigh (head), Williams, Gemayel, and Takizawa (all MED); Mses. Wandwasi and Gittens (all MED); and Mr. Ronci (PDR).

- The mission met with Ministers El-Zubeir Ahmed El-Hassan (Finance and National Economy), Aba Yahia El Mahdi, (Finance for International Cooperation), Central Bank Governor Saber Mohammad Hassan, and other senior Sudanese officials.

- The principal author of this report is Mr. Ghiath Shabsigh. Contributors included Messrs. Williams, Gemayel, Takizawa, Ronci, and Ms. Wandwasi.

Contents

List of Acronyms

AfDB	African Development Bank
AFTA	Arab Free Trade Area
AMF	Arab Monetary Fund
BOS	Bank of Sudan
CMC	Central Bank Musharaka Certificate
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
FAD	Fiscal Affairs Department
FDI	Foreign Direct Investment
FSAP	Financial Sector Assessment Program
FTZ	Free Trade Zone
GCC	Gulf Cooperation Council
GDDS	General Data Dissemination System
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GFSM	Government Finance Statistics Manual
GIC	Government Investment Certificate
IEA	Investment Encouragement Act
IMF	International Monetary Fund
I-PRSP	Interim-Poverty Reduction Strategy Paper
IsDB	Islamic Development Bank
MED	Middle East Department
MFD	Monetary and Financial Systems Department
MOF	Ministry of Finance
MOFNE	Ministry of Finance and National Economy
MOU	Monetary Operations Unit
MPC	Monetary Policy Committee
MTB	Medium-Term Budget
NDA	Net Domestic Assets
NFA	Net Foreign Assets
NPL	Nonperforming Loans
OMO	Open Market Operations
OSA	Oil-Revenue Savings Account
PRSP	Poverty Reduction Strategy Paper
SD	Sudanese Dinar
SMP	Staff-Monitored Program
SNA	System of National Accounts
SPC	Sudan Petroleum Corporation
SPLM	Sudan People's Liberation Movement
STA	Statistics Department
TA	Technical Assistance
TRIPS	Trade Related Aspects of Intellectual Property Rights

VAT	Value-Added Tax
WPI	Wholesale Price Index
WTO	World Trade Organization

EXECUTIVE SUMMARY

Performance under the Staff-Monitored Program

Performance in the first half of 2003 was broadly in line with the program. All quantitative benchmarks were met with some margin except the one on contracting non-concessional external debt. Most midyear structural benchmarks were met, as well as some end-year benchmarks.

Real GDP growth in 2002 is estimated at 5.5 percent and is projected to reach 5.8 percent in 2003. CPI inflation averaged 8.3 percent in 2002, higher than the program target of 6–7 percent and the average of 4.9 percent in 2001. In the first half of 2003 (i) the external current account deficit worsened to 7.7 percent of GDP, compared with the projected 6.6 percent (reflecting a surge in imports and services and income payments), (ii) the fiscal outcome was better than expected, recording a surplus of 1 percent of GDP, because of higher oil revenue, and (iii) broad money growth slowed down to 22.1 percent (on an annual basis) compared to 30.3 percent at end-December 2002.

On the political front, peace negotiations resumed on September 4, 2003 at the highest political level, and an agreement on security arrangement was reached on September 25, 2003. The security situation deteriorated in western Sudan and massive floods hit parts of eastern Sudan.

Policy discussions

The discussions focused on reviewing the reforms that were implemented since the last consultation, policies for the remainder of the year as well as the parameters of the 2004 program, and the medium-term outlook. The review of reforms concentrated on the managed-float exchange rate regime introduced in early May 2002 to replace a de facto fixed rate regime; the broad-money targeting framework introduced in May 2002; and efforts to strengthen fiscal policy.

Encouraging progress was achieved on the exchange and monetary systems, but additional efforts are needed on the fiscal front. The 2003 program's policy and macroeconomic objectives remain achievable and no adjustments were made to the program. However, in the second half of 2003, uncertainties remain with regards to the balance of payments, and budgetary pressures will arise. An understanding was reached regarding broad macroeconomic and policy parameters for 2004. Finally, progress was achieved in preparing a medium-term economic program that will be underpinned by the preparation, for the first time, of a three-year rolling medium-term budget (MTB).

Staff appraisal

During 2002 and so far in 2003, Sudan has been implementing a reform program to consolidate macroeconomic stability, reinforce reform momentum, and modernize its economic management. The reforms have been instrumental in reversing the policy slippages of 2001. While the managed-float exchange rate regime remains appropriate, the authorities should allow greater exchange rate variability. Improving tax revenue remains the cornerstone of the fiscal reform efforts. The oil stabilization account has been an important tool in stabilizing expenditures and building up foreign exchange reserves, but flexibility in using oil revenue is needed once the reserve level is appropriate. External debt management needs to be strengthened and policy regarding the contraction of external debt should be formulated. The introduction of an MTB is an important step forward and the medium-term reform's focus on the post-conflict environment and poverty reduction is appropriate.

I. Introduction

1. A staff team visited Khartoum from August 16–28, 2003 to conduct the 2003 Article IV consultations, review progress under the 2003 staff-monitored program (SMP), and continue the discussions with the authorities on a medium-term economic reform framework.[1]

2. **The Executive Board concluded the last Article IV consultation on November 14, 2001**. Directors called for stronger policies to keep economic performance on track, including strengthening non-oil revenue; creating a mechanism to reduce oil revenue volatility; and greater exchange rate flexibility. **On June 6, 2003, the Board considered the final review of the 2002 SMP and the 2003 SMP.** Directors commended Sudan's performance in 2002 and stressed that satisfactory implementation of the 2003 SMP, peace, and the normalization of financial relations with external creditors are crucial for sustained economic growth and progress with debt relief. Directors considered the 2002 and 2003 SMPs to be of comparable strength to a rights accumulation program.

3. **Peace negotiations intensified.** On September 4, 2003, peace negotiations resumed at the highest political level, for the first time, with Vice President Taha and Mr. Garang, head of the Sudan People's Liberation Movement (SPLM), leading their respective delegations. Discussions have focused on security arrangement and the sharing of key political positions. An agreement on security issues was signed on September 25, 2003 and discussions continue on the remaining issues regarding sharing power and resources. The economic impact of the agreement will be discussed with the authorities once an understanding is reached between the parties on sharing resources.

4. **The security situation in western Sudan deteriorated and massive floods hit parts of eastern Sudan.** Tribal clashes and a rebellion have displaced tens of thousands of people in the Darfour region in western Sudan in recent months. In early September 2003, the government and the Darfour rebels signed a truce and began discussions on the difficulties facing the region. Torrential rains in late July caused massive flooding in eastern Sudan,

---

[1]The Article IV discussions were postponed from March as a result of the security situation in the region. This mission consisted Messrs. Shabsigh (head), Williams, Gemayel, Takizawa; Mses. Wandwasi and Gittens (all MED); and Mr. Ronci (PDR). Sudan's relations with the Fund and the World Bank are summarized in Appendices I and II, respectively. Data issues are covered in Appendix III.

sweeping away villages and roads and damaging the area's infrastructure.[2]

II. Performance Under the Program

5. **Policy performance in the first half of 2003 was broadly in line with the program.** All quantitative benchmarks were met with some margin except that regarding the contraction of external debt on nonconcessional terms (see Appendix IV, Table 1).[3] The authorities explained that the loans were not drawn down and that canceling all or part of these loans is being considered. All structural benchmarks for end-June 2003 were met except for additional improvement in fiscal reporting. In addition, the end-December benchmarks in the monetary area were completed ahead of schedule (see Appendix IV, Table 2). From January to August 2003, Sudan paid the Fund $18.2 million, in line with the program target.

III. Recent Economic Developments

6. **Real GDP growth declined to 5.5 percent in 2002 from 6.1 percent in 2001 because of lower growth in the agricultural and manufacturing sectors** (see Appendix IV, Table 3, Figure 1). Delayed rainfall in 2002 contributed to the poor performance of the agriculture sector, while infrastructure bottlenecks (in power generation, in particular) reduced manufacturing sector productivity and growth. Nonetheless, nontraditional sectors continued to expand their share in the economy (see Box 1). Consumer Price Index (CPI) inflation averaged 8.3 percent, higher than the program target of 6–7 percent and the average of 4.9 percent in 2001, mainly as a result of the expansionary policies that were pursued towards the end of 2001 and in early 2002. The external current account deficit declined to 6.8 percent of GDP from 10.7 percent in 2001, and the fiscal deficit was little changed at 0.9 percent of GDP. Broad money growth accelerated to 30.3 percent by end-2002 reflecting substantial foreign exchange inflows in the second half of 2002.

---

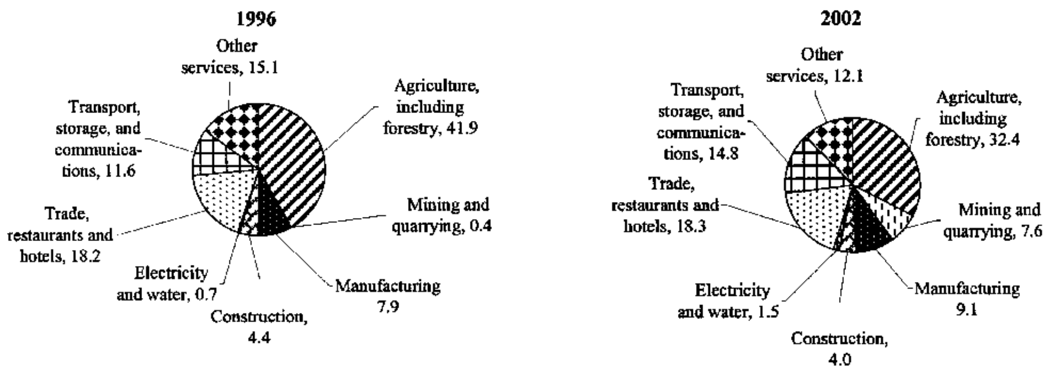
[2] Parts of eastern Sudan were hit by heavy floods in late July 2003. The affected areas were mainly around the El Gash, Blue Nile, and the White Nile rivers. The floods were the worst in 70 years, and destroyed homes, roads, schools, clinics, and irrigation schemes. A number of deaths were also reported. Humanitarian assistance was received from several countries, including the United States, Britain, France, and Arab countries. The government provided the affected areas with about SDD 10 billion in emergency assistance, and plans to provide an additional SDD 20.3 billion for reconstruction and rehabilitation during the second half of 2003.

[3] Two loans were contracted from China for the purchase of aircraft parts ($41 million) and military equipment ($106 million).

Box 1: Sudan: Economic Transformation (1996–2002)

Since 1996, the year before the reform program was launched, Sudan's economy has gone through major transformation. While agriculture remains the largest economic activity, its share in GDP has shrunk markedly from 41.9 percent in 1996 to 32.4 percent in 2002. This reflected the rapid growth in other sectors, as well as difficulties in reforming the agriculture sector. The onset of oil production in 1999 boosted the share of the mining sector to over 7 percentage points of GDP. However, there was also a rapid expansion in transportation, communications, manufacturing, and electricity generation sectors (all related activities). Their combined share in GDP increased by over 5 percentage points to 25.4 percent. These sectors received the highest share of foreign direct investments after the oil sector.

Composition of GDP, 1996 and 2002 (in percent of total)



Sources: Sudanese authorities; and Fund staff estimates.

7. **Economic conditions in 2003 remain broadly favorable** with real GDP growth projected at 5.8 percent. The non-oil sectors are expected to contribute the most to this growth (4.8 percentage points), though growth from these sectors is projected to be somewhat lower than envisaged because of the midyear floods and a delay in the commencement of the Merowe dam construction. However, the oil sector has been growing faster-than-projected (13.8 percent compared with the 6.7 percent in the program) owing to increased production capacity.

8. **The external current account deficit worsened in the first half of 2003** to 7.7 percent of GDP compared to the projected 6.6 percent, reflecting a surge in imports and services and income payments. Exports were slightly higher than projected, because of crude oil exports (higher production and prices). However, imports (mostly machinery and transport equipment) surged by 30 percent compared to 2002, and service and income payments were high because of freight and insurance costs and profit remittances.

9. **Large private inflows continued to finance the current account deficit, allowing further buildup of international reserves.** The inflows in the first half of 2003 (mostly

from the GCC and Egypt) were attracted by investment opportunities in real estate, services, light manufacturing, and financial assets. Foreign direct investment (FDI) increased to $645 million in the first half of 2003 compared with $230 million in the same period in 2002. The international reserves of Bank of Sudan (BOS) reached $410 million at end-June (1.8 months of imports) compared with $243 million at end-2002 (1.2 months of imports) and the program target of $360 million.

Table 1. Balance of Payments, First Half of 2003
(Cash basis, in millions of U.S. dollars)

	Program	Actual
Trade balance	123	26
(In percent of GDP)	0.8	0.3
Exports	1,173	1,202
Oil	849	989
Non-oil	324	213
Imports	-1,050	-1,176
Current account	-501	-583
(In percent of GDP)	-6.6	-7.7
Capital and financial accounts 1/	637	732
(In percent of GDP)	8.4	9.4
Change in official reserves	-136	-149

Sources: Sudanese authorities and Fund staff estimates.

1/ Includes errors and omissions

10. **The fiscal outcome in the first half of 2003 was better than expected.** The budget realized a surplus of 1 percent of GDP[4] compared to an expected deficit of 0.1 percent, mainly because oil revenue was 1.9 percent of GDP higher than envisaged.[5] Direct tax and nontax revenues were in line with the program estimates, while indirect taxes were boosted by the surge in imports. Total expenditures exceeded projections by about 1 percent of GDP, mostly because of additional spending on security and refugees in western Sudan,[6] and higher

[4] Of which 0.8 percent was saved in the oil-revenue savings account.

[5] The increase in oil revenue was the result of two factors: (i) an increase of oil volume production of about 13 percent during the first half of the year (SDD 17.5 billion), and (ii) an unanticipated higher government share in oil resulting from the switch to cash payment for the pipeline fees (SDD 43.3 billion), as the previous in kind payments were determined using oil prices at significant discount from international prices.

[6] The additional spending on western Sudan is recorded under "general reserves" in current spending.

interest payments due to rescheduling of some foreign loans. Since its establishment in mid-2002 and until end-June 2003, the Oil-Revenue Savings Account (OSA) accumulated SDD 43.2 billion ($163 million), of which SDD 33.1 billion was raised in the first half of 2003.

Table 2. Government Operations,
First Half of 2003
(In percent of GDP)

	Program	Actual
Revenue	6.9	9.0
Oil	3.0	4.9
Non-oil	3.9	4.1
Expenditures	7.0	8.0
Current	5.4	6.2
Capital	1.6	1.8
Balance	-0.1	1.0
Of which: OSA balance	0.6	0.8

Sources: Sudanese authorities and Fund staff estimates.

11. **Broad money growth slowed down in the first half of 2003** (in spite of the strong external inflows) to 22.1 percent (on an annual basis), compared with a program target of 24 percent. Reserve money growth fell sharply to 10.5 percent at end-June compared with 22 percent at end-2002. These developments reflected the strong actions taken by BOS to mop up liquidity through open market operations in securities and, to a lesser extent, in foreign exchange. BOS's efforts were also aided by the government repayment of SDD 6.2 billion of its loans to BOS and the continued saving of oil revenue in the OSA.

Table 3. Monetary Developments, June 2002–June 2003
(In billions of Sudanese dinars)

	June 2002	June 2003	Percent Change
Reserve money	259.5	286.8	10.5
NFA (excluding valuation adjustment)	111.6	195.0	74.7
NDA	389.1	416.5	7.0
Broad money	500.7	611.5	22.1
Of which:			
Credit to government	142.9	97.9	-31.5
Credit to nongovernment	169.9	233.7	37.6

Sources: Sudanese authorities and Fund staff estimates.

12. **Progress has been made in implementing fiscal reforms but some measures were delayed.** The authorities eliminated the defense tax on imports,[7] prepared a proposal that will be submitted to the parliament subjecting the activities of all companies operating under the Investment Encouragement Act (IEA) to a minimum profit tax of 10 percent and eliminating exemptions for rehabilitation purposes, and abolished exemptions granted to oil-distribution companies for non-oil activities. However, the authorities did not eliminate the 10 percent privileged tax rate on the income of professionals, abolish the direct tax privileges to companies operating in the Free Trade Zones (FTZ) and to oil-distribution companies for oil sector activities, nor eliminate all Value-Added Tax (VAT) exemptions except on water and electricity. The authorities explained that the agreements with professional associations will be allowed to lapse at the end of the year, and thus eliminating the tax privilege. A legal review is under way to determine the exemptions status of the FTZs and oil distribution companies, and a decision is expected before the end of the year. Finally, the authorities explained that they are facing difficulties in establishing a credit/debit system for VAT on large capital goods transactions owing to capacity constraints.

13. **All structural reform measures in the monetary area were undertaken** and progress continued in the implementation of the BOS's bank reform plan. A monetary operations unit (MOU) was established at the BOS, a new government security—the Government Investment Certificates (GICs)[8]—was launched, the central bank law was amended by parliament to establish the BOS's independence, an Anti-Money Laundering law (which includes anti-terrorism clauses) and a new Banking Regulation law (which will now allow the central bank to supervise financial institutions that are only partly engaged in banking activities) were enacted by presidential decrees.

14. **Banking soundness indicators are broadly improving along the trend of past few years**, although the ratio of nonperforming loans (NPL) to total loans has risen somewhat in 2003 reflecting poor credit performance of one large bank.[9] The BOS's measurement in mid-2003 of banks' compliance with prudential standards shows that, of 24 banks, the performance of 16 was rated as fair (or better), compared to 15 banks as at end-2002. As of

---

[7] The estimated revenue loss is about 0.6 percent of GDP on an annual basis.

[8] The GIC is a second-generation government security that complies with Islamic finance principles. In difference to the earlier instruments, the GIC pays investors a fairly stable income and can be structured for long-term maturities.

[9] The authorities explained that the rise in the NPL was mostly owing to a default on a large loan to a Board member of a locally owned bank. Swift action was taken, including dismissing two top executives and removing the borrower from the bank Board.

end-June, a total of 17 banks complied with capital adequacy requirements, while only 5 banks complied with earnings ratios.[10]

Table 4. Bank Soundness Indicators, December 2000–June 2003

(In percent)

	Dec. 2000	Dec. 2001	Dec. 2002	Jun. 2003
1. Capital adequacy ratio	7	11	9	10.6
2. Ratio of nonperforming to total loans	17	16	12.7	14.5
3. Ratio of loan provisions to bad loans	29	23	24	19

Sources: Sudanese authorities and Fund staff estimates.

15. **The privatization program is proceeding at a reasonable pace.** The government privatized in 2003 the Duty-Free Shops and Free Zones, the National Company for Roads and Bridges, and the Friendship Palace Hotel. For the rest of the year, the authorities plan to privatize two cement companies. The Bank of Khartoum has also been restructured and offered for sale.

IV. Policy Discussions

16. The discussions focused on reviewing the reforms that were implemented since the last consultation, policies for the remainder of the year and the parameters of the 2004 program, and the medium-term outlook.

A. Review of the Reforms

17. The review concentrated on three key areas that marked a departure from policies pursued prior to 2002; namely, the introduction of a managed-float exchange rate regime, the establishment of broad-money targeting framework and the elimination of direct monetary controls, and the efforts to strengthen fiscal policy.

18. **The managed-float exchange rate regime** was formally introduced in May 2002 and the remaining restrictions on current account transactions were lifted in the following months. The exchange rate is largely market determined and an inter-bank market has

[10] Some of the improvement in certain soundness indicators may reflect the rapid increase in bank lending to private sector.

emerged (see Box 2). The authorities noted that the new system is functioning well and is sufficiently flexible to effect quick exchange rate adjustments in response to market forces. They believe that a free-float arrangement is not yet a viable option for Sudan, given that the foreign exchange market is relatively thin (daily market turnover averages only $10 million) and characterized by large lumpy transactions and the lack of risk-hedging instruments.

Box 2. Sudan: Liberalization of the Exchange System, 1998–2003

The exchange rate system was unified in October 1998 and the official exchange rate was replaced by a moving average of the market rates. Since then, BOS progressively implemented steps to strengthen the prudential regime and lift exchange controls. These included, inter alia, adopting new prudential regulations for banks' foreign exchange positions, eliminating the export surrender requirements, extending the repatriation period on export receipts to six months, removing restrictions on payments means for foreign trade and on financing imports, allowing banks to issue letters of guarantee in foreign currency, and lifting the restrictions on the transfer of funds by nonbank dealers. By early 2002, BOS eliminated all exchange restrictions pertaining to current account transactions.

Until early 2002, the BOS pursued a de facto fixed exchange rate regime. In 1999 and 2000, BOS intervened directly in the market to maintain the exchange rate. In 2001, the foreign exchange market came under pressure and BOS, in an effort to increase the flexibility of the system, introduced a formal band of ±1.5 percent (later broadened to 2 percent) around the official rate and began auctioning its foreign exchange within the band.

The de facto fixed exchange rate provided a useful nominal anchor when the emphasis of the economic reform program was on achieving macroeconomic stability and reducing inflation. However, once stability was achieved, BOS needed to regain control over its monetary policy while increasing the flexibility of the exchange system. On May 2003, BOS adopted formally a managed-float exchange rate regime. The formal exchange rate band was abandoned and the auction system was replaced with direct transactions in the inter-bank market.

The management of the exchange rate is influenced by three factors: progress in meeting the broad money target, the achievement of the targeted buildup in international reserves, and limiting intra-day market exchange rate fluctuations. The latter was necessitated by the thin foreign exchange market and the lack of risk-hedging mechanisms. BOS established an internal limit of ±2 percent intra-day fluctuations around the average daily market rate that will trigger its intervention.

19. **The authorities informed the staff of their acceptance of obligations under the Article VIII, Sections 2, 3, and 4** and have provided the staff with the information to conduct the necessary review.

20. **While the institutional setting for the exchange regime does not seem to hinder free market transactions, the staff noted the desirability of allowing greater exchange**

rate variability in the market. This would allow faster rate response to market disequilibria and force market participants to begin developing hedging instruments. The authorities are considering widening the range of daily exchange rate fluctuations that triggers central bank intervention from the current ± 2 percent.

21. **The exchange rate level does not seem to have adversely affected non-oil exports competitiveness at present and there is no indication of exchange rate misalignment.** Staff analysis (see Box 3) indicates that the relative stagnation of export growth seems to reflect supply factors related generally to the difficulties facing the agriculture sector in Sudan, a view that is also confirmed by exporters. Extensive discussions with market participants and examination of BOS's foreign exchange operations do not indicate the presence of any significant exchange rate misalignment at present.

Box 3. Sudan: Non-oil Exports Competitiveness

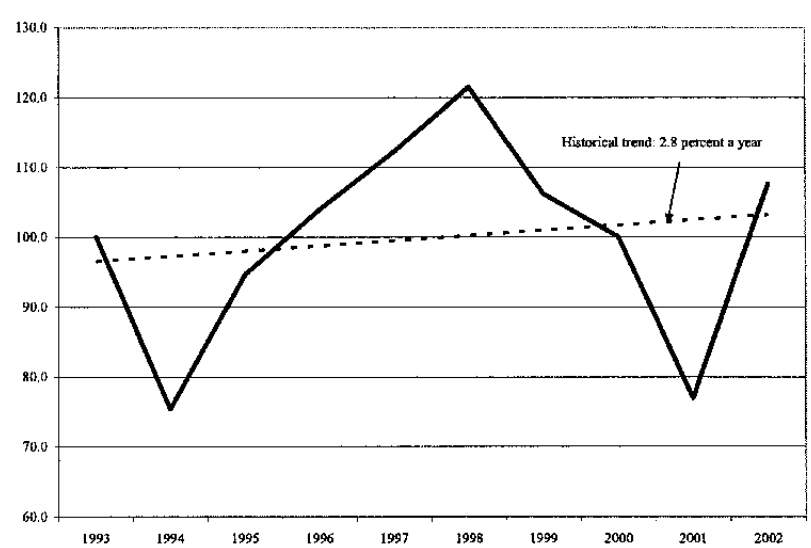
Sudan's non-oil export volumes, consisting almost exclusively of agricultural crops and livestock, have stagnated growing on average only 2.8 percent a year during 1993–2002. This trend is partially explained by a drought during 1998/99 crop that affected exports in 1999, and the ban on livestock imports by the Gulf countries in 2001. Excluding these two factors, export volumes would have increased on average by 4 percent a year during 1993–2002. This growth is mostly explained by actual increases in prices (including nominal exchange rate changes), domestic demand and world demand.

Decomposition of Non-oil Export Volume Growth 1/

	Elasticities	Average Growth a Year (1993–2002)	Contribution to Export Growth
Prices	0.21	40.9	8.6
Domestic demand	-4.45	6.0	-26.6
World demand	6.44	3.6	23.1
Residual	...	...	-1.0
Export volumes	**...**	**...**	**4.0**

1/ Excludes the effects of 1998/99 drought and ban on livestock imports by the Gulf countries in 2001. Although the period 1999–2002 has coincided with a real exchange appreciation owing to large inflows of oil receipts and private capital, it seems that the exchange rate level has not significantly affected the non-oil export volumes. The non-explained negative residual suggests that there are factors affecting the supply of non-oil exports possibly related with lack of financing, poor land management practices, and deterioriating infrastructure in the agriculture sector.

Sudan: Non-oil export volumes, 1993-2002
(1993=100)



22. **The staff observed that the experience with monetary targeting thus far has been positive and the authorities agree that the new regime remains appropriate** (see Box 4). BOS's open market operations have been increasing in sophistication, the monetary policy decision making structure and financial reporting system are fairly advanced, and the establishment of the MOU was an important reorganization step. The choice of broad money as a target instead of reserve money seems also appropriate at present given that no major shifts have been detected so far in money demand and the transmission mechanism.[11] Finally, the staff noted that further efforts are needed on the research front, as well as on improving BOS's ability at short-term liquidity forecasting. The authorities, however, were concerned about BOS's lack of experience, inadequate infrastructure, and the stability of the monetary transmission mechanism and money demand.[12]

[11] Targeting reserve money would have been difficult at present because of the uncertainties related to the movements in the OSA (which is kept at the BOS) and the management of the government's cash operations (which still needs significant improvement).

[12] The authorities requested Fund technical assistance in monetary operations. An MFD technical assistance mission is scheduled in late 2003.

Box 4. Sudan: Broad Money Targeting

In May 2002, BOS began targeting broad money and switched to indirect monetary management. This change was motivated by the need to establish a new nominal policy anchor to replace a de facto fixed exchange rate when a new managed-float exchange rate regime was adopted around the same time. In addition, with macroeconomic stabilization largely achieved by end 2001, there was a need for a proactive monetary policy that stabilizes monetary aggregates, creates a stable financial environment for investment and growth, and signals commitment to price stability.

The BOS was able to adapt to the new policy fairly quickly, despite its limited experience. The effectiveness of the new regime was greatly assisted by three factors: (a) the elimination of the remaining direct monetary controls, including limits on credit and Murabaha (finance rate) margins; (b) improvement in the BOS's weekly flash reporting system, which now provides fairly accurate estimates of broad money, reserve money, other BOS balance sheet data, and key financial indicators (including weekly inflation estimates); and (c) the availability of liquid secondary market for government securities. Monetary policy interventions are now carried out through open market operations (OMO) in securities and, to a lesser extent, foreign exchange swaps.

The institutional setting of the BOS has also been strengthened to support the new regime and enable faster decision making and better policy coordination. A high level meeting between the BOS and Ministry of Finance (MOF) is held on regular basis (usually every month) to coordinate the fiscal and monetary policies. A Monetary Policy Committee (MPC), comprising senior BOS officials and representatives from the MOF, meets every two weeks to review developments and decide on short-term actions. Finally, to improve the effectiveness of OMO, a Monetary Operations Unit (MOU) was established in the BOS in June 2003, comprising staff from the research, securities, foreign exchange and finance departments at the BOS, as well as MOF representative. The MOU is mandated to implement the MPC decisions, maintain close contact with the financial markets, and provide recommendations on the strategy for the next two weeks.

23. **In the fiscal area, the review focused on the fiscal stance, the efforts to strengthen tax revenue, the OSA experience, and progress in improving expenditure management.** The authorities agreed with the staff on the importance for macroeconomic stability of maintaining low domestic budget deficits (below 1 percent of GDP), as has been the case since 1997, and this stance is expected to be maintained over the medium term.

24. The authorities' efforts to strengthen tax revenue are based on overhauling the tax incentive regime (including the IEA) and reforming the direct tax system. This two-pronged

approach is appropriate and some progress was achieved on both fronts.[13] Nevertheless, stronger efforts are needed to reduce tax exemptions, and a direct tax reform plan (that incorporates FAD recommendations) needs to be adopted this year. The authorities reaffirmed their commitment to push these reforms and pointed to their public campaign to mobilize political support for the reforms.

25. The authorities noted that the OSA has been a useful instrument in disciplining the budget and building up reserves (see Box 5). However, they pointed out that the OSA is not intended to be a "fund for future generations," and raised concerns about the rapid accumulation of OSA balances resulting from the conservative price benchmark. The authorities want to establish more flexible rules that preserve the OSA's nature as a buffer against oil price fluctuations while allowing the use of more oil revenue in the event that oil prices remain high and the reserve accumulation is sufficient to stabilize budgetary outlays. Given the limited proven oil reserves at present (estimated at 600 to 1000 million barrels) and the massive reconstruction and development needs in Sudan, the staff agrees that a "fund for future generations" is not appropriate at this stage. Nevertheless, the staff believes that additional accumulation of reserves is necessary, but would review the OSA rules in the next mission.

[13]FAD provided technical assistance to the authorities in these areas.

Box 5. Sudan: Oil Savings Account

The coming on stream of oil revenue in Sudan has exposed the budget to oil price fluctuations, which, as the experience of 2001 has shown, can cause unexpected and costly fiscal adjustments. In response, the authorities established in mid-2002 an OSA mechanism at the BOS, to save part of oil revenue to protect expenditures and smooth the fiscal adjustment when oil prices fall. The OSA is an evolving process that is expected to go through a number of phases.

At the beginning, the OSA operation involved determining an oil price benchmark and setting up a mechanism for saving oil revenues arising from export prices above the benchmark (revenues from higher oil production are not saved). The mechanism operated as follows: (i) all export oil revenues are channeled through the BOS; (ii) the foreign exchange receipts are sold to BOS; (iii) the excess revenue is deposited by the BOS in the OSA (the BOS is authorized formally to do so and does not require MOF approval); and (iv) in the event oil prices drop below the benchmark, any accumulated financing margin can be used by the MOF to smooth the fiscal adjustment. If low oil prices persist, the budget will be adjusted.

The mechanism was further refined in 2003 to eventually integrate it into the medium-term budget framework. The budget is formulated in line with the domestic non-oil deficit objective, with oil revenue budgeted to fill the gap. The latter, for a given oil production, sets the oil price benchmark for the OSA.

The OSA is not intended to be a "fund for future generations," and once it accumulates sufficient reserves to satisfactorily mitigate the impact of oil price fluctuations, the OSA rules would need to be adjusted to allow more flexibility in using additional oil revenue while ensuring medium-term fiscal sustainability.

26. **Oil sector transparency has been enhanced over the past two years.** The Auditor General has been auditing the accounts of Sudan Petroleum Corporation (SPC) since 2001. The collection and accounting of the government's oil revenue has been improved, the frequent occurrence of arrears in the transfer of oil revenue from the SPC to the budget has been resolved, and the budget fully incorporates the debt service payments for the construction of the Khartoum refinery. Starting January 2003, all netting operations were eliminated and replaced by budgeted cash payments, including for pipeline fees. Finally, the authorities have agreed to audit the accounts of all the subsidiaries of the SPC, and will initiate a program to align their accounting systems with international standards as recommended by the Auditor General.

27. **The staff observed that expenditure management has not improved as expected,** particularly with respect to cash management and fiscal reporting. The authorities agreed that additional efforts are necessary with respect to the latter, but highlighted their need for assistance with respect to the newly established cash management unit operational. An FAD technical assistance mission is scheduled later this year to help the authorities in this area.

28. **The staff expressed their concern regarding the contraction of external debt on non-concessional terms.** The accumulation of such debt could complicate the process of resolving Sudan's external debt problem and may, if not contained, lead to resurgence of the debt burden in the future. The authorities explained that the contraction of external debt by different ministries is not yet centralized and no definitive government-adopted policy on external debt exist at present. They indicated that a comprehensive policy on external debt will be prepared as part of the new medium-term budget.

B. Macroeconomic and Policy Outlook for the Remainder of 2003

29. **The macroeconomic outlook for the remainder of 2003 is broadly in line with the program, but uncertainties remain regarding balance of payments developments**. The real GDP growth rate is expected to reach the projected 5.8 percent, but some uncertainty remains regarding the growth in the non-oil sectors with respect to agricultural production. Inflation in 2003 is expected to be in line with the program target of 7 percent, although inflationary pressures remain. In the second half of 2003, imports are projected to slow down as the surge of capital goods imports in the first half of the year seems to taper off, while oil exports are expected to remain buoyant leading to a reduction in the current account deficit (see Appendix IV, Table 4). However, considerable uncertainty exists with respect to the projections of import volumes and oil prices. Accordingly, the current account deficit for 2003 was maintained at about the same as projected in the program (7 percent of GDP).

30. **The fiscal deficit and domestic financing targets will be maintained as programmed** (see Appendix IV, Table 5). Higher oil production and retention is expected to raise oil revenue by about 1.5 percent of GDP (on an annual basis, excluding OSA savings). Non-oil revenue are projected to decline slightly, mostly because of higher profit retention by state enterprises.[14] The authorities indicated that the additional revenues will barely cover the extra spending for emergency operations in western and eastern Sudan (estimated at about 1.5 percent of GDP). Non-oil domestic deficit will likely increase to 7.2 percent of GDP (1.3 percent of GDP over the program projection).

31. **The broad money growth target for 2003 will be maintained** (see Appendix IV, Table 6). The authorities noted that the target might be difficult to achieve in light of still large capital inflows and increased government spending. Nevertheless, they indicated that the program target of 18 percent will be maintained to signal their commitment to tight monetary policy which would be necessary to avert a surge in inflation in the latter part of the year. There is also no indication of any significant shift in money demand that would require changing the program's target. The staff noted that monetary policy needs to be vigilant in the face of balance of payments uncertainties and inflation development.

---

[14] Some public enterprises have been reinvesting more of their profits than envisaged.

32. **The BOS's stock of government securities needs to be supplemented for effective liquidity management.** Given the small fiscal deficits, the supply of government securities is limited, and the BOS may not have sufficient volume of securities to effect major liquidity absorption, if needed. The staff urged the authorities to supplement BOS's stock of government securities by converting part of its claims on government into marketable securities. The authorities are considering this option but were concerned about its fiscal impact, as the government has not been paying charges on its liabilities to the BOS.[15]

C. Policy Framework for 2004

33. **Preliminary understanding was reached on the macroeconomic framework and policy parameters for 2004.** Real GDP growth is projected to reach 6 percent and inflation is targeted at 6.5 percent. The current account deficit is expected to decline (on cash basis) to 5.9 percent of GDP compared with about 7 percent of GDP in 2003, reflecting buoyant oil exports,[16] while imports will also rise, albeit at a slower pace than exports, because of Merowe-related imports and higher import prices. The current account deficit will continue to be financed by private capital inflows and financing related to the Merowe project.

34. **The authorities reaffirmed their commitment to maintain a low domestic fiscal deficit and will pursue a prudent monetary policy.** The domestically financed fiscal deficit is expected at about 0.5 to 0.7 percent of GDP.[17] Non-oil revenues, without measures, are projected to reach 8.0 percent of GDP. Consistent with the macro-fiscal parameters, broad money growth could be targeted at about 20 percent, allowing further decline in velocity.

V. Medium-Term Economic Reform Strategy

A. Overall Strategy

35. **The authorities are preparing a new medium-term economic reform strategy that will be underpinned by a three-year rolling medium-term budget.**[18] They indicated that the strategy will be prepared anticipating a peaceful resolution to the conflict in the South. The objectives of the strategy will be maintaining macroeconomic stability; addressing

---

[15] The BOS has been actively using Central Bank Musharaka Certificates (CMCs) to contain liquidity. During the first six months of 2003 it has sold SDD 6 billion of CMCs, however its stock of this instrument remains limited.

[16] The projected decline in oil prices will be more than offset by rising production.

[17] The 2004 budget is envisaged to be the first year in a three-year medium-term budget (see section V below).

[18] This will be the first time that Sudan prepared a medium-term budget.

the post-conflict challenges; creating an environment conducive to private sector development; and pursuing poverty reduction policies.

36. **The strategy aims at achieving 6 to 7 percent real GDP growth and targets an inflation rate of 5 to 6** (see Appendix IV, Table 8). The main sources of growth are expected to be the construction sector (mostly in basic infrastructure, including the Merowe dam), power generation, services, and to a lesser extent the manufacturing sector. As the rehabilitation of agriculture progresses, its contribution to economic growth will rise gradually. The oil sector's growth prospect will depend on new discoveries, which would, if materialized, accelerate growth beyond the envisaged rates. With the advent of peace, economic growth will be underpinned by rising investments, including from foreign investors. The current account deficit is expected to average about 6 percent of GDP, and international reserves are targeted to rise to about 3 to 4 months of imports compared with 1.8 months at present. The domestically financed budget deficit will be kept at below 1 percent of GDP, consistent with the overall macroframework. Monetary policy will aim to support the inflation target, and a flexible managed-float exchange rate will be maintained.

37. **The strategy envisages accelerating the privatization program, reforming the national irrigation schemes, and ensuring that the legal and regulatory regime is conducive to private sector development.** The latter would include (a) modernizing the land tenure system; (b) enacting anti-trust laws; (c) reforming the procurement code; and (d) introducing an Agricultural Insurance law.

38. **Foreign aid will be important in achieving the medium-term goals**. The authorities are hopeful that the international community will provide sufficient resources to support the post-conflict expenditures and poverty-reduction policies. These resources will also be needed to finance a significant part of the projected current account deficit. However, to maintain the external debt service-to-export ratio under 14 percent,[19] substantial support from the international community in terms of debt relief, grants, and concessional lending will be needed. The establishment of normal relations with the international financial institutions, especially the Fund and the World Bank, through the clearance of long-standing arrears, is a precondition for providing financial assistance and debt relief under the Highly Indebted Poor Countries (HIPC) Initiative from these institutions.[20]

---

[19] Preliminary calculations indicate the external debt service-to-export ratio will have to be under 14 percent both to free resources for reconstruction and poverty alleviation programs and ensure a sustainable debt dynamics.

[20] Once a peace agreement is reached, the arrears clearance should be pursued as a matter of urgency. This will require the mobilization of substantial PRGF loan, subsidy, and HIPC grant resources from bilateral contributors to assist Sudan in clearing arrears and obtaining assistance from the international financial institutions under the HIPC Initiative. It is estimated that, for the Fund alone, subsidy and grant resources of about $1.2 billion will need to be mobilized on behalf of Sudan.

B. Trade Reforms

39. **The authorities reaffirmed their commitment to maintain an open trade regime and to further reduce tariff protection.** The latter is expected to be addressed in the context of the Common Market for Eastern and Southern Africa (COMESA) customs union and the Arab Free Trade Area (AFTA) agreement. In the event that the COMESA negotiations do not reach a conclusion in the near future, the authorities plan to develop a three-year tariff reform program with the aim of reducing the simple average tariff from the current 22.7 percent to below 20 percent.[21] With regard to AFTA, Sudan is expected to reduce tariffs for members by 20 percent each year starting in 2005. The authorities will phase the tariff reductions with compensatory revenue measures.

40. **Sudan has made progress in its application for World Trade Organization (WTO) accession** and the authorities expect to conclude negotiations in five years. The first Working Party meeting was held on July 11, 2003 in Geneva and the second meeting will take place possibly early 2004. The authorities have also prepared a preliminary legislative plan to enact and amend laws to comply with WTO agreements. The authorities informed the staff that Sudan will apply for temporary exemptions from trade-related aspects of intellectual property rights (TRIPS) and customs duties schedules on agricultural goods and some industrial products.

C. Monetary Policy and Financial Sector Reforms

41. **The authorities agreed that the broad money targeting regime is appropriate and the BOS will continue its efforts to strengthen the banking system.** They also believe that, notwithstanding the progress achieved thus far, additional efforts are needed to strengthen the banking system and are looking forward to the planned Financial Sector Assessment Program (FSAP) mission which will provide the backbone of the needed medium-term reform program. The staff noted the need to encourage banks to make ample provisions for NPLs, which remain high, and for the authorities to remain vigilant lest the rapid increase in credit to the private sector result in deteriorating loan quality.

D. Fiscal Reforms and the Medium-Term Budgetary Framework

42. The strategy will focus on (i) instituting the MTB; (ii) raising tax revenue; (iii) strengthening expenditure controls; (iv) improving fiscal reporting; (v) implementing Government Finance Statistics (GFS) classification; (vi) reforming the federal-states fiscal relations, taking into account the peace agreement; and (vii) initiating a civil service reform program.

---

[21] Effective tariff rate is about 12 percent because of import duty exemptions and, to a lesser extent, Sudan's membership in free-trade associations.

43. **The MTB, which covers the period from 2004 to 2006, aims to address the post-conflict challenges and pursue poverty reduction policies, while maintaining macroeconomic stability.** The post-conflict challenges include the reconstruction and rehabilitation of the war-affected areas and the resettlement of the displaced populations. The poverty reduction policies will focus on four areas: raising the productivity of traditional agriculture (rainfed agriculture and livestock); and improving health services, basic education, and water supply and sanitation.

44. **The MTB is expected to target raising tax revenue by about 2 percentage points of GDP (to 8.5 percent of GDP) by 2006.** The authorities are considering a number of measures and a decision will be made in the near future. These measures are expected to focus on reducing tax and customs exemptions, broadening the tax base (including through reforming the tax administration), and implementing discretionary tax measures.

45. **The staff noted that the current budget classifications do not support effective medium-term budgeting** (including for the purpose of preparing a poverty reduction strategy) as they lack the necessary economic classifications. The authorities acknowledged the shortcomings of the existing system but were concerned about introducing the GFS because of their inability at this stage to prepare the fiscal balances on accrual basis. The staff encouraged the authorities to explore the possibility of gradually adopting a cash-based system in line with the Government Finance Statistic Manual (GFSM, 2001). As a first step, authorities would prepare the 2004 budget using the GFSM methodology in parallel with the current classification.

46. **The staff pointed out that supporting the peace and poverty reduction would require redirecting more resources to the states and the development budget.** This is necessary given that basic education and health services are mostly delivered by the states, while additional funding is needed to improve the infrastructure of education, health, and water supply, and to support the traditional agriculture sector.

47. **The authorities explained that pressure is mounting to increase wages substantially over the medium term,** arguing that maintaining them at the current level will adversely affect the quality of civil service, and the raise will contribute to poverty reduction. The staff noted that wage adjustments have to be considered in the context of a broader civil service reform strategy to prevent an unsustainable increase in the wage bill. The link between the wage policy and poverty reduction strategy is not clear at present and would need to be evaluated when a comprehensive (Poverty Reduction Strategy Paper) PRSP is prepared. No decision on this issue has been made and discussions with the authorities are continuing.

E. Poverty Reduction Strategy

48. **The authorities are preparing a poverty reduction strategy that is coordinated with the on-going work on the I-PRSP.** The strategy will focus on improving the delivery and infrastructure of basic education, health, and safe water, as well as supporting the

traditional agriculture sector. Several committees were formed to prepare background documents on these sectors. The authorities are aware that peace is a prerequisite for preparing a full-fledged PRSP, and the need for the strategy to be inclusive, with broad participation from all stakeholders.

VI. Creditor Relations

49. Sudan made regular payments to the Fund as committed under the 2003 SMP. The staff commended the authorities for making timely payments and urged them to increase the payments if possible. The authorities noted that, given the uncertainties regarding balance of payments developments in 2003 and the substantial resources needed for relief and rehabilitation in the flood-affected areas and in western Sudan, it will be difficult to increase the payments to the Fund in 2003 beyond the agreed $27 million.

50. Sudan is expected to resume payments to the African Development Bank (AfDB) ($9 million) and the Arab Monetary Fund (AMF) ($18 million) as part of its effort to normalize financial relations with creditors. Payments will continue to the World Bank ($7 million), the Islamic Development Bank (IsDB), and a number of bilateral countries and Arab funds, as most of these payments would result in net financing inflows. The mission reiterated that an exceptional effort would be needed to encourage bilateral donors and creditors to provide the resources necessary for Sudan's external viability.

VII. Data Issues

51. The available data have been sufficient for program monitoring, but the reporting of capital goods imports in the current account of the balance of payments needs some improvement. This data compilation problem (and others) was addressed recently by an STA balance-of-payments mission and the BOS is taking steps to correct it.[22] Other statistical weaknesses include the long lags in compilation of national accounts and insufficient data on state budgets. The authorities continue to upgrade the statistical database, as evidenced by the move by the BOS to a new monetary methodology and fairly accurate flash reports of data on broad money, reserve money, central bank claims on government, and CPI, all with a lag of one week. Also, on August 19, 2003, Sudan formally began to participate in the IMF's General Data Dissemination System (GDDS). On this date comprehensive information on its statistical production and dissemination practices were published on the IMF's Dissemination Standards Bulletin Board.

---

[22] With peace it is expected that statistical data will be improved for the conflict-affected areas.

VIII. Staff Appraisal

52. Since the last Article IV consultation, Sudan has been implementing a strengthened economic reform program (under the 2002 and 2003 SMPs) that aims at consolidating macroeconomic stability, reinforcing the reform momentum, and modernizing the macroeconomic management regime. Under this program, Sudan switched to indirect monetary management and broad money targeting, introduced a managed-float exchange rate system, and began strengthening the fiscal regime (including the new focus on non-oil balances, the introduction of OSA, and the move to medium-term budgeting). The staff also welcomes the authorities' acceptance of Article VIII, Sections 2, 3, and 4, as an important signal regarding Sudan's commitment to an open economy. These reforms have been instrumental in reversing the policy slippages of 2001 and reinforcing economic stability. However, the full implementation of these reforms will take time and will need to be carefully incorporated in a medium-term economic reform strategy that is appropriate to meet the forthcoming challenges, including the post-conflict environment.

53. For the remainder of the year, the staff does not foresee the need to revise the 2003 program policy and macroeconomic objectives. Nevertheless, downside risks may arise from: uncertainties regarding balance-of-payments developments, including the pace of foreign exchange inflows, and pressures on the budget from flood-related expenses and additional relief spending in western Sudan. While the latter could be accommodated from the projected higher oil revenue, monetary policy should be vigilant in the face of balance-of-payments uncertainties and inflation pressures.

54. The managed-float exchange rate regime remains appropriate for Sudan at present, given that the foreign exchange market is relatively thin and could be destabilized by sudden exchange rate fluctuations, as well as the lack of appropriate risk-hedging mechanisms. While the institutional setting does not hinder free market transactions, greater exchange rate variability in the market is desirable and the authorities are urged to widen the range of daily exchange rate fluctuations that triggers BOS's interventions. Furthermore, consideration should be given to speeding up the exchange rate appreciation if foreign exchange inflows continue to be strong during the second half of 2003.

55. Improving tax revenue, including through significant reductions in tax exemptions, remains a cornerstone of the fiscal reform efforts. In this context, the partial implementation of the measures envisaged under the program for reducing exemptions points to the need for the authorities to take decisive action on this front. The staff urges the authorities to implement the remaining measures by end-2003, and to adopt a tax reform program based on the recommendations of the recent FAD missions.

56. The OSA has been an important tool in stabilizing expenditures and in building up foreign exchange reserves. The staff, however, shares the authorities' view that establishing a "fund for future generations" is not necessary at present given the massive development needs in Sudan in the foreseeable future. Accordingly, and in light of the rapid buildup of

reserves in the OSA, the staff sees merit in adopting more flexible OSA rules for using additional oil revenue during periods of sustained high prices and once sufficient reserve level is reached. The staff does not believe it is necessary to revise the OSA rules this year, but the rules could be reviewed in the context of the MTB.

57. The authorities' effort to prepare the 2004 budget in the context of a three-year rolling MTB is a very important step forward in strengthening fiscal policy. This budget will provide a medium-term perspective of the government reform program, set realistic expectations on the budget's capacity, and anchor investment decisions. The stated policy aims of the MTB are also appropriate. The staff is encouraged by the preliminary macroeconomic framework that the authorities envisage for the MTB. The framework is internally consistent and should provide a strong basis for macroeconomic stability.

58. Notwithstanding these commendable efforts, the medium-term fiscal environment is expected to test the authorities' capacity and resolve. Rising oil revenue from higher production will need to be balanced by a determined effort to strengthen tax revenue to achieve a sustainable path for the non-oil domestic deficit and prevent over-reliance on oil revenue. The move toward a more flexible management of the OSA may avail additional resources to the budget during periods of relatively high oil prices, and care should be taken not to use these resources to fund new entitlements or recurrent expenditures. Furthermore, the staff believes that the OSA balance has not yet reached a level that could stabilize expenditures in the face of a sustained decline in oil prices. On the spending side, the emphasis on meeting the demands of peace and combating poverty may require additional transfers to the states at the expense of federal programs. Finally, every effort should be taken to incorporate future wage increases in a comprehensive civil service reform program with a view to stabilize the wage bill over the medium term.

59. The staff urges the authorities to strengthen the external debt management capacity and formulate a clear policy regarding the contraction of external debt which should, inter alia, prevent the contraction of external debt on nonconcessional terms. These steps are crucial to the eventual resolution of Sudan's external debt problem and to preventing the accumulation of unsustainable external debt in the future. In this regard, the staff urges the authorities not to draw down the two nonconcessional loans acquired this year. The staff also welcomes the authorities' intention to prepare a comprehensive policy on external debt as part of the new MTB.

60. Sudan has made considerable progress in restructuring its economy under successive SMPs since 1997 (see a summary of the reforms in EBS/02/97). The staff is encouraged by the progress achieved thus far and the authorities' continued commitment to an open and market based economy. These reforms have paid dividends in terms of macroeconomic stability, higher economic growth, and increased FDI inflows. With the advent of peace, the reforms provide strong foundation for initiating second-generation reforms (e.g., legal system reforms) that will further improve the economic environment for private sector development. The staff urges the authorities to begin identifying these reforms in the context of the

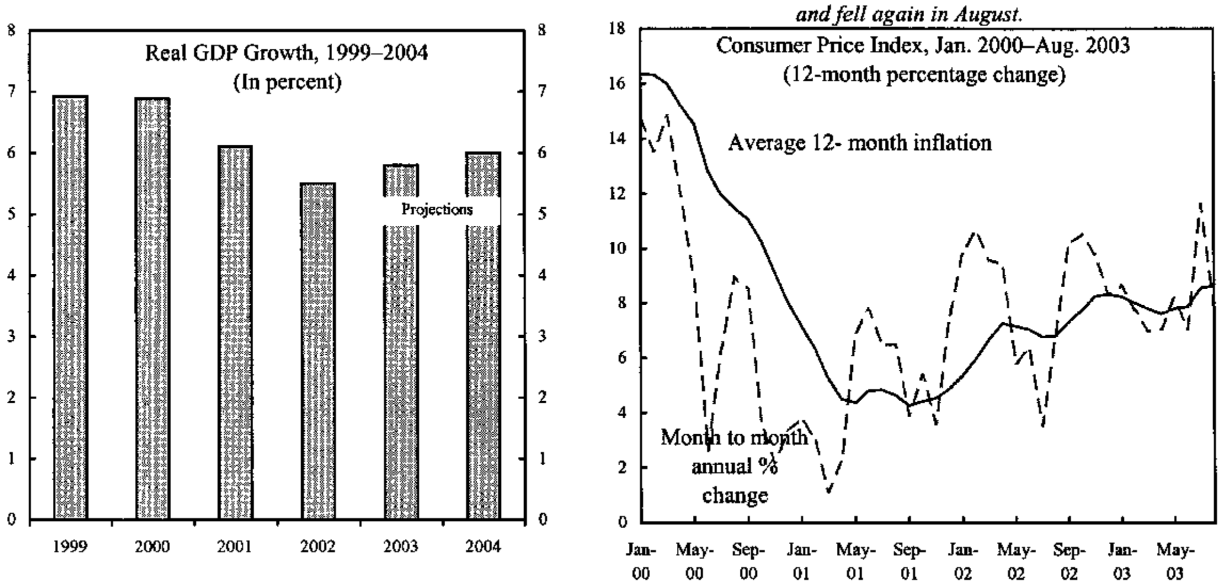
medium-term economic reform program that is being prepared at present, and in cooperation with international organizations, including the World Bank, that can provide technical and other assistance in this front.

61. It is recommended that the next Article IV consultation be conducted on the standard 12-month cycle.

Figure 1. Sudan: GDP, Prices, External, and Fiscal Developments, 1999–2004

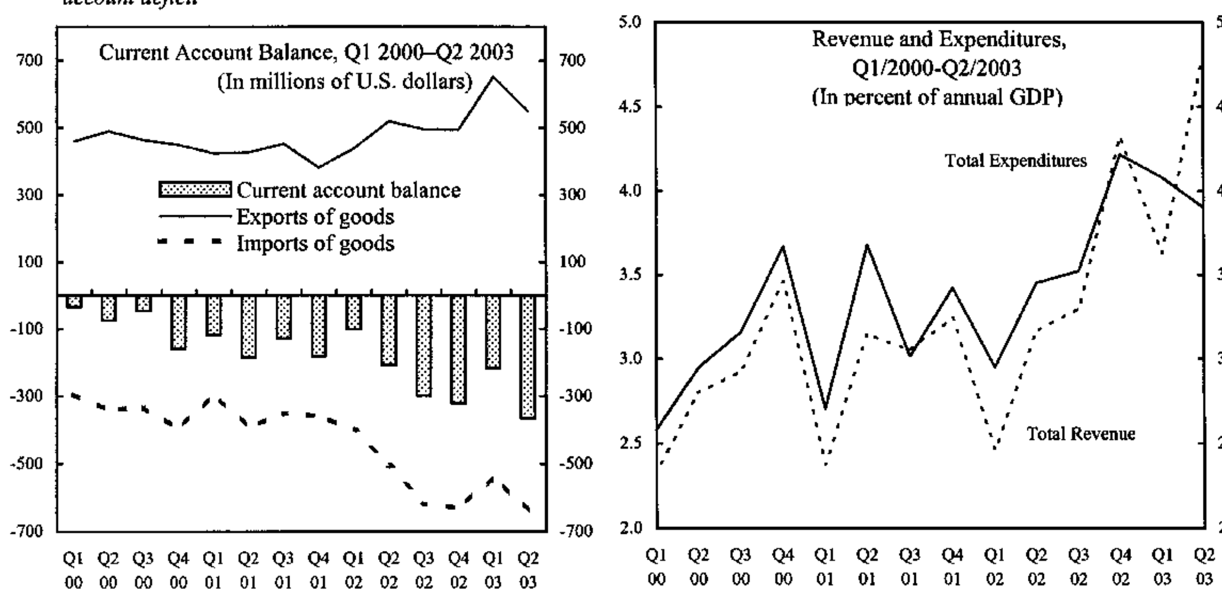
Real GDP growth is projected at 5.8 percent in 2003

After a falling trend since November 2002, inflation rose sharply in July 2003 as a result of the floods and fell again in August.



A surge in imports has been widening the current account deficit

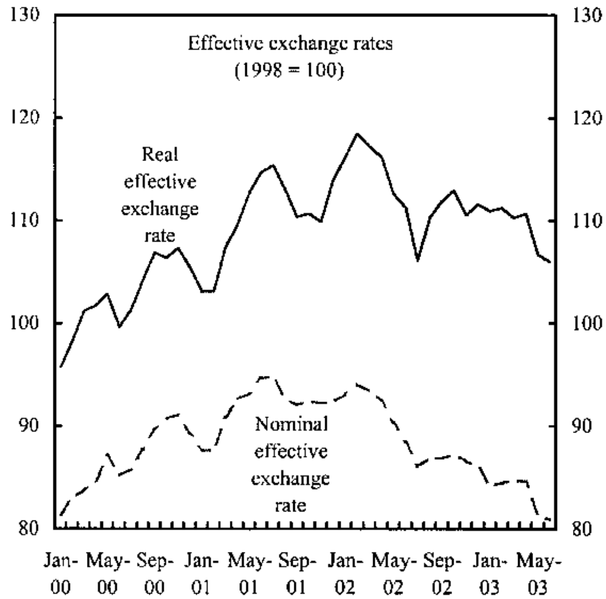
Government revenue came out higher than expenditure in the second quarter of 2003



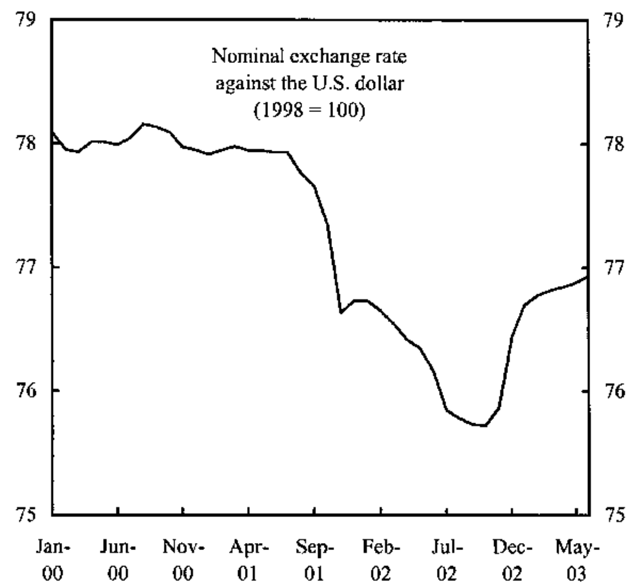
Sources: Sudanese authorities and Fund staff estimates.

Figure 2. Sudan: Exchange Rate Indices and International Reserves, January 2000–June 2003

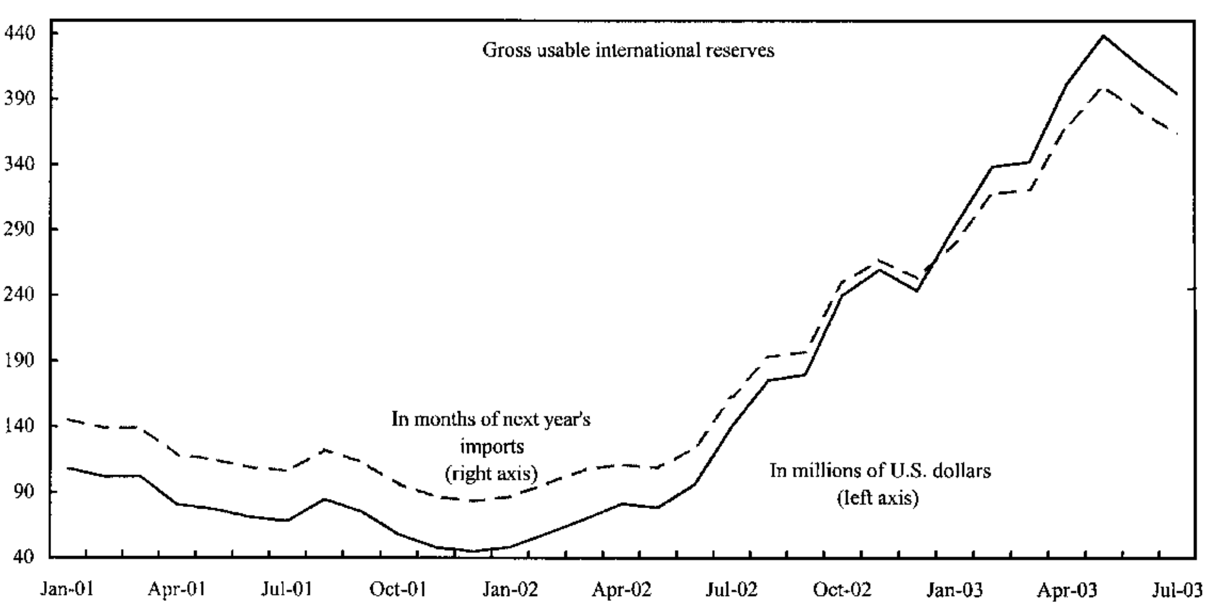
Movements in the real effective exchange rate have been stable since the end of 2002.



Nominal appreciation continues at a slower rate after a sharp appreciation in the second half of 2002



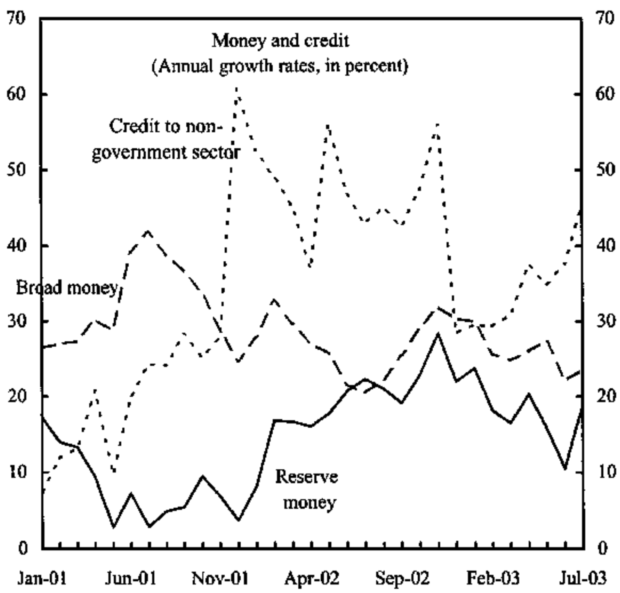
The rapid buildup in international reserves continued in 2003 as a result of strong foreign exchange inflows, although they remain very low.



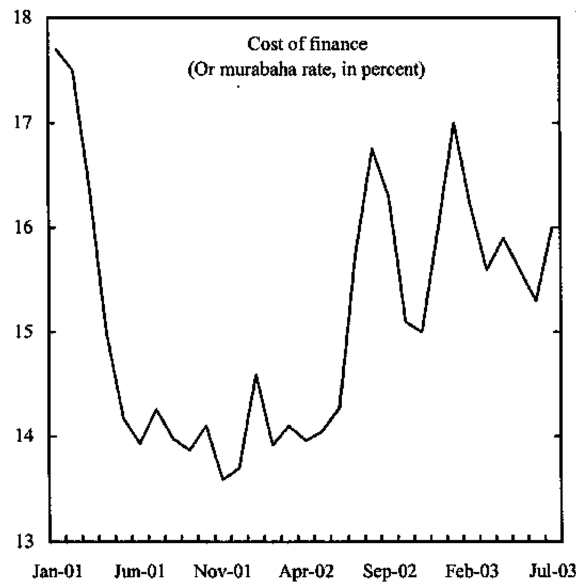
Sources: Bank of Sudan; and Information Notice System, IMF.

Figure 3. Sudan: Monetary Developments, January 2001–July 2003

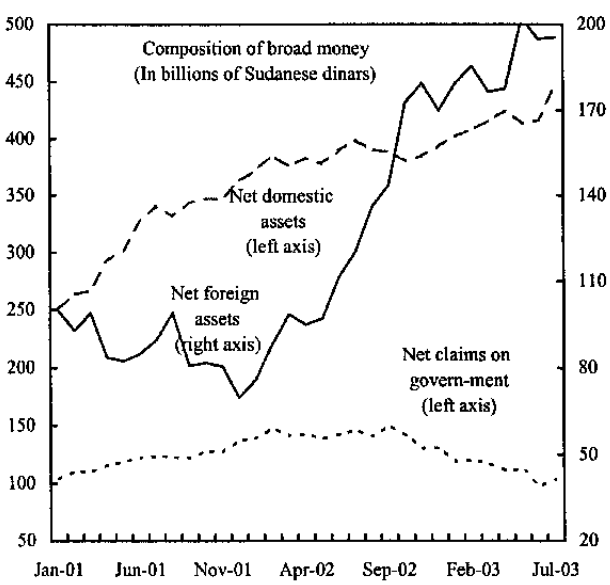
Credit to the nongovernment sector has, since January 2002, been on an upward trend.



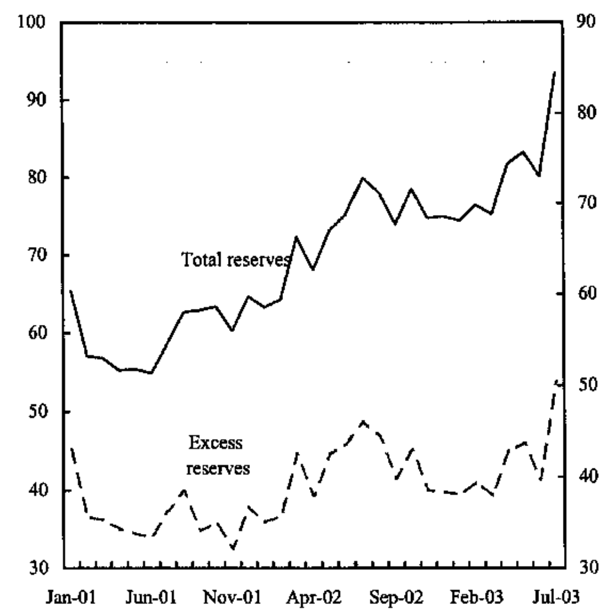
The cost of finance remains high as a result of tight monetary policy since October 2002



Large capital inflows have driven the growth of broad money in 2002



Reserves have been rising since March 2003



Source: Bank of Sudan.

SUDAN: FUND RELATIONS

As of August 31, 2003

I. Membership Status: Joined 09/05/57; Article XIV

II. General Resources Account:	SDR Million	% Quota
Quota	169.70	100.00
Fund holdings of currency	519.63	306.20
Reserve position in Fund	0.01	0.01

III. SDR Department:	SDR Million	% Allocation
Net cumulative allocation	52.19	100.00
Holdings	0.03	0.06

IV. Outstanding Purchases and Loans:	SDR Million	% Quota
Stand-by Arrangements	203.84	120.11
Extended Arrangements	116.75	68.80
Contingency and Compensatory Financing Facility	29.33	17.28
Trust fund	59.23	34.90

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	06/25/1984	06/24/1985	90.00	20.00
Stand-by	02/23/1983	03/09/1984	170.00	170.00
Stand-by	02/22/1982	02/21/1983	198.00	70.00

VI. Projected Obligations to the Fund: (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue[1] 07/31/2003	Forthcoming				
		2003	2004	2005	2006	2007
Principal	410.88	--	--	--	--	--
Charges/Interest	559.19	4.23	4.23	4.23	4.23	4.23
Total	970.07	4.23	4.23	4.23	4.23	4.23

[1]The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

VII. Exchange Rate Arrangements

The legal tender is the Sudanese dinar, which replaced the Sudanese pound in proportion SDD 1=LSd 10 in 1999. Since October 1998, the exchange rate system has been unified—market participants determine the exchange rate and trade freely within a unified regulatory framework. In 2001, the foreign exchange market came under pressure and Bank of Sudan (BOS), in an effort to increase the flexibility of the system, introduced a formal band of $\pm$1.5 percent (later broadened to 2 percent) around the official rate and began auctioning its foreign exchange within the band. In May 2003, BOS adopted formally a managed-float exchange rate regime. The formal exchange rate band was abandoned and the auction system was replaced with direct transactions in the inter-bank market. BOS established an internal limit of $\pm$2 percent intra-day fluctuations around the average daily market rate that will trigger its intervention. Sudan maintains one inoperative bilateral payments agreement with Egypt and an inoperative payment clearing account with the former Soviet Union.

VIII. Article IV Consultation

Sudan is on a 24-month consultation cycle. The last Article IV consultation discussions were held from June 25 through September 9, 2001. This Article IV consultation was postponed from March as a result of the security situation in the region. The Staff Report (EBS/01/179, 10/31/01) and the Recent Economic Developments (SM/01/324, 10/31/01) were discussed by the Executive Board on November 14, 2001.

IX. Technical Assistance

In January 1995, the Executive Board decided to resume Fund selective technical assistance (TA) to Sudan. Since then, there have been the following TA missions: (i) reform of indirect taxation (August 1995; March, May, and October 1997; May, October, and November 1998; October 1999; and November 2000); (ii) multisector technical assistance in statistics (September/October 1995); (iii) exchange system reform (April and November 1997; May and September 1998); (iv) monetary management and banking supervision (June and November 1997; May, September, and December 1998; May and October 1999; November 2000; and November 2002); (v) government finance statistics (June 1997 and May 1998); (vi) monetary statistics (July 1997; February 2000; May 2000; February 2001; April 2001; and July 2003); (vii) balance of payments and monetary statistics (April 1999; and July 2003); (viii) expenditure control and management (September 1997; May 1998; May 2000; and November 2002); (ix) oil sector taxation (October 1999); (x) introduction of the VAT since October 1999; (xi) reform of direct taxation (November 2002); (xii) training course on financial programming and policies (April 2000); (xiii) GDP and CPI statistics (March and September 2002; and February 2003); and (xiv) General Data Dissemination System (GDDS) technical assistance (July 2003). Additionally, an MFD long-term banking supervision resident advisor has been assigned to the BOS since May 2001.

X. Resident Representative

The Fund's resident representative in Khartoum was withdrawn in June 1990.

SUDAN: RELATIONS WITH THE WORLD BANK[1]

(As of July 2003)

The World Bank has no active lending portfolio in Sudan because of Sudan's default on its financial obligations to the Bank, which led to the suspension of disbursements in April 1993. As a result of discussions between the Bank and the Sudanese authorities on the need for Sudan to take steps towards normalizing its relations and establishing a track record with the Bank, the authorities started making "good faith" payments of $1 million per month to the Bank starting in July 1999. Monthly payments of an equivalent of $500,000 have been made since October 2002. The amount of payments has not been sufficient to prevent a continued accumulation of arrears, which stood at about $240 million at the end of 2002 (from $145 million at the end of 1999). Sudan's outstanding Bank debt, including arrears, is approximately $1.3 billion.

The Bank has been mostly absent from Sudan since 1992. In the 1970s and 1980s, the Bank was a major player in the reconstruction of Sudan, following the Addis Ababa peace agreement of 1972. In the past years, the Bank has occasionally supported small initiatives, on a grant basis, such as the UNICEF's data collection effort. Over the last six months, as the prospects for peace have risen, the Bank has engaged the government in a policy dialogue on reforming agriculture, and a Country Economic Memorandum to rebuild its knowledge base was completed. Intensified work with other donors has begun as part of donor collaboration preparing for the post-peace period. More recently, the Bank and the IMF have provided technical resource persons for the discussions around wealth sharing in the peace process. On July 10, 2003, the Sudan Country Re-engagement Note (CRN) was discussed by the Executive Board of Directors. Main areas of emphasis in the CRN are: knowledge generation and sharing; capacity building to support policy reform; demonstration projects to improve delivery of social services; and resolution of the debt overhang. In the coming months, the World Bank looks forward to working with the IMF, other multilateral development banks, and bilateral creditors to consider options for arrears clearance.

Contact: Ms. Jill Armstrong, Country Program Coordinator for Sudan
Tel. no.: (202) 473-8471

[1]Prepared by World Bank staff.

Sudan: Statistical Issues

Available economic and financial data are adequate for program monitoring purposes, but there are many areas where further improvements are needed, particularly in compiling national accounts, external trade and financial statistics, and in the area of state budgetary data. This appendix reviews the status of statistical issues by sector and the provision of data to the Fund is summarized in the core indicators table.

Sudan is a participant in the General Data Dissemination System (GDDS); metadata were initially posted on the DSBB on August 19, 2003. The July 2003 STA mission encouraged the central bank and the ministries of finance and national economy (MOFNE) and energy and mining to continue improving inter-agency coordination in data collection and sharing, particularly in key areas such as oil-related balance of payments transactions, and to disseminate timely economic and financial statistics through the Bank of Sudan website.

I. Real Sector

The compilation and dissemination of the monthly consumer price index (CPI) has been commendable in recent years. However, geographic coverage is limited and a new household income and expenditure survey is needed.

The annual national income accounts estimates suffer from a lack of basic information for many sectors, including oil, livestock, horticulture, and most services. On the expenditure side, data are lacking on final consumption by households, investment, and changes in stocks. For various areas, owing to the lack of regular surveys, national accounts compilers rely on ad hoc information and estimations, causing wide margins of error in the statistics. The annual estimates are currently being reported with a lag of over three years, and no national accounts or industrial production data are produced on a high frequency basis. There is an urgent need to rebuild the institutional capacity of the CBS; introduce the 1993 SNA; conduct a census of agricultural production; and improve coordination among MOFNE, ministry of energy and mining, ministry of agriculture and livestock, and the CBS.

II. Fiscal Sector

Government financial statistics reported to MED are adequate, with the main revenue, expenditure, and financing items reported on a monthly basis. Financing items should, however, be reconciled on a monthly basis with the monetary accounts. Reported fiscal data refer to the central government; consolidated state budgetary data frequently is not available. Furthermore, the functional classification of fiscal data remains incomplete; while the allocation of resources by the MOFNE to the various ministries are reported, their actual expenditures are not. There is a strong need to improve accounting and reporting procedures at the MOFNE, implement in full the recommendations of the 1997 government finance statistics TA mission, and explore introduction of the GFSM 2001. Data reported for

Government Finance Statistics (GFS) only cover the central government budget and are available only up to 1999.

III. Monetary Sector

The monetary accounts are acceptable for monitoring purposes following the recent STA missions to improve data transparency and reliability. Monthly balance sheet data are generally reported on a timely basis.. However, there are frequent classification errors in the commercial bank balance sheets, particularly for consortium financing, which prevents a meaningful analysis of net domestic assets, while other items (net) is often quite large and variable. Recommendations to address these and other weaknesses were provided by a 2001 STA monetary and financial statistics mission, including on banks' other items (net), the review and revision of the guidelines related to consortium financing and compliance, and establishment of a working group to review the foreign assets of the Bank of Sudan (BOS). The July 2003 STA mission noted limited progress in BOS's implementation of these recommendations and suggested that a significant effort be made to rectify this.

The weekly flash reports of the authorities are particularly commendable, with key monetary indicators being reported usually with a one-week lag. Starting January 2003, estimates of the BOS's usable reserves were added to the flash reporting system. However, there is some divergence between reserve money in the balance sheets and the end-of-month flash reports. The authorities could usefully report data on returns on investment deposits and the full BOS balance sheet in the weekly flashes.

IV. External Sector

Daily exchange rate data are reported to the Fund with minimal lags, but there are several areas for improvement in the external accounts, particularly in foreign direct investment, trade and oil statistics. The BOS's active balances include unusable reserves earmarked for particular purposes such as medicine, oil, and spare part imports, but the composition of these earmarked reserves and their potential usability in the event of a BOP need is not clear. The authorities need to provide clarification on items that qualify as international reserves in general, and earmarked reserves in particular and should also begin to implement and report to the Fund using the reserves template.

On import statistics, there are significant discrepancies between the reports of the customs authorities and the BOS. The July 2003 STA mission identified some possible causes of such discrepancies and, in collaboration with authorities, attempted to reconcile the data. The mission reported some progress on implementing the recommendations of the 1999 TA report on BOP statistics, however the lack of survey reporting continues to affect the compilation of important items such as foreign direct investment.

Medium term oil production projections and amortization of private sector investment need substantial improvement. The authorities have made some progress in improving oil projections, but appear reluctant to provide more detailed information on the phasing in and expected production levels of new blocks. Total oil reserves available are estimated between 10 to 15 billion barrels, which at a production rate of 350 thousand barrels a day would last about 100 years.

Sudan: Data Quality

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
Real sector: National accounts	Historical data reported on time by the Central Statistics Office.	Broadly acceptable: real and nominal GDP by sector available with a 3-year lag.	1968 SNA still in use; oil sector value added calculation not completed; no real GDP by expenditure; 4-year delay in nominal GDP by expenditure; private consumption derived as a residual; estimations rather than surveys are used for most GDP components.	Rebuild the Central Bureau of Statistics' (CBS) institutional capacity; introduce the 1993 SNA; conduct census of agricultural production. Implement the project prepared by the peripatetic real sector expert.
	Last and current year estimates reported to missions by the Ministry of Finance (MOF).	Acceptable.	Estimates are based on incomplete data, in particular for oil value added, livestock, and fruit and vegetable production.	Improve coordination between MOF, CBS, and the ministry of agriculture.
Prices	Monthly CPI reported on time, with a minimal lag.	Acceptable: only CPI for Khartoum area available promptly; weekly CPI upon request.	CPI for Sudan as a whole available with a 4-month lag and its coverage still incomplete; the CPI is based on an outdated consumer basket; income-group indices are not regularly aggregated into CPI.	Conduct new household income and expenditure survey; reduce timing discrepancies and other reporting inefficiencies by individual states.
	Monthly Wholesale Price Index (WPI) reported on time, with a minimal lag.	Acceptable.	Weighting scheme is not available; WPI based on prices for 32 mainly agricultural commodities.	Introduce WPI methodology consistent with SNA.
Government finance	Monthly reporting of main budgetary items, generally on time; 1.5-month lag.	Good: main revenue and expenditure items reported; financing to be reconciled with monetary accounts.	Only partial data on state budgets available; incomplete functional classification; MOF allocations to ministries are reported, but not their actual expenditure; slow progress on the introduction of the GFS classification.	Introduce the GFS classification; improve accounting and reporting procedures at MOF. Implement in full GFS (1997) TA mission recommendations.

Sudan: Data Quality (continued)

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
Monetary accounts	Monthly reporting of balance sheets. Generally on time; 1.5-month lag.	Acceptable following recent STA missions to improve transparency and reliability of the monetary statistics.	Large and variable other items (net); frequent misclassification errors by commercial banks, in particular for consortium financing which prevents meaningful analysis of the composition of NDA.	Establish a working group to review the BOS's foreign assets; review and revise the guidelines related to consortium financing and ensure compliance. Implement the 2001 TA mission on monetary statistics recommendations, including improvement of commercial banks' other items net.
	Weekly flash reports of key monetary aggregates; 1-week lag.	Good: estimates of usable reserves of BOS added in January 2003.	Some divergence between reserve money in balance sheets and end-of-month flash reports.	Include data on returns on investment deposits. Aim at full reporting of the BOS balance sheet.
External sector: foreign exchange reserves	Monthly reporting of BOS active balances. Generally on time; 0.5-month lag.	Acceptable but needs improvement: frequency of monitoring should increase to weekly; quality of data needs to be strengthened.	Gross usable reserves are part of BOS active balances, which also include unusable reserves earmarked for particular purposes (such as oil, medicine, and spare parts imports). The composition of the earmarked reserves and their potential usability in a case of a BOP need are not clear.	Clarify the items that qualify as international reserves in general, and those included in earmarked reserves in particular.
Exchange rate	Upon request; minimal lag.	Good: daily exchange rate available.		
Balance of payments	Quarterly full BOP data provided on time and during missions; 3-month lag.	Acceptable but needs improvement.	Incompleteness of data on some services (oil transportation costs), investment income (oil-related expenses and interest payments due on external public debt), transfers (workers' remittances), financial account (amortization due on external public debt), and FDI; large positive errors and omissions.	Introduce the revised reports form for commercial banks; improve data collection procedures; enforce the use of residency criterion; enhance institutional capacity of the BOS BOP compilation unit. Implement in full the recommendations of the 1999 TA in BOP statistics.

Sudan: Data Quality (concluded)

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
	Monthly trade data; upon request provided with a 2–3 month lag.	Acceptable but needs improvement.	Discrepancies between BOS data and customs data.	
External debt	Monthly payments to creditors. On time;1.5-month lag.	Good: BOS cash flow table is not available.	BOS cash flow table does not reflect exactly actual payments made by the MOF.	Eliminate timing and recording discrepancies between the BOS and the MOF.
	Other debt data; 10-month lag.	Good: coverage is comprehensive, although weaknesses in some areas persist.	BOS records are not reconciled with those of some creditors; data on Official Development Assistance not available; charges on interest in arrears not calculated; for some creditors interest on arrears not separated from delayed interest.	Reconcile the data with creditors; further disaggregate the data according to standard definitions.

Sudan: Core Statistical Indicators as of August 31,2003, 1/

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates (Rates of Charge)	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service 2/
Date of latest observation	08/31/03	08/14/03	07/31/03	08/14/03	08/14/03	08/14/03	08/2003	Q2/2003	Q2/2003	Q2/2003	1999	Q2/2003
Date received	08/31/03	08/29/03	08/29/03	08/29/03	08/29/03	08/29/03	08/29/03	08/2003	08/2003	08/2003	08/2003	08/2003
Frequency of Data	D	M	M	M	M	W	M/W	M	Q	M	A	A
Frequency of reporting	W	M	M	W	M	M	M	M	Q	M	A	A
Source of update	A (BOS)	A (BOS)	A (BOS)	A (BOS)	A (BOS)	A (BOS)	A (MOF)	A (BOS)	A (BOS)	A (MOF)	A (MOF)	A (BOS)
Mode of reporting	C (Fax)	C (Fax)	C/email (Fax)	C/email (Fax)	C/email (Fax)	C (Fax)	C (Fax)	C (Fax)	C/V (Fax)	C/V (Fax)	C/V (Fax)	C/V (Fax)
Confidentiality	B	B	B	B	B	B	B	B	B	B	B	B
Frequency of publication	M	M	M	M	M	M/W	M	M	Q	M	A	A

Abbreviations: Frequency: D-daily, W-weekly, M-monthly, Q-quarterly, A-annual. Mode of reporting: A-direct reporting by authorities; C-reporting by fax; V-staff visits. Confidentiality: B-for use by the staff and the Executive Board. BOS-Bank of Sudan, MOF-Ministry of Finance.

1/ (M) published monthly and (Q) quarterly in IFS; (W) weekly in BOS fact sheets. All data published annually in BOS's Annual Report.
2/ The latest external debt stock data (for end-2001) were provided by the authorities in June 2002.

Table 1. Sudan: Quantitative Quarterly Indicative Targets, 2002–03

(In billions of Sudanese dinars; unless otherwise indicated)

	Dec. 2002 Actual 2/	Cumulative Change During 2003 1/					
		1st Quarter	2nd Quarter	2nd Quarter	2nd Quarter	3rd Quarter	4th Quarter
		Prel.	Program	Program w/ adjustor	Actual	Program	Program
BOS net domestic assets 3/	225.3	0.6	18.0	8.9	-0.1	19.3	16.5
Domestic financing of the fiscal deficit 4/	...	-3.7	15.7	6.6	-0.8	20.6	20.6
Contracting or guaranteeing of external nonconcessional debt by government and BOS 5/ (in millions of U.S. dollars)	0.0	0.0	0.0	0.0	147	0.0	0.0
BOS gross usable reserves (in millions of U.S. dollars) 6/	243.6	96.0	116.0	150.8	172.3	131.0	140.0
Payments to the Fund (in millions of U.S. dollars)	...	6.000	12.750	12.750	12.750	19.875	27.000
Memorandum items:							
Broad money 3/	563.3	33.8	57.7	57.7	48.2	81.0	101.4
Central government social expenditure 7/	...	13.1	24.5	24.5	26.6	38.8	53.0
Oil saving account	10.1	18.9	23.1	...	32.2	23.1	23.1

1/ Cumulative change from end of the previous year.

2/ Outstanding stock at end-of year.

3/ Based on new presentation of the monetary data, consistent with IMF guidelines adopted in January 2000. Net BOS financing is defined as borrowing by the central government from the BOS (including GMCs) minus central government deposits at the BOS.

4/ Defined as total net borrowing by the government, including net borrowing from the Bank of Sudan (including GMCs and changes in deposits of the central government with the BOS), net sales of GMCs outside the BOS, revenues from privatization, and repayments of internal domestic debts.

5/ This indicative target applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with respect to Foreign Debt (Decision No 12274 - (00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. Debt will be deemed to be concessional when the currency-specific discount rate (determined by the market-related "commercial interest reference rates (CIRR)" as published by the OECD) applied to the contractual schedule of charges and principal payments, indicates a grant element of at least 35 percent. The indicative target excludes the financing of the Merowe hydropower project.

6/ In the new presentation of the Monetary Authorities' Accounts, gross usable reserves include foreign banknotes in the vaults of the BOS.

7/ Central government expenditure on medical care; health services; poor students' support; supplement to poor consumers of electricity; social and health insurance; water, health, and education development.

Table 2. Sudan: Structural Benchmarks for 2003

Policy Area	Status of Implementation
By end-June 2003	
1. Prepare a comprehensive program to reform the direct tax system.	Done.
2. Strengthen the fiscal reporting system with the aim of producing accurate monthly consolidated accounts within three weeks of the end of the month. Develop a weekly flash reporting system estimating key fiscal data.	Under way.
3. Establish the debt management units (external and internal).	Done.
4. Establish the monetary operations unit in the Bank of Sudan (BOS).	Done.
5. Submit to parliament anti-money laundering law.	Done.
By end-December 2003	
6. Establish a Cash Management Unit at the ministry of finance.	
7. Prepare a rolling medium-term budget in tandem with the preparation of the 2004 budget.	
8. Enhance oil sector transparency by auditing the subsidiaries of Sudan Petroleum Company and initiating an accounting system reform program.	
9. Prepare a comprehensive external debt policy statement and guidelines.	
10. Submit to parliament amendments to the BOS Law and the Law Regulating Banking Activity.	Done.
11. Complete preparations to point of sale for Bank of Khartoum.	Done.
12. Conduct a study, with Fund technical assistance, examining the introduction of a market- based mechanism for hedging agricultural finance risks, including possibly through the establishment of commodity future markets for agricultural products.	

Table 3. Sudan: Selected Economic, Financial Indicators, 2000–04

	Actual 1/		Actual	Prog.	Projections	
	2000	2001	2002	2003	2003	2004
	(Annual changes in percent)					
National income, production, and prices						
Nominal GDP (in billions of Sudanese dinars)	2,832	3,130	3,559	4,029	4,029	4,510
Real GDP growth	6.9	6.1	5.5	5.8	5.8	6.0
Real non-oil GDP growth	4.2	4.8	4.1	5.7	5.2	5.6
Average CPI inflation	8.0	4.9	8.3	7.0	7.0	6.5
12-month CPI inflation (end of period)	3.3	7.4	8.3	6.0	7.0	6.5
	(In percent of GDP)					
Investment and saving						
Gross domestic investment	18.7	18.7	19.5	21.0	20.5	22.5
Government sector	2.6	2.5	3.3	4.0	3.9	5.8
Nongovernment sector	16.1	16.2	16.2	17.0	16.6	16.7
Gross domestic saving	16.0	10.1	12.7	15.8	14.1	14.0
Government sector	3.0	2.4	3.8	5.3	6.6	5.9
Nongovernment sector	13.0	7.7	8.8	10.5	7.4	8.0
Net exports of goods and nonfactor services	-2.7	-8.6	-6.9	-5.2	-6.5	-8.5
Central government operations						
Total revenue	11.5	11.8	13.2	14.9	18.3	16.5
Total expenditure	12.4	12.8	14.1	15.7	17.6	17.5
Overall balance (cash)	-0.8	-1.0	-0.9	-0.9	0.7	-1.0
	(Changes in percent of beginning broad money stock)					
Money and credit 2/						
Net foreign assets (excluding valuation changes)	10.7	-8.6	23.2	10.5	10.5	10.5
Net domestic assets	23.9	33.3	7.2	7.5	7.5	9.5
Net domestic credit	18.6	25.9	8.7	6.0	6.0	9.5
Of which:						
Net claims on central government	2.9	9.0	-1.5	-1.3	-1.3	2.3
Claims on nongovernment sectors	15.7	16.9	10.2	7.4	7.4	7.2
Other items (net)	5.4	7.4	-1.5	1.5	1.5	0.0
Broad money	34.6	24.7	30.3	18.0	18.0	20.0
Reserve money (change in percent)	35.3	3.7	22.0	16.2	16.2	13.9
Velocity (average)	9.2	7.7	7.0	6.5	6.5	6.1
	(In millions of U.S. dollars; unless otherwise indicated)					
External sector						
Exports, f.o.b.	1,864	1,699	1,948	2,324	2,449	2,654
Imports, f.o.b	-1,553	-2,031	-2,153	-2,323	-2,476	-2,637
External current account balance 3/	-632	-1,289	-919	-1,098	-1,084	-970
In percent of GDP	-5.7	-10.7	-6.8	-7.2	-7.1	-5.9
Terms of trade (non-oil exports/non-oil imports)	-0.7	-3.0	-3.6	3.8	2.3	-1.3
Real effective exchange rate (eop, change in percent) 4/	9.4	8.0	-2.0	...	...	...
Official exchange rate (end of period, SD/US$)	257.3	261.4	262.4	...	...	...
Total external debt service (percent of current receipts)						
Commitment basis	53.7	38.4	24.2	28.7	26.3	30.3
Actual payments	4.6	5.1	3.9	6.1	7.3	8.9
External debt (billions of US$) 5/	20.0	20.9	23.5	21.6	24.2	25.1
BOS gross usable reserves (millions of US$)	135.0	44.9	243.6	383.6	383.6	523.6
In months of next year's imports	0.7	0.2	1.0	1.7	1.5	2.0
Crude oil export price (US$ per barrel)	27.8	21.5	23.0	24.5	25.5	23.5

Table 3. Sudan: Selected Economic, Financial, and Social Indicators, 2000–04 (concluded)

		Sudan						Average for Sub-Saharan Africa	
	Units	1996	1997	1998	1999	2000	2001	1997	2001
Demographic indicators									
Population	Millions	27.9	28.7	29.4	30.3	31.1	31.7	...	673.9
Aged 0-14	Percent of total	44.1	44.1	44.1	43.7	40.1	40.1	44.5	44.0
Aged 15-64	Percent of total	53.5	53.5	53.5	53.9	56.4	56.8	52.3	53.0
Aged 65 and above	Percent of total	2.4	2.4	2.4	2.4	3.4	3.5	2.9	3.0
Population growth	Percent, 1993-98 average	2.7	2.7	2.6	2.6	2.2	2.3	2.8	2.3
Population gender balance	men/women	101	101	101	101	101	101	...	98
Age dependency	Ratio 6/	79.3	78.7	78.2	77.7	77.2	76.7	90	88.4
Urban population	Percent of total	30.1	30.3	30.6	33.1	36.1	37.0	32.3	32.3
Social indicators									
Total labor force	Millions	11.2	11.5	11.8	12.1	12.4	12.7	...	297.9
Male	Percent of total labor force	71.5	71.2	71.0	70.7	70.5	70.3	57.8	58.0
Female	Percent of total labor force	28.5	28.8	29.0	29.3	29.5	29.8	42.2	42.0
Participation rate	Percent	68.9	68.4	68.2	67.2	66.6	66.9	...	79.1
Population per physician	Number	9.1	12	15.1	...	...	...	...	...
Population per nurse	Number	58.1	56.7	59.3	...	...	...	...	...
Life expectancy at birth	Years	55.3	55.7	56.1	56.5			50.8	
Male	Years	53.8	54.2	54.6	55	56.0	56.5	49.4	45.4
North	Years	54.8	55.3	55.7	56.1	...		...	...
South	Years	47.2	47.6	48	48.4	...		...	...
Female	Years	56.7	57.1	57.5	57.9	59	59.4	52.3	47.0
North	Years	57.9	58.3	58.7	59.1	...		...	...
South	Years	49.9	50.3	50.7	51.2	...		...	...
Infant mortality rate	Per 1,000 live births	...	71.0	...	...	68.0	65.0	91.4	105.4
Access to safe water 7/	Percent	60.0	...	...	...	...	...	...	...
Urban	Percent	84.0	...	...	...	...	...	...	...
Rural	Percent	41.0	...	...	...	...	...	...	...
Immunization rate	Percent under 12 months	80.3	94.0	...	...	...	...	...	...
Measles	Percent under 12 months	75.0	92.0	63.2	...	47.0	67.0	57.9	57.8
DPT	Percent under 12 months	80.0	79.0	87.5	...	...	46.0	52.6	52.9
Education indicators									
Adult literacy rate	Percent	53.5	...	57.2	...	57.7	58.8	58.3	62.3
Male	Percent	67.1	...	67.3	...	69.2	70.0	66.5	70.5
Female	Percent	39.8	...	47.1	...	46.2	47.7	50.4	54.3
Pupils reaching grade 6	Percent of total	...	...	...	...			...	
Primary education									
Pupils	Thousands	2864	...	2977	...	...	...	...	...
	Percent female	45.1	...	46.0	...	...	...	...	...
Teachers	Thousands	94	...	103	...	...	...	...	...
	Percent female	60.0	...	71.3	...	...	...	...	...
Ratio of pupils to teacher		31	...	31	...	...	...	41 8/	...
Secondary education									
Pupils	Thousands	341	...	642	...	...	...	...	...
	Percent female	46.3	...	...	...	...	...	...	...
Teachers	Thousands	12	...	14	...	...	...	...	...
	Percent female	44.3	...	...	...	...	...	...	...

Sources: Fund staff estimates and projections based on information provided by the Sudanese authorities; Central Bureau of Statistics, Ministry of Finance and National Economy; and World Bank's World Development Indicators.

1/ National accounts data for 2000-2002 are staff estimates.

2/ Definition of broad money in 2001 is based on the new presentation of monetary aggregates, adopted in January 2000.

3/ Excluding public interest due and public transfers.

4/ Since the beginning of the fiscal year.

5/ The stock of external debt shows a large increase from end-2001 to end-2002 largely as a result of the reconciliation of the debt figures carried out by the authorities with most of the creditors. The increase include both stock adjustments and corrections in the calculation of late interest.

6/ Population under the age of 15 and over the age of 65 as a share of the total working age population.

7/ 1995 data.

8/ 1994 data.

Table 4. Sudan: Summary Balance of Payments, 2000–2004

	2000	2001	2002	Prog. 2003 H1	H1 2003	Prog. 2003	Proj. 2003	Proj. 2004
	(In millions of U.S. dollars)							
Current account balance	-1,840	-2,116	-1,473	-770	-914	-1,602	-1,689	-1,781
(Cash basis)	-632	-1,289	-919	-502	-616	-1,065	-1,084	-970
Trade balance	230	-332	-205	123	26	0	-26	17
Exports, f.o.b.	1,864	1,699	1,948	1,173	1,202	2,324	2,449	2,654
Crude oil	1,298	1,268	1,397	797	943	1,694	1,890	2,018
Petroleum products	110	109	114	52	46	116	90	132
Non-oil products	456	322	437	324	213	514	470	504
Imports, f.o.b. 1/	-1,634	-2,031	-2,153	-1,050	-1,176	-2,323	-2,476	-2,637
Foodstuffs	-340	-416	-441	-195	-187	-506	-547	-523
Petroleum products	-108	-130	-131	-49	-84	-139	-61	-91
Other	-1,187	-1,484	-1,581	-807	-906	-1,678	-1,868	-2,023
Services (net)	-527	-714	-724	-479	-479	-796	-766	-873
Receipts	28	15	47	31	11	52	52	54
Payments	-555	-729	-771	-419	-491	-848	-818	-927
Of which: oil transportation costs	-251	-367	-439	-227	-217	-453	-433	-534
Income (net)	-1,887	-1,443	-1,210	-677	-764	-1,397	-1,445	-1,489
Receipts	5	18	19	5	4	19	19	26
Payments	-1,269	-892	-599	-310	-330	-637	-671	-870
Of which: public interest due 2/	-1,253	-880	-583	-314	-330	-627	-661	-860
Oil related expenses 3/	-623	-568	-631	-372	-437	-778	-793	-645
Current transfers (net)	344	373	666	263	304	590	548	566
Private transfers	315	366	634	198	244	557	489	516
Public transfers	29	6	32	65	59	33	59	50
Capital account	21	2	2	0	0	0	0	0
Financial account (net)	3	522	556	574	597	1,092	964	901
Disbursements	41	22	30	62	8	144	145	207
Amortization	-265	-157	-166	-108	-130	-215	-260	-280
Short-term capital flows (net) 4/	117	120	222	59	8	129	100	105
Commercial banks NFA (increase -)	-18	-37	-163	-13	64	-34	-34	0
FDI and portfolio (net)	128	574	633	574	648	1,068	1,014	869
Errors and omissions	594	712	482	0	111	0	177	0
Overall Balance	-1,223	-881	-433	-196	-205	-511	-548	-880
Change in official reserves (increase -)	-109	0	-244	-136	-149	-153	-153	-153
IMF (net)	-28	-24	-8	-6	-4	-13	-13	-13
Total payments to the Fund	-63	-55	-24	-13	-12	-27	-27	...
Change in arrears on charges	35	31	16	7	7	14	14	...
Other	-82	24	-236	-130	-145	-140	-140	-140
Exceptional financing	1,332	881	677	331	354	663	700	28
Change in non-Fund arrears	1,332	881	636	331	337	648	677	0
Privatization receipts	0	0	41	0	17	15	23	28
Financing gap	0	0	0	0	0	0	0	1,004

Table 4. Sudan: Summary Balance of Payments, 2000–2004

	2000	2001	2002	Prog. 2003 H1	H1 2003	Prog. 2003	Proj. 2003	Proj. 2004
				(In percent of GDP)				
Memorandum items:								
Current account	-16.7	-17.5	-10.9	-10.1	-12.0	-10.5	-11.1	-10.8
(Cash basis)	-5.7	-10.7	-6.8	-6.6	-8.1	-7.2	-7.1	-5.9
Gross usable reserves (US$ million)	134.9	44.9	243.6	410.0	415.8	383.6	383.6	523.6
(In months of next year's imports)	0.7	0.2	1.0	1.6	1.8	1.7	1.5	2.0
				(Percent change)				
Exports (value)	139.0	-8.9	14.7	22.4	25.4	20.6	25.7	8.3
Non-oil export (value)	-9.6	-29.3	35.7	52.0	-14.7	17.5	7.4	7.3
Non-oil export (volume)	-5.8	-23.0	39.8	...	...	5.0	-4.7	6.8
Imports (value)	8.9	24.3	6.0	16.1	30.1	7.9	15.0	6.5
Import volume	1.8	34.6	4.0	...	...	0.9	3.2	9.0
Import volume (excludes imports of petroleum products)	18.8	31.6	5.6	...	...	0.2	7.9	3.8
Terms of trade (non-oil X/non-oil M)	-0.7	-3.0	-3.6	...	...	3.8	2.3	-1.3
Nominal GDP (in millions of U.S. dollars)	11,013	12,097	13,514	15,203	15,203	15,200	15,203	16,523

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

1/ Import figures were revised up to reflect improved coverage.
2/ Includes estimates of late interest accrued during the year and Fund special charges.
3/ Includes payments to oil companies related to profit sharing arrangements.
4/ Net short-term trade and other credit facilities of the Bank of Sudan and commercial banks.
5/ Total imports excluding oil-pipeline related imports.

Table 5. Sudan: Central Government Operations, 2000–04

	Actual			Program	Projections	
	2000	2001	2002	2003	2003	2004
	(In billions of Sudanese dinars)					
Total revenues	326.3	370.0	470.7	598.5	736.4	732.0
Tax revenue	157.4	188.7	213.4	260.9	252.1	259.8
Direct taxes	37.4	41.5	41.2	46.6	44.4	49.5
Indirect taxes	120.0	147.2	172.2	214.3	207.7	210.3
Taxes on international transactions	69.6	77.1	97.6	103.8	102.2	92.8
Excise duties	34.3	32.5	33.2	48.5	49.5	55.1
VAT	16.1	37.7	41.4	62.0	56.0	62.4
Nontax revenue	169.0	181.3	257.2	337.6	484.3	472.3
Departmental fees	9.2	10.3	13.0	18.4	11.7	13.0
National revenues	159.7	171.0	244.2	319.2	472.7	459.3
Non-oil	18.9	21.3	33.5	50.6	43.5	48.4
Oil	140.9	149.7	210.7	268.6	429.2	410.9
Crude oil	...	148.9	182.9	241.8	402.4	374.9
Of which: OSA	...	...	10.1	23.1	48.4	7.7
Profits from sales of petroleum products	...	0.8	27.7	26.8	26.8	36.0
Total expenditure	349.9	401.1	503.4	634.3	710.0	777.1
Current expenditure	275.4	322.5	384.8	472.9	552.4	534.0
Chapter one (wages and salaries)	105.9	131.6	165.1	196.5	196.6	237.4
Chapter two (other current spending)	142.8	165.9	186.8	219.3	302.8	226.3
Debt service paid	34.6	26.2	51.1	65.2	86.1	37.5
Goods and services	53.3	48.8	50.5	53.0	52.0	54.6
General reserve	36.8	59.5	50.4	45.7	100.3	62.5
Other	18.0	31.3	34.8	55.5	64.3	71.7
Chapter three (current transfers to states)	26.8	25.0	32.9	57.1	53.0	70.3
Capital expenditure	74.5	78.7	118.6	161.4	157.6	243.1
Domestically financed	67.1	73.3	108.9	123.0	147.6	204.0
Foreign-financed	7.4	5.4	9.6	38.4	10.0	39.1
Overall deficit (cash basis)	-23.6	-31.2	-32.7	-35.8	26.4	-45.1
Financing	23.6	31.2	32.7	35.8	-26.4	45.1
Foreign financing	11.7	5.4	9.6	38.4	10.0	23.1
Domestic financing	8.3	39.3	8.4	-2.6	-36.4	22.0
BOS	6.1	28.8	-22.0	-13.1	-38.4	1.8
GMCs (net)	1.2	20.1	-17.4	3.3	3.3	5.5
Temparory advances	8.2	10.0	12.9	6.7	6.7	4.0
Deposits	-3.3	-1.3	-17.6	-23.1	-48.4	-7.7
OSA			-10.1	-23.1	-48.4	-7.7
Other deposits						
DMBs	1.2	2.4	15.5	5.5	5.5	5.5
Advances	0.0	0.0	0.1	0.0	5.5	0.0
GMCs (net)	4.0	3.2	13.4	5.5	0.0	5.5
Deposits	-2.8	-0.7	2.0	0.0	0.0	0.0
Nonbanks	1.0	12.7	12.2	8.0	8.0	8.0
Domestic arrear repayments	...	-7.0	-8.4	-9.0	-18.2	-15.0
Privatization	...	2.5	11.1	6.0	6.7	8.0
Floats and discrepancies	3.6	-13.6	13.9	0.0	0.0	0.0

Table 5. Sudan: Central Government Operations, 2000–04 (concluded)

	Actual			Program	Projections	
	2000	2001	2002	2003	2003	2004
Memorandum items:						
Non-oil revenue	185.5	221.1	287.7	356.7	334.0	357.1
Crude oil revenue (exclude the OSA)	140.9	148.9	172.9	218.7	354.0	367.2
Non-oil domestic deficit	-164.4	-180.1	-206.0	-239.2	-366.1	-380.8
Domestic financing excluding OSA	8.3	39.3	18.4	20.5	12.0	29.7
Nominal GDP (at factor cost)	2,832	3,130	3,559	4,029	4,029	4,510
	(In percent of GDP)					
Total revenues	11.5	11.8	13.2	14.9	18.3	16.5
Tax revenue	5.6	6.0	6.0	6.5	6.3	5.9
Direct taxes	1.3	1.3	1.2	1.2	1.1	1.1
Indirect taxes	4.2	4.7	4.8	5.3	5.2	4.7
Taxes on international transactions	2.5	2.5	2.7	2.6	2.5	2.1
Excise duties	1.2	1.0	0.9	1.2	1.2	1.2
VAT	0.6	1.2	1.2	1.5	1.4	1.4
Nontax revenue	6.0	5.8	7.2	8.4	12.0	10.6
Departmental fees	0.3	0.3	0.4	0.5	0.3	0.3
National revenues	5.6	5.5	6.9	7.9	11.7	10.3
Non-oil	0.7	0.7	0.9	1.3	1.1	1.1
Oil	5.0	4.8	5.9	6.7	10.7	9.3
Of which: export	...	...	2.4	3.7	7.7	6.1
Total expenditure	12.4	12.8	14.1	15.7	17.6	17.5
Current expenditure	9.7	10.3	10.8	11.7	13.7	12.0
Chapter one (wages and salaries)	3.7	4.2	4.6	4.9	4.9	5.3
Chapter two (other current spending)	5.0	5.3	5.2	5.4	7.5	5.1
Debt service paid	1.2	0.8	1.4	1.6	2.1	0.8
Goods and services	1.9	1.6	1.4	1.3	1.3	1.2
General reserve	1.3	1.9	1.4	1.1	2.5	1.4
Other	0.6	1.0	1.0	1.4	1.6	1.6
Chapter three (current transfers to states)	0.9	0.8	0.9	1.4	1.3	1.6
Capital expenditure	2.6	2.5	3.3	4.0	3.9	5.5
Domestically financed	2.4	2.3	3.1	3.1	3.7	4.6
Foreign-financed	0.3	0.2	0.3	1.0	0.2	0.9
Overall deficit (cash basis)	-0.8	-1.0	-0.9	-0.9	0.7	-1.0
Financing	0.8	1.0	0.9	0.9	-0.7	1.0
Foreign financing	0.4	0.2	0.3	1.0	0.2	0.5
Domestic financing	0.3	1.3	0.2	-0.1	-0.9	0.5
BOS	0.2	0.9	-0.6	...	...	...
DMBs	0.0	0.1	0.4	...	...	...
Nonbanks	0.0	0.4	0.3	...	...	...
Domestic arrear repayments	...	-0.2	-0.2	...	...	...
Privatization	...	0.1	0.3	0.1	0.2	0.2
Floats and discrepancies	0.1	-0.4	0.4	0.0	0.0	0.0
Memorandum items:						
Non-oil revenue	6.5	7.1	8.1	8.9	8.3	8.0
Crude oil revenue (exclude the OSA)	5.0	4.8	4.9	5.4	8.8	8.3
Non-oil domestic deficit	-5.8	-5.8	-5.8	-5.9	-9.1	-8.6
Domestic financing excluding OSA	...	...	0.5	0.5	0.3	0.7

Sources: Fund staff estimates and projections based on information provided by the Sudanese authorities.

Table 6. Sudan: Monetary Survey, 2000–04 1/

	Actual								Prog.	Estimate	Prog.		Proj.
	Dec. 2000	Dec. 2001	Jun. 2002	Aug. 2002	Sep. 2002	Dec. 2002	Mar. 2003	Jun. 2003	Jun. 2003	Aug. 2003	Sep. 2003	Dec. 2003	Dec. 2004
	(In billions of Sudanese dinars)												
Net foreign assets	-677.5	-696.5	-685.5	-661.3	-652.7	-627.0	-620.2	-606.7	-595.0	-581.1	-588.0	-567.6	-520.5
Bank of Sudan	-747.3	-777.1	-781.3	-764.9	-764.4	-741.2	-722.8	-706.7	-710.4	-681.9	-706.4	-689.1	-647.4
Commercial banks	69.8	80.6	95.8	103.7	111.7	114.2	102.6	100.0	115.4	100.8	118.4	121.4	126.9
Counterpart to valuation changes 2/	777.0	766.1	797.1	797.4	796.3	796.8	796.6	801.7	796.6	801.7	796.6	796.6	819.4
Net foreign assets (excluding valuation adjustment)	99.5	69.7	111.6	136.1	143.7	169.9	176.5	195.0	201.6	220.6	208.5	228.9	298.9
Net domestic assets	247.1	362.5	389.1	390.2	388.7	393.4	415.9	416.5	419.4	438.9	435.8	435.7	498.7
Net domestic credit	202.5	292.2	312.8	314.6	326.2	329.7	325.3	331.6	347.3	353.8	363.6	363.6	426.6
Net claims on central government	106.1	137.3	142.9	141.0	150.0	130.8	117.7	97.9	124.2	103.9	128.7	123.2	138.2
Bank of Sudan	108.2	137.0	138.8	133.1	139.5	115.0	103.6	77.7	104.4	83.6	106.9	101.9	111.4
Commercial banks	-2.1	0.3	4.1	7.9	10.5	15.8	14.1	20.2	19.8	20.3	21.8	21.3	26.8
Claims on nongovernment sectors	96.4	154.9	169.9	173.6	176.2	198.9	207.6	233.7	223.1	249.9	234.9	240.4	288.4
Other items (net)	44.7	70.3	76.3	75.6	62.5	63.7	90.5	84.9	72.2	85.1	72.2	72.2	72.1
Broad money	346.7	432.2	500.7	526.3	532.4	563.3	592.3	611.5	621.0	659.5	644.3	664.7	797.6
Currency outside banks	142.1	153.8	163.8	174.1	172.6	193.6	198.2	193.8	209.2	210.9	218.8	233.3	268.0
Deposits	204.6	278.4	336.9	352.3	359.7	369.7	394.1	417.6	411.8	448.6	425.5	431.4	529.6
Memorandum items:													
Reserve money (in billions of Sudanese dinars)	221.5	229.8	259.5	267.9	259.3	280.3	289.9	286.8	305.9	317.5	311.3	325.8	371.0
Reserve money (annual percentage change)	35.3	3.7	20.8	21.0	19.1	22.0	16.5	10.5	17.9	18.5	20.0	16.2	13.9
Broad money (annual percentage change)	34.6	24.7	21.6	22.2	25.5	30.3	24.8	22.1	24.0	25.3	21.0	18.0	20.0
Excess reserves to reserve money (in percent)	18.2	16.5	17.7	17.5	16.0	14.2	13.6	14.4	11.9	14.0	11.2	10.5	9.1
Broad money multiplier	1.56	1.88	1.93	1.96	2.05	2.01	2.04	2.13	2.03	2.08	2.07	2.04	2.15
Velocity (average)	9.2	7.7	…	…	…	7.0	…	…	…	…	…	6.5	6.1
Usable international reserves/broad money (in percen	10.0	2.7	5.1	8.8	8.9	11.3	15.1	17.7	15.3	17.9	15.4	15.3	17.4
Usable international reserves (in million of US$)	135	45	96.3	175.1	179.6	243.6	342.2	415.8	360	454	375	384	524

Sources: Sudanese authorities; and Fund staff estimates.

1/ Revised presentation, consistent with the IMF guidelines, adopted in January 2000.

2/ In 2003, calculated using the exchange rate projected for end-December.

Table 7. Sudan: Monetary Authorities' Accounts, 2000–04 1/

	Actual	Actual	Actual			Actual	Actual	Actual	Prog.	Estimate	Prog.	Prog.	Proj.
	Dec-00	Dec-01	Jun-02	Aug-02	Sep-02	Dec-02	Mar-03	Jun-03	Jun-03	14-Aug-03	Sep-03	Dec-03	Dec-04
	(In billions of Sudanese dinars)												
Net foreign assets	-747.3	-777.1	-781.3	-764.9	-764.4	-741.2	-722.8	-706.7	-710.4	-681.9	-706.4	-689.1	-647.4
Foreign assets	73.1	41.2	66.3	89.1	85.2	119.8	134.7	157.6	150.5	182.4	154.5	171.9	210.0
Foreign liabilities	820.4	818.3	847.6	854.0	849.5	861.0	857.5	864.3	861.0	864.3	861.0	861.0	857.4
Counterpart to valuation changes	776.2	766.0	795.6	796.0	794.9	796.1	795.6	800.4	796.1	800.4	796.1	796.1	819.0
Net domestic assets	192.6	240.8	245.2	236.8	228.8	225.3	217.1	193.0	220.2	199.0	221.6	218.7	199.4
Net domestic credit	133.1	163.8	163.7	154.7	160.8	137.1	130.4	109.5	139.0	115.4	140.4	132.5	113.2
Net claims on central government	108.2	137.0	138.8	133.1	139.5	115.0	103.6	77.7	104.4	83.6	106.9	101.9	111.4
Claims	116.7	146.7	154.5	157.1	158.1	142.2	148.4	146.3	154.8	156.0	157.3	152.3	164.2
Temporary advances	8.0	18.0	29.7	31.7	34.2	30.9	34.2	32.8	36.3	42.6	40.3	37.6	43.5
GMCs	1.2	21.3	17.3	17.9	16.5	3.9	6.8	6.1	11.0	5.9	9.5	7.3	13.3
Long-term claims	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5
Deposits	8.4	9.7	15.6	23.9	18.6	27.3	44.8	68.6	50.4	72.4	50.4	50.4	52.8
Of which: OSA	...	...	...	...	4.4	10.1	18.9	42.3	33.2	46.1	33.2	33.2	42.8
BOS claims on public enterprises	17.1	14.8	8.6	6.6	6.1	5.7	5.7	8.6	17.7	8.6	16.5	14.7	-9.0
BOS claims on banks	8.8	12.6	18.0	17.3	18.4	17.1	23.7	30.1	17.0	30.1	17.0	16.0	17.6
Money market instruments (CMCs)	-1.1	-0.6	-1.7	-2.3	-3.3	-0.8	-2.7	-6.8	0.0	-6.8	0.0	0.0	-6.8
Other items (net)	59.5	77.0	81.5	82.1	68.0	88.2	86.7	83.6	81.2	83.6	81.2	86.2	86.2
Reserve money	221.5	229.8	259.5	267.9	259.3	280.3	289.9	286.8	305.9	317.5	311.3	325.8	371.0
Currency outside banks	142.1	153.8	163.8	174.1	172.6	193.6	198.2	193.9	209.2	210.9	218.8	233.3	268.0
Reserves of commercial banks	65.7	64.7	75.2	78.1	74.0	75.0	75.3	80.1	77.6	84.5	77.3	77.4	86.8
Required reserves 1/	25.5	26.8	29.3	31.2	32.4	35.2	36.0	38.9	41.2	39.9	42.5	43.1	53.0
Excess reserves	40.3	37.9	45.9	46.8	41.5	39.8	39.3	41.3	36.4	44.6	34.7	34.2	33.9
Deposits at BOS included in broad money	13.7	11.3	20.4	15.8	12.7	11.7	16.4	12.7	19.1	22.1	15.1	15.1	16.1

Sources: Sudanese authorities and Fund staff estimates.

1/ Revised presentation, consistent with IMF guidelines, adopted in January 2000.
2/ In 2002 calculated using the program exchange rate of SD 262.4 per US$.

Table 8. Sudan: Medium-Term Macroeconomic Scenario, 2000–08

	Actual 1/			Projections					
	2000	2001	2002	2003	2004	2005	2006	2007	2008
				(Change in percent)					
Production and prices									
Nominal GDP (SD billions)	2,832	3,130	3,559	4,029	4,510	4,997	5,561	6,220	6,981
Real GDP	6.9	6.1	5.5	5.8	6.0	6.5	6.7	7.0	7.0
Non-oil	4.2	4.8	4.1	5.2	5.6	6.2	6.5	7.3	7.2
Oil	215.2	23.7	24.7	13.8	10.0	10.0	10.0	3.0	3.0
Inflation (period average)	8.0	4.9	8.3	7.0	6.5	6.0	5.5	5.0	5.0
				(In percent of GDP)					
Investment and saving									
Gross domestic investment	18.7	18.7	19.5	20.5	22.5	23.5	23.9	23.6	22.8
Government sector	2.6	2.5	3.3	3.9	5.8	6.7	6.9	6.6	5.8
Nongovernment sector	16.1	16.2	16.2	16.6	16.7	16.8	17.0	17.0	17.0
Non-oil sector	13.3	13.8	14.0	14.4	14.7	14.8	15.0	15.0	15.0
Oil sector	2.8	2.4	2.2	2.2	2.0	2.0	2.0	2.0	2.0
Gross domestic saving	16.0	10.1	12.7	14.3	14.2	14.2	14.1	14.2	14.2
Government sector	3.0	2.4	3.8	6.6	5.9	6.0	5.8	5.2	4.8
Nongovernment sector	13.0	7.7	8.8	7.7	8.3	8.2	8.3	9.0	9.4
Net exports of goods and nonfactor services	-2.7	-8.6	-6.9	-6.5	-8.5	-9.5	-10.1	-9.5	-8.8
Central government operations									
Total revenue	11.5	11.8	13.2	18.3	16.5	17.4	16.6	15.6	14.9
Oil revenue	5.0	4.8	4.9	10.7	8.3	8.8	8.0	7.2	6.6
Nonoil revenue	6.5	7.0	8.3	8.3	8.0	9.4	9.2	9.0	8.8
Total expenditure	12.4	12.8	14.1	17.6	17.5	19.9	20.5	20.0	18.6
Current expenditures	9.7	10.3	10.8	13.7	13.1	12.6	11.9	11.3	10.7
Capital expenditure	2.6	2.5	3.3	3.9	6.6	7.7	9.6	8.7	7.9
Overall deficit (cash basis)	-0.8	-1.0	-0.9	0.7	-1.0	-2.5	-4.9	-4.4	-3.7
Foreign financing	0.4	0.2	0.3	1.0	0.3	1.7	4.1	3.5	2.9
Domestic financing	0.4	1.3	0.2	-0.1	0.7	0.8	0.8	0.9	0.8
External sector									
Current account on a cash basis (in % of GDP)	-5.7	-10.7	-6.8	-7.1	-5.9	-6.1	-6.2	-6.0	-5.9
External trade balance	2.1	-2.7	-1.5	-0.2	0.1	-0.3	-0.8	-1.0	-1.3
Exports	16.9	14.0	14.4	16.1	16.1	15.3	14.4	13.8	13.2
Imports	-14.8	-16.8	-15.9	-16.3	-16.0	-15.5	-15.2	-14.8	-14.5
Gross official reserves (months of imports)	0.7	0.2	1.0	1.5	2.0	2.5	2.9	3.3	3.9
Export volume (change in percent) 2/	-5.8	-23.0	39.8	-4.7	6.8	7.1	7.3	7.4	7.4
Import volume (change in percent) 2/	19.8	31.6	5.7	8.4	3.7	2.9	3.6	3.9	4.7
Terms of trade (change in percent) 2/	-0.7	-3.0	-3.6	2.3	-1.3	-1.0	-1.1	-0.6	-0.4
Memorandum item:									
Crude oil export price (US$ per barrel)	27.8	21.5	23.0	25.5	23.5	21.5	20.0	19.5	19.5

Source: Fund staff estimates and projections based on information provided by the Sudanese authorities.

1/ National accounts data for 2000-02 are staff estimates.

2/ Nonoil transactions.

Table 9. Sudan: Indicators of Debt Service Capacity, 2000–2003

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

	2000	2001	2002	Proj. 2003
Total debt service paid	158	160	137	270
Payments to the Fund	57	55	26	27
Charges and interest falling due	33	27	17	14
Charges settled	3	3	3	3
Reduction in overdue obligations	54	52	23	24
Overdue obligations to the Fund	1,451	1,371	1,475	1,462
Total debt service paid, in percent of:				
Exports of goods and nonfactor services	8.4	9.3	6.9	10.8
Net current receipts 1/	13.3	13.7	12.1	17.2
Gross official reserves	117	357	56	70
GDP	1.4	1.3	1.0	1.8
Payments to the Fund, in percent of:				
Exports of goods and nonfactor services	3.0	3.2	1.3	1.1
Net current receipts 1/	4.8	4.7	2.3	1.7
Gross official reserves	42.0	122.4	10.5	7.0
GDP	0.5	0.5	0.2	0.2
Quota 2/	25.6	25.8	11.1	11.4
External debt service	35.8	34.3	18.8	10.0
Overdue obligations to the Fund, in percent of:				
Exports of goods and nonfactor services	77	80	74	58
Net current receipts 1/	122	117	131	93
Gross official reserves	1,076	3,056	606	381
GDP	13.2	11.3	10.9	9.6
Quota 2/	855	808	869	862
External debt 3/	7.3	6.5	6.3	6.0
Memorandum items:				
Exports of goods and non factors services	1,891	1,713	1,995	2,501
Net current receipts 1/	1,187	1,169	1,128	1,569
Gross official reserves	135	45	244	384
In months of imports of next year's imports	0.7	0.2	1.0	1.5
GDP	11,013	12,097	13,514	15,203
Quota (in millions of SDRs) 2/	169.7	169.7	169.7	169.7
External debt (including arrears) 3/	19,974	20,948	23,470	24,183
Exchange rate (U.S. dollar/ SDR, end of period)	1.3029	1.2567	1.3595	...

Source: Fund staff estimates.

1/ Current receipts adjusted for oil related payments for services and transfers to foreign investors, and net of change in reserves.

2/ As percent of Eigth Review Quota.

3/ The stock of (late) interest payments in arrears and the projection of late interest payments were revised downward as a result of reconciliation of debt stock as per end-2001.

Table 10. External Financing Requirements and Sources, 2000–2004

(In billions of U.S. dollars)

	Actual			Proj.	Proj.
	2000	2001	2002	2003	2004
Gross financing requirements	2,241	2,271	1,915	2,161	2,264
External current account deficit (excl. official transfers)	1,869	2,122	1,505	1,749	1,831
Debt amortization	263	149	166	260	280
Medium and long term debt	263	149	166	260	280
Public sector	172	98	166	260	280
Multilateral 1/	54	55	57	53	54
Bilateral	118	43	109	207	226
Commercial Banks	0	0	0	0	0
Private sector	91	51	0	0	0
Short-term debt 2/	0	0	0	0	0
Repayment of arrears	0	0	0	0	0
Gross reserves accumulation	82	-24	236	140	140
IMF repurchases and repayments (net)	28	24	8	13	13
Expected financing	2,241	2,271	1,915	2,161	2,263
Official transfers and grants	50	8	34	59	50
Debt financing	41	22	30	145	207
Official creditors	41	22	30	145	207
Multilateral	23	22	17	103	107
Bilateral	17	0	13	42	100
Foreign direct investment, and errors and omissions	722	1,286	1,156	1,214	897
IMF purchases and disbursements	0	0	0	0	0
Accumulation of arrears (exceptional)	1,332	881	636	677	0
Other flows 3/	97	75	59	66	105
Financing gap	0	0	0	0	1,004

Source: Fund staff estimates.

1/ Excluding the IMF.

2/ Original maturity of less than 1 year. Stock at the end of the previous period.

3/ Includes all other net financial flows.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 03/145
FOR IMMEDIATE RELEASE
December 19, 2003

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2003 Article IV Consultation with Sudan

On October 31, 2003, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sudan.[1]

Background

Sudan has been cooperating with the IMF under successive Staff-Monitored Programs (SMPs) since 1997 and substantial progress has been achieved in stabilizing and restructuring the economy. The recent progress on peace negations could pave the way for a resolution to the conflict in the South, which together with the progress achieved on the economic front, could accelerate growth and economic development in Sudan and lead to a normalization of the relations with international financial institutions.

Sudan adopted in 2002 and 2003 a strengthened economic reform program to consolidate macroeconomic stability, reinforce the reform momentum, and modernize the macroeconomic management regime. Under this program, Sudan switched to indirect monetary management and broad money targeting, introduced a managed-float exchange rate system, and began strengthening the fiscal regime (including the new focus on non-oil balances, the establishment of the Oil-revenue Savings Account, or OSA, and the move to medium-term budgeting). These reforms have helped reinforce economic stability.

Real GDP growth in 2002 slowed slightly from about 6 percent in 2001 to 5.5 percent in 2002, because of delayed rainfalls that adversely affected agriculture production as well as infrastructure bottlenecks (in power generation, in particular) that reduced the manufacturing

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

sector's productivity. Real GDP growth in 2003 is expected to rise to at least 5.8 percent led by a pickup in non-oil GDP growth. Oil sector growth, however, is expected to slow down to 13.8 percent in 2003, compared with 24.7 percent in 2002. Inflation rose to 8.6 percent in 2002, reflecting expansionary policies in early 2002 and large inflow of foreign exchange in the second half of the year. Inflation, however, declined to 7.6 percent at end-June 2003, and is expected to be in line with the program target of 7 percent. The external current account deficit declined to 6.8 percent of GDP in 2002 from 10.7 percent in 2001, but increased in the first half of 2003 to 7.7 percent of GDP, reflecting a surge in imports (mostly machinery and transport equipment) and services, and income payments. Large private inflows, including foreign direct investments, continued to finance the current account deficit. Usable international reserves reached US$415 million at end-June (1.8 months of imports), compared with US$243 million at end-2002, and US$45 million at end-2001.

Sudan continues to maintain a low fiscal deficit that was kept at 0.9 percent of GDP in 2002, the same ratio targeted for 2003 (compared to the average of 0.8 percent of GDP for the period from 1997 to 2001). This was achieved by measures to contain expenditures and aided by rising oil revenues. Steps are being implemented to strengthen tax revenue, including reducing tax exemptions and reforming the direct tax system. Progress has been modest thus far and additional steps are envisaged. In mid-2002, the OSA was established to save oil revenue arising from oil market prices above the price benchmark in the budget. The savings will be used to stabilize expenditures in the event of falling prices.

Broad money growth accelerated in the second half of 2002 because of a sharp increase in private capital inflows, reaching 30.3 percent by the end of the year. Concerted efforts by the Bank of Sudan (BOS) in late 2002 and early 2003 reduced the 12-month rate growth of broad money to 22 percent by mid-2003. These actions included open market operations in securities and, to a lesser extent, in foreign exchange to mop up liquidity, and were aided by the government repayment of part of its loans borrowed from the BOS and the continued saving of oil revenue in the OSA. Banking soundness indicators are broadly improving along the trend of past few years, although the ratio of nonperforming loans to total loans has risen somewhat in 2003.

Sudan maintains a relatively open trade regime with few nontariff trade barriers and a simple average tariff rate of 22.7 percent (after the elimination of the defense tax on imports in early 2003). Overall, the openness of the trade regime in Sudan compares favorably with that of the advanced economies. Furthermore, progress is being achieved with regard to Sudan's application for World Trade Organization accession and the authorities expect to conclude negotiations in five years. Finally, Sudan accepted on October 8, 2003, the obligations under Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement, indicating that the exchange system shall be free from restrictions relating to current account transactions.

Executive Board Assessment

Executive Directors commended the Sudanese authorities for the recent progress achieved in macroeconomic stabilization and economic reforms, which has contributed to reasonably strong, broad-based growth while containing inflation. They welcomed in particular the introduction of the managed-float exchange rate regime, the strengthening of revenue and expenditure management, and the acceleration of the privatization program. A key challenge will be to reduce the still considerable vulnerabilities facing Sudan, and safeguard against downside risks arising from uncertainties on foreign exchange inflows and expenditure pressures related to the floods and the situation in western Sudan. This will require resolute pursuit of sound macroeconomic policies, as well as strengthened management of expenditures and external debt, and implementation of further fiscal and structural reforms, including an enhanced legal framework to foster private sector development.

Directors considered that conclusion of a lasting peace agreement should open the door for the required support of the donor community for the reconstruction and development of Sudan to promote growth, alleviate poverty, and restore debt sustainability. In this context, Directors were encouraged by renewed indications of interest in the establishment of a support group of creditors and donors to prepare to mobilize financing for Sudan to clear its arrears and reduce its heavy debt burden following a peace agreement. They requested the staff to keep all options under review, and looked forward to coming back to them at the appropriate juncture. Most Directors considered that the authorities' policy efforts under the 2002 and 2003 SMPs were equivalent in strength to that under a Rights Accumulation Program (RAP), and that this should be fully reflected in the period of a RAP. A few others cautioned that it was premature to consider the treatment of the SMP under an eventual RAP, until financing assurances are in place. Directors were confident that the authorities' track record of policy implementation will contribute to strengthening the foundation for the progressive re-engagement of Sudan with the international financial institutions. Directors strongly supported the provision of technical assistance and training to Sudan, including those by the Fund.

Directors commended the authorities for their success in maintaining low fiscal deficits, which have underpinned Sudan's macroeconomic stabilization efforts. They welcomed the planned introduction of a medium-term economic program based on a three-year rolling budget geared toward consolidating macroeconomic stability, addressing the post-conflict challenges, and facilitating implementation of poverty reduction policies. Directors strongly emphasized that steps to further improve tax revenues, including through significant reductions in tax exemptions, and adoption of a comprehensive tax reform program should be critical elements of the medium-term strategy. The greater focus on poverty alleviation and agricultural sector development in the post-conflict period will require careful management of the fiscal policy implications of reintegration.

Directors emphasized the need for the authorities to continue to contain spending, and they welcomed their commitment to maintain the deficit target despite the spending pressures arising from flood relief in the east and civil disturbances in the west. They recognized that there could be calls to increase civil service salaries, which are low, but recommended that any wage increase be considered in the context of needed civil service reform.

Directors welcomed the steps to increase the transparency of the oil sector financial accounts. They also welcomed the establishment of the OSA as an instrument to stabilize budgetary outlays in the face of oil price fluctuations. Directors acknowledged that massive developmental and reconstruction needs may obviate the need to use the OSA as a "fund for future generations." Once sufficient reserves have been accumulated, the additional resources should be used to support the country's growth and development potential, while minimizing non-priority outlays.

On monetary policy, Directors welcomed the successful transition to a broad money targeting regime and an indirect monetary management framework. They were encouraged by the authorities' sustained efforts to ensure the availability of suitable instruments to build up the necessary expertise and institutional setting, and to strengthen coordination with fiscal policy. Directors considered that monetary policy will have to remain vigilant, and ready to adapt, as needed, in the face of balance of payments uncertainties and potential inflationary pressures. Directors welcomed the enactment of legislation on anti-money laundering and combating the financing of terrorism.

Directors considered that the managed-float exchange rate regime has served Sudan well and remains appropriate given the thinness of the foreign exchange market. They called on the authorities to monitor developments closely and to ensure exchange rate flexibility, with a view to safeguarding competitiveness and facilitating adjustment to external shocks. Directors welcomed the authorities' acceptance of the obligations under Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement. This, combined with recent reforms, underscores Sudan's welcome commitment to an open economy. Directors noted that the staff will conduct the necessary review of Sudan's exchange system as soon as possible. Directors urged the authorities to formulate a clear policy regarding the contracting of external debt, and in particular they attached the highest importance to avoiding new non-concessional borrowing, as a key element in a strengthened external debt management framework. They urged the authorities to avoid drawing down on the two nonconcessional loans recently contracted.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff Report for the 2003 Article IV Consultation with Sudan is also available.

Sudan: Selected Economic and Financial Indicators, 2000–03

	2000	2001	2002	Proj. 2003
	(Annual changes in percent)			
Domestic economy				
Real GDP growth 1/	6.9	6.1	5.5	5.8
End-of-period CPI Inflation	3.3	7.4	8.3	7.0
Average CPI Inflation	8.0	4.9	8.3	7.0
	(In percent of GDP)			
Financial variables 2/				
Total revenue	11.5	11.8	13.2	18.3
Total expenditure	12.4	12.8	14.1	17.6
Current expenditure	9.7	10.3	10.8	13.7
Capital expenditure	2.6	2.5	3.3	3.9
Overall balance (cash)	-0.8	-1.0	-0.9	0.7
Broad money (change in percent)	34.6	24.7	30.3	18.0
Reserve money (change in percent)	35.3	3.7	22.0	16.2
	(In millions of U.S. dollars)			
External sector				
Exports, f.o.b.	1,864	1,699	1,948	2,449
Imports, c.i.f.	-1,553	-2,031	-2,153	-2,476
External current account balance 3/	-632	-1,289	-919	-1,084
In percent of GDP	-5.7	-10.7	-6.8	-7.1
Real effective exchange rate (change in percent)	9.4	8.0	-2.0	...

Sources: Data provided by the Sudanese authorities and IMF staff estimates.

1/ National accounts data for 2000–02 are staff estimates.

2/ For 2003, fiscal data are corresponding to latest August projections.

3/ Excluding public interest due and public transfers.