June 2010
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Sudan: Article IV Consultation—Staff Report; Debt Sustainability Analysis; Staff Statement; Public Information Notice on the Executive Board Discussion; Statement by the Executive Director

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the Article IV consultation with Sudan, the following documents have been released and are included in this package:

- The staff report for the Sudan Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on March 29, 2010, 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 June 7, 2010. 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 staff supplement containing a joint Fund/Word Bank debt sustainability analysis.

- A staff statement of June 23, 2010 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its June 23, 2010 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Sudan.

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

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SUDAN

Staff Report for the 2010 Article IV Consultation and First Review Under the 2009–10 Staff-Monitored Program

Prepared by the Middle East and Central Asia Department
(In consultation with other departments)

Approved by Alan MacArthur and Dominique Desruelle

June 7, 2010

Mission: March 15–29, 2010, Khartoum. The mission met with the Minister of Finance and National Economy, Minister of Agriculture, Governor of the Central Bank, other senior officials, and representatives of the business and donor communities. It consisted of Messrs. Al-Atrash (head), Sakr (incoming mission chief), Naseer, El-Said, Ms. Farahbaksh (all MCD), and Ms. Liu (FAD). It was assisted by Mr. Zoromé (Resident Representative). Mr. Tesfamichael (OED) attended the meetings.

Exchange system: Sudan has accepted the obligations of Article VIII, Sections 2, 3, and 4. It maintains an exchange restriction and a multiple currency practice arising from the imposition of a 100 percent cash margin for letters of credit on most imports and an exchange restriction arising from a limitation on the amount of foreign exchange purchases for travel purposes. These restrictions were approved by the Board until end-June 2010. Sudan has a floating exchange rate regime with no predetermined path.

Fund relations: The Executive Board concluded the 2008 Article IV consultation on November 26, 2008. The PIN is available at: http://www.imf.org/external/np/sec/pn/2009/pn0901.htm. The staff report for the final review of the 2007–08 staff-monitored program (SMP) and new SMP for 2009–10 (IMF Country Report No. 09/218) was issued to the Board on June 24, 2009 and is available at: http://www.imf.org/external/pubs/cat/longres.cfm?sk=23116.

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EXECUTIVE SUMMARY

Background

Sudan has been adversely affected by the global crisis through a sharp decline in oil receipts. Economic growth in 2009 decelerated to 4 ½ percent as a result of the global recession. Average inflation fell to about 11 percent, from over 14 percent in 2008. While the overall fiscal deficit widened in 2009, the non-oil deficit narrowed (as a percent of non-oil GDP), albeit to a lesser extent than programmed. Most expenditures were lower than envisaged in the program with the notable exception of transfers to the South, fuel subsidies, and elections related expenditures. Tax revenue increased significantly, but non-oil non-tax revenue remained constant in relation to GDP. The authorities relaxed the monetary stance in response to the global crisis. Foreign international reserves remained low, mainly due to lower external receipts and central bank sales of foreign exchange.

Important reforms were implemented under the 2009–10 staff-monitored program (SMP), albeit some with a delay, and three quantitative targets for end-December, 2009 were not met. Specifically, the targets on NIR, NDA, and domestic borrowing by the government were missed, largely due to the larger than envisaged fiscal deficit, weak external inflows, and foreign exchange sales.

Authorities' views

The authorities plan to reduce the fiscal deficit, including through broadening the revenue base by reducing tax exemptions and improving administration.

They intend to build up foreign exchange reserves and are aware that a cautious monetary policy is needed to achieve this objective.

Progress on debt relief under HIPC is essential to remove the debt overhang and regain access to concessional financing for development and social projects.

Staff recommendations

- Tighten the monetary stance to reduce pressures on inflation and the exchange rate.
- Increase exchange rate flexibility in order to rebuild foreign exchange reserves.
- Continue with fiscal reforms to maintain macroeconomic stability and reduce dependence on oil revenues. In this context, it is important to streamline tax exemptions, reduce fuel subsidies, and adopt a multi-year budget planning system.
- Continue to strengthen the financial sector, including by improving banking supervision and restructuring Omdurman National Bank.

I. Introduction

1. **Sudan has been adversely affected by the global crisis through a sharp decline in oil receipts.** As a result, the fiscal and external current account deficits widened and GDP growth decelerated. The discussions focused on fiscal, monetary and exchange rate policies to ensure macroeconomic stability and to rebuild foreign exchange reserves. Sudan has cooperated with the Fund over the last decade, as evidenced by generally good performance under successive SMPs and by making payments in excess of obligations falling due.

2. **Parliamentary and presidential elections were held in April 2010.** President Al-Bashir was reelected. No major changes are expected in economic policy due to the elections. The elections constituted a key component of the 2005 Comprehensive Peace Agreement (CPA). A referendum is scheduled for January 2011 in the South to decide on whether Sudan is to remain as a unitary state. The United Nations has recently lowered the security phase for Khartoum to level II.

II. Recent Economic Developments and Performance Under the SMP

3. **Economic growth weakened in 2009 as a result of the global recession.** Overall real GDP growth is estimated to have decelerated to 4.5 percent compared to nearly 7 percent in 2008, with the non-oil growth dropping by half to about 5 percent. The deterioration was broad-based, with the exception of a small increase in oil production. Average inflation fell to about 11 percent, from over 14 percent in 2008.

4. **The underlying fiscal performance improved in 2009, albeit to a lesser extent than programmed.** The non-oil commitment primary deficit narrowed from 7.6 percent of non-oil GDP in 2008 to 6.6 percent in 2009. This adjustment was nonetheless 1.5 percentage points lower than what was envisaged under the program. Tax revenues improved significantly as expected, reflecting stronger revenue collection effort by the tax and customs administration. However, non-oil non-tax revenue remained constant in relation to GDP due to weaker than expected parastatal profits. Most expenditures remained within the program ceilings, with the notable exception of transfers and fuel subsidies as well as some elections related outlays.

5. **Monetary policy was expansionary in 2009.** Reserve and broad money increased by 28 percent and 23.5 percent, respectively. These increases were higher than the program targets due to increased credit to the government, and as the authorities aimed to ensure sufficient credit to the private sector to partially offset the impact of the liquidity shortage created by global financial crisis. However, despite the increased credit from the central bank to commercial banks for onward lending, credit to the private sector increased by about 20 percent (slightly higher than nominal GDP but lower than envisaged under the program).[1]

[1] The central bank financing to commercial banks for onward lending is classified under "other items net" in its balance sheet.

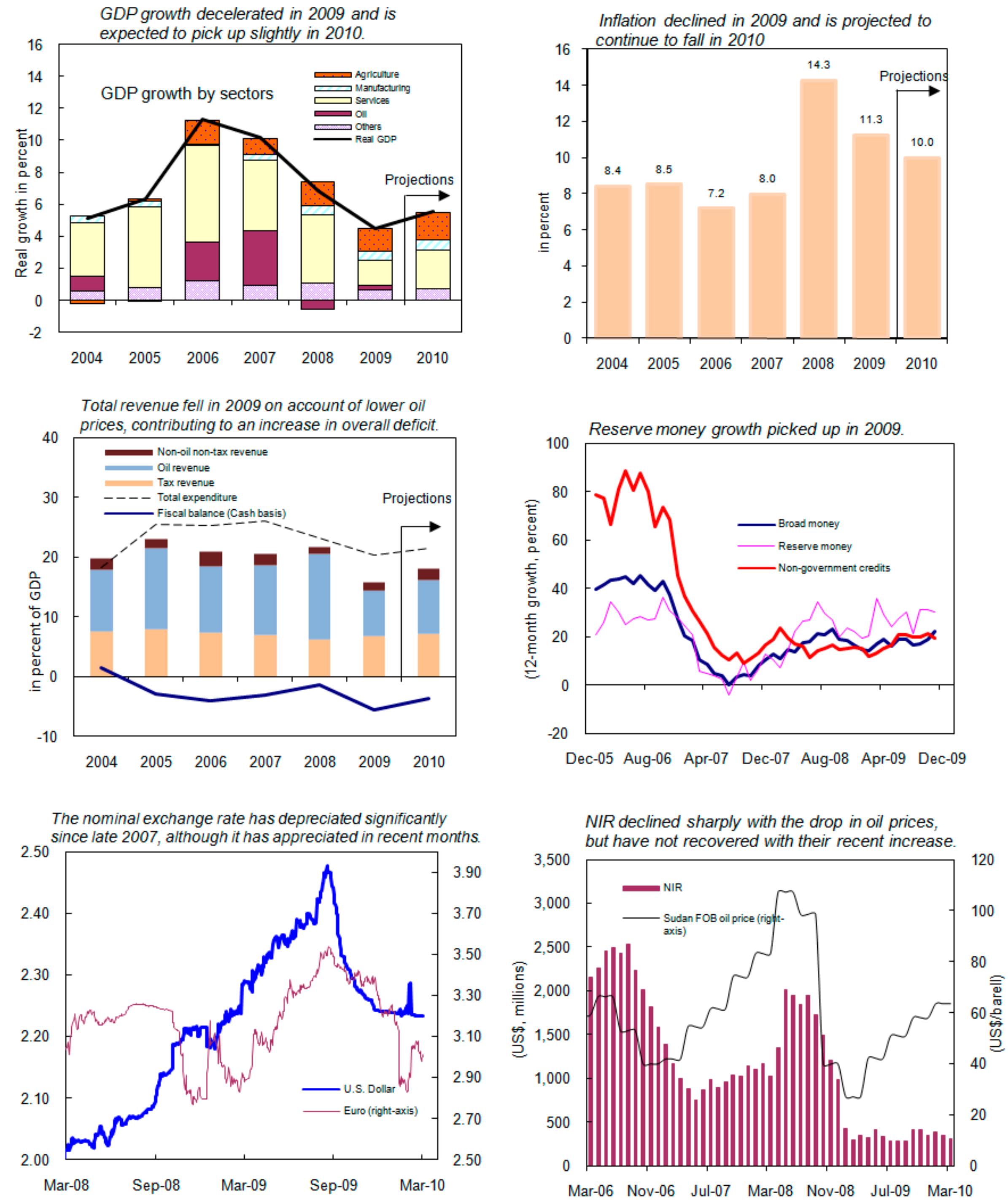
Box 1. The Comprehensive Peace Agreement

The Comprehensive Peace Agreement (CPA) was signed between the Government of the Republic of Sudan and the Sudan People's Liberation Movement/Sudan People's Liberation Army in January 2005. The CPA provided for a six year interim period with the elections, followed by a referendum to determine the future of the South. It included arrangements for sharing power and revenue from oil and jurisdiction over the collection and sharing of various types of taxes and duties during the interim period. According to these arrangements, the Government of Southern Sudan (GoSS) is allocated half of the net revenue of oil produced in the South and is granted representation at the federal level in the Government of National Unity (GoNU).

A number of initiatives envisaged in the CPA have been implemented. A new national currency was introduced and a dual banking system was adopted (Islamic banking in the North and conventional banking in the South). In addition to sharing the oil revenue, the local governments, including the GoSS, were also allowed to retain half of the federal taxes collected in their regions and to borrow at home and abroad subject to certain conditions to safeguard overall macroeconomic stability.

The Fund will continue to provide technical assistance to both the federal government and the South. The Fund has provided technical assistance, mainly to develop and improve financial and fiscal sectors' performance. For example, it has recently provided assistance on central bank modernization, debt and cash management, and budget classification at both the national and sub-national levels. Both the GoNU and the GoSS look forward to an increase in such assistance. They believe that the substantial required capacity building in Sudan, including in the South, are crucial regardless of the outcome of next year's referendum. They particularly place emphasis on the need for institution building to improve revenue collection, strengthen expenditure management, and enhance availability of statistics.

Figure 1. Sudan: Selected Economic Indicators, 2004-2010



Source: Authorities and Fund staff estimates.

6. **The balance of payments position deteriorated in 2009 due to the global crisis.** The current account deficit reached 11.5 percent of GDP as the decline in imports (by about 6 percent) was not sufficient to compensate for the fall in oil receipts. In addition, weaker-than-expected remittances and foreign direct investment kept the foreign exchange position under pressure. Moreover, delayed policy response to the external shock in late 2008 and continued support to the exchange market contributed to the decline in reserves. The guinea depreciated by 13 percent against the U.S. dollar through August but subsequently appreciated as the central bank increased the sale of foreign exchange to the market. As a result, the overall depreciation of the guinea against the U.S. dollar in 2009 was about 3 percent. The central bank's net international reserves (NIR) remained low.[2]

7. **Financial sector indicators showed some improvement but continue to reflect underlying risks.** Gross nonperforming loans (NPLs) declined to 20 percent of total loans at end-2009, from 22 percent at end-2008, partly owing to a reduction in domestic government arrears, and provisioning to NPLs increased from 20 to 24 percent. The average capital adequacy ratio declined to 7 percent at end-2009, compared to 11 percent at end-2008. However, this was on account of a change in the methodology used to calculate risk. Banks with about half of the total banking sector loans requiring closer monitoring. In particular, the financial position of Omdurman National Bank—which accounts for nearly half of the NPLs and 25 percent of bank lending—remains difficult.[3]

8. **Three quantitative targets for end-2009 were missed partly due to the slow global recovery**. The domestic financing of the central government was higher than the program's ceiling due to the larger than expected deficit and the significantly lower foreign financing. Moreover, the central bank's NIR target was missed by a large margin, mainly due to a smaller than envisaged decline in imports and large sales of foreign exchange. The net domestic assets of the central bank were also higher than programmed due to central bank financing to commercial banks for onward lending to the private sector. On the other hand, the clearance of domestic arrears was significantly higher than the target, and the targets on payments to the Fund and on contracting of non-concessional loans were also met.

9. **Important structural reforms were completed in 2009, though some with delay.** In the fiscal area, several measures were implemented to improve tax compliance and strengthen fiscal management and administration. These included modernization of the taxation chamber, centralization of taxpayers identification numbers, and the extension of GFS 2001 budget classification to 5 Northern states. However, the comprehensive review of

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[2] For the program's monitoring purposes, the NIR level for end-2009 and the projections for end-2010 presented in this report exclude the general SDR allocation (SDR 125.8 million). The staff has advised that Sudan saves its allocation in view of its low foreign exchange reserves and large external debt.

[3] The definitions of capital adequacy requirement and non-performing loans in Sudan are more stringent than international standards for conventional banking because of the Islamic banking system.

the tax policy regime is expected to be completed by July 2010. A restructuring plan for Omdurman National Bank was prepared in February 2010, in line with the recommendations of an independent auditor.

III. Policy Discussions

A. Macroeconomic Policies

10. **Growth prospects are likely to remain strong in the period ahead, although there are downside risks.** Real GDP growth is projected to be in the 5-6 percent range during 2010–15. This is contingent on strong non-oil growth as oil output is projected to moderate. The focus of the growth enhancing efforts over the medium-term will be on increasing agricultural production, whose potential remains largely untapped (see MEFP, ¶11). The authorities have already embarked on a plan to invest about $5 billion through 2012 to develop this sector. The emphasis is on attracting strategic foreign investors by providing better infrastructure, removing structural rigidities and distortions, liberalizing investment and the labor market, and reforming the legal system, including to enhance property rights and land leasing arrangements. Inflation is expected to remain in single digits. The external current account deficit is projected to stabilize in the range of 6–7 percent of GDP, and the fiscal deficit at about 4.5 percent of GDP. Such outcome appears achievable, but will require maintaining the momentum of fiscal reforms to offset the projected gradual decline in oil revenue.

Box 2. Sudan's Agriculture: Potential Engine for Growth and Poverty Reduction

Agriculture plays a key role in employment and output generation in Sudan. It currently accounts for about one third of GDP and employs about 80 percent of the labor force. Sudan's main agricultural products are cotton, wheat, sorghum, sugar cane, gum Arabic, and live stock. Prior to the rise of the role of oil in Sudan, agriculture was the main source of foreign exchange earnings, mainly from cotton exports. In 2009, agricultural exports accounted for 90 percent of all non-oil exports.

The substantial untapped potential of the sector can contribute importantly to growth. Approximately one third of the area of Sudan, the largest country in Africa, is suitable for agricultural development (www.fao.org). However, only an estimated 15–20 percent of Sudan's arable land is under cultivation. Half of this cultivated land is rain-fed, mostly producing subsistence crops. The sector has been growing by a mere average of 2.5 percent annually over the past decade. This has been due to inadequate infrastructure, lack of access to capital, low-level technical efficiency, and conflict and security problems. The sector has also been affected by the severe drought of the past couple of years.

The authorities are placing renewed emphasis on improving the performance of the sector. These efforts include the completion of three dams in 2009, including the $1.7 billion Merowe dam. Public-private partnership ventures are being established with both domestic and foreign partners. The National Agricultural Revival Program, which was originally launched in 2005, is gaining renewed momentum. It aims at implementing large irrigation schemes, encouraging development of the agro-industry, including by establishing a number of sugar factories, improving infrastructure, and increasing spending on irrigation, land preservation, fertilizers, and credit services. Liberalization is also making progress with the recent termination of the monopoly of the state-owned Gum Arabic Company on the production and export of gum Arabic. In addition, the legal system is also being strengthened, including by introducing more liberal rules on the leasing of agricultural land to foreign investors.

11. **The downside risks to this favorable growth outlook arise from** the high dependence on oil, the debt overhang, and the difficult (albeit somewhat improved) political and security situation. The production of oil, the main source of foreign exchange earnings, is expected to moderate over the medium term. Oil receipts account for over 90 percent of foreign exchange earnings. In addition, any wavering in reforms, in response to deterioration in the political or security situation, would jeopardize the major gains achieved thus far.

12. **The main parameters for the 2010 SMP include: (**i) reducing the fiscal deficit from 4.7 percent of GDP in 2009 to 3.4 percent of GDP, (ii) increasing the NIR by $560 million; (iii) containing broad money and reserve money growth to about 20 percent, and (iv) limiting the contracting of nonconcessional borrowing to $700 million.

Fiscal policy

13. **The program seeks to maintain macroeconomic stability and to meet social and infrastructure as well as CPA-related expenditures.** The authorities' approved budget was based on conservative assumptions on oil prices, but optimistic ones on foreign financing (MEFP, ¶14).[4] The program caps the wage bill at 5.4 percent of GDP, similar to the outcome of 2009, and preserves outlays for elections/referendum and goods and services in the approved budget. Considerable tax efforts will be required to enhance revenues. Tax revenues are projected to increase by 0.3 percent of GDP (or about 0.8 percent of non-oil GDP) relative to the 2009 outturn on account of the lagged effects of revenue-enhancing measures introduced in that year and the anticipated implementation of additional measures to strengthen tax collection (see MEFP, ¶18). Staff also highlighted the pressing need to increase tax revenues through tightening VAT and personal income tax (PIT) exemptions. However, given the presidential and parliamentary elections in 2010 and referendum in 2011, such reforms may not be possible during the current year. The authorities plan to adopt these and other recommendations of the ongoing comprehensive tax policy review in the 2011 budget (MEFP, ¶17).

14. **A steady improvement in the non-oil primary balance is needed over the medium term.** Oil production is expected to gradually decline below current levels after 2013. Staff highlighted that this will be an important challenge, notwithstanding an automatic reduction in oil-related spending associated with the gradual decline in oil production and the elimination of all domestic arrears in 2010. A medium-term perspective is, therefore, needed to reduce dependence on oil and to reduce vulnerability to its price volatility. The authorities recognized the various medium-term challenges, including the large social expenditure needs that are likely to be identified in the context of the PRSP process (which is expected to be completed in late 2010). They stressed that they intended to develop a three-year budget framework and use the non-oil primary balance to GDP ratio as a key indicator in budget preparation (MEFP, ¶21).

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[4] The approved budget envisaged an overall deficit of 4.7 percent of GDP and a non-oil primary deficit of 7.5 percent of non-oil GDP (based on oil price assumptions $60/bbl for Nile blend and $50/bbl for Dar blend). The program is prepared based on the most recent WEO oil price forecast and relatively conservative foreign aid inflows. In addition, the program incorporates the most recent trend in the gap between the Nile and Dar blend prices. Accordingly, oil revenues and related expenditures, including fuel subsidy and automatic transfers to the states, are higher than those in the budget. Capital spending is envisaged to be lower than the budget, in line with the projected foreign inflows.

Monetary and exchange rate policies

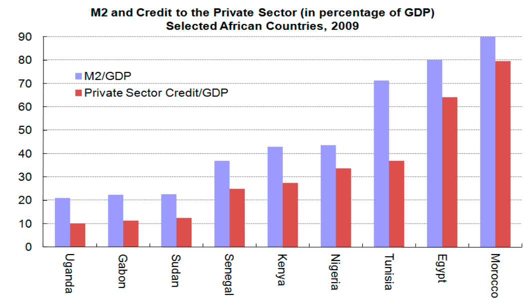
15. **A cautious monetary stance should be maintained.** While aware of the need to rebuild reserves and lower pressure on inflation, the authorities stressed that it was important to have enough liquidity available to the private sector. They, however, agreed with staff's recommendation to adopt a cautious monetary stance to keep inflationary pressures in check. Staff stressed that the monetary targets should be consistent with single-digit inflation while allowing for credit needs of the private sector. The program targets broad and reserve money growth at 21 percent and 19 percent, respectively, in 2010 (MEFP ¶22). The authorities are working to further develop indirect monetary instruments, strengthen the inter-bank market, and improve liquidity forecasting and management.

16. **Rebuilding international reserves from the currently low level will be a priority in 2010.** The current account deficit is expected to improve to about 7.2 percent of GDP in 2010 (from 11.5 percent in 2009). This is mainly due to higher oil price projections. Accordingly, the SMP targets an increase in net international reserves to $950 million at end-2010 (MEFP ¶23). In this context, the exchange rate will be allowed to move in line with fundamentals to rebuild and safeguard the foreign exchange reserve position. Sale of foreign exchange will be limited to meeting genuine market needs and smoothing short-term volatility.

17. **The exchange rate level appears to be near equilibrium.** The macroeconomic balance approach and the equilibrium real effective exchange rate approach suggest that Sudan's real exchange rate is slightly overvalued but that this is temporary and is within the margin of error. The pressures on the exchange rate seem to be largely associated with political uncertainties and concerns about the low level of foreign exchange reserves. Sudan maintains an exchange restriction and a multiple currency practice arising from the imposition of a 100 percent cash margin for letters of credit on most imports and an exchange restriction arising from the limitation on amount of foreign currency purchases for travel purposes, which were approved by the Board until end-June 2010 in light of the authorities' intention to eliminate these restrictions. The authorities are committed to remove these restrictions by end-June 2010, provided that their NIR position improves.

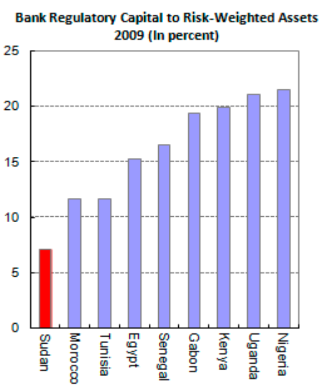
Box 3. Financial Sector Development and Soundness

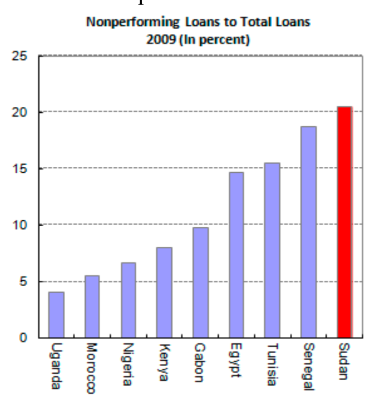
Sudan's financial system has been growing, but remains relatively small by regional standards. The banking sector comprises of 32 banks, including 5 foreign and 4 state-owned banks. Deposits and credit to the private sector have doubled during 2005–09. Nonetheless, their ratio to GDP stood at 16 percent and 12 percent, respectively, at end-2009. Although both soundness and efficiency indicators are generally weaker than in other countries in the region, they differ widely across banks. Sudan remains under-banked, with banking and other financial institutions concentrated around Khartoum.

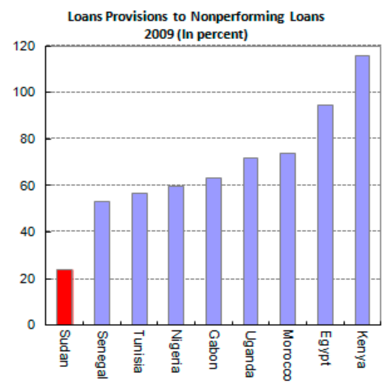


Competition in the sector is reduced by the large presence of public banks. Public banks account for about 50 percent of total banking sector assets. A phased divestiture of the public sector share in the sector would help create healthier competition and improve the financial system.

Systemic risk is limited due to the small size of the sector and low level of intermediation. However, non-performing loans (NPLs) are high and provisioning is low. The NPLs are concentrated mainly in the Omdurman Bank. Capital adequacy ratios are below the required levels for bulk of the banking system.







Note: Data for Tunisia and Gabon is as of December 2008; the other data is for the latest available month in 2009.

Non-bank financial institutions and markets are very small and underdeveloped. These institutions and markets can play an important role in the mobilization of savings and allocation of investments. There is a clear need to modernize the insurance sector, develop the thin securities markets, and promote microfinance institutions. In this regard, it would also be crucial to develop the prudential framework and supervisory skills specific to these institutions.

The authorities have taken steps to strengthen the financial system in line with the 2005 FSAP recommendations. Both supervision and the legal and regulatory framework have been improved. Other remaining priority reforms include (i) improving further banking supervision and inspection and their enforcement; (ii) rehabilitating Omdurman Bank (with 40 percent of its loan portfolio nonperforming) and lowering the public sector's share in financial institutions; and (iii) adopting and enforcing international best practice accounting and audit standards.

A restructuring plan was developed for Omdurman National Bank in February 2010 based on the findings of an independent audit. The plan includes measures that aim at preventing further deterioration of the bank's financial position, its recapitalization by current shareholders (other than the central bank), and its eventual privatization. The authorities plan to begin the privatization proceedings by end-2011.

Box 4. Exchange Rate Assessment

Staff estimates suggest that the Sudanese guinea is near equilibrium in real effective terms.

Macroeconomic Balance (MB) approach: The CGER-type panel regression, using data for low income oil exporting countries covering the period 1970 to 2009, suggests that the real exchange rate is near equilibrium. The norm for Sudan, according to this approach, is a current account deficit of about 6 percent of GDP in 2014. This compares with a projected deficit of about 7 percent of GDP. There was some overvaluation in 2006 and early 2007, largely due to sizable capital inflows, an expansionary fiscal policy, and a real appreciation of guinea. However, the decline in international oil prices has put pressure on the current account balance and the gap widened in 2009. Accordingly, a slight overvaluation reemerged, but remains within the margin of error and appears to be temporary. Since then, fiscal policy has been tightened and oil price improved. These factors are expected to help the current account balance to return to a level consistent with the norm starting in 2010.

The equilibrium real effective exchange rate (EREER) approach indicates a possible small diversion compared to the medium-term estimated equilibrium. The divergence between the actual and equilibrium REER appears to have temporarily widened in 2009 due to the sharp decline in oil prices. This divergence, however, is projected to narrow in 2010 and remain small, within the margin of error over the projection period. The above estimation uses the standard set of variables in this methodology, including a set of macroeconomic fundamentals, fiscal balance, openness, and the real oil price.

Figure 1. Sudan: Implied and Actual Current Account Based on the Macreconomic Balance Approach (as percent of GDP)

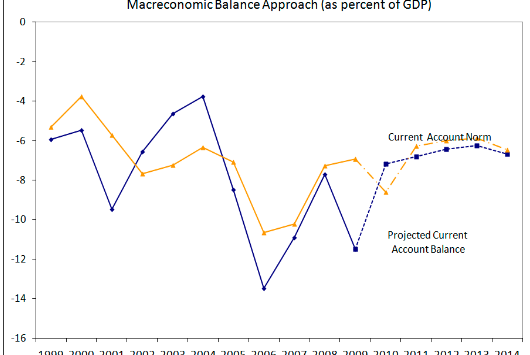
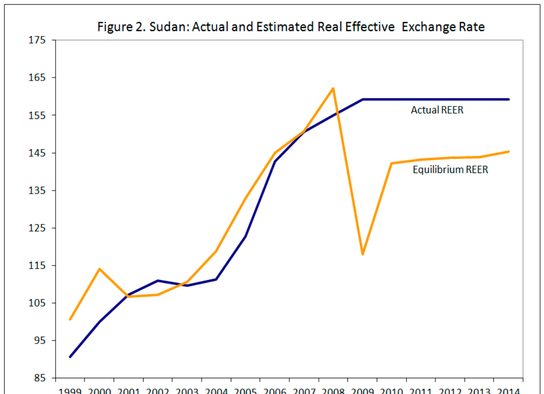


Figure 2. Sudan: Actual and Estimated Real Effective Exchange Rate



B. Structural Reforms

Fiscal reforms

18. **The authorities intend to undertake a wide range of structural reforms with the goal of enhancing revenue collections and improving the quality of government spending**. A comprehensive review of the tax policy regime will be completed by July 2010. Based on the results of the review, the authorities will identify policy measures to be incorporated in the 2011 budget, with the objective of reducing VAT exemptions, raising personal income tax collections, resolving tax jurisdiction issues with sub-national governments, and optimizing the government's net take from the oil sector. In the area of revenue administration, the authorities intend to widen the tax base through establishing a database to allow information sharing on registered taxpayers, with a view to identifying and incorporating entities currently outside of the tax system, and implement WTO consistent customs evaluation system (MEFP, ¶17–19).

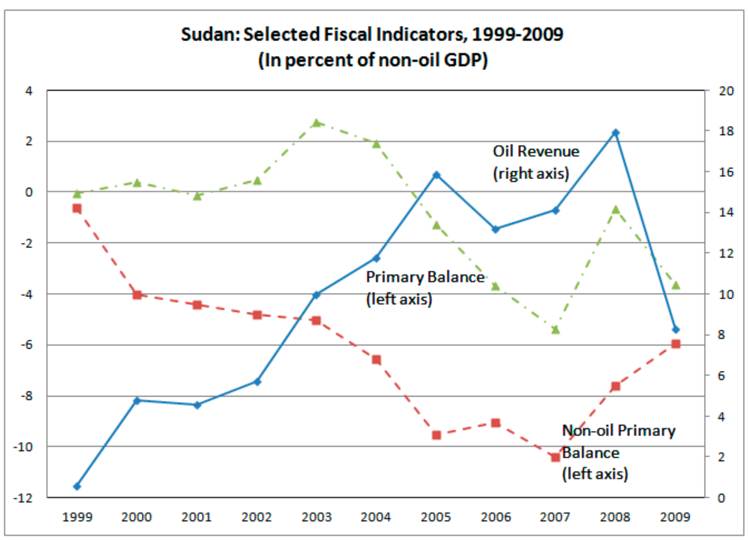
Box 5. Structural Fiscal Reforms

The authorities are taking a wide range of structural measures over 2010 to reinforce the substantive progress in fiscal reforms in recent years (see MEFP ¶17–21). The main objectives of these measures are to widen the tax base, enhance revenue administration, improve the quality of government spending (both national and subnational levels), and strengthen medium-term budgetary planning.

A number of structural measures have been introduced to improve tax compliance, although considerable scope still exists to strengthen revenue administration. Key reforms already undertaken in this area include: (i) establishing a database to allow information sharing on registered taxpayers with a view to identifying entities currently outside of the tax system and bringing them into the tax net; (ii) undertaking a review of tax exemptions granted under the Investment Encouragement Act to identify entities that are no longer entitled to exemptions; (iii) implementing a WTO-consistent evaluation system for customs; and (iv) upgrading customs stations with ASYCUDA World software.

A key step in the tax policy reform is the completion of a comprehensive review of the tax policy regime. This review will help identify concrete policy measures to broaden the tax base and enhance the system's efficiency. Specifically, it will help in: (i) reducing VAT exemptions granted to certain domestic sectors and final goods imports; (ii) reforming the personal income tax; and (iii) clarifying tax jurisdiction issues with subnational governments. Policy measures based on this review are expected to be incorporated in the 2011 budget.

Expenditure policy reforms will be geared toward improving the quality and targeting of government spending. This should help protect priority areas as fiscal consolidation effort is further advanced. The authorities have recently eliminated electricity subsidies, but the reform on restraining fuel subsidy has been pushed back to 2011. As a prerequisite for the gradual adjustment of the petroleum price formula, the authorities plan to develop a targeted social safety net based on the household survey, which is expected to be completed in mid-2010.



In the area of public financial management, adopting a medium-term budget planning system, using non-oil indicators is crucial. The recent improvement in Sudan's primary balance, which was driven by higher oil prices, has disguised an underlying deterioration in the non-oil balance. To better monitor the performance of the non-oil primary balance, the authorities plan to develop a three-year budget framework, including projections for non-oil revenue and non-oil primary balance to GDP ratios, and use this framework on a rolling basis in budget preparation. At the subnational level, plans are underway to extend the GFS 2001 budget classification to another 4 Northern states in order to support better fiscal management and reporting. To further enhance resource transparency, public oil companies will be required to transfer their profits directly to Ministry of Finance and National Economy (MoFNE) rather than to Sudan Petroleum Company.

Strengthening the financial system

19. **Progress has been made in strengthening the financial sector, but further efforts are needed.** The authorities have taken steps to improve further the legal and regulatory framework, including in the areas of provisioning, risk management, and corporate governance. They recognize the need to strengthen the prompt enforcement of corrective actions to ensure full compliance with prudential regulations and to address NPLs. For the Omdurman National Bank, a restructuring plan has been prepared aimed at preventing any further deterioration of its financial position and preparing for its eventual privatization. As part of the plan, the bank's loss-making branches will be closed, loss-making companies that are fully-owned by the bank will be liquidated, and shareholders will be required to raise capital (MEFP ¶26). The authorities plan to begin the privatization process by end-2011.

C. External Debt and Relations with Creditors

20. **Sudan's external debt overhang remains a serious concern.** The end-2009 stock of public and publicly-guaranteed debt is estimated at $35.7 billion, up from $33.7 at end-2008. The bulk of the increase reflects primarily a further buildup of interest arrears. It also includes new drawings from Arab multilateral and bilateral creditors, as well as from China and India. A debt sustainability analysis based on the joint Bank-Fund Low-Income Country Debt Sustainability Framework was prepared and discussed with the authorities. The results suggest that, Sudan will remain in debt distress in the foreseeable future even under a benign global environment and the implementation of appropriate policies (see Sudan—Staff Report for the 2010 Article IV Consultation and First Review Under the 2009-10 Staff-Monitored Program—Debt Sustainability Analysis at www.imf.org). The authorities concurred with the assessment (MEFP, ¶28). The authorities expressed concern that, despite their cooperation on policies and payments for nearly a decade, no concrete progress has been made on alleviating Sudan's external debt burden, severely limiting the prospects for meeting the Millennium Development Goals (MDGs) and CPA commitments.

Box 6. Sudan's performance Under the SMPs (1997–2009)

Sudan has been implementing reforms under successive SMPs over the past twelve years. Performance under these programs has been generally good.

Reforms: Key structural reforms were completed during the last decade in the fiscal and financial sector, and data quality has improved significantly. In the fiscal area, major reforms were implemented in tax policy and revenue administration and in public financial management. On the revenue side, VAT was introduced, exemptions on income tax were streamlined, excise was imposed on petroleum products, the customs tariff structure was improved, and the granting of new tax exemptions was stopped. Improvements were also made in budget classification, cash management, and fiscal reporting. In the financial sector, major reforms included currency unification and issuance of a new currency, strengthening banking regulation and supervision, and improving data reporting by adopting international standards. Most of these reforms were part of structural conditionalities under the SMPs and were supported by technical assistance from the Fund.

Economic performance: The above reforms have contributed to restoring macroeconomic stability and buoyant economic growth.

- **Real growth** averaged over 7 percent during the past decade, which was higher than most countries in the region. Non-oil real growth averaged 6 percent.
- **Inflation** came down from triple digit to single digit throughout most of the period, except for 2008 and 2009. Higher inflation in the past two years was mainly due to the increase in the international prices of food and basic commodities.
- **The fiscal deficit** was contained within reasonable limits and averaged 1¼ percent of GDP during 2000–09. This was despite the high volatility in oil revenue and the rigidities in outlays that are related to peace agreements' commitments and some other current expenditure items. While tax revenue generally increased in relation to non-oil GDP, the surplus of parastatals fluctuated. The non-oil commitment fiscal deficit narrowed as a percent of non-oil GDP. The wider than envisaged overall fiscal deficit in 2009 and the lack of external financing have led to missing the target on government domestic borrowing.
- **The balance of payments position**, however, remained under pressure and foreign exchange reserves remained low. This was mainly due to international sanctions and limited access to grants and borrowing. The authorities have resorted to reserves as the first line of defense to absorb external shocks. This has led to the breach of the NIR target.

Repayments to the Fund: Sudan continues to pay more than its new obligations falling due. Despite this, remaining arrears (including interest arrears and penalties), are about SDR 1 billion. Sudan has paid the Fund more than SDR 390 million since 1997, and over SDR 575 million since 1984 (since it last received Fund financing).

21. **The authorities are aware of the risks of nonconcessional borrowing**. They emphasized that contracting of such loans had been limited in recent years and that such loans were generally tied to specific and vital development projects, especially in infrastructure and the oil sector. They, however, reiterated that the lack of access to concessional finance and pressing expenditure priorities associated with development needs and the various peace agreements left nonconcessional borrowing as a necessity.[5] In 2009, the contracting of such borrowing amounted to $693 million, mainly from China. These loans, which are earmarked for infrastructure projects such as roads and power transmission grids, have a long maturity and appear to have a grant element due to their generally moderate interest rate. The authorities agreed to limit contracting of such borrowing to a program ceiling of $700 million in 2010 (MEFP, ¶29).

22. **Resolving Sudan's overdue financial obligations remains a high priority for the government.** Sudan has reduced repayments to other creditors in light of the difficult NIR position and has requested from its main creditors a rescheduling of debt services falling due in 2010. The authorities intend to pay the Fund at least $10 million in 2010 but stressed that such payments cannot on their own resolve Sudan's obligations to the Fund (MEFP, ¶30). They believe that debt relief under HIPC and MDRI initiatives will play a crucial role in helping Sudan improve its relations with the Fund and other multilateral and bilateral donors.

IV. Data Issues and Technical Assistance

23. **Sudan's economic data are sufficient for surveillance and program monitoring, but need further improvement**. The quality of Sudan's economic data has improved in recent years—due in part to participation in the Fund's General Data Dissemination System. Monetary and financial sector statistics are comprehensive and generally timely. Significant progress is also being made on fiscal reporting, helped by the adoption of GFSM 2001 classification starting from the 2008 budget. While considerable improvement has been made in the CPI by expanding its coverage and using new weights in the basket, national accounts data need further improvements.

24. **Sudan's technical assistance needs are substantial and the authorities place high weight on continued technical assistance from the Fund.** Priorities in the area of monetary and financial sector include technical assistance on banking supervision and developing indirect monetary instruments. The authorities also reiterated their desire for an FSAP update as soon as possible. In the fiscal area, technical assistance is needed in tax administration,

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[5] As specified in the Technical Memorandum of Understanding, staff considers a loan as concessional if it has a grant element of at least 35 percent, based on net present value calculations of related costs and repayment. Some donors continue to make financing pledges to Sudan, mostly targeting humanitarian and development projects in afflicted areas. For example, in a donors' conference in Cairo last March pledges for such projects in the Darfur amounted to $750 million over the next five years. Some donors' also provide assistance, including technical, directly to the South.

including oil revenue management and tax policy. In addition, further assistance in improving public financial management, with particular emphasis on fiscal reporting and budget processing, and setting up multi-year budget planning, will be required. To improve national accounts statistics, the authorities requested a peripatetic expert to help introduce the 1993 System of National Accounts. The authorities asked for continued technical assistance in the South, given the significant need to build capacity. In particular, they requested a diagnostic mission to identify the specific needs in the fiscal, monetary, and banking sectors (MEFP, ¶32).

V. Staff Appraisal

25. **Sudan has implemented important reforms under the 2009–10 SMP.** In particular, important steps were taken to rein in tax exemptions, widen the tax base, and improve tax administration. Moreover, several key financial management reforms (such as restructuring of the MoFNE, setting up of committees to enhance interdepartmental coordination, and initiating Government Resource Planning) were recently implemented. Efforts are also under way to address vulnerabilities in the financial sector, including through developing a restructuring plan for Omdurman National Bank. These efforts have contributed to a narrowing in the non-oil primary deficit, albeit to a lesser extent than what was originally envisaged under the authorities' program, and to a broad improvement in financial soundness indicators.

26. **The challenges facing Sudan remain immense and complex.** Sudan needs to continue its efforts to create fiscal room to meet its social and development needs as well as its obligations under the peace agreements. Rebuilding foreign exchange reserves is also an immediate priority. In the medium-term, Sudan must strengthen its revenue and non-oil export base and develop its financial system to sustain strong growth.

27. **It is important to contain fiscal pressures in the run up to the January 2011 referendum.** Continued fiscal prudence will be key to maintaining low inflation and macroeconomic stability more generally. In particular, it would reduce the need for bank financing of the budget and mitigate pressure on the balance of payments and the exchange rate.

28. **Structural fiscal reforms are critical to maintain economic growth and meet social and development objectives.** Sudan's dependence on oil revenues, together with the high correlation between government expenditure and volatile oil prices, underline the importance of adopting a multi-year budget planning system using non-oil indicators. Reforms on these fronts need to be focused on a steady improvement in the non-oil primary balance. It is critical to adopt a medium-term fiscal adjustment strategy. Staff welcomes the authorities' intention to replenish the oil stabilization account to guard against the risk of falling oil prices or a deceleration in oil production.

29. **With the narrow tax base and rigid expenditure profile, fiscal adjustment needs to focus on widening the tax base.** Staff urges the authorities to complete the comprehensive review of the tax policy regime, and to establish clear commitments to identify policy measures in the context of the 2011 budget, with a view to reduce VAT and PIT exemptions, and resolve tax jurisdiction issues with sub-national government. Moreover, staff encourages the authorities to move expeditiously toward the introduction of a targeted safety net and begin the process of gradually phasing out fuel subsidies.

30. **The monetary stance needs to be tightened in the period ahead.** Monetary aggregates have exceeded program targets, contributing to pressures on inflation and the exchange rate. There is, however, a need to ensure sufficient credit to private sector to sustain growth. It will be important to closely monitor price developments and adjust monetary policy as appropriate.

31. **CGER-based econometric regressions indicate that the exchange rate level is broadly in line with the estimated norm.** It will be important to enhance competitiveness through measures to improve the business environment and boost productivity. These include addressing shortcomings related to labor market rigidities, investor protection, enforcement of contracts, and obtaining credit. It is noteworthy that the authorities have identified these same shortcomings in the context of their initiative to promote the agricultural sector.

32. **Greater exchange rate flexibility is needed to mitigate the impact of external shocks and build foreign exchange reserves to a more comfortable level.** Reserves fell sharply with the decline in oil price through the first quarter of 2009. This was mainly due to insufficient adjustment to the fall in oil prices. The reserves remained low in the remainder of the year despite the increase in oil prices due to continued sales of foreign exchange. In this context, staff urges the authorities to rebuild reserves and limit the sales of foreign exchange to smoothing short term volatility.

33. **It would be important to strengthen the financial sector.** The staff welcomes the authorities' renewed emphasis on increasing enforcement of prudential regulations by taking prompt corrective actions in cases of shortfalls. The authorities are encouraged to continue to take measures to reduce NPLs, and to increase provisioning and capital. The staff urges the authorities to fully implement measures included in the restructuring plan for Omdurman National Bank and to prepare it for eventual privatization. The authorities are encouraged to continue their efforts to enhance financial intermediation, including through developing non-bank financial institutions by putting in place an appropriate legal and supervisory framework. Also, efforts are needed to further improve the operation of the credit information bureau.

34. **Sudan is in debt distress and its arrears continue to constrain access to external development financing.** Sudan's record of cooperation on economic policies and payments to the Fund augur well for the clearance of Sudan's arrears at the appropriate time. In the

meantime, the authorities should minimize to the extent possible the contracting or guaranteeing of nonconcessional debt, as such borrowing would further weaken debt sustainability. Staff urges the authorities to make payments to the Fund on a regular basis to ensure meeting the payments target for 2010.

35. **The staff believes that the SMP continues to meet the standard of upper-credit-tranche conditionality, except for the proposed level of nonconcessional borrowing.** The SMP is a valuable tool to support reform momentum. It contains important actions to maintain fiscal discipline and promote financial sector development. It also provides a framework within which donors can support the peace process and provide aid, including in the afflicted areas.

36. **While Sudan's economic prospects are good, downside risks remain**. The main risk would be a weakening of the resolve to maintain macroeconomic stability and advance critical reforms if the political or security situation worsens. The impact of the global financial crisis is likely to continue to affect the recovery of the already low level of investment and remittances. In addition, volatile oil revenue and a deceleration in oil production in the coming years highlight the need to maintain prudent policies and move ahead with structural reforms to sustain growth.

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

Table 1. Sudan: Selected Economic and Financial Indicators, 2006–10

	2006	2007	2008	2009	2010
				Prel.	Proj.
	(Annual changes in percent, unless otherwise indicated)				
Production, population, and prices					
Nominal GDP (in millions of Sudanese guinea, at market prices)	79,046	93,811	121,287	125,766	154,494
Nominal GDP (in millions of U.S. dollars)	36,401	46,531	58,028	54,644	66,595
Oil production (average, in thousands of barrels per day)	364	484	462	474	476
Population (in millions)	36.2	37.2	38.1	39.1	40.1
GNP per capita (in U.S. dollars)	941	1,147	1,394	1,290	1,530
Real GDP	11.3	10.2	6.8	4.5	5.5
Oil	26.5	33.0	-4.4	2.6	0.4
Non-oil	9.7	7.5	8.5	4.8	6.2
Consumer prices (average) 1/	7.2	8.0	14.3	11.3	10.0
Consumer prices (end of period) 1/	15.7	8.8	14.9	13.4	10.0
	(In percent of GDP)				
Investment and saving					
Gross investment	25.1	26.5	22.7	21.8	23.3
Government 2/	6.7	9.5	6.5	5.5	7.1
Nongovernment	18.4	17.0	16.2	16.3	16.2
Gross national saving	11.6	15.6	15.0	10.3	16.2
Government	-0.2	-0.6	1.7	-1.8	0.3
Nongovernment	11.8	16.2	13.3	12.1	15.9
Central government operations 3/					
Total revenue	21.0	20.6	21.8	15.7	18.1
Total expenditure	25.0	23.6	23.2	21.3	21.9
Overall balance (commitment basis)	-4.3	-5.4	-1.4	-4.7	-3.4
Non-oil primary balance 4/	-9.0	-10.4	-7.6	-6.6	-6.5
Non-oil primary operating balance 4/	-4.2	-4.5	-3.6	-3.4	-2.2
Money and credit					
Broad money (change in percent)	27.4	10.3	16.3	23.5	21.0
Reserve money (change in percent)	27.8	12.8	22.2	28.1	19.0
Velocity (ratio of non-oil nominal GDP to average broad money)	3.9	4.2	4.5	4.8	5.0
	(In millions of U.S. dollars, unless otherwise indicated)				
External sector					
Exports, f.o.b.	5,813	8,902	12,480	7,834	11,018
Of which: oil	5,244	8,443	11,904	7,131	10,065
Imports, f.o.b.	7,105	7,722	9,097	8,528	9,168
Non-oil export volume (change in percent)	-13.3	-19.3	-5.3	27.1	28.0
Non-oil import volume (change in percent)	12.6	-0.4	0.1	-21.1	6.8
Current account balance (cash basis, percent of GDP)	-13.5	-10.9	-7.7	-11.5	-7.1
Terms of trade (Index 1993=100, change in percent)	2.8	-4.2	21.4	-39.0	40.2
Guineas per U.S. dollar (period average)	2.17	2.02	2.09	2.30	...
Real effective exchange rate (change in percent)	20.4	-2.4	10.6	-4.3	...
External debt (in billions of U.S. dollars)	28.4	31.9	33.7	35.7	37.8
External debt (percent of GDP)	78.1	68.5	58.1	65.3	56.8
Debt service ratio (commitment basis) 5/	17.8	11.2	9.5	17.5	14.2
Debt service ratio (cash payments) 5/	5.8	2.4	2.9	3.8	5.6
Net international reserves (in millions of U.S. dollars)	1,576	1,139	978	390	950
In months of next year's imports	1.8	1.2	1.1	0.4	1.0
Sudan's crude oil export price (U.S. dollars per barrel)	54.4	58.0	81.3	44.8	66.4

Sources: Sudanese authorities; and Fund staff estimates.

1/ CPI inflation for 2008 onward is based on a new base.

2/ Includes estimated capital spending by state governments.

3/ In calculating the base non-oil balance, oil revenues and grants were removed from revenues, while pipeline fees (recorded under goods and services) and oil-related subnational transfers were deducted from expenditures.

4/ In percent of non-oil GDP.

5/ In percent of exports of goods and services.

Table 2. Sudan: Central Government Operations, 2007–10 1/
(In millions of SDG)

	2007	2008	2009		2010	
			Program	Est.	Budget	Prop. Prog.
Revenues and grants	19,307	26,424	17,641	19,780	25,526	28,003
Taxes	6,529	7,680	8,725	8,619	9,670	11,159
Oil revenues	10,893	17,338	6,550	9,519	12,343	13,984
Sales to refineries	3,283	3,513	2,229	2,840	3,468	3,875
Export revenues	7,610	13,825	4,321	6,679	8,875	10,109
Grants	522	572	886	719	1,970	1,317
Other nonoil nontax revenues	1,363	833	1,480	923	1,543	1,543
Expense (current expenditure)	19,835	24,331	19,497	22,073	25,740	27,536
Wages	6,368	5,951	6,847	6,836	7,523	8,348
Goods and services	1,924	2,919	2,213	2,375	2,205	2,205
Interest	897	1,088	1,278	1,254	2,027	2,027
Subsidies	1,287	2,519	-232	712	705	1,163
Fuel	892	2,195	-518	447	630	1,087
Other	395	324	286	265	76	76
Transfers	8,674	11,575	8,608	9,799	12,124	12,638
Of which: to South	3,352	6,159	3,009	4,485	4,433	5,064
to Northern states	5,323	5,396	5,283	5,288	7,638	7,520
Other expense	683	279	784	1,097	1,156	1,156
Operating balance (accrual basis)	-528	2,093	-1,856	-2,293	-214	467
Net acquisition of NFA (capital expenditure)	4,525	3,838	3,234	3,572	6,819	5,713
Overall commitment balance (incl. discrepancy)	-5,053	-1,745	-5,090	-5,865	-7,033	-5,245
Financing	5,053	1,745	5,090	5,865	7,032	5,245
Foreign	932	459	2,225	827	5,977	3,397
Domestic	4,120	1,286	2,865	5,038	1,055	1,848
Bank	720	-292	1,867	2,963	1,094	1,266
Of which : ORSA	-32	-869	878	585	-1,191	-1,234
Nonbank	1,206	1,536	1,720	3,168	-39	1,194
Accounts payable	2,194	42	-721	-1,093	0	-612
Of which: Arrears accumulation	2,613	471	0	522	0	0
Arrears paydown (-)	-419	-1,310	-721	-1,615	0	-612
Memo items: 2/						
Overall balance (cash basis)	-2,859	-1,703	-5,811	-6,958	-7,033	-5,857
Non-oil cash balance	-6,721	-8,391	-7,780	-9,786	-11,979	-11,217
Non-oil cash primary operating balance	-1,299	-3,465	-3,268	-4,960	-3,134	-3,478
Non-oil commitment primary balance	-8,018	-7,345	-5,781	-7,439	-9,952	-8,579
Non-oil commitment primary operating balance	-3,493	-3,507	-2,547	-3,867	-3,134	-2,866

Table 2 (continued). Sudan: Central Government Operations, 2007–10 [1/]
(In percent of GDP)

	2007	2008	2009		2010	
			Program	Est.	Budget	Prop. Prog.
Revenues and grants	20.6	21.8	14.0	15.7	16.5	18.1
Taxes	7.0	6.3	6.9	6.9	6.3	7.2
Oil revenues	11.6	14.3	5.2	7.6	8.0	9.1
Sales to refineries	3.5	2.9	1.8	2.3	2.2	2.5
Export revenues	8.1	11.4	3.4	5.3	5.7	6.5
Grants	0.6	0.5	0.7	0.6	1.3	0.9
Other nonoil nontax revenues	1.5	0.7	1.2	0.7	1.0	1.0
Expense (current expenditure)	21.1	20.1	15.5	17.6	16.7	17.8
Wages	6.8	4.9	5.4	5.4	4.9	5.4
Goods and services	2.1	2.4	1.8	1.9	1.4	1.4
Interest	1.0	0.9	1.0	1.0	1.3	1.3
Subsidies	1.4	2.1	-0.2	0.6	0.5	0.8
Fuel	1.0	1.8	-0.4	0.4	0.4	0.7
Other	0.4	0.3	0.2	0.2	0.0	0.0
Transfers	9.2	9.5	6.8	7.8	7.8	8.2
Of which: to South	3.6	5.1	2.4	3.6	2.9	3.3
to Northern states	5.7	4.4	4.2	4.2	4.9	4.9
Other expense	0.7	0.2	0.6	0.9	0.7	0.7
Operating balance (accrual basis)	-0.6	1.7	-1.5	-1.8	-0.1	0.3
Net acquisition of NFA (capital expenditure)	4.8	3.2	2.6	2.8	4.4	3.7
Overall commitment balance (incl. discrepancy)	-5.4	-1.4	-4.0	-4.7	-4.6	-3.4
Financing	5.4	1.4	4.0	4.7	4.6	3.4
Foreign	1.0	0.4	1.8	0.7	3.9	2.2
Domestic	4.4	1.1	2.3	4.0	0.7	1.2
Bank	0.8	-0.2	1.5	2.4	0.7	0.8
Of which ORSA	0.0	-0.7	0.7	0.5	-0.8	-0.8
Nonbank	1.3	1.3	1.4	2.5	0.0	0.8
Accounts payable	2.3	0.0	-0.6	-0.9	0.0	-0.4
Of which: Arrears accumulation	2.8	0.4	0.0	0.4	0.0	0.0
Arrears paydown (-)	-0.4	-1.1	-0.6	-1.3	0.0	-0.4
Memorandum items: [2/]						
Overall balance (cash basis) [3/]	-3.0	-1.4	-4.6	-5.5	-4.6	-3.8
Non-oil cash balance [4/]	-8.7	-8.7	-6.9	-8.7	-9.1	-8.5
Non-oil cash primary operating balance [4/]	-1.7	-3.6	-2.9	-4.4	-2.4	-2.6
Non-oil commitment primary balance [4/]	-10.4	-7.6	-5.1	-6.6	-7.5	-6.5
Non-oil commitment primary operating balance [4/]	-4.5	-3.6	-2.3	-3.4	-2.4	-2.2
Nominal GDP (SDG millions)	93,811	121,287	125,766	125,766	154,494	154,494
Non-oil GDP (SDG millions)	77,140	96,560	112,351	112,351	132,236	132,236

Source: Sudanese authorities; and Fund staff estimates.

1/ The exact characterization of Sudan's reporting basis is neither accrual nor cash. Revenues and most expenditures are still reported on a cash basis; however, goods and services spending (the main source of domestic arrears) are recorded on a payment-order due basis (starting January 2008) in the context of the switch to the GFS 2001 system.
2/ In calculating the base non-oil balance, oil revenues and grants were removed from revenues, while pipeline fees (recorded under goods and services spending) and oil-related subnational transfers were deducted from expenditures.
3/ In percent of nominal GDP.
4/ In percent of non-oil GDP.

Table 3. Sudan: Monetary Authorities' Accounts, 2006–10

(In millions of Sudanese guineas)

	2006	2007	2008	2009	2010 Proj.
Net foreign assets	-3,147	-4,098	-4,405	-5,756	-4,288
Foreign assets	4,298	3,552	4,078	2,739	4,312
International reserves	3,342	2,828	3,055	1,530	3,103
Other assets	956	724	1,022	1,209	1,209
Foreign liabilities	7,445	7,650	8,482	8,494	8,601
Short-term liabilities	168	489	920	657	823
Medium- and long-term liabilities	7,277	7,161	7,562	7,837	7,777
Counterpart to valuation changes	7,241	7,512	7,744	8,491	8,491
Net domestic assets	3,722	5,399	7,429	11,017	12,205
Net domestic credit	3,069	4,365	4,253	5,840	7,028
Net claims on central government	1,731	2,596	2,145	3,712	4,497
Claims	1,991	2,680	3,932	4,782	6,802
Temporary advances	590	592	1,432	2,877	3,577
Government securities	348	761	583	577	1,897
Long-term claims	1,053	1,328	1,918	1,328	1,328
Deposits	260	84	1,788	1,070	2,304
Of which: Oil Savings Account 1/	14	46	915	330	1,564
Net claims on government of the South	-133	-3	-9	-3	3
Net claims on public enterprises	301	295	429	333	333
Net claims on banks	1,038	1,361	1,649	1,779	2,175
Money market instruments (net)	132	116	39	19	19
Other items (net)	653	1,034	3,176	5,177	5,177
Reserve money	7,816	8,813	10,768	13,789	16,407
Currency outside banks	5,355	5,640	6,775	8,066	9,760
Reserves of commercial banks	2,059	2,836	3,495	5,387	6,310
Required reserves	862	792	880	763	1,539
Excess reserves	1,196	2,044	2,615	4,623	4,771
Deposits at Central Bank of Sudan included in broad money	402	338	498	337	337
Memorandum item:					
Central bank credit to government (cumulative change)	1,313	550	-356	1,567	786

Sources: Sudanese authorities; and Fund staff estimates.

1/ Balance of the Oil Savings Account of the National Unity Government (as envisaged in the peace agreement with the South).

Table 4. Sudan: Monetary Survey, 2006–10
(In millions of Sudanese guinea)

	2006	2007	2008	2009	2010 Proj.
Net foreign assets	-1,844	-2,575	-2,328	-4,587	-2,740
Central Bank of Sudan	-3,147	-4,098	-4,405	-5,756	-4,288
Commercial banks	1,303	1,523	2,076	1,169	1,549
Counterpart to valuation changes	7,331	7,492	7,786	8,526	8,529
Net foreign assets (excluding valuation adjustment)	5,488	4,918	5,458	3,940	5,789
Net domestic assets	12,385	14,812	17,476	24,338	28,471
Net domestic credit	14,551	17,268	19,052	25,129	29,262
Net claims on general government	3,110	3,960	3,663	6,632	7,904
Central Bank of Sudan net claims on central government	1,731	2,596	2,145	3,712	4,497
Central Bank of Sudan net claims on the government of the South	-133	-3	-9	-3	3
Commercial banks claims on central government	1,512	1,367	1,527	2,923	3,403
Net claims on nongovernment sectors	11,441	13,308	15,390	18,497	21,358
Other items (net)	-2,166	-2,456	-1,577	-791	-791
Broad money	17,872	19,715	22,933	28,314	34,261
Currency outside banks	5,355	5,640	6,775	8,066	9,760
Deposits	12,516	14,075	16,159	20,248	24,500
Demand deposits	7,433	8,247	9,796	11,381	13,847
Domestic currency	5,162	5,728	6,855	8,040	9,651
Foreign currency	2,271	2,520	2,941	3,341	4,195
Quasi-money deposits	5,083	5,828	6,362	8,867	10,654
Memorandum items:					
Reserve money (annual percentage change)	27.8	12.8	22.2	28.1	19.0
Broad money (annual percentage change)	27.4	10.3	16.3	23.5	21.0
Credit to nongovernment sector (annual percentage change)	45.1	16.3	15.6	20.2	15.5
Currency to broad money (in percent)	30.0	28.6	29.5	28.5	28.5
Foreign currency deposits to total deposits (in percent)	18.6	22.6	18.7	17.3	18.0
Broad money multiplier	2.3	2.2	2.1	2.1	2.1
Non-oil GDP velocity (average)	3.9	4.2	4.5	4.8	5.0
Net international reserves (in million of U.S. dollars)	1,576	1,139	978	390	950
Commercial banks net foreign assets (in millions of U.S. dollars)	647	742	951	522	645
Commercial banks credit to the government (cumulative change)	838	170	64	1,396	480

Sources: Sudanese authorities; and Fund staff estimates.

Table 5. Sudan: Balance of Payments, 2006–10

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

	2006	2007	2008	2009	2010
				Prel.	Proj.
Current account balance	-5,542	-5,812	-5,240	-7,043	-5,523
Current account balance (on cash basis)	-4,903	-5,074	-4,477	-6,306	-4,748
Trade balance	-1,291	1,180	3,382	-694	1,850
Exports, f.o.b.	5,813	8,902	12,480	7,834	11,018
Oil exports	5,244	8,443	11,904	7,131	10,065
Non-oil products	569	460	576	703	953
Imports, f.o.b.	-7,105	-7,722	-9,097	-8,528	-9,168
Foodstuffs	-656	-723	-1,177	-1,428	-1,535
Petroleum products	-364	-256	-626	-423	-455
Machinery and transport equipments	-3,785	-4,099	-3,674	-2,173	-2,336
Manufactured goods	-1,444	-1,709	-1,705	-2,151	-2,312
Other imports	-855	-935	-1,917	-2,353	-2,529
Services (net)	-2,689	-2,934	-2,945	-2,465	-2,594
Receipts	201	385	493	391	488
Payments	-2,890	-3,319	-3,438	-2,856	-3,082
Of which : oil transportation costs	-602	-813	-789	-723	-775
Income (net)	-2,952	-4,640	-5,662	-4,940	-5,957
Receipts	89	184	43	58	73
Non-oil payments	-749	-857	-937	-1,177	-1,295
Of which: interest cash payments	-94	-86	-89	-213	-303
Oil-related payments 1/	-2,292	-3,967	-4,769	-3,821	-4,735
Current transfers (net)	1,390	582	-15	1,055	1,178
Private transfers	1,034	209	-686	398	418
Public transfers	356	373	671	657	760
Capital account	0	0	0	0	0
Financial account (net)	4,257	4,092	3,745	4,669	5,117
Disbursements	431	593	488	737	1,165
Amortization	-336	-219	-382	-188	-553
Of which: cash payments (excluding IMF)	-213	-88	-241	-89	-342
Short-term capital flows and other assets (net) 2/	622	829	1,270	1,617	1,658
Commercial banks NFA (increase -)	52	-95	-209	-101	-124
FDI and portfolio investment (net)	3,533	3,036	2,628	2,615	2,981
Errors and omissions	35	345	588	492	0
Overall balance	-1,250	-1,375	-907	-1,882	-406
Financing	1,250	1,375	907	1,882	406
Change in net international reserves (increase -)	500	437	162	588	-560
Other foreign reserves (increase -)	-30	122	-115	155	-20
Change in arrears	780	816	860	1,140	986
Financing gap	0	0	0	0	0
Memorandum items:					
Current account (in percent of GDP)	-15.2	-12.5	-9.0	-12.9	-8.3
Current account, cash basis (in percent of GDP)	-13.5	-10.9	-7.7	-11.5	-7.1
Net international reserves (end-period) 3/	1,576	1,139	978	390	950
(in months of next years imports)	1.8	1.2	1.1	0.4	1.0
Sudanese crude oil price (U.S. dollars per barrel)	54.4	58.0	81.3	44.8	66.4
Nominal GDP	36,401	46,531	58,028	54,644	66,595

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

1/ Includes payments to oil companies related to profit-sharing arrangements.
2/ Net short-term trade and other credit facilities of the government and commercial banks.
3/ SDR 125.8 million allocation are not included.

Table 6. Sudan: Medium-Term Macroeconomic Scenario, 2007–15

	2007	2008	2009	2010	2011	2012	2013	2014	2015
		Act.				Proj.			
	(Change in percent, unless otherwise indicated)								
Production and prices									
Nominal GDP (in millions of U.S. dollars)	46,531	58,028	54,644	66,595	74,635	84,290	93,843	102,531	111,259
Real GDP	10.2	6.8	4.5	5.5	6.2	6.2	5.1	5.4	5.1
Oil	33.0	-4.4	2.6	0.4	10.0	4.5	-6.5	-5.3	-9.1
Non-oil	7.5	8.5	4.8	6.2	5.7	6.4	6.5	6.5	6.5
Inflation (period average)	8.0	14.3	11.3	10.0	9.0	7.0	5.8	5.5	5.5
	(In percent of GDP, unless otherwise indicated)								
Investment and saving									
Gross investment	26.5	22.7	21.8	23.3	23.8	23.8	23.6	23.4	23.2
Government 1/	9.5	6.5	5.5	7.1	7.6	7.6	7.4	7.2	7.0
Nongovernment	17.0	16.2	16.3	16.2	16.2	16.2	16.2	16.2	16.2
Gross national saving	15.6	15.0	10.3	16.2	16.9	17.3	17.4	16.7	17.3
Government	-0.6	1.7	-1.8	0.3	-0.2	-0.2	0.5	0.4	1.2
Nongovernment	16.2	13.3	12.1	15.9	17.2	17.5	16.9	16.3	16.1
Central government 2/									
Total revenue	20.6	21.8	15.7	18.1	17.3	16.9	17.1	15.8	16.2
Total expenditure	23.6	23.2	21.3	21.9	21.8	21.6	21.3	20.3	19.9
Overall balance	-3.0	-1.4	-5.5	-3.8	-4.5	-4.7	-4.3	-4.6	-3.7
Non-oil primary balance 3/	-7.5	-7.6	-7.6	-7.0	-6.8	-6.8	-6.5	-6.4	-5.7
Non-oil primary operating balance 3/	-1.7	-3.6	-4.4	-2.6	-1.8	-1.6	-1.1	-0.8	-0.2
External sector									
External trade balance	2.5	5.8	-1.3	2.8	4.2	4.1	2.2	0.2	-1.5
Exports, f.o.b.	19.1	21.5	14.3	16.5	16.7	16.1	14.3	12.0	10.3
Non-oil exports	1.0	1.0	1.3	1.4	1.4	1.4	1.4	1.5	1.6
Imports, f.o.b.	16.6	15.7	15.6	13.8	12.5	12.0	12.1	11.8	11.8
Current account balance on cash basis	-10.9	-7.7	-11.5	-7.1	-6.8	-6.4	-6.3	-6.7	-5.8
Net international reserves (in months of imports)	1.2	1.1	0.4	1.0	1.3	1.4	1.6	1.7	1.8
Terms of trade (change in percent)	-4.2	21.4	-39.0	40.2	2.9	0.3	2.9	0.3	0.3
Memorandum item:									
Crude oil export price (U.S. dollars per barrel) 4/	58.0	81.3	44.8	66.4	69.7	71.1	74.8	72.8	73.8
Crude oil production (thousands barrels per day)	484	462	474	476	524	547	512	484	440

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

1/ Includes estimated capital spending by state governments.

2/ cash basis. In calculating the base non-oil balance, oil revenues and grants were removed from revenues, while pipeline fees (recorded under goods and services) and oil-related subnational transfers were deducted from expenditures. In augmented versions, interest and net NFA acquisition were deducted from expenditures to yield the primary and operating balances, respectively.

3/ As a percent of non-oil GDP.

4/ Sudanese oil blends. Projections are based on the latest WEO assumptions (based on future prices).

Table 7. Sudan: Indicators of Debt Service Capacity, 2004–09
(In millions of U.S. dollars, unless otherwise indicated)

	2004	2005	2006	2007	2008	2009 Proj.
Total debt service paid	342	312	352	225	380	314
Payments to the Fund	32	30	45	51	50	11
Charges and interest falling due	15	18	25	27	17	6
Charges settled	2	3	2	2	2	2
Reduction in overdue principal obligations	30	27	43	49	48	9
Overdue obligations to the Fund	1,636	1,558	1,538	1,513	1,481	1,476
Overdue obligations to the Fund (in millions of SDF	1,062	1,054	1,051	1,026	995	991
Total debt service paid, in percent of:						
Exports of goods and nonfactor services	9.0	6.3	5.8	2.4	2.9	3.8
Net current receipts 1/	14.6	9.4	11.3	5.0	5.1	8.5
Gross official reserves	25.6	15.1	21.2	16.3	27.1	40.1
GDP	1.6	1.1	1.0	0.5	0.7	0.6
Payments to the Fund, in percent of:						
Exports of goods and nonfactor services	0.8	0.6	0.7	0.5	0.4	0.1
Net current receipts 1/	1.4	0.9	1.4	1.1	0.7	0.3
Gross official reserves	2.4	1.5	2.7	3.7	3.6	1.4
GDP	0.1	0.1	0.1	0.1	0.1	0.0
Quota 2/	12.4	12.5	17.6	18.9	19.1	4.0
External debt service paid	9.5	9.7	12.8	22.6	13.2	3.5
Overdue obligations to the Fund, in percent of:						
Exports of goods and nonfactor services	43	31	26	16	11	18
Net current receipts 1/	70	47	49	34	20	40
Gross official reserves	122	75	93	110	106	189
GDP	7.5	5.7	4.2	3.3	2.6	2.7
External debt	6.5	5.8	5.4	4.7	4.4	4.1
Memorandum items:						
Exports of goods and services	3,822	4,992	6,015	9,287	12,973	8,225
Net current receipts 1/	2,351	3,316	3,120	4,507	7,415	3,681
Gross official reserves	1,338	2,072	1,660	1,378	1,399	783
In months of next year's imports	2.2	2.6	1.9	1.4	1.6	0.8
GDP (in millions of U.S. dollars)	21,685	27,386	36,401	46,531	58,028	54,644
Quota (in millions of SDRs) 2/	169.7	169.7	169.7	170.7	171.7	171.7
External debt (including arrears)	25,106	27,007	28,447	31,873	33,741	35,687
Available fiscal revenue (in millions of U.S. dollars)	4,057	4,498	4,759	4,926	6,537	4,135
Exchange rate (U.S. dollar/ SDR, end of period)	1.54	1.43	1.51	1.58	1.52	1.60

Source: Fund staff estimates.

1/ Exports of goods and services adjusted for oil related payments for services and transfers to foreign investors.
2/ As percent of Eight Review Quota.
3/ Domestic fiscal revenue, net of transfers to states.

Table 8. Sudan: Financial Soundness Indicators for the Banking Sector, 2005–09

	Dec-05	Dec-06	Dec-07	Dec-08	Dec-09
	(In percent, unless otherwise indicated)				
Capital Adequacy					
Regulatory capital to risk-weighted assets 1/	19.1	19.7	22.0	10.5	7.1
Regulatory Tier I capital to risk-weighted assets 1/	10.0	17.4	20.0	8.7	6.1
Capital (net worth) to assets	12.0	14.1	...	...	...
Asset composition and quality					
Loans to nongovernment to total assets	52.2	46.3	...	22.4	...
Gross NPLs to gross loans	7.1	19.4	26.0	22.4	20.5
NPLs net of provisions to gross loans	6.3	17.0	22.0	17.9	17.9
NPLs net of provisions to capital	37.4	63.7	85.0	71.0	74.8
Loans provisions to NPLs	26.5	14.0	15.0	20.0	23.9
Foreign currency loans to total loans	32.9	26.0	13.2	15.8	20.4
Deposits and investment accounts to total assets	63.9	60.0	55.5	57.4	63.2
Foreign currency deposits to total deposits	27.2	22.0	21.4	21.2	19.2
Off-balance sheet commitments to assets	32.2	33.0	32.5	34.4	28.0
Earnings and Profitability					
ROA (before tax)	5.0	3.6	3.7	3.0	3.78
ROE (before tax)	56.0	35.4	26.5	23.3	25.5
Liquidity					
BOS deposits to total assets	15.5	8.0	8.6	9.1	12.66
Required reserves to total assets	4.9	4.0	3.0	2.9	2.1
Required reserves to total reserves	44.7	39.0	34.8	26.0	14.5
Cash in vault to total assets	1.4	1.0	2.5	2.2	2
Liquid assets to total assets	16.9	25.0	25.6	28.0	34.22
Liquid assets to total short-term liabilities	37.2	75.0	75.0	85.0	97.02

Source: Central Bank of Sudan.

1/ Data for December 2006 refer only to 27 of the 30 existing banks (exclude Sudanese Argiculture Bank, Capital Bank, and Industrial Development Bank).

Table 9. Sudan: Millennium Development Goals, 1990–2009

	1990	1995	2000	2005	2007	2008	2009
1. Eradicate extreme poverty and hunger							
Population below $1 a day (percent)	...	...	...	...	...	...	...
Poverty gap ratio at $1 a day (percent)	...	...	...	...	...	...	...
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...	...	...
Prevalence of child malnutrition (percent of children under 5)	...	...	...	...	...	...	...
Population below minimum level of dietary energy consumption	...	...	...	...	...	...	...
2. Achieve universal primary education							
Net primary enrollment ratio (percent of relevant age group)	40	...	44	...	...	...	...
Percentage of cohort reaching grade 5 (percent)	94	...	84	79	...	...	...
Youth literacy rate (percent ages 15-24)	65	...	...	77	...	...	...
3. Promote gender equality							
Ratio of girls to boys in primary and secondary education (percent)	77	...	85	...	87	...	...
Ratio of young literate females to males (percent ages 15-24)	71	...	...	84	...	...	...
Share of women employed in the nonagricultural sector (percent)	22	20	18	...	...	...	...
Proportion of seats held by women in national parliament (percent)	...	...	5	15	18	...	...
4. Reduce child mortality							
Under 5 mortality rate (per 1,000)	120	106	97	...	89	...	...
Infant mortality rate (per 1,000 live births)	74	69	65	...	61	...	...
Immunization, measles (percent of children under 12 months)	57	51	58	...	73	...	...
5. Improve maternal health							
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	...	450	...	...
Births attended by skilled health staff (percent of total)	69	86	87	...	49	...	...
6. Combat HIV/AIDS, malaria and other diseases							
Prevalence of HIV, female (% ages 15-49)	...	...	1.4	...	1.4	...	...
Contraceptive prevalence rate (% of women ages 15-49)	8.7	...	7.0	...	7.6	...	...
Number of children orphaned by HIV/AIDS	...	...	...	...	...	...	...
Tuberculosis prevalence rate (per 100,000 people)	172	192	213	...	242	...	...
Tuberculosis cases detected under DOTS	...	2.0	31.1	32.7	30.0	...	...
7. Ensure environmental sustainability							
Forest area (percent of total land area)	32	...	30	...	28	...	...
Nationally protected areas (percent of total land area)	...	...	...	...	...	...	...
GDP per unit of energy use (PPP $ per kg oil equivalent)	2.5	2.8	3.4	3.4	...	...	...
CO2 emissions (metric tons per capita)	0.2	0.1	0.2	...	...	...	...
Access to an improved water source (percent of population)	64	67	69	...	70	...	...
Access to improved sanitation (percent of population)	33	33	34	...	35	...	...
Access to secure tenure (percent of population)	...	...	...	...	...	...	...
8. Develop a Global Partnership for Development							
Youth unemployment rate (percent of total labor force ages 15-24)	...	...	...	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	2.4	2.5	12.3	65.0	202.5	...	...
Personal computers (per 1,000 people)	...	0.3	3.0	88.1	112.4	...	...
9. General indicators							
Adult literacy rate (percent of people ages 15 and over)	45.8	...	60.9	...	...	...	...
Total fertility rate (births per woman)	5.9	5.6	5.1	4.5	4.3	...	...
Life expectancy at birth (years)	52.9	54.7	56.0	57.7	58.1	...	...
Aid (percent of GNI)	9.9	3.7	2.1	7.2	6.1	...	...

Source: World Bank, World Development Indicators.

ATTACHMENT I. SUDAN—LETTER OF INTENT

May 26, 2010

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

Sudan has maintained close cooperation with the IMF for more than a decade. This cooperation has helped us implement economic policies to foster economic stability and growth, and reduce poverty—which are necessary to promote peace and reconciliation.

In May 2009, we negotiated an 18-month Staff-Monitored Program (SMP) with IMF staff for the period July 2009 through December 2010. Progress under the SMP has generally been good, notwithstanding important challenges brought by the global financial crisis and the slow pace of the ongoing recovery. The unfavorable external conditions have contributed to a sharp decline in our oil revenue, foreign direct investment, and remittances. Nevertheless, we have managed to maintain a reasonably high level of economic growth and macroeconomic stability. The government also continued to meet the challenges of implementing the numerous peace agreements, disarmament, and presidential and parliamentary elections.

For the most part, we have been successful in these efforts. Important structural reforms were completed in 2009. We implemented several fiscal measures to improve tax compliance and strengthen fiscal management and administration. Furthermore, clearance of arrears was significantly higher than the program target. Moreover, payments to the Fund were also higher than programmed and the contracting of non-concessional loans was lower than target. However, the quantitative targets on NIR and NDA of the central bank, and domestic borrowing of the government for budget deficit were missed mainly due to the lower than expected foreign inflows.

We believe that the policies and measures set forth in the attached MEFP are adequate to achieve our objectives, but we stand ready to take any additional measures that may be appropriate. In this regard, we will maintain a close dialogue with IMF staff and look forward to our continued close cooperation. We agree to the publication on the IMF's website of the staff report, the Public Information Notice, and this letter.

We are determined to further advance our economic integration both within Sudan and with the international community. Our success will depend in part on the level of support from multilateral institutions and development partners. In this context, we remain hopeful, and appeal to the international community to recognize our accomplishments and act in accordance with the principle of equal treatment, including by taking concrete action on debt relief for Sudan comparable to that provided to other countries.

Sincerely yours,

/s/	/s/
Dr. Awad Al-Jaz	Dr. Sabir Mohamed Hassan
Minister of Finance and National Economy	Governor
Ministry of Finance and National Economy	Bank of Sudan

Attachment II. Sudan: Memorandum of Economic and Financial Policies

May 26, 2010

1. This memorandum sets out the economic and financial policies and objectives of the Government of National Unity (GNU) for 2010, in the context of the IMF staff-monitored program (SMP) for 2009–10.

I. Recent Developments

2. The past year has brought enormous challenges. The financial global crisis sharply reduced our oil revenues, foreign direct investment, and remittances. Nevertheless, we have managed to maintain a reasonably high level of economic growth and macroeconomic stability. The government also continued to meet the challenges of implementing the numerous peace agreements, disarmament, preparations for elections, and fiscal decentralization. For the most part, we have been successful in these efforts. However, the severity of the global recession has impacted our balance of payments, contributing to a continued low level of foreign exchange reserves.

3. Like elsewhere in the region and around the world, economic growth weakened in 2009. Overall real GDP growth is estimated at about 4.5 percent, with the non-oil GDP growth rate dropping by half to about 5 percent. Lower growth in almost all sectors of the economy was partially offset by a small increase in oil production. Average inflation fell to about 11 percent from over 14 percent in 2008, broadly in line with our program target.

4. Fiscal performance in 2009 was good. While the overall deficit (on commitment basis) was higher than programmed (4.7 percent of GDP relative to 4.0 percent envisaged under the program), tax revenues improved significantly, in line with the program target. Moreover, oil revenues rebounded in the second half of 2009, mainly due to higher oil prices. Despite the large increases in oil-related outlays (automatic transfers to sub-national governments and fuel subsidy), most discretionary expenditures were kept within the program. The main exception was election-related outlays, which were higher than initially envisaged. The fiscal space afforded by higher oil and tax revenues was used to support higher-than-programmed capital expenditure (2.8 percent of GDP, compared to 2.6 percent under the program), as well as repayments of domestic arrears (0.9 percent of GDP relative to 0.6 percent under the program). The draw-downs from the ORSA (0.5 percent of GDP) were lower than the program levels.

5. Monetary policy in 2009 focused on ensuring sufficient credit to the private sector to partially offset the impact of liquidity shortages created by the financial crisis. Reserve money growth was about 28 percent, largely due to central bank financing to commercial banks for onward lending, contributing to a sharp (32 percent) increase in net domestic assets (NDA) and credit to the private sector. The central bank's net international reserves (NIR), however, remained very low. The guinea depreciated by 13 percent against the U.S. dollar

through August and subsequently appreciated as the central bank increased the sale of foreign exchange to the market. As a result, the overall depreciation of the guinea against the U.S. dollar in 2009 was about 3 percent.

6. The balance of payments deteriorated in 2009 mainly due to a substantial decline in oil prices during the first half of the year. The current account deficit reached 11.5 percent of GDP as the decline in imports (by about 6 percent) and the rebound in oil prices in the second half of 2009 were not sufficient to compensate for the fall in oil exports in the first half. In addition, weaker than expected remittances and foreign direct investment kept the foreign exchange position under pressure.

7. Despite the global crisis, financial sector indicators showed some improvement in 2009. Gross nonperforming loans (NPLs) declined to 20 percent at end-2009, from 22 percent at end-2008, partly owing to a reduction of domestic government arrears. The ratio of loan provisions to NPLs increased to 24 percent at end-2009, from 20 percent at end-2008, following our initiatives to further strengthen supervision, prudential regulations, and loan provisioning. However, the average capital adequacy ratio deteriorated to 7 percent at end-2009, from 11 percent at end-2008. We would like to point out that our definition of capital adequacy requirement and non-performing loans under the Islamic banking system is stricter than conventional international standards. At least 9 banks with total lending of about 50 percent of banking sector loans remain problematic. In particular, the financial position of Omdurman National Bank—which accounts for about half of the NPLs and 25 percent of bank lending—remains difficult.

8. Important structural reforms were completed in 2009. We implemented several fiscal measures to improve tax compliance and strengthen fiscal management and administration. These included the extension of GFS 2001 budget classification to 5 Northern states, modernization of the taxation chamber, and centralization of taxpayer identification numbers. The comprehensive review of the tax policy regime is ongoing, and is expected to be completed by July 2010. The delay in completing the review was due to the reorganization of the Ministry of Finance and National Economy (MoFNE). In the financial sector, a restructuring plan for Omdurman National Bank was completed, in line with the recommendations of an independent auditor.

9. The slow global recovery has impeded meeting some of the quantitative targets under the SMP. The domestic financing of the central government was higher than the program ceiling due to the larger than expected deficit and the significantly lower foreign financing. The NIR target was also missed, mainly due to weaker than expected oil prices, continued high imports, and large sales of foreign exchange.[1] Moreover, the NDA was higher than

[1] The NIR level for end-2009 and the projection for 2010 exclude the general SDR allocation (SDR 125.8 million).

programmed due to central bank financing to commercial bank for onward lending to the private sector. On the other hand, clearance of domestic arrears was significantly higher than the program target, and the targets on payments to the Fund and on contracting of non-concessional loans were also met.

II. Policies for 2010

10. The challenges to economic and financial management are not expected to diminish in 2010. In addition to the expected slow recovery in the global economy, 2010 is a year of presidential, legislative, and local elections. Moreover, it is the year when most of the preparation for the 2011 referendum will take place. Furthermore, the recent Doha agreement on Darfur will add to our already high financial obligations. We expect to continue to experience low foreign exchange earnings from oil exports, foreign direct investment, and remittances. In the current circumstances, we fully recognize the need to proceed without delay with our reform efforts. Our emphasis will be on maintaining macroeconomic stability, safeguarding and rebuilding foreign exchange reserves, and sustaining economic growth.

A. Real Sector

11. The slow global recovery will likely lead to lower growth rates than the rates Sudan has enjoyed over the few years preceding the crisis. Foreign inflows are likely to remain moderate. Moreover, economic growth continues to be dependent on oil and oil related activities, while agriculture, which remains an important source for non-oil growth and employment, has not performed to its potential. We recognize that to sustain growth we need to focus on developing the agricultural sector and addressing structural bottlenecks to increase investment.

12. We remain committed to developing the sector based on our Agricultural Revitalization Plan developed in 2008. We have successfully established public-private partnership in the management of 3 pilot projects to improve production in irrigated land. We continue to invest in basic infrastructure, and are working on diversifying crops, increasing land under cultivation, introducing advanced technology, enhancing integration of farming and livestock, building agro-business industry, and increasing access to finance for farmers. In this context, the central bank has already established channels for microfinance to the agricultural sector.

13. We expect real GDP growth to increase to about 5.5 percent in 2010. Non-oil GDP growth is projected at about 6 percent due to a pick up in agriculture, manufacturing, and services. The agriculture sector is expected to benefit from the recent completion of the Merowi Dam and the measures taken to revitalize the sector. The manufacturing sector is projected to experience strong growth due to the establishment of large cement and sugar factories. The business environment is being improved by a number of reform measures intended to facilitate the private investment, including streamlining business registration procedures and establishing a one-stop-shop. Average inflation in 2010 is expected to drop

slightly to about 10 percent in line with developments in international food prices and a tightening in monetary policy.

B. Fiscal Policy and Reform

14. Maintaining macroeconomic stability will be a central objective of fiscal policy during 2010. The approved 2010 budget envisages a deficit of 5.3 percent of GDP on a commitment and cash basis. The budget was prepared based on conservative oil price assumptions (US$60/bbl for Nile blend and US$50/bbl for Dar blend), with total revenues projected at 15.3 percent of GDP, about 0.4 percent of GDP higher than the 2009 outturn. Tax collections were budgeted at 6.3 percent of GDP reflecting a slow recovery in economic growth and the challenges in undertaking major tax reforms during an election year. The approved envelope for current expenditures (16.3 percent of GDP) was smaller than the 2009 outturn, while that for capital expenditures was larger (by 1.6 percent of GDP). External loans and grants were projected at 5.2 percent of GDP.[2]

15. Recent fluctuations in revenues driven by volatile oil prices have underlined the importance of reducing government dependence on oil. Also, foreign financing prospects remain uncertain due to the impact of global economic slowdown in some of our major creditors. In view of these challenges, we recognize that additional efforts will be required to (i) temper the fiscal contribution to domestic demand pressures in an effort to strengthen external stability and keep inflation in check; and (ii) preserve a level of adjustment in the non-oil primary operating balance that is consistent with a gradual depletion of Sudan's oil wealth.

16. Accordingly, we intend to contain the deficit at no more than SDG 6,461 million (4.2 percent of GDP). This is based on the more recent international oil price forecast (US$68/bbl for Nile blend and US$56/bbl for Dar blend) and more conservative projections on foreign aid inflows. We also plan to pay off over SDG 600 million of government arrears, which would clear the total stock at end-2009. This implies a cash deficit of SDG 7,073 million (or 4.6 percent of GDP). Fiscal revenues are expected to reach SDG 25.7 billion (including tax revenues of SDG 11.1 billion), while total expenditures are envisaged at SDG 32.1 billion.[3] Compared with the budget, these figures imply: (i) an increase

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[2] The figures in this paragraph are based on the definition of revenues and expenditures as used by the MoFNE. Specifically, the revenues exclude 0.8 percent of GDP worth of accumulation in the ORSA and 0.4 percent of GDP worth of fuel subsidy. The expenditures are, similarly, exclusive of the aforementioned fuel subsidy. Under the IMF format, which reports oil revenues at market prices, the corresponding revenue, total expenditure, and commitment deficit figures are 16.5 percent, 21.1 percent, and 4.6 percent of GDP, respectively.

[3] Our definition of revenues excludes both the fuel subsidy (SDG 1,087 million)—the difference between the $49/bbl refinery gate price and the international price on local crude sales—and net ORSA accumulation (SDG 1,234 million). Both these items are included in the IMF definition of revenues, which is based on the market value of oil sales. The corresponding figure for revenues under the IMF definition is, therefore, about

(continued)

in tax revenues of 0.3 percent of GDP relative to the 2009 outturn on account of the lagged effects of revenue-enhancing measures introduced in 2009, and the anticipated implementation of additional fiscal measures; and (ii) a net accumulation of 0.8 percent of GDP in the ORSA to buffer against future oil revenue volatility. In order to achieve the fiscal adjustment in the revised program, we commit to undertake a number of concrete tax and expenditure measures, described below:

17. In the area of **tax policy**, we intend to build on the measures that we have already implemented to raise tax revenues. These include: (i) elimination of the trade restriction on the import raw sugar; and (ii) introduction of a federal customs and excise duty regime in Southern Sudan. To further enhance tax system efficiency and identify concrete policy measures to widen the tax base, we intend to:

- complete a comprehensive review of the tax policy regime with a view to (i) reducing VAT exemptions; (ii) reforming the personal income tax; (iii) clarifying tax jurisdiction issues with sub-national governments; and (iv) optimizing the oil tax revenue management framework (structural measure for July 2010)

- identify tax policy measures that would be implemented in the 2011 budget (structural measure for December 2010) based on the above review.

- increase fees on certain construction material and parts from 10 to 40 percent; and introduce new fees on certain transportation vehicles.

- Increase excise rates to 25 percent on soft drinks, mineral water and juice; and impose an excise duty of 15 percent on ceramic and some food items.

18. In the area of **revenue administration**, we have launched a comprehensive drive to improve tax compliance and curb tax evasion, including by: (i) centralizing issuance of taxpayer identification numbers to business and VAT taxpayers, and operationalizing their use by the customs administration; (ii) passing new custom legislation containing provisions to adopt WTO-consistent valuation principles; and (iii) installing X-ray container scanners at the entry ports to facilitate trade. We are also committed to undertaking the following measures:

- identifying and incorporating 400 additional companies currently outside of the tax system (structural measure for October 2010).

SDG 28 billion. Similarly, our definition of total expenditures excludes the fuel subsidy spending, while the IMF staff definition includes it. Consequently, the corresponding figure for total expenditures under the IMF definition is SDG 33.2 billion. The IMF comparable deficit target amounts to SDG 5,225 million.

- undertaking a review of tax exemptions granted under Investment Encouragement Act to identify entities that are no longer entitled to exemptions.

- establishing a database that allows for a system of information-sharing, cooperation and coordination for registered companies (structural measure for October 2010).

- ensuring that public oil companies transfer their profits directly to the MoFNE rather than to Sudan Petroleum Company.

- implement customs evaluation system in accordance with WTO provisions and Sudan customs law (structural measure for July 2010).

- upgrading customs stations with ASYCUDA Word software (structural measure for December 2010).

19. In the area of **expenditure policy**, we have already abolished electricity subsidies in August 2009. This measure is expected to contribute to a reduction in current expenditures by more than SDG 100 million in 2010. Moreover, we have taken steps to lower spending on goods and services by selling all government vehicles to officials with positions below that of an undersecretary. This measure has not only generated a one-time revenue increase in 2009, but is also expected to reduce the annual government expenditures from insurance, fuel, and maintenance. Our objective is to reduce fuel subsidies by gradually adjusting the petroleum price formula. We plan to first put in place a well-targeted social safety net to protect the poor. We will use the results of the household survey, which is expected to be completed by mid-2010, to develop the social safety net. Given Sudan's large geographic size and limited capacity, the establishment of such a scheme during the current year will be difficult. We will begin the process by undertaking the following: (i) design a methodology study in the context of the Poverty Reduction Strategy Paper (PRSP); and (ii) propose an implementation mechanism to the line ministries and states (structural measure for December 2010).

20. In the area of **public financial management**, we have reorganized the MoFNE in line with recent IMF technical assistance advice, and have set up committees to enhance interdepartmental coordination. We have also initiated the implementation of a Government Resource Planning (GRP) system with the intention of making it a core component of the overall organizational development of the MoFNE.

21. The recent economic fluctuations driven by volatile oil revenues have underlined the importance of adopting a multi-year budget planning system using non-oil indicators. Reforms on this front will help reduce the macro-fiscal costs associated with oil price volatility, by allowing excess oil revenues to be adequately saved during the boom years and withdrawn when oil revenues are low. In this context, we will take the following measures:

- develop a three-year budget framework, including projections for non-oil revenue to GDP ratio and non-oil primary balance to GDP ratio, and use this framework on a rolling basis for budget preparation (structural measure for December 2010). We will include the non-oil primary balance-to-GDP ratio as an additional key fiscal indicator in the budget and budget execution documents.

- extend GFS 2001 budget classification to another 4 Northern states, with a view to better monitor general government's fiscal operations and track public spending by sector.

C. Monetary and Exchange Rate Policies

22. We will adopt a cautious monetary stance to keep inflationary pressures in check. Consistent with the GDP growth and inflation objectives, the program will target broad and reserve money growth at 21 percent and 19 percent, respectively, in 2010. The monetary targets and the projected change in foreign exchange reserves will allow for an appropriate growth of credit to the private sector. Nevertheless, to limit risks of crowding out the private sector, these targets will be revisited at the time of the next review and modified if required.

23. Rebuilding international reserves from the currently low level will be our priority in the 2010 macroeconomic framework and we will devote all the necessary means to this end. NIR is targeted to increase by US$560 million to US$950 million at end-2010. Despite an increase in imports and relatively low remittances and foreign direct investment, the current account deficit is expected to improve to about 8.5 percent of GDP in 2010 (from 12.9 percent in 2009). This is due to higher oil exports on account of higher projected international oil prices. As a result, we will be able to rebuild the net international reserves of the central bank.

24. The exchange rate will be allowed to move in line with fundamentals to rebuild our foreign exchange reserve position, and foreign exchange sales will focus primarily to meet genuine market needs. Given the lumpiness of foreign exchange inflows related to oil exports and FDI, intervention may be needed to smooth short-term volatility.

D. Financial Sector

25. We are redoubling our efforts to further strengthen the financial system. In 2009, we improved further our legal and regulatory framework in a number of areas, including corporate governance, provisioning, risk management, and the role of Board of Directors. We plan to strengthen considerably our enforcement of corrective actions when banks fall short of meeting the prudential requirements. We are also strengthening further our supervision department, including through training courses, and are requiring banks to adopt international accounting standards. We will accelerate the program for resolving NPLs, strengthening loan recovery and loan write-off processes, and improving the credit registry to provide up-to-date information about borrowers. We will encourage development of non-bank financial institutions by putting in place appropriate legal and supervisory framework in order to promote the establishment of microfinance institutions.

26. We recognize the unique nature and problems of Omdurman National Bank. Our restructuring plan includes measures that aim at preventing further deterioration of the bank's financial position, its recapitalization by current shareholders, and its eventual privatization. Total recapitalization necessary to bring the bank to minimum capital adequacy ratio of 12 percent is SDG 1.8 billion. As part of our restructuring efforts, we are requiring shareholders (other than the central bank) to inject SDG 532 million in 2010. We will be reinforcing on-site inspection of the bank's branches. We will require the bank to close its loss-making branches, liquidate its fully-owned loss-making companies, and implement the remaining recommendations of the independent auditor (structural measure for December 2010). A number of the measures included in the restructuring program are already being implemented, including completion of the review of the bank's regulations regarding (i) the role of Board of Directors; (ii) internal audit and risk management system: (iii) financial and administrative procedures; and (iv) guidelines of operations. We plan to begin the privatization proceedings of Omdurman National Bank by end-2011.

III. Relations with the IMF and Other Creditors

27. **External debt issues.** In 2010, Sudan's debt service capacity will be constrained by continued low oil export revenues, the need to rebuild foreign exchange reserves, the burden of implementing the various peace agreements, and the need to address critical poverty and reconstruction requirements. Further shortfalls or delays in donor assistance or a significant negative shock to oil prices would further limit the capacity to service our debt. Based on the preliminary data, the end-2009 stock of public and publicly guaranteed debt is estimated at US$35.6 billion. We wish to convey to the international community that Sudan has cooperated on policies and payments for many years, and in that context has met all the conditions and requirements for debt relief. We remain hopeful that the international community will recognize our track record and, in accordance with the Comprehensive Peace Agreement commitments, take concrete action on debt relief comparable to that provided to other low income countries. We ask the IMF to facilitate in this process. Finally, we would point out that reaching an understanding on debt relief prior to the 2011 referendum would help in its implementation.

28. **Debt sustainability**. Indeed, the joint government/World Bank/IMF debt sustainability analysis concludes that Sudan will remain in debt distress in the foreseeable future even under a benign global environment and the implementation of appropriate policies. The debt burden is undermining our efforts to reduce poverty and address regional inequality, which are critical to maintaining peace and security throughout Sudan. Accordingly, we urge the international community to apply its debt relief mechanisms in a uniform manner and move forward with debt relief, noting that Sudan has by now embarked on 13 successive years of SMPs.

29. **External financing.** Sudan continues to suffer from limited access to concessional loans because of our arrears situation and the difficulties we face in resolving our external debt. Many low income countries are benefiting from the IMF's concessional facilities, which also play a catalytic role for concessional financing from other donors. We are implementing a difficult program during an unprecedented global crisis without access to concessional financing. We cannot put critical infrastructure, reconstruction, and social development projects on hold indefinitely. These projects are an essential component of our strategy to address pressure needs in all states and to support the multiple peace agreements. Consequently, in recent years, we have had to resort to nonconcessional financing, but limited the contracting of such borrowing to minimum levels (US$693 million in 2009 compared to a ceiling of US$700 million). We are aware of the concern of other creditors about this borrowing, and of the risks it may pose over the medium- and long-term. Therefore, we will seek to limit the contracting of such obligations as much as possible. For 2010, we will limit the contracting of non-concessional borrowing to US$700 million.

30. **Payments to the IMF.** In addition to cooperating with the Fund on economic policy, Sudan's payments to the IMF have exceeded program levels under the SMPs. We will make sure that the IMF's preferred creditor status will be maintained by ensuring that our payments in 2010 continue to exceed obligations falling due. To demonstrate our continued cooperation, we will make payments of US$10 million in 2010, despite our much reduced foreign exchange earnings. We have also reduced repayments to other creditors in light of our difficult NIR position and that we have requested from our main creditors a rescheduling of debt service falling due in 2010. However, while demonstrating our good intentions, these payments are not a solution to Sudan's arrears to the Fund. As of January 1, 1997, Sudan's outstanding obligations to the IMF were about SDR 1,160 million. Since then, Sudan has paid about SDR 390 million (about SDR 370 million in principal repayment and about SDR 20 in interest and other charges) and has accumulated new interest and charges of SDR 210 million. Consequently, although the total sum paid is equivalent to the principal Sudan originally owed, its outstanding obligation due to the IMF has not changed much. This underlies the need for a comprehensive solution to our arrears problem. We appeal to the international community to recognize our accomplishments, act in accordance with the principle of equal treatments, and work toward a rapid resolution of Sudan's debt and arrears problem.

31. **PRSP.** To guide our efforts in reducing poverty, we are in the final stages of producing our PRSP and hope to complete it by end-2010. The PRSP is placing emphasis on poverty alleviation in the context of a macroeconomic framework consistent with post-conflict challenges, decentralization, an enabling environment for private sector growth, and capacity and institution building. An important priority will be developing agriculture, infrastructure, and the financial sector in order to facilitate employment creation and poverty reduction. However, the success of our poverty reduction efforts will require cooperation and coordination support from the international donor community.

32. **Technical assistance.** We have significant technical assistance needs, and value highly the assistance provided by the Fund. In the area of monetary and financial sector, our immediate priorities include an FSAP update, and technical assistance on banking supervision and developing indirect monetary instruments. In the fiscal area, we request technical assistance in tax administration, including oil revenue management and tax policy. We also require further assistance in improving our public financial management, including fiscal reporting and budget processing, and setting up multi-year budget planning. Our national accounts statistics suffers from serious shortcomings. We require a peripatetic expert to help us introduce the *1993 System of National Accounts* and rebase the data. Finally, further IMF technical assistance in the South would be very important given the significant need to build capacity. We would request a diagnostic mission that identifies further needs in the fiscal, monetary, and banking sectors.

IV. Program Targets and Monitoring

33. The proposed quantitative targets up to end-December 2010 are set forth in Table A, and structural measures are detailed in Table B. We will closely monitor financial and economic developments in the coming months and will implement any additional measures that may be needed to safeguard macroeconomic stability in consultation with IMF staff.

34. To ensure the effective monitoring of the program, the relevant ministries, the Central Bank of Sudan, and the Central Bureau of Statistics will compile and share with the IMF staff all economic and financial data necessary, on a timely basis, as specified in the attached Technical Memorandum of Understanding.

Table A. Sudan: Status of Quantitative Targets in 2009 and Proposed Targets for 2010 SMP

	2009 1/			2010 1/	
	Dec.			June	Dec.
	Target	Adj. Target	Actual	Target	Ind. Target
(In millions of Sudanese guineas, unless otherwise indicated)					
Central Bank of Sudan net domestic assets (Ceiling) 2/	2,190	1,754	3,588	610	1,188
Domestic financing of the central government (Ceiling) 2/	3,003	2,567	5,038	855	1,848
Reduction in the stock of domestic arrears of the central government (Floor) 1/ 3/	721	721	1,093	200	612
Net international reserves (in millions of U.S. dollars) (Floor) 2/	-378	-183	-588	200	560
Contracting or guaranteeing of external nonconcessional debt					
by the government or the central bank (in millions of U.S. dollars) (Ceiling)	700	700	693	700	700
Payments to the Fund (in millions of U.S. dollars) (Floor)	10	10	11	…	10
Memorandum items:					
Broad money	4,128		5,381	2,691	5,946
Reserve money	1,292		3,022	1,365	2,618
Net central bank claims on government of Southern Sudan	-5		6	6	6
Government oil export revenues	4,321		6,679	5,054	10,109
Of which: Net oil savings account (OSA) accumulation	-878		-585	617	1,234

Sources: Sudanese authorities; and Fund staff estimates.

1/ Cumulative flow during the year.
2/ Subject to an adjustor to take account of oil production and/or prices being different than assumed in the program.
3/ Arrears are defined as overdue financial obligations of the central government outstanding for 90 days or more.

Table B1. Status of Structural Measures Under 2009 SMP

	Measures		Objective	Timing 1/	Status of implementation
Tax Policy					
1.	Undertake a comprehensive review of the tax policy regime with a view to (i) sharply reducing VAT exemptions; (ii) reforming the personal income tax; (iii) clarifying tax jurisdiction issues with subnational governments; and (iv) optimizing the net government take from the oil sector.	(SB) 2/	Raise revenue	October 2009	Not complete.
2.	Introduce federal customs and excise duty regime in Southern Sudan			July 2009	Done.
3.	Eliminate the trade restriction on the import of raw sugar			July 2009	Done.
Expenditure Policy					
4.	Submit to parliament privatization legislation to ensure consistent treatment of retrenched employees' compensation across parastatals, with a view to expediting the privatization process.		Easing structural rigidities and improving the business environment	November 2009	Not done (draft with Council of Ministers).
Public Financial management					
5.	Extend GFS 2001 budget classification to at least 5 Northern states with a view to better monitoring general government's fiscal operations and tracking public spending by sector.	(SB)	Strengthen fiscal management and reporting	December 2009	Done.
6.	Undertake reorganization/modernization of the Ministry of Finance and National Economy broadly in line with recent IMF technical assistance advice.	(SB)	Strengthen fiscal policy management	August 2009	Done (in December 2009).
Revenue administration					
7.	Submit to parliament customs legislation containing provision to adopt WTO-consistent valuation principles.	(SB)	Modernize customs administration	September 2009	Done in December 2009 and President signed it into law in January 2010.
8.	Consolidate all agreed-to modernization initiatives of the taxation chamber into an integrated and fully-costed modernization plan.	(SB)	Strengthen tax administration	October 2009	Done.
9.	Centralize issuance of taxpayer identification numbers and operationalize their use by the customs administration.	(SB)	Improve tax compliance	July 2009	Done.
Financial sector					
10.	Prepare a time bound restructuring plan for Omdurman Bank in line with the recommendations of the independent audit completed last year.	(SB)	Financial sector soundness	December 2009	Done.

1/ Unless otherwise specified, measures are for end-month.
2/ SB: Structural Benchmark.

Table B2. Proposed Structural Measures for 2010

Measures	Objective	Timing [1/]
Tax Policy		
1. Undertake a comprehensive review of the tax policy regime with a view to (i) reducing VAT exemptions; (ii) reforming the personal income tax; (iii) clarifying tax jurisdiction issues with subnational governments; and (iv) optimizing the oil tax revenue management framework.	Raise revenue	July 2010
2. Based on the review propose tax policy measures that could be implemented in the 2011 budget.	Raise revenue	December 2010
Revenue administration		
3. Widen tax base through identifying and incorporating 400 additional companies currently outside of the tax system.	Improve tax compliance	October 2010
4. Widen tax base by undertaking a review of tax exemptions granted under Investment Encouragement Act to identify entities that are no longer entitled to exemptions.	Improve tax compliance	June 2010
5. Establish a database that allows a system of information-sharing, cooperation and coordination for registered companies in order to widen tax base.	Strengthen tax administration and improve transparency	October 2010
6. Ensure public oil companies transfer their profits directly to the Ministry of Finance and National Economy rather than to Sudan Petroleum Company.	Strengthen revenue administration	November 2010
7. (i) Implement customs evaluation system in accordance with WTO provisions and Sudan's custom law.	Improve tax compliance	July 2010
(ii) Upgrade customs stations with ASYCUDA World software.		December 2010
Expenditure Policy		
8. Based on the household survey to be completed in mid-2010, design a targeted social safety net as a prerequisite for the gradual rationalization of fuel subsidy. Specifically: (i) design a methodology study in the context of the PRSP; and (ii) propose implementation mechanism to the line ministries and states.	Protect the poor in the context of future fuel subsidy reform.	December 2010
Public Financial management		
9. Extend GFS 2001 budget classification to another 4 Northern states with a view to better monitoring general government's fiscal operations and tracking public spending by sector.	Strengthen fiscal management and reporting	November 2010
10. Develop a medium-term fiscal framework to help buffer against the uncertainties of oil revenue volatility, and use it on a rolling basis for budget preparation.	Strengthen fiscal policy management	November 2010
Financial sector		
11. Continue restructuring the Omdurman National Bank by: (i) closing its loss making branches (unless they become profitable); (ii) liquidating loss making companies fully owned by the bank; and (iii) implementing the remaining recommendations of the independent audit report.	Financial sector soundness	December 2010

1/ Unless otherwise specified, measures are for end-month.

ATTACHMENT III. SUDAN: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum specifies the understanding reached with the Fund staff regarding quantitative targets, structural benchmarks, and reporting for the 2009–10 staff-monitored program (SMP).

2. The SMP relies on six quantitative targets for end-June and an equal number of quantitative indicative targets for end-December. The targets are (i) ceilings on the change in net domestic assets of the Central Bank of Sudan (CBoS); (ii) ceilings on the domestic financing of the fiscal deficit; (iii) floors for the buildup of net international reserves of the central bank; (iv) ceilings on new nonconcessional external loans contracted or guaranteed by the government or the central bank; (v) floors for payments to the Fund; and (vi) change in domestic arrears. Broad money, reserve money, and total government revenues from crude oil exports will be monitored as memorandum items. Some of these targets are subject to adjustors depending on the financial position of the government of South Sudan, total government oil revenue performance, and the transfers from the central government to subnational governments. The definitions of these variables and the adjustors are set out below. All the quantitative targets and structural benchmarks are displayed in Tables A and B of this attachment.

3. **Net domestic assets (NDA)** of the CBoS are defined as the sum of the Net Domestic Credit of the CBoS, the net issue of money market instruments and other items net. Net Domestic Credit is defined as net credit to the central government (i.e. Government Musharaka Certificates (GMCs), Government Investment Certificates (GICs), and any other form of central bank credit to the central government minus total central government deposits) plus net central bank claims on state and local governments, central bank claims on public enterprises, and claims on banks, and minus Central Bank Ijara Certificates (CICs). The definition of the central government comprises all accounts of line ministries and agencies controlled by the government (corresponding to Group no. 11, Group no. 12, and some accounts of the Group no. 19 in the CBoS general ledger), the Zakat funds (recorded under Group no. 13), and margin deposits placed with the CBoS by the central government against letters of credit issued by the CBoS. The definition includes all oil-related accounts controlled by the government (e.g., OSA). To evaluate program targets, the guinea equivalent values of foreign exchange denominated items in the balance sheet of the central bank will be calculated at the program exchange rate (1US$=2.4 guinea).

4. **Net international reserves** (NIR) are total gross non-earmarked official foreign reserve assets on active accounts plus reserve assets of the government of Southern Sudan in the central bank minus official short-term liabilities (i.e. no more than one-year maturity). The assets are maintained on accounts with overseas correspondent banks and foreign exchange banknotes in the vaults of the central bank. Short-term liabilities comprised of the following items: (i) short-term liabilities, as noted in the balance sheet of the CBoS; (ii) IMF

deposit accounts; (iii) nonresident deposits; and (iv) (overdrawn) foreign correspondents accounts net of dormant accounts.

5. **Domestic financing of the fiscal deficit** is defined as total net domestic borrowing by the central government, including net borrowing from the banking system (including GMCs and GICs), net sales of GMCs and GICs outside the banking system, promissory notes (i.e., standing orders, letters of guarantee, sanadats, etc.), revenues from privatization (net of new acquisition of shares), net buildup of domestic government arrears, and drawdown in government cash deposits at the CBoS (including OSA). The definition of central government for the purpose of this criterion is the same as the one applied for the NDA of the central bank.

6. Limits on **contracting or guaranteeing of nonconcessional external debt** apply to all forms of debt of more than one-year maturity contracted or guaranteed by the government or the CBoS. The limit 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. The degree of concessionality of debt will be calculated as specified in the Guidelines.[1]

7. **Broad money** is defined as the sum of local currency circulating outside of the banks, banks' demand, and time and savings deposits. It also includes transferable deposits and margin deposits against letters of credit placed by state and local governments, nonfinancial public enterprises, and the nonbank private sector with the CBoS. **Reserve money** is defined as the sum of local currency circulating outside of the banks, total reserves (required and excess) for banks, and deposits at the CBoS included in broad money.

8. **Adjustor on the financial position of the government of South Sudan** (capped). The program target for changes in the NDA of the central bank will be reduced (increased) and the international reserve target will be increased (reduced) by the amount of any decline (increase) in net central bank claims on the government of South Sudan. The NIR target will also be increased by the amount of the new SDR allocation. The adjustor will not apply if the stock of net claims on the government of South Sudan turns positive.

[1] For program purposes, a loan is considered concessional if the grant element is at least 35 percent calculated using a discount factor based on the Commercial Interest Reference Rates (CIRRs) published by the OECD plus margins depending on the loan maturity. The margins are 0.75 percent for repayment periods of less than 15 years, 1 percent for 15–19 years, 1.15 percent for 20–29 years, and 1.25 percent for 30 years or more. The average of the CIRRs over the last ten years will be used for loans with a maturity of at least 15 years and the average of the CIRRs for the preceding six months will be used for shorter maturities.

9. **Oil revenue adjustor**. The gross programmed government oil revenue is based on the program's assumptions about crude oil prices (f.o.b. Port Sudan) and volumes (government share). Accrued revenue is the cumulative government oil revenue inflows based on actual shipments (including deliveries to refineries) at current international prices (f.o.b. Port Sudan).[2] The local currency equivalent of the dollar difference between the programmed and accrued oil revenues, needed to calculate the adjuster, will be obtained by multiplying the dollar difference by the average of the monthly exchange rates prevailing during the period in question. The government oil revenues are programmed at SDG 6,992 million and SDG 13,984 million, respectively for June and December 2010.[3]

The oil revenue adjustor will work as follows:

- If the accrued government revenue exceeds the programmed amount (because of price and/or volume increases), then:

    - the program targets for domestic financing of the budget deficit and NDA will be reduced, by one half of the local currency equivalent difference between the accrued and the programmed amounts, and the international reserves target will be increased by one half the local currency equivalent excess of accrued export oil revenues over the corresponding programmed level unless the difference is used for capital expenditures and/or peace related spending in which case the program targets remain unchanged.

- If the accrued government revenue falls short of the programmed amount (because of price and/or volume decreases), then:

    - the program targets for domestic financing of the budget deficit and NDA will be increased, by one half of the local currency equivalent difference between the programmed and accrued amounts, and the international reserves target will be reduced by one half the local currency equivalent shortfall of the actual amounts accrued from the programmed export oil revenues.

10. **Data Reporting.** The following table contains the agreed reporting framework. To the extent possible, the data will be submitted in both printed and electronic form to the IMF local office.

[2] As compiled monthly by the Ministry of Finance and Economy (MOFNE).

[3] The oil revenue figures included both the projected negative fuel subsidy and the net OSA accumulation.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
CBoS	Flash report	Weekly data for movement in main indicators of the CBoS balance sheet, international reserves, sales and purchases of foreign exchange, exchange rate.	Weekly	Tuesday of each week
	CBoS balance sheet	Detailed CBoS balance sheet.	Monthly	1 month after the end of each month
	Monetary survey	Banking system balance sheet and consolidated balance sheet of commercial banks	Monthly	1 month after the end of each month
	Cash flow of foreign exchange	Cash flow data of foreign exchange, including sales and purchases by the dealing room at the CBoS.	Monthly	1 week after the end of each month
	Banking indicators	Capital adequacy; asset composition and quality including non-performing loans; profitability; liquidity; open FX positions; and compliance with prudential norms	Quarterly	1 month after the end of each quarter
	Balance of payments	Detailed composition	Quarterly	2 months after the end of each quarter
Ministry of Finance	Central government operations	Revenues, expenditures, and financing as in GFSM 2001 format	Monthly	45 days after the end of each month
	GOSS	Revenues, expenditures, and financing	Monthly	Data for January-April by end-June; for the remaining months 45 days after the end of each month
	Privatization receipts	Detailed figures for each transaction and nature of the transaction	Quarterly	2 months after the end of each quarter
	Central government domestic debt	End-month stocks, and monthly issuances and repayments, of all domestic debt instruments: GMCs, GICs, loans and advances from the ban king system, sanadat, letters of guarantee, standing orders, accounts payable (including arrears)	Monthly	45 days after the end of each month
	External debt	Disbursements, debt service, and contracting or guaranteeing of medium-and long-term external debt of the government, the CBoS, and state-owned companies	Quarterly	1 month after the end of each quarter
Central Bureau of Statistics	CPI	Including detailed data.	Monthly	1 week after the end of each month
Ministry of Finance/ Ministry of Energy	Crude oil exports	Shipment data, listing by blend specifying date, quantity, prices, and values in US$ and in guinea	Monthly	1 month after the end of each month
	Sales to refineries	Sales listing by refineries specifying date, quantity, prices, and values in US$ and in guinea	Monthly	1 month after the end of each month
	Net operating income transfers to the treasury	Net income of SPC (including those derived from exports of petroleum products)	Quarterly	1 month after the end of each quarter

INTERNATIONAL MONETARY FUND

SUDAN

Staff Report for the 2010 Article IV Consultation and First Review Under the 2009–10 Staff-Monitored Program—Informational Annex

Prepared by Middle East and Central Asia Department
(In consultation with other departments)

June 7, 2010

Contents Page

ANNEX I. SUDAN: RELATIONS WITH THE FUND
(As of March 31, 2010)

I. **Membership Status**: Joined 09/05/1957; Article VIII.

II. **General Resources Account**:

	SDR Million	Percent of Quota
Quota	169.70	100.00
Fund holdings of currency	366.21	215.80
Reserve position in Fund	0.01	0.01

III. **SDR Department**:

	SDR Million	Percent of Allocation
Net cumulative allocation	177.99	100.00
Holdings	125.73	70.64

IV. **Outstanding Purchases and Loans:**

	SDR Million	Percent of Quota
Stand-by Arrangements	124.49	73.36
Extended Arrangements	59.23	34.90
Contingency and Compensatory Financing Facility	4.89	2.88
Trust fund	67.10	39.54

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] 3/31/2010	Forthcoming 2010	2011	2012	2013	2014
Principal	255.71					
Charges/Interest	734.96	2.23	2.88	2.88	2.88	2.88
Total	990.67	2.23	2.88	2.88	2.88	2.88

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

VII. Exchange Rate Arrangements

The legal tender is the Sudanese guinea, which replaced the Sudanese dinar in proportion SDG 1=SDD 100 in mid-2007. After the completion of a currency conversion to the new Sudanese guinea the Bank of Sudan (BOS) has allowed greater exchange rate flexibility than in 2006 and early 2007, suggesting a return to a floating exchange rate arrangement. The exchange rate system was free of restrictions on the making of payments and transfers for current international transactions[2] until the BOS introduced an exchange restriction and multiple currency practice by imposing a floor on cash margins for letters of credit and import credit in 2009. These restrictions were approved by the Board to end-June 2010.

VIII. Article IV Consultation

Sudan is on a 12-month consultation cycle. The last Article IV consultation discussion was concluded by the Executive Board on November 26, 2008.

IX. FSAP Participation

The FSAP work took place during October 9–14, 2004 and was completed during December 1–14, 2004. The Financial System Stability Assessment report was discussed by the Executive Board on April 29, 2005.

X. Resident Representative

The Fund's resident representative office in Khartoum was opened in October 2005, as a shared post with Djibouti. It was converted to a full post in September 2006.

XI. Technical Assistance

In January 1995, the Executive Board decided to resume Fund technical assistance to Sudan. The following table contains a summary of the technical assistance provided since 2004. This assistance has been provided both from headquarters and from the IMF's Middle East Technical Assistance Center (METAC).

[2] In November 2005, the authorities removed two remaining exchange restrictions subject to Fund approval under Article VIII, Sections 2, 3 and 4 of the Fund's Articles of Agreement. At that time, they lifted the exchange restriction that prohibited importers in arrears with valid import licenses from executing payments and transfers for import transactions and eliminated the multiple currency practice arising from the use of a historic buying rate for the resale of export proceeds.

Sudan: Technical Assistance from the Fund, 2004–09

Subject	Type of Mission	Timing	Counterpart
Fiscal Affairs Department			
Revenue administration assessment (including METAC)	Short-term	February and October 2005, May and August 2006 , January 2007	Ministry of Finance (MOF)
Expenditure control and management	Short-term	April 2006	MOF
Restructuring of headquarters (METAC)	Short-term	November 2007	MOF
Installation of STX (METAC)	Short-term	March 2008	MOF
Tax and customs administration	Short-term	August 2006	MOF
Cash management and budget classification (GFS) (including METAC)	Short-term	February 2004, May and September 2004, June and October 2005, April and October 2006, April, September and November 2007	MOF
Public Finance Management Diagnostic	Short-term	October 2006, June 2007	MOF
Implementing a TSA and improving cash management (including METAC)	Short-term	June and July 2008	MOF
Self Assessment and Audit (METAC)	Short-term	March 2008	MOF
Reorganization of the MOF and Public Finance Management Reforms	Short-term	January and February 2009	MOF
Strengthening Tax and Customs Administration	Short-term	January 2009	MOF
Monetary and Capital Markets Department			
Introduction of new national currency	Short-term	February and April 2005, January 2006, February and April 2007	Central Bank of Sudan (CBOS)
Monetary management and banking supervision	Short-term	March and April 2006	CBOS
Islamic compliant monetary instruments	Short-term	August 2006, May 2007	CBOS
Monetary policy operations	Short-term	September 2004, June 2006	CBOS
Banking supervision (METAC)	Short-term	August 2005	CBOS
Central bank organization	Resident Advisor	September 2005, Feb. 2006-August 2007	CBOS
Microfinance supervision and regulation	Short-term	December 2005	CBOS
Liquidity management and forecast	Short-term	March 2006, November 2007	CBOS
Payment systems	Short-term	November 2007	CBOS
Bank regulation	Short-term	March and April 2006, May 2007	CBOS
Banking operations	Short-term	April and July 2006	CBOS
Banking supervision	Short-term	August, September and December 2006	CBOS
Implementation of Islamic financial services board standards	Short-term	April 2008	CBOS
Currency handling and reform	Short-term	November 2006	CBOS
Statistics Department			
National accounts, CPI and PPI statistics	Short-term	April 2007	Central Bureau of Statistics (CBS)
Real sector statistics and CPI statistics (METAC)	Short-term	March and September 2007, March 2008	CBS
Balance of payments statistics	Short-term	September 2006, January 2007	CBOS
General data dissemination system (GDDS)	Short-term	June 2006, August and September 2007	CBS, MOF and CBOS
Assessing technical assistance needs in economic statistics (with METAC)	Short-term	May-June 2005	CBS, MOF and CBOS
Government Financial Statistics	Short-term	October 2005, March 2007, July 2008	MOF
Monetary and Financial Statistics	Short-term	December 2005, June 2006, July 2007, July 2008	CBOS
Legal Department			
Payment system law	Short-term	September 2007	CBOS

ANNEX II. SUDAN: RELATIONS WITH THE WORLD BANK[1]
(As of April 30, 2010)

The World Bank's International Development Association (IDA) has no active lending portfolio in Sudan because of the country's default on its financial obligations to IDA, which led to the suspension of disbursements in April 1993. After discussions between the World Bank and the Sudanese authorities on the need for Sudan to take steps toward normalizing its relations and establishing a track record with the World Bank, the authorities have been making small, intermittent debt service payments since mid-1999. The amount of payments has not been sufficient to prevent a continued accumulation of arrears, which currently stand at about US$ 580 million and are growing.

The World Bank was a major player in the reconstruction of Sudan following the Addis Ababa peace agreement of 1972, but was mostly absent from Sudan between 1993 and 2002. As the prospects for peace with the South rose in 2003, the World Bank formulated a strategy for a potential reengagement. Following the signing of the Comprehensive Peace Agreement (CPA) on January 9, 2005 by the Government of Sudan and the Sudan People's Liberation Movement, the World Bank became the administrator for two large Multi-Donor Trust Funds (MDTFs) that support the CPA, and built up its program of non-lending support. Fifteen MDTF partners[2] have contributed US$ 790 million in paid-in funds to the MDTFs. MDTF-supported projects initially experienced implementation challenges, as have all development and recovery programs in Sudan, but performance has steadily improved. Significant results are being seen on the ground, including the successful MDTF-supported launch of the CPA-mandated new national currency and the completion of the 5th Population Census, though daunting challenges remain—most notably low capacity, especially at the state level and in the South.

The World Bank's Interim Strategy Note (ISN) for Sudan was discussed by the World Bank's Board in April 2008. The ISN aims to support the Government of National Unity and the Government of Southern Sudan to sustain peace and reduce conflict by meeting the commitments contained in the CPA, Darfur Peace Agreement, and the Eastern Sudan Peace Agreement—particularly in war-affected and marginalized areas and in the fields of governance, basic services, and pro-poor economic growth. The ISN aims to help Sudan take important steps toward the achievement of the longer-term strategic vision enshrined in the CPA: promoting peace in Sudan by making it attractive through development, shared prosperity, and a reformed system of governance which serves all Sudanese.

[1] Prepared by World Bank staff. For additional information, contact Mr. Greg Toulmin, Country Program Coordinator for Sudan, Tel. (202) 458-1747.

[2] Partners having paid in funds to the MDTFs are: Netherlands, Norway, United Kingdom, European Commission, Canada, Sweden, Germany, Finland, Spain, Denmark, Italy, Egypt, Iceland, Greece, and the World Bank. The World Bank contributed (from IBRD surplus) US$5 million to each of the MDTFs.

The entry points for World Bank support—through management of the MDTFs and non-lending activities—vary according to the diverse conditions facing different regions of Sudan. At the National level, a focus on stabilizing peace entails a major role for analytical work and policy dialogue on implementing key provisions of the CPA (pro-poor growth, good governance and decentralization, empowerment), and—in the Three Areas and the East—on pro-peace development projects and building capacity for community-driven development and local service delivery. In Darfur, the World Bank works with partners, as security allows, to assess development and recovery needs and to make ready rehabilitation and development programs to be implemented in the event of peace. In the South, the main focus is on helping to build a competent, responsive and stable government based on good governance, rule of law, and transparency, while promoting efforts to empower and decentralize service delivery to the states, counties, and communities. Another key objective is to help Southern Sudan develop a long-term strategy to transform itself into a well-integrated, self-reliant, and viable economic unit that begins to harness its vast and rich natural resources for the welfare of its people. The substantial financial support through the MDTFs and the World Bank's analytical and advisory services will be mobilized to meet these objectives.

With national elections recently completed, the focus of CPA implementation is now on preparations for the referendum in Southern Sudan due in early 2011.

IDA's financial reengagement requires clearance of Sudan's outstanding arrears. The clearance of these arrears can only be undertaken once a firm and comprehensive agreement among preferred creditors is in place. Such an agreement would also include significant reductions in bilateral debts, so as to make the total debt service obligations sustainable. Following the eventual clearance of IDA arrears, an exceptional IDA allocation for Sudan as a post-conflict country would be sought, and the World Bank would prepare another strategy document which would include, *inter alia*, a pipeline of projects.

The World Bank has completed a series of major non-lending products since the CPA, including a Public Expenditure Review, Diagnostic Trade Integration Study (on behalf of its Integrated Framework partners) and most recently a Country Economic Memorandum on sustainable and broad-based growth. Major non-lending products planned to be completed and delivered by the end of calendar 2010 include an Investment Climate Assessment focusing on the needs of small firms, an Environment and Natural Resources study, a Country Integrated Fiduciary Assessment, and for Southern Sudan studies on strengthening good governance and on States' own revenue potential.

To enrich this menu of policy and analytical support, the World Bank will seek to deepen dialogue—and open up space for civil society participation in such dialogue—in areas such as: developing a Darfur reconstruction and development strategy; making decentralization work; transforming Southern Sudan into an integrated and viable economic unit; and local area development. The World Bank's Financial Market Integrity Unit will continue its technical support to build capacity to combat money laundering through a proposed multi-phase program.

ANNEX III. SUDAN: STATISTICAL ISSUES

Data provision has some shortcomings, but is broadly adequate for surveillance. There are many areas where further improvements are needed, particularly in compiling national accounts, state budgetary data, and external trade and financial statistics. This appendix discusses outstanding statistical issues by sector.

As one of 22 countries participating in the Fund's General Data Dissemination System (GDDS) Project for Anglophone African Countries, Sudan has undertaken to use the GDDS as a framework for the development of its national statistical system. Sudan is participating in the monetary and financial statistics, and the GDDS/PRSP modules of the Anglophone Africa project (funded by the U.K. Department for International Development (DFID)). This project aims to assist participating countries to implement plans for improvement identified in the metadata and to meet GDDS recommended statistical practices. Sudan's metadata were posted on the Dissemination Standards Bulletin Board on August 19, 2003 and partially updated in December 2005.

I. REAL SECTOR

Practices in the production of the monthly Consumer Price Index (CPI) are good. Monthly CPI data are provided shortly after the end of each month. The Central Bureau of Statistics (CBS) has conduct new household income and expenditure survey and have constructed the new CPI index based on the survey.

The compilation of the national accounts is subject to delay. The national accounts statistics 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. There are no national accounts or industrial production data at sub annual frequencies. Furthermore, the annual data are being reported with a lag of over three years. There is an urgent need to increase funding to the CBS and rebuild its capacity. Priorities include introducing the *1993 System of National Accounts*, conducting a census of agricultural production, producing poverty on the basis of household survey, and improving coordination between the CBS, the Ministry of Finance and National Economy (MOFNE), the Ministry of Energy and Mining, and the Ministry of Agriculture and Livestock.

II. FISCAL SECTOR

1. Government finance statistics reported to MCD are broadly adequate for program monitoring, with the main revenue, expenditure, and financing items reported on a monthly basis with a lag of about one month. The reported statistics are for the central government only, and do not include the states and publicly owned corporations. Data are submitted using an economic classification and, while the allocation of resources by MOFNE to the various ministries is reported, their actual expenditures are not. In 2008, good progress has been made in improving accounting and reporting procedures at the MOFNE, introducing the GFS classifications according to guidelines provided in *Government Finance Statistics*

Manual 2001, and implementing the technical assistance recommendations on GFS. Data reported for the *Government Finance Statistics Yearbook* are weak and cover only budgetary central government up to 1999. No monthly and quarterly fiscal data are reported for the *International Financial Statistics (IFS).*

III. Monetary Sector

2. Sudan has received significant technical assistance to improve the collection, compilation, and dissemination of monetary and financial statistics. The most recent STA monetary and financial statistics mission took place in July 2007. It conducted a training course in monetary statistics methodology and assisted the Bank of Sudan (BOS) in implementing the ongoing action plan, including the development of data reporting to STA in the format of the Standardized Report Forms (SRFs) and of a framework for incorporating data from South Sudan in the monetary statistics. The weekly flash report on the activities of BOS is consistent with relevant components in the depository corporations survey as recommended in the *Monetary and Financial Statistics Manual.*

3. In general, the monetary statistics compiled by BOS are broadly adequate for monitoring purposes. However, BOS should complete the harmonization of accounting codes and network connections as this would further improve the data collection and compilation. Also, it should work with MOFNE to review and reconcile government accounts held with the banking system to ensure their appropriate classification in the monetary statistics, and continue the work on implementing the framework for incorporating South Sudan's banking activities into the monetary statistics.

IV. External Sector

4. Daily exchange rate data are posted on the central bank of Sudan's web page with minimal lags. There are several areas for improvement in the external accounts, particularly with regard to foreign direct investment, remittances, trade, and oil statistics. The BOS's foreign exchange balances include reserves earmarked for particular purposes such as medicine, oil, and spare part imports, but the composition of these reserves and their potential usability in the event of a balance of payment need is not clear. There is a need for clarification on items that qualify as international reserves in general, and those earmarked reserves in particular, and compilation of the data template on international reserves and foreign currency liquidity should be initiated.

5. Regarding import statistics, there are significant discrepancies between the reports from customs and the BOS. The July 2003 STA mission identified some possible causes and, in collaboration with the authorities, attempted to reconcile the data. Following up on the 2005 METAC mission, in 2006 METAC provided technical assistance for improving the quality of international investment position (IIP) data. The authorities now report partial IIP data for 2003-2006 to STA for publication. However, the lack of survey data continues to affect the compilation of important balance of payments and IIP items such as foreign direct investment.

6. Medium-term oil production projections and data on amortization of private sector debt 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 and on amortization of debt in the oil sector.

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 2-year lag.	1968 System of National Accounts (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 STA's peripatetic real sector expert.
	Last and current year estimates reported to missions by the ministry of finance and national economy (MOFNE).	Acceptable.	Estimates are based on incomplete data, in particular for oil value added, livestock, and fruit and vegetable production.	Improve coordination between MOFNE, CBS, and the ministry of agriculture.
Prices	Monthly CPI reported on time, with a minimal lag.	Acceptable.	Detailed data on CPI by individual states.	Reduce reporting inefficiencies by individual states.
Government finance	Monthly reporting of main budgetary items, generally on time; 1.5-month lag.	Good; main revenue and expenditure items reported; financing consistent with monetary accounts.	Only partial data on state budgets available; incomplete functional classification; MOFNE allocations to ministries are reported, but not their actual expenditure; slow progress on the introduction of the government finance statistics (GFS) classification.	Introduce the GFS classification; improve accounting and reporting procedures at MOFNE. Implement in full GFS (1997) technical assistance (TA) mission recommendations.
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 net domestic assets (NDA).	Establish a working group to review the Bank of Sudan's (BOS) 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).

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
	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 the case of a balance of payment 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 the residency criterion; enhance institutional capacity of the BOS BOP compilation unit. Implement in full the recommendations of the 1999 and 2003 TA in BOP statistics.
	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 MOFNE.	Eliminate timing and recording discrepancies between the BOS and the MOFNE.
	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; Debt Management Unit to send monthly statements on external debt to the BOS's Statistics Department.

SUDAN: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
AS OF APRIL, 2010

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

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	4/30/2010	5/4/2010	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	2/28/2010	3/28/2010	M	M	M
Reserve/Base Money	Feb. 2010	3/28/2010	M	W	M/W
Broad Money	Feb. 2010	3/28/2010	W	W	M/W
Central Bank Balance Sheet	Feb. 2010	3/28/2010	M	M	M
Consolidated Balance Sheet of the Banking System	Feb. 2010	3/28/2010	M	M	M
Interest Rates[2]	12/31/05	1/09/06	W	M	M/W
Consumer Price Index	Mar. 2010	4/15/2010	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2009:Q4	March 2010	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2008: Q1	June 2009	A	A	A
External Current Account Balance	2008: Q4	July 2009	Q	Q	Q
Exports and Imports of Goods and Services	2008-q4	July 2009	M	M	M
GDP/GNP	2008	Aug. 2009	A	A	A
Gross External Debt	2009:Q4	March 2010	A	A	A
International Investment Position [6]					

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Monthly/Weekly (M/W); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA)

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

SUDAN

Joint World Bank/IMF 2009 Debt Sustainability Analysis

Prepared by the Staffs of the International Development Association and the International Monetary Fund

Approved by Sudarshan Gooptu and Sudhir Shetty (World Bank) and Alan MacArthur and Dominique Desruelle (IMF)

June 7, 2010

The Joint IMF-World Bank low-income country debt sustainability analysis (DSA) confirms last year's assessment that Sudan continues to be in debt distress, and that there is limited possibility of significant improvement over the medium and long term. Under the baseline scenario, all debt ratios, except for external debt service, remain above their indicative thresholds due largely to the country's massive arrears and despite reasonably prudent macroeconomic policies over the projection period. It will be critical for Sudan to continue to follow sound policies consistent with a prudent borrowing strategy.

I. INTRODUCTION

1. **Sudan's DSA is prepared under the joint Bank-Fund Low-Income Country (LIC) Debt Sustainability Framework (DSF).**[1] The framework follows a methodology for assessing the risk of debt distress in LICs, based on projections of five debt burden indicators (under both baseline and standardized stress-test scenarios), namely the present value (PV) of external debt-to-GDP ratio; the PV of external debt-to-exports ratio; the PV of external debt-to-revenue ratio; debt service-to-exports ratio; and debt service-to- revenue ratio. Empirical evidence suggests low-income countries with a better quality of policies and institutions can sustain a higher level of external debt. The LIC DSA framework, therefore, compares forecasts of these debt burden indicators with policy-dependent thresholds using the three-year average of the World Bank's Country Policy and Institutional Assessment (CPIA).

[1] See "Debt Sustainability in Low-Income Countries: Proposal for an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/020304.htm and IDA/SECM2004/0035, 2/3/04) and "Debt Sustainability in Low-Income Countries: Further Considerations on an Operational Framework and Policy Implications" (http://www.imf.org/external/np/pdr/sustain/2004/091004.htm and IDA/SECM2004/0629, 9/10/04).

II. STRUCTURE OF TOTAL EXTERNAL DEBT

2. **Sudan's large total external debt is mostly in arrears, its structure has remained unchanged since 2000, and there has been an improvement in containing non-concessional borrowing in 2009**.[2] Based on available data, the end-2009 stock of total public and publicly-guaranteed debt is estimated at US$35.7 billion in nominal terms, of which US$29 billion is in arrears. About 69 percent of the external debt is owed to official bilateral creditors, which is almost equally divided between Paris Club and non-Paris Club creditors. Of the remainder, multilateral institutions accounted for about 15 percent, while the debt owed to commercial banks and suppliers accounted for some 16 percent (Text tables 1 and 2).

Text Table 1. Sudan: Evolution of External Debt, 2008-09
(End of period, millions of US dollar)

	2008	2009
Total public and publicly guaranteed external debt	33,741	35,687
Principals	14,681	15,407
of which, principle arrears	9,739	9,725
Interest arrears 1/	19,060	20,281
Memorandum item: New borrowings	485	978

Source: Central Bank of Sudan
1/ including late interests

Text Table 2. Sudan: Composition of External Debt, 2008-09
(End of period, millions of US dollar)

	2008	2009
Total public and publicly guaranteed external debt	33,741	35,687
Multilateral creditors	5,477	5,297
Paris club creditors	10,502	11,233
Non-paris club creditors	12,160	13,297
Commercial banks	4,209	4,503
Suppliers	1,393	1,357

Source: Central Bank of Sudan

3. **Sudan contracted US$906 million of new loans in 2008.** Of this amount, US$232 million (about 25 percent) were non-concessional loans, well below the US$700 million ceiling under the Fund's staff-monitored program. About 83 percent of new borrowings are for development in the agriculture sector, while about 6 percent and 11 percent were directed to services and financial sectors, respectively.

III. EXTERNAL DEBT SUSTAINABILITY ANALYSIS

4. **The 2009 DSA is based on conservative assumptions for key macroeconomic variables, in line with the recent global economic crisis, and a lower discount rate compared to the 2008 DSA.** Average real GDP growth was revised downward from an annual rate of 8 percent to about 5.5 percent over the period 2010–30 (Box 1). The overall fiscal deficit is higher on account of lower oil prices and anticipated decline in oil production (Box 2). In addition, current DSF guidelines require a lower discount rate throughout the analysis compared to the 2008 DSA, from 5 percent to 4 percent, due to the recent decline in global interest rates. The outcome for the main debt ratios (discussed below) continues to show a sustained breach of the thresholds, albeit with slight improvement compared to the 2008 DSA on account of a lower discount rate.

[2] In 2009 Sudan non-concessional debt was around US$693 million, which is below the IMF Staff Monitored Program (SMP) ceiling of US$700 million.

A. Baseline Scenario

5. **The baseline scenario (Table 1) shows that Sudan is still in debt distress**, due largely to the country's massive arrears. The results indicate that three debt-burden indicators are expected to exceed their policy-dependent thresholds in the period 2010–20. In particular,

- The PV of debt-to-GDP ratio is expected to decline from 56 percent in 2010 to around 33 percent in 2020 (indicative threshold: 30 percent).

- The PV of debt-to-exports stands at 323 percent in 2010, and is expected to slightly improve over the medium term, but subsequently increase after 2013, mainly due to anticipated decline in oil production, and to reach 535 percent in 2020 (indicative threshold: 100 percent).

- The PV of debt-to-revenue, which is estimated to 323 percent in 2010, is projected to reach 272 percent in 2020 (indicative threshold: 200 percent).

The two debt service indicators (debt service-to-exports ratio and debt service-to-revenue ratio) are expected to remain below their policy-dependent thresholds throughout the forecast period 2010–30. However, these ratios should be interpreted with caution since the baseline scenario assumes Sudan debt servicing performance to remain unchanged. That is, Sudan does not fully repay its debt obligations, and to fully repay only new obligations falling due for some selected creditors, and partially repay arrears accrued after 2007.

Box 1. Macroeconomic Assumptions 2010–30

The macroeconomic assumptions are on the conservative side, reflecting the recent downturn of the global economy and revised oil production projections provided by the authorities.

Real sector: Real GDP is assumed to grow at an annual average rate of about 5.6 percent during 2010–30. The real growth during the 2010–15 is largely based on the projected increase in oil production which is expected to peak in 2012 and to subsequently decrease gradually. It is assumed that the drop in oil output will be offset by robust growth in non-oil GDP. During 2016–30, non-oil growth is projected to average about 6.1 percent, benefiting from structural reforms in the fiscal and financial sectors as well as development of infrastructure. Annual inflation is assumed to decline from 10 percent in 2010 to around 4 percent. Over the period 2010-2030, inflation averages 5 percent.

External sector: The current account deficit (on a cash basis) is projected to be around 5 percent of GDP on average throughout the projection period, with a slight improvement over the long term. The improvement is on account of the projected increase in non-oil exports. The external trade account is expected to deteriorate gradually, reflecting a steady decrease in oil production, while non-oil exports will show steady growth, reflecting a rise in productivity especially in agriculture. Foreign exchange reserve coverage is projected to rise to 2.0 months of imports by 2015.

Fiscal sector: The fiscal deficit (on a cash basis) is projected to average about 4.3 percent of GDP during 2010–15, reflecting a combination of factors: (i) repayment of the entire stock of domestic arrears; (ii) continuation of current spending shares on transfers to states; (iii) moderate improvements in tax revenue collection; (iv) a slight decline in oil revenues; and (v) rising capital expenditure outlays. Over the long term (2016-30), the fiscal deficit is expected to average some 3.1 percent of GDP, reflecting a consolidation of expenditures and a gradual increase in tax revenues to around 10 percent of GDP by 2030.

External financing: Foreign direct investment (FDI) is projected to remain stable, averaging about 4 percent of GDP over the projected period. After the peak in oil-related investment, FDI is expected to shift to agriculture and service sectors. Demand for foreign financing is assumed to decrease as domestic savings will increase in the future in context of a deepening of the financial sector.

Debt: It is assumed that repayments on outstanding debt will continue to a few selected creditors giving new loans, arrears on other outstanding obligations will accumulate, and debt service obligations arising from new borrowing will be paid. Disbursements of new loans are projected at about 1.5 percent of GDP during 2010–15, and 2.0 percent during 2016–30. The share of concessional loans is assumed at 60 percent in 2010—in line with the actual loans contracted in 2008—and subsequently declines gradually to about 50 percent by 2030.

Box 2. Oil Sector Assumptions

The oil sector continues to dominate the Sudanese economy, accounting for a majority of GDP when including associated service sector activity, about 90 percent of exports and about 50–60 percent of government revenue. The DSA assumptions for the sector's future are driven by a production outlook informed by discussions with the Sudanese authorities and operators in the country as well as price projections calculated by the IMF and the World Bank.

Production: The Ministry of Energy and Mining expects a slight increase of 0.5 percent in production in 2010 to around 476 thousand barrels per day (bpd), due to waning mature fields (higher quality Nile blend) and other technical production problems. Peak production is expected in 2012 near 547 thousand bpd, before a gradual descent to about 151 thousand bpd by 2030.

Prices: Forecasting international oil prices involves a high level of uncertainty. The DSA is guided by the IMF's latest World Economic Outlook figures for the medium term and the World Bank's Commodity Market Review for the longer term. Overall, prices are expected to remain stable and average around US$71 per barrel for Sudanese crude over the medium term before settling to around US$54 per barrel in the longer term.

B. Standardized Sensitivity Analysis

6. **Alternative scenarios are carried out to assess the robustness of the baseline scenario to various shocks.** The results of these scenarios for the key debt-burden indicators are presented in Table 2 and illustrated in Figure 1.

- The alternative scenario comprises two tests: (A1) *a historical scenario* in which main variables that determine debt dynamics (namely, real GDP growth; inflation, measured by changes in the U.S. dollar GDP deflator; the non-interest external current account in percent of GDP; and non-debt-creating flows in percent of GDP) are assumed to remain at their 10-year historical averages. The second alternative scenario (A2) is *a financing scenario* in which new borrowing is assumed to be on less favorable terms (a 2 percentage points higher interest rate) throughout the projection period.

- The bound tests (B1 through B6) apply two-period/one standard deviation negative shocks to the key macroeconomic variables (i) the above-mentioned parameters plus (ii) export growth, (iii) a combined one-half deviation shock, and (iv) a one-time 30 percent depreciation of the Sudanese pound against US dollar.

7. **Similar to last year's DSA exercise, the scenario of holding the key debt-dynamics parameters constant over the long term at their historical averages (scenario A1) produces some improvements in both debt and debt service indicators relative to the baseline.** Moreover, one debt indicator (PV of debt-to-GDP) is projected to be lower than the indicative thresholds by 2030. Favorable historical performance of nominal GDP and export growth, due to increasing oil production and a spike in oil prices explains this improvement relative to the baseline scenario. The latter assumes a decline in oil production and oil prices after its peak in 2012 and 2013, respectively. With regard to the unfavorable borrowing condition scenario, a 2 percentage points higher interest rate somewhat flattens the downward path of debt and debt service ratios in all indicators over the projection period (scenario A2).

8. **The results of bound tests are very similar to those of the 2008 DSA, namely that the debt situation remains precarious**. For instance,

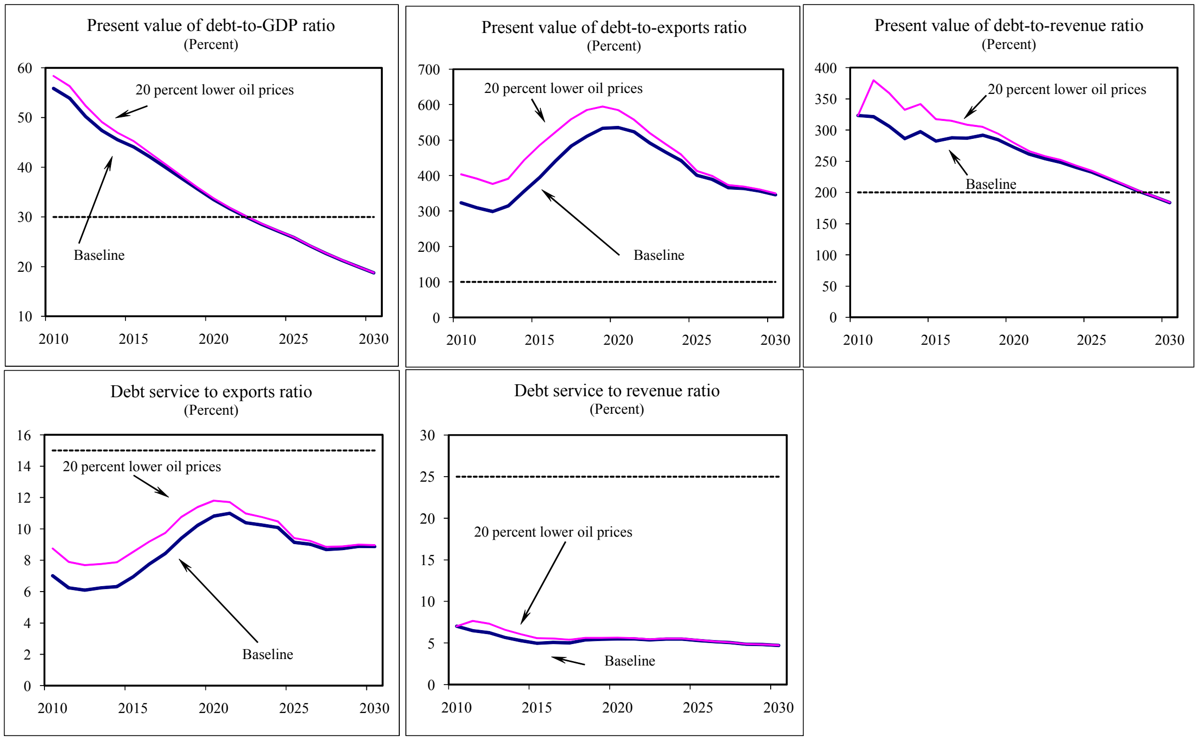
- A one-time 30 percent nominal depreciation relative to the baseline in 2010 (B6) proved to be the worst scenario for two of the three debt indicators (the PV of debt-to-GDP ratio and the PV of debt-to-revenue ratio). The PV of debt-to-GDP ratio is the highest for this test. Starting at 56 percent in 2010, it declines to 47 percent in 2020 and 26 percent by 2030, which is 7 percentage points higher than the baseline. Similarly, the PV of debt-to-revenue ratio is the highest at 323 percent in 2010, it increases to 381 percent by 2020 and gradually declines to 257 percent in 2030, which is about 70 percentage points above the baseline.

- In the case of debt- and debt service-to-exports ratios, lowering the export value growth at its historical average minus one standard deviation in 2011–12 (B2) gives the most challenging outcome as was the case in the 2008 DSA. The PV of debt-to-exports ratio rises to 469 percent in 2011 from 323 percent in 2010, reaching 1175 percent in 2020, before falling to 679 percent in 2030, which is about double the baseline value. Similarly, the debt service-to-exports ratio climbs to around 40 percent in 2020, before falling to 26 percent in 2030. This outcome is mainly due to the projected decline in oil production starting in 2012.

C. Customized Sensitivity Analysis

9. **Oil is a critical factor in assessing Sudan's debt sustainability.** To analyze the debt dynamics under less favorable oil revenues, an additional stress test is performed using a 20 percent shock to the baseline oil price projections. Under this customized scenario, Sudan's external debt indicators worsen significantly, especially with respect to exports (see panel charts below). Considering the volatility in global oil prices, the oil price shock highlights Sudan's high vulnerability to exogenous shocks.

Comparison Between Baseline and Lower Oil Prices (20 percent)



IV. TOTAL PUBLIC DEBT SUSTAINABILITY ANALYSIS

10. **The results of the total public debt sustainability analysis mirror the ones under the external debt sustainability analysis.**[3] Under the baseline scenario (Table 3), debt stock and debt service indicators show similar patterns as those of external debt. The PV of public sector debt-to-GDP starts at a relatively high level in 2010 (71 percent of GDP), it then declines over the medium term to reach about 60 percent in 2015, due to high real GDP growth and a reduction in the fiscal deficit envisaged for 2010–15. The debt service-to-revenue ratio is projected to fluctuate within the range of 12–14 percent for the whole period.

11. **The alternative scenarios confirm that Sudan's public debt sustainability depends on Sudan's commitment to improve fiscal soundness and growth potential, particularly in the non-oil economy.**

- Under the bound tests, a one-time 30 percent real depreciation in 2010 (B4) produces the worst scenario for two of the debt indicators. The PV of debt-to-GDP and the PV of debt-to-revenue would be 56 and 436 percent in 2020. The debt service-to-revenue ratio would increase to 17 percent in the same year for the same bound test.

[3] The 2010 level of the public debt stock indicators (PV of debt-to-GDP and PV of debt-to-revenue) is substantially higher than those reported last year. This upward jump reflects adverse developments in both external debt—the buildup in external arrears and the contraction of new external loans; and domestic debt—and the further accumulation of sizeable domestic arrears in 2008.

- The no reform scenario, where the primary balance is projected to remain unchanged from the relatively high 2007-09 levels, highlights the vulnerability of Sudan's public debt trajectory to large fiscal imbalances. The PV of debt-to-GDP and debt service-to-revenue ratios for 2020 would be 48 and 13 percents, respectively, about 3 and 2 percentage points higher than the baseline.

V. CONCLUSIONS

12. **The third DSA for Sudan provides further evidence that, despite its considerable economic progress since 2000, Sudan remains in debt distress**. The vulnerabilities highlighted in the DSA need to be effectively addressed in the coming period through proactive public debt and financial management policies, including increased reliance on concessional borrowing to finance necessary development expenditures.

13. **Sudan should reconsider its external borrowing strategy in light of the future debt service burden that would follow if it took on high volumes of non-concessional debt**. Further recourse to such borrowing could also jeopardize Sudan's access to possible debt relief under the Enhanced HIPC Initiative and the MDRI. The authorities believe that debt relief under these two initiatives will play a crucial part in helping Sudan assume a path to achieving sustainable development goals.

Table 1. Sudan: External Debt Sustainability Framework, Baseline Scenario, 2007-2030 1/
(In percent of GDP, unless otherwise indicated)

	Actual			Historical 0 Average 0	Standard Deviation	Projections									
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-2015 Average	2020	2030	2016-2030 Average
External debt (nominal) 1/	**68.5**	**58.1**	**65.3**			**57.0**	**55.2**	**51.6**	**48.8**	**46.9**	**45.5**		**34.7**	**19.4**	
o/w public and publicly guaranteed (PPG)	68.5	58.1	65.3			57.0	55.2	51.6	48.8	46.9	45.5		34.7	19.4	
Change in external debt	-9.7	-10.4	7.2			-8.3	-1.9	-3.6	-2.8	-1.9	-1.4		-2.2	-1.3	
Identified net debt-creating flows	-11.0	-9.1	11.7			0.8	-0.1	-0.3	0.2	-0.3	-0.1		-0.7	-0.2	
Non-interest current account deficit	**12.1**	**8.8**	**12.4**	**10.6**	**2.2**	**7.9**	**6.8**	**6.4**	**6.2**	**6.6**	**5.8**		**4.8**	**4.3**	4.4
Deficit in balance of goods and services	3.8	-0.8	5.8			1.1	-0.5	-0.5	1.4	2.9	4.8		7.7	6.6	
Exports	20.0	22.4	15.1			17.3	17.4	16.8	15.1	12.8	11.2		6.3	5.4	
Imports	23.7	21.6	20.8			18.4	16.9	16.4	16.5	15.7	16.0		14.0	12.1	
Net current transfers (negative = inflow)	-1.3	0.0	-1.9	-3.4	2.0	-1.8	-1.0	-1.1	-1.2	-1.4	-1.6		-3.6	-2.3	-2.9
o/w official	-0.8	-1.2	-1.2			-1.1	-0.9	-1.0	-1.0	-0.9	-0.9		-0.8	-0.9	
Other current account flows (negative = net inflow)	9.6	9.5	8.6			8.6	8.3	8.0	6.0	5.1	2.6		0.6	-0.1	
Net FDI (negative = inflow)	**-6.5**	**-4.5**	**-4.8**	**-5.4**	**2.8**	**-4.5**	**-4.1**	**-4.0**	**-4.0**	**-4.9**	**-4.0**		**-3.8**	**-3.6**	-3.6
Endogenous debt dynamics 2/	**-16.7**	**-13.3**	**4.0**			**-2.6**	**-2.8**	**-2.7**	**-2.0**	**-2.1**	**-1.9**		**-1.7**	**-0.9**	
Contribution from nominal interest rate	0.4	0.3	0.4			0.4	0.3	0.3	0.3	0.3	0.3		0.2	0.2	
Contribution from real GDP growth	-6.2	-3.8	-2.8			-3.0	-3.1	-3.0	-2.4	-2.4	-2.2		-2.0	-1.0	
Contribution from price and exchange rate changes	-10.8	-9.8	6.4			-8.7	-3.0	-3.3	-2.9	-1.7	-1.5		-1.8	-0.7	
Residual (3-4) 3/	**1.4**	**-1.3**	**-4.5**			**-0.4**	**1.2**	**0.0**	**-0.1**	**0.2**	**0.2**		**0.3**	**-0.3**	
o/w exceptional financing	-1.8	-1.5	-2.1			-1.5	-0.4	-0.4	-0.5	-0.3	-0.3		-0.2	-0.1	
PV of external debt 4/	...	...	64.2			55.9	53.9	50.2	47.4	45.5	44.1		33.5	18.8	
In percent of exports	...	...	426.5			323.4	309.5	298.5	314.8	356.0	395.1		535.2	345.8	
PV of PPG external debt	**...**	**...**	**64.2**			**55.9**	**53.9**	**50.2**	**47.4**	**45.5**	**44.1**		**33.5**	**18.8**	
In percent of exports	**...**	**...**	**426.5**			**323.4**	**309.5**	**298.5**	**314.8**	**356.0**	**395.1**		**535.2**	**345.8**	
In percent of government revenues	**...**	**...**	**423.6**			**323.4**	**321.5**	**306.1**	**286.3**	**297.6**	**282.5**		**272.4**	**183.9**	
Debt service-to-exports ratio (in percent)	**4.2**	**4.1**	**8.9**			**7.0**	**6.2**	**6.1**	**6.2**	**6.3**	**6.9**		**10.8**	**8.9**	
PPG debt service-to-exports ratio (in percent)	**4.2**	**4.1**	**8.9**			**7.0**	**6.2**	**6.1**	**6.2**	**6.3**	**6.9**		**10.8**	**8.9**	
PPG debt service-to-revenue ratio (in percent)	**4.1**	**4.3**	**8.9**			**7.0**	**6.5**	**6.2**	**5.7**	**5.3**	**5.0**		**5.5**	**4.7**	
Total gross financing need (Billions of U.S. dollars)	3.0	3.0	4.9			3.1	2.8	2.9	3.0	2.6	2.8		3.1	5.5	
Non-interest current account deficit that stabilizes debt ratio	21.8	19.1	5.3			16.2	8.7	10.0	9.0	8.5	7.2		6.9	5.6	
Key macroeconomic assumptions															
Real GDP growth (in percent)	10.2	6.8	4.5	8.0	4.9	5.5	6.2	6.2	5.1	5.4	5.1	5.6	5.9	5.5	5.6
GDP deflator in US dollar terms (change in percent)	16.0	16.7	-9.9	13.0	16.8	15.5	5.6	6.4	5.9	3.7	3.2	6.7	5.1	3.7	4.4
Effective interest rate (percent) 5/	0.6	0.5	0.7	0.8	0.3	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.8	0.8	0.8
Growth of exports of G&S (US dollar terms, in percent)	54.4	39.7	-36.6	39.7	58.7	39.9	13.0	9.1	-0.3	-7.2	-5.3	8.2	4.4	5.7	5.2
Growth of imports of G&S (US dollar terms, in percent)	10.5	13.5	-9.2	28.6	48.7	7.6	2.9	9.4	12.0	4.5	10.3	7.8	8.7	8.5	8.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	13.8	13.3	13.0	13.2	12.9	12.9	13.2	10.4	8.4	10.0
Government revenues (excluding grants, in percent of GDP)	20.0	21.3	15.2			17.3	16.8	16.4	16.6	15.3	15.6		12.3	10.2	11.8
Aid flows (in Billions of US dollars) 7/	0.3	0.3	0.3			1.5	2.3	3.2	4.0	4.8	5.7		10.0	17.6	
o/w Grants	0.3	0.3	0.3			0.6	0.4	0.4	0.5	0.5	0.6		0.9	1.6	
o/w Concessional loans	0.0	0.0	0.0			1.0	1.9	2.8	3.6	4.3	5.1		9.0	16.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			1.2	0.8	0.7	0.7	0.6	0.7		0.6	0.4	0.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			36.5	31.5	31.7	35.2	36.3	39.1		42.3	44.5	43.2
Memorandum items:															
Nominal GDP (Billions of US dollars)	46.5	58.0	54.6			66.6	74.6	84.3	93.8	102.5	111.3		185.6	477.3	
Nominal dollar GDP growth	27.8	24.7	-5.8			21.9	12.1	12.9	11.3	9.3	8.5	12.7	11.4	9.4	10.2
PV of PPG external debt (in Billions of US dollars)			35.1			37.2	40.2	42.3	44.5	46.7	49.1		62.2	89.5	
(PVt-PVt-1)/GDPt-1 (in percent)						3.9	4.5	2.8	2.6	2.3	2.3	3.1	1.7	0.5	1.3

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that PV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table 2.Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2010-2030
(In percent)

	Projections							
	2010	2011	2012	2013	2014	2015	**2020**	2030
PV of debt-to GDP ratio								
Baseline	56	54	50	47	46	44	**33**	19
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	56	52	48	44	42	40	**34**	29
A2. New public sector loans on less favorable terms in 2010-2030 2	56	54	51	49	47	46	**36**	21
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	56	55	53	50	48	47	**36**	20
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	56	58	62	58	56	54	**39**	20
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	56	59	61	58	55	53	**41**	23
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	56	55	52	49	47	46	**35**	19
B5. Combination of B1-B4 using one-half standard deviation shocks	56	54	51	48	46	45	**34**	19
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	56	75	70	66	64	62	**47**	26
PV of debt-to-exports ratio								
Baseline	323	309	299	315	356	395	**535**	346
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	323	299	284	294	327	357	**551**	544
A2. New public sector loans on less favorable terms in 2010-2030 2	323	312	303	322	366	409	**570**	391
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	323	309	299	315	356	395	**535**	346
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	323	469	690	726	819	907	**1175**	679
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	323	309	299	315	356	395	**535**	346
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	323	316	311	328	370	411	**551**	349
B5. Combination of B1-B4 using one-half standard deviation shocks	323	313	294	310	351	390	**531**	348
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	323	309	299	315	356	395	**535**	346
PV of debt-to-revenue ratio								
Baseline	323	321	306	286	298	283	**272**	184
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	323	311	292	268	273	255	**280**	289
A2. New public sector loans on less favorable terms in 2010-2030 2	323	324	311	293	306	293	**290**	208
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	323	331	325	304	316	300	**289**	195
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	323	349	377	351	365	345	**318**	192
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	323	353	371	347	361	343	**330**	223
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	323	328	319	298	310	294	**281**	185
B5. Combination of B1-B4 using one-half standard deviation shocks	323	322	309	289	301	286	**277**	190
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	323	449	428	400	416	395	**381**	257
Debt service-to-exports ratio								
Baseline	7	6	6	6	6	7	**11**	9
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	7	6	6	6	6	7	**17**	27
A2. New public sector loans on less favorable terms in 2010-2030 2	7	6	6	6	7	7	**8**	6
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	7	6	6	6	6	7	**11**	9
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	7	9	13	16	17	19	**39**	26
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	7	6	6	6	6	7	**11**	9
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	7	6	6	7	7	7	**13**	10
B5. Combination of B1-B4 using one-half standard deviation shocks	7	6	6	6	6	7	**10**	8
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	7	6	6	6	6	7	**11**	9
Debt service-to-revenue ratio								
Baseline	7	6	6	6	5	5	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2010-2030 1/	7	6	6	5	5	5	**9**	14
A2. New public sector loans on less favorable terms in 2010-2030 2	7	6	6	6	6	5	**4**	3
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2011-2012	7	7	7	6	6	5	**6**	5
B2. Export value growth at historical average minus one standard deviation in 2011-2012 3/	7	6	7	8	8	7	**11**	7
B3. US dollar GDP deflator at historical average minus one standard deviation in 2011-2012	7	7	8	7	6	6	**7**	6
B4. Net non-debt creating flows at historical average minus one standard deviation in 2011-2012 4/	7	6	6	6	6	5	**6**	5
B5. Combination of B1-B4 using one-half standard deviation shocks	7	7	6	6	5	5	**5**	5
B6. One-time 30 percent nominal depreciation relative to the baseline in 2011 5/	7	9	9	8	7	7	**8**	7
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	7	7	7	7	7	7	**7**	7

Source: Staff projections and simulations.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Table 3. Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2007-2030
(In percent of GDP, unless otherwise indicated)

	Actual			Average	Standard Deviation	Estimate	Projections								
	2007	2008	2009			2010	2011	2012	2013	2014	2015	2010-15 Average	2020	2030	2016-30 Average
Public sector debt 1/	83.5	72.5	78.8			72.7	69.3	66.5	64.2	62.9	61.2		47.5	30.8	
o/w foreign-currency denominated	69.7	60.8	63.6			59.0	55.2	51.6	48.8	46.9	45.5		34.7	19.4	
Change in public sector debt	-0.1	-11.0	6.4			-6.2	-3.4	-2.8	-2.3	-1.3	-1.7		-2.7	-1.3	
Identified debt-creating flows	-6.6	-14.0	3.6			-7.6	-5.5	-3.2	-2.5	-0.9	-1.2		-2.0	0.2	
Primary deficit	4.3	0.0	3.4	1.1	1.8	2.0	3.1	3.4	2.9	3.2	2.4	2.8	1.9	1.9	1.9
Revenue and grants 6/	20.6	21.8	15.7			18.1	17.3	16.9	17.1	15.8	16.2		12.8	10.5	
of which: grants	0.6	0.5	0.6			0.9	0.6	0.5	0.5	0.5	0.5		0.5	0.3	
Primary (noninterest) expenditure	24.8	21.8	19.1			20.1	20.5	20.2	20.0	19.0	18.5		14.7	12.5	
Automatic debt dynamics	-10.8	-14.0	0.2			-9.6	-8.6	-6.6	-5.4	-4.1	-3.6		-3.9	-1.6	
Contribution from interest rate/growth differential	-9.3	-8.1	-3.3			-5.7	-5.0	-4.4	-3.6	-3.3	-3.0		-2.8	-1.3	
of which: contribution from average real interest rate	-1.6	-2.7	-0.1			-1.6	-0.8	-0.4	-0.3	0.0	0.1		0.0	0.4	
of which: contribution from real GDP growth	-7.7	-5.3	-3.1			-4.1	-4.2	-4.0	-3.2	-3.3	-3.1		-2.8	-1.7	
Contribution from real exchange rate depreciation	-1.5	-5.9	3.4			-3.9	-3.7	-2.2	-1.9	-0.8	-0.6		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.2	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	-0.2	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	6.5	3.0	2.8			1.4	2.1	0.4	0.2	-0.4	-0.5		-0.7	-1.5	
Other Sustainability Indicators															
PV of public sector debt	…	…	77.8			71.4	68.0	65.1	62.8	61.5	59.7		46.4	30.2	
o/w foreign-currency denominated	…	…	62.5			57.8	53.9	50.2	47.4	45.5	44.1		33.5	18.8	
o/w external	...	...	62.5			57.8	53.9	50.2	47.4	45.5	44.1		33.5	18.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.6	5.8	2.0			5.7	4.1	5.2	5.4	4.9	5.0		3.8	3.4	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	494.5			394.1	392.4	385.8	368.1	390.3	369.6		362.0	286.4	
PV of public sector debt-to-revenue ratio (in percent)	…	…	513.1			413.6	405.6	397.0	379.1	401.9	382.6		376.9	296.1	
o/w external 3/	…	…	412.2			334.6	321.5	306.1	286.3	297.6	282.5		272.4	183.9	
Debt service-to-revenue and grants ratio (in percent) 4/	7.8	9.7	13.8			12.3	12.1	12.1	11.5	11.6	11.1		13.2	14.2	
Debt service-to-revenue ratio (in percent) 4/	6.2	7.5	9.5			9.0	8.8	9.0	8.8	9.4	9.1		10.9	12.1	
Primary deficit that stabilizes the debt-to-GDP ratio	4.3	11.0	-3.0			8.2	6.5	6.2	5.2	4.5	4.1		4.6	3.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	10.2	6.8	4.5	8.0	4.9	5.5	6.2	6.2	5.1	5.4	5.1	5.6	5.9	5.5	5.6
Average nominal interest rate on forex debt (in percent)	0.6	0.5	0.7	0.8	0.3	0.7	0.7	0.7	0.7	0.8	0.8	0.7	0.8	0.8	0.8
Real exchange rate depreciation (in percent, + indicates depreciation)	-9.3	-6.0	16.7	-4.0	20.7	-5.7	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	16.0	16.7	-9.9	13.0	16.8	15.5	5.6	6.4	5.9	3.7	3.2	6.7	5.1	3.7	4.4
Growth of real primary spending (deflated by GDP deflator, in percent)	0.1	-0.1	-0.1	0.3	0.5	0.1	0.1	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0
Grant element of new external borrowing (in percent)	...	...	...	…	…	13.8	13.3	13.0	13.2	12.9	12.9	13.2	10.4	8.4	...

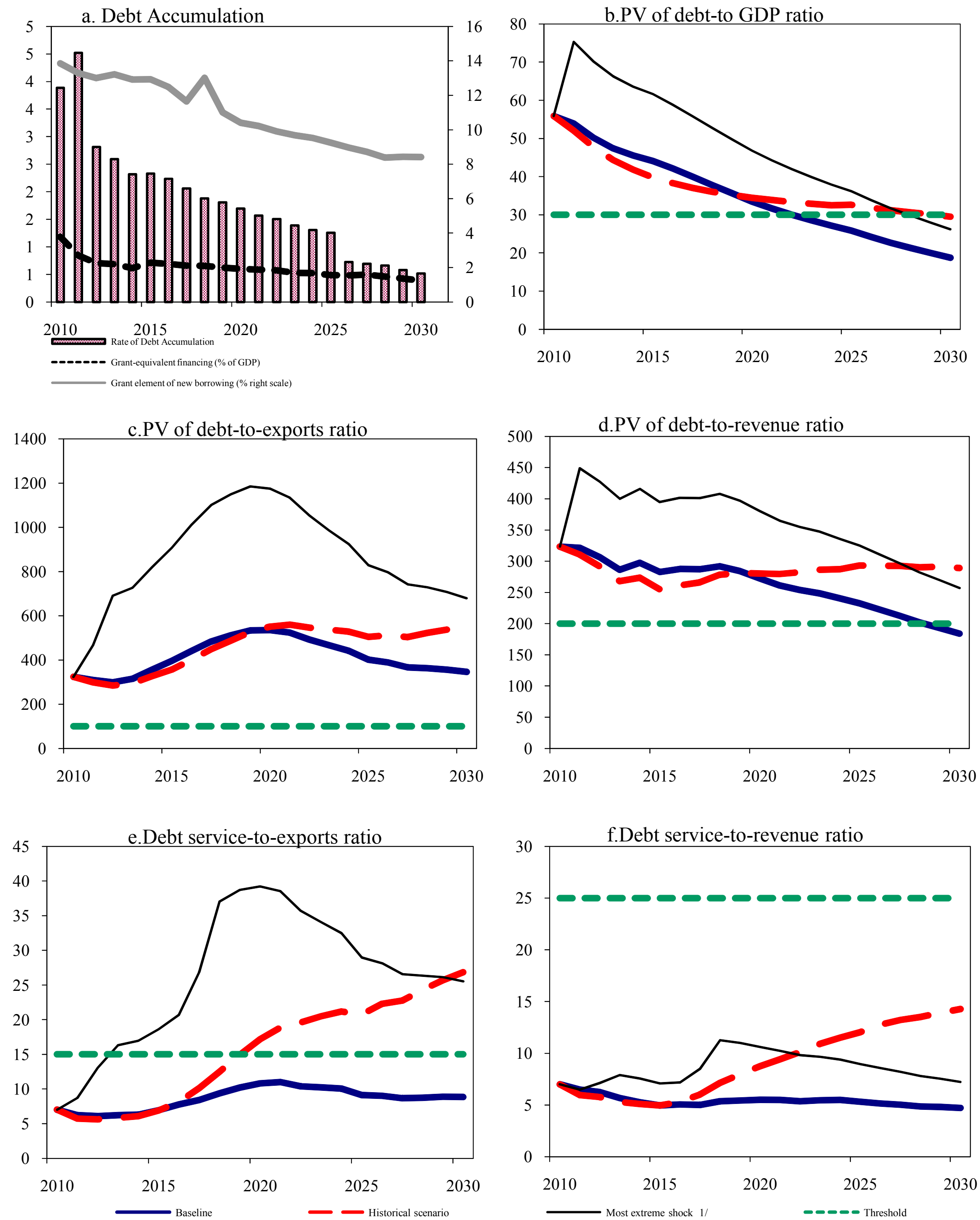
Sources: Country authorities; and Fund staff estimates and projections.
1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector.
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues excluding grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
6/ Revenues net of VAT transfers to Northern states projected at 0.65 percent of GDP during 2009-13.

Table 4. SudanSudan: Sensitivity Analysis for Key Indicators of Public Debt 2010-2030

	Projections							
	2010	2011	2012	2013	2014	2015	2020	2030
PV of Debt-to-GDP Ratio								
Baseline	71	68	65	63	61	60	46	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	71	65	59	54	50	47	30	15
A2. Primary balance is unchanged from 2010	71	68	64	62	60	58	48	38
A3. Permanently lower GDP growth 1/	71	69	67	66	66	65	58	56
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	71	70	70	69	68	67	55	41
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	71	68	65	62	61	59	46	30
B3. Combination of B1-B2 using one half standard deviation shocks	71	67	64	62	61	59	47	33
B4. One-time 30 percent real depreciation in 2011	71	89	84	80	77	74	56	35
B5. 10 percent of GDP increase in other debt-creating flows in 2011	71	77	74	71	69	67	52	33
PV of Debt-to-Revenue Ratio 2/								
Baseline	394	392	386	368	390	370	362	286
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	394	375	351	318	319	289	238	146
A2. Primary balance is unchanged from 2010	394	390	380	362	381	363	378	365
A3. Permanently lower GDP growth 1/	394	397	396	385	415	402	450	530
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	394	406	417	403	432	414	431	385
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	394	391	383	365	387	367	359	285
B3. Combination of B1-B2 using one half standard deviation shocks	394	389	377	362	386	367	370	313
B4. One-time 30 percent real depreciation in 2011	394	516	499	469	491	461	436	332
B5. 10 percent of GDP increase in other debt-creating flows in 2011	394	447	438	417	440	417	406	317
Debt Service-to-Revenue Ratio 2/								
Baseline	12	12	12	11	12	11	13	14
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	12	12	11	10	9	8	7	6
A2. Primary balance is unchanged from 2010	12	12	12	11	11	11	14	19
A3. Permanently lower GDP growth 1/	12	12	12	12	12	12	17	29
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2011-2012	12	12	13	13	13	13	17	21
B2. Primary balance is at historical average minus one standard deviations in 2011-2012	12	12	12	11	11	11	13	14
B3. Combination of B1-B2 using one half standard deviation shocks	12	12	12	11	11	11	13	16
B4. One-time 30 percent real depreciation in 2011	12	13	15	14	14	14	17	19
B5. 10 percent of GDP increase in other debt-creating flows in 2011	12	12	15	15	15	14	18	17

Sources: Country authorities; and Fund staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the length of the projection period.
2/ Revenues are defined inclusive of grants.

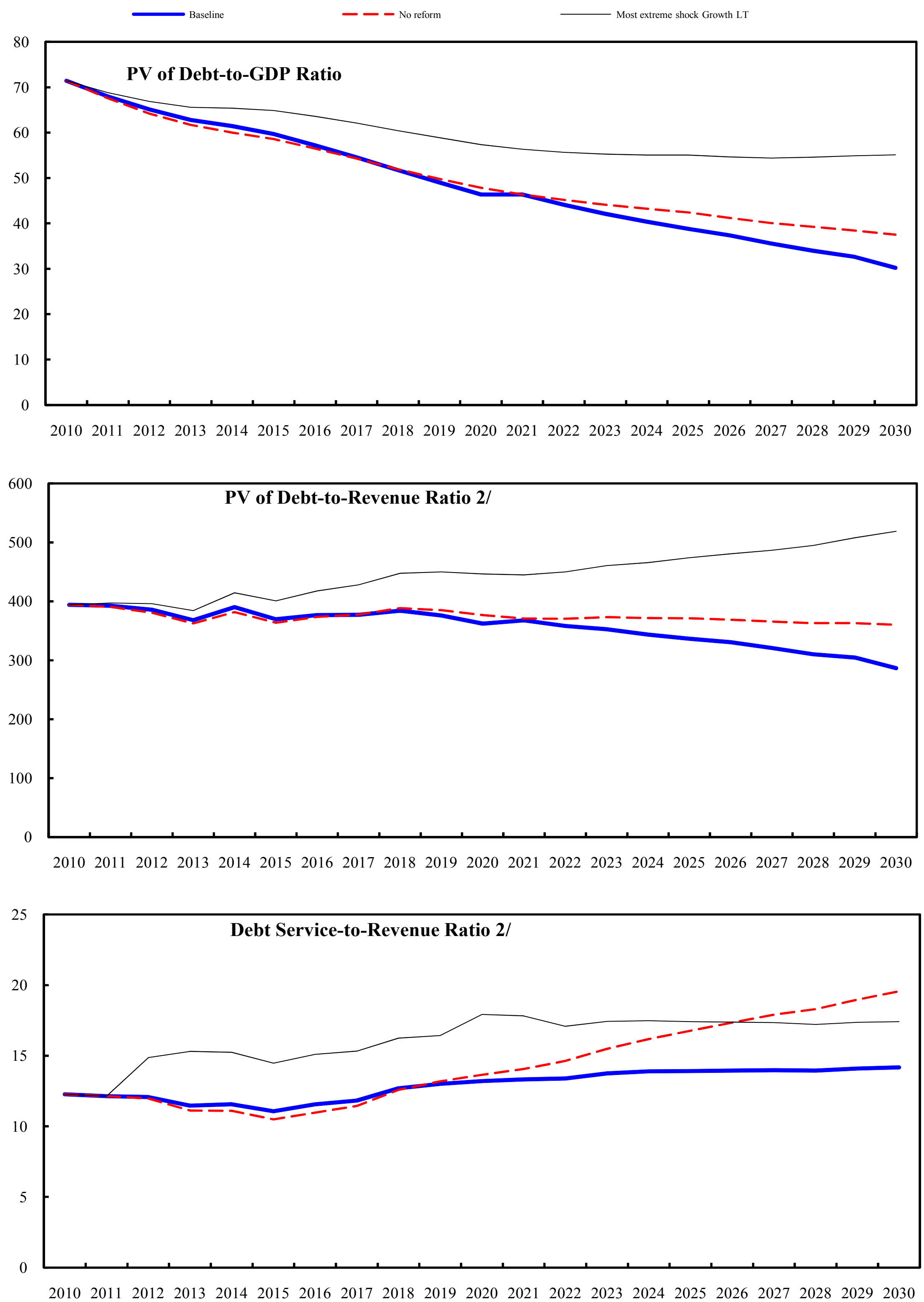
Figure 1. Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2010-2030 1/



Source: Staff projections and simulations.

1/ The most extreme stress test is the test that yields the highest ratio in 2020. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in picture f. to a Exports shock

Figure 2.Sudan: Indicators of Public Debt Under Alternative Scenarios, 2010-2030 1/



Sources: Country authorities; and Fund staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio in 2020.
2/ Revenues are defined inclusive of grants.

INTERNATIONAL MONETARY FUND
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700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2010 Article IV Consultation with Sudan

On June 23, 2010, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sudan.[1]

Background

Economic growth weakened in 2009, in line with the global recession. Overall real gross domestic product (GDP) growth is estimated to have decelerated to 4.5 percent compared to nearly 7 percent in 2008, with the non-oil GDP growth dropping by half to about 5 percent. The deterioration in growth was broad-based, with the exception of a small increase in oil production. Average inflation fell to about 11 percent, from over 14 percent in 2008.

The underlying fiscal performance improved in 2009. The overall non-oil commitment deficit narrowed from 8.7 percent of GDP in 2008 to 7.7 percent in 2009. Tax revenues improved significantly as expected, reflecting stronger revenue collection efforts by the tax and customs administration. However, non-oil non-tax revenue remained constant in relation to

[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. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

GDP due to weaker than expected parastatal profits. Most expenditures (with the notable exception of transfers and fuel subsidies) were contained.

Monetary policy was expansionary in 2009. Reserve and broad money increased by 28 percent and 23.5 percent, respectively, in 2009. These were to ensure sufficient credit to the private sector to partially offset the impact of the liquidity shortage created by the global financial crisis. However, despite the increased credit from the central bank to commercial banks for onward lending, credit to the private sector increased by about 20 percent (slightly higher than nominal GDP growth).

The balance of payments position deteriorated in 2009 due to the global crisis. The current account deficit reached 11.5 percent of GDP as the decline in imports (by about 6 percent) and the rebound in oil prices in the second half of 2009 were not sufficient to compensate for the fall in oil receipts. In addition, weaker than expected remittances and foreign direct investment kept the foreign exchange position under pressure. The guinea depreciated by 13 percent against the U.S. dollar through August but subsequently appreciated as the central bank increased the sale of foreign exchange to the market. As a result, the overall depreciation of the guinea against the U.S. dollar in 2009 was about 3 percent. The central bank’s net international reserves (NIR) remained low.

Important structural reforms were completed in 2009, though some with delay. In the fiscal area, several measures were implemented to improve tax compliance and strengthen fiscal management and administration. These included modernization of the taxation chamber, centralization of taxpayer identification numbers, and the extension of the Government Finance Statistics (GFS) 2001 budget classification to 5 Northern states. However, the comprehensive review of the tax policy regime is expected to be completed by July 2010. The delay in completing the review was due to the reorganization of the Ministry of Finance and National Economy (MoFNE). A restructuring plan for Omdurman National Bank was prepared in February 2010, in line with the recommendations of an independent audit report.

Executive Board Assessment

They welcomed Sudan’s progress on key structural reforms under the staff-monitored program (SMP), while noting that macroeconomic performance has been affected by the global crisis. Going forward, Sudan will continue to face large and complex challenges in view of the slow recovery from the global crisis, the projected decline in oil receipts over the medium term, and the large development needs. Directors urged the authorities to maintain prudent macroeconomic policies and to accelerate fiscal, financial sector, and structural reforms.

Directors stressed the importance of fiscal prudence, and commended the steps taken to reduce tax exemptions and improve tax administration. They called for further efforts to rein in the non-oil primary fiscal deficit and widen the tax base. Directors looked forward to the completion of the comprehensive review of the tax regime, which should lead to further reductions in value added tax (VAT) and income tax exemptions, and the resolution of tax jurisdiction issues with sub-national governments. They underlined the importance of introducing a targeted safety net and gradually phasing out fuel subsidies. Directors welcomed the authorities' intention to adopt a medium-term budget framework using non-oil indicators.

Directors supported the authorities' recent steps to tighten the monetary stance, which will help reduce pressures on inflation and the exchange rate. They noted the staff's assessment that the real exchange rate appears to be near its equilibrium level. Directors emphasized the need to accelerate structural reforms to enhance competitiveness. They commended the recent increase in exchange rate flexibility, which is essential to help rebuild foreign exchange reserves and mitigate the impact of external shocks.

Directors noted that sustained economic growth requires a strengthening of the financial sector. They welcomed the authorities' renewed emphasis on enforcement of prudential regulations, reducing nonperforming loans, and increasing provisioning and capital. They called for full implementation of the measures in the restructuring plan for Omdurman Bank and preparation for its eventual privatization. Directors welcomed the authorities' intention to implement structural reforms aimed at diversifying the sources of growth, especially in the agricultural sector.

Directors noted that the SMP meets the standard of upper credit tranche conditionality, except for the allowed level of non-concessional borrowing. They generally welcomed Sudan's record of cooperation on economic policies, and strongly encouraged the authorities to significantly increase their arrears payments to the Fund as the country's payment capacity improves. A few Directors reiterated their call to allocate payments to charges falling due rather than to principal in arrears. A number of Directors felt that Sudan's broadly satisfactory performance under the successive SMPs should be reflected in a clear and timely path for normalization of Sudan's relations with the Fund and debt relief. At the same time, Directors acknowledged that resolving Sudan's debt and arrears problems would require broad support from the international community. Directors took positive note of the authorities' request for a stocktaking of Sudan's progress under successive SMPs over the past 13 years.

While recognizing Sudan's reconstruction and development needs, Directors urged the authorities to minimize nonconcessional borrowing in view of Sudan's unsustainable external debt burden. This would also give a strong signal of Sudan's cooperative effort and avoid complications in the event of any future debt-relief operation.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Sudan: Selected Economic Indicators, 2006–10

	2006	2007	2008	2009	2010
Real sector					
Real GDP growth (percent change)	11.3	10.2	6.8	4.5	5.5
GDP (in millions of Sudanese guinea)	79,046	93,811	121,287	125,766	154,494
GDP (in millions of U.S. dollars)	36,401	46,531	58,028	54,644	66,595
GNP per capita	941	1,147	1,394	1,290	1,530
Inflation (in percent)					
Period average	7.2	8.0	14.3	11.3	10.0
End-of-period	15.7	8.8	14.9	13.4	10.0
Central government operations (in percent of GDP)					
Revenue and grants	21.0	20.6	21.8	15.7	18.1
Expenditure	25.0	23.6	23.2	21.3	21.9
Overall balance (commitment basis)	-4.3	-5.4	-1.4	-4.7	-3.4
Monetary indicators					
Reserve money (end-of-period growth rate, in percent)	27.8	12.8	22.2	28.1	19.0
Broad money (end-of-period growth rate, in percent)	27.4	10.3	16.3	23.5	21.0
Broad money velocity	3.9	4.2	4.5	4.8	5.0
External sector					
Current account balance (cash basis)	-4,903	-5,074	-4,477	-6,306	-4,748
In percent of GDP	-13.5	-10.9	-7.7	-11.5	-7.1
External debt					
In billions of U.S. dollars	28.4	31.9	33.7	35.7	37.8
In percent of GDP	78.1	68.5	58.1	65.3	56.8
Net international reserves (in millions of U.S. dollars)	1,576	1,139	978	390	950
In months of next year's imports of goods and services	1.8	1.2	1.1	0.4	1.0

Sources: Sudanese authorities; and IMF staff estimates.

Statement by the IMF Staff Representative on Sudan
June 23, 2010

1. The following information has become available since the staff report (www.imf.org) was prepared. It does not change the thrust of the staff appraisal.

2. A new government was formed on June 14, 2010. Mr. Ali Mahmood Abdul-Rasool was appointed Minister of Finance and National Economy, while the ex-Finance Minister, Mr. Awad Ahmed Al-Jaz, became Minister of Industry. The new Minister of Finance has reconfirmed Sudan's commitment to the staff-monitored program and to continued cooperation with the Fund.

3. Inflation was in the 14–15 percent range in the first five months of 2010, mainly due to an increase in food and beverages prices, which constitute more than 50 percent of the CPI basket. This was mostly supply driven. By end-May, net international reserves have increased by about $30 million, compared to the most recent figure available during the mission (end-February). The central bank has announced measures to tighten monetary policy by increasing reserve requirement from 8 percent to 11 percent (effective July 1, 2010) and withdrawing central bank deposits with commercial banks. Also, the authorities have allowed more flexibility in the exchange rate which has depreciated by 3.8 percent since end-March 2010.

4. The authorities have confirmed that fiscal structural measures for end-June 2010 (review of tax exemptions granted under Investment Encouragement Act and introduction of customs ASYCUDA software) are expected to be implemented. The review of the tax policy regime (structural measure for end-July 2010) is underway and is also expected to be completed as scheduled.

Statement by Mr. Itam, Executive Director for Sudan
June 23, 2010

We thank staff for their well balanced reports and their candid dialogue with the authorities. We would also like to convey the authorities' appreciation to Management and Executive Directors for their constructive dialogue and supportive engagement over the years, particularly on the important issue of normalization of relations with the Fund. My Sudanese authorities broadly agree with the staff's assessment of economic performance, prospects and challenges going forward, and consent to the publication of the reports.

Sudan has posted impressive economic performance, despite the difficult global economic environment and complex internal challenges. Spillovers from the global economic crisis impacted the economy particularly through reduced oil and other export earnings, remittances, and FDI. Nevertheless, my authorities' prudent macroeconomic policies and expeditious responses to the crisis have allowed them to maintain a reasonably high level of economic growth and macroeconomic stability, while continuing to tackle the numerous challenges of implementing the peace agreements. Program developments have been broadly positive and most of the quantitative targets under the SMP were met. However, the need to mitigate the negative impacts of the external crisis on the economy and society has moderated the authorities' achievements in the fiscal area and contributed to a low level of foreign exchange reserves.

Challenges

Sudan is at a crucial juncture. Having carried out presidential, gubernatorial, legislative and local elections in April 2010, a referendum to determine the nation's destiny is slated for early 2011.The country faces enormous challenges of building peace while addressing the demands for post-conflict reconstruction, broad based development and poverty reduction. The high dependency on oil revenues creates additional vulnerability, given its high price volatility and nonrenewable nature. Consequently, my authorities have placed the normalization of relations with the Fund and realization of debt relief high on their strategic agenda, as these are important factors in securing peace and achieving meaningful development.

Normalization of relations with the Fund and debt relief

My authorities have established an impressive, and arguably the longest, track record of good performance under thirteen years of SMP. They have assiduously engaged the Fund, implemented agreed policies and measures under their programs, and made payments commitments to the Fund. Sudan's SMPs continue to meet upper- credit- tranche conditionality and the country has long satisfied the requirements for arrears clearance and the start of the HIPC process.

My authorities have continuously engaged Management and Executive Directors to seek support for the long overdue process towards debt relief. The authorities reiterate the importance of debt relief to Sudan's stability and development. They wish to underline the development and peace-building challenges facing Sudan and the need to deliver on the debt relief promises made by the international community to the people of Sudan within the framework of the Comprehensive Peace Agreement. They consider the resolution of the debt issue as an important element in the implementation of the various peace agreements. They are concerned that if the issue is not resolved soon it may end up complicating the ongoing political process in the Sudan.

My authorities, therefore, expect the Fund to take the lead and use its leverage and good offices to facilitate expeditious arrears clearance. The authorities' sustained and proactive engagement with the Fund, their impressive performance record, and their commitment to reform and development demand that the Fund and the international community avail to Sudan the necessary support.

Enhancing and broadening economic growth

One of the major challenges facing Sudan is enhancing and broadening growth to address the overdependence on oil revenues. At present, the value added of the oil sector is only about 10 percent of GDP, compared to 35 percent for agriculture and 50 percent for services. However, its contribution to the country's external and fiscal balances has been of critical importance, accounting for about 95 percent of exports and more than half of government revenue. The authorities are cognizant of the inherent problems of such dependency, particularly in view of the expected depletion of the currently known reserves. Consequently they have been accelerating programs aimed at diversifying the sources of growth, with keen appreciation of the fact that the non-oil sector, particularly agriculture, is performing below potential. The authorities are implementing a broad agricultural development program incorporating irrigated and rain-fed farming, livestock development, and expansion of non-traditional products and exports under the Revitalization of Agriculture Program. The program hinges on utilization of the opportunities created by the new Merowe dam, rehabilitation and reclamation of old irrigation infrastructure, and provision of improved seeds.

The authorities are undertaking broad-ranging reforms to encourage private sector investment, including FDI and public private partnerships. The business environment is being improved through a number of reform measures, including streamlining business registration procedures and establishing a one-stop shop. Fiscal and monetary policies have been geared to respond to the critical requirements and bottlenecks of diversification. For example, the fiscal space afforded by higher oil and tax revenues was used to support higher-than-programmed capital expenditure, particularly infrastructure. The central bank is focusing on increasing financing access to farmers and has already established channels for microfinance to the agricultural sector. Despite these efforts, however, the lingering impact of the global crisis and the external political perception of the country continue to constrain the pace of development.

Recent developments and program performance

In the five years up to 2008, the Sudanese economy was one of the fastest growing economies in SSA, with an average annual growth of 8 percent. However, due to the spillover effects from the global crisis, real GDP growth rate decelerated to 4.5 percent in 2009. Average inflation on the other hand, declined. Developments in the other key areas were mixed. The authorities determined effort led to substantial improvements in tax revenues, in line with the program target. However, higher-than-programmed expenditure, as well as repayments of domestic arrears, resulted in the overall deficit being higher than programmed. Nonetheless, the authorities adhered to the limit on non-concessional borrowing. Monetary policy focused on mitigating the impact of the external shocks on the economy by, inter alia, ensuring sufficient credit to the private sector to partially offset the impact of liquidity shortages. The substantial decline in oil prices in the first half of 2009 led to a widening of the current account deficit and deterioration in the overall balance of payments position.

Important structural reforms were completed in 2009. Tax compliance and fiscal management and administration were improved. The comprehensive review of the tax policy regime is ongoing, and is expected to be completed in July 2010. The Ministry of Finance and National Economy (MOFNE) was reorganized, benefiting from Fund advice, and capacity enhancing measures to improve its operations are on track. In the financial sector, a restructuring plan for Omdurman National Bank was completed, in line with the recommendations of an independent auditor.

Macroeconomic policies in 2010

The authorities recognize that the challenges to economic and financial management will remain complex in view of the expected slow recovery in the global economy and ongoing implementation of the various peace agreements. The preparation for the 2011 referendum and, hopefully, the implementation of the recent Doha agreement on Darfur may add to the already high financial obligations. The authorities expect to continue to experience low foreign exchange earnings from oil exports, foreign direct investment, and remittances. In the current circumstances, they fully recognize the need to proceed without delay with their reform efforts. They intend to place emphasis on maintaining macroeconomic stability, safeguarding and rebuilding foreign exchange reserves, and enhancing economic growth.

In this regard, the fiscal and monetary policies agreed with staff reflect the authorities' commitment to these objectives. The authorities intend to contain the overall fiscal deficit at

4.2 percent of GDP in 2010, with a number of new tax and expenditure measures. These measures constitute the bulk of the program targets and structural benchmarks incorporated in the SMP.

The authorities are engaged in a comprehensive effort to build and upgrade public sector capacity both at the central and state levels. They have identified the gaps and weaknesses in the relevant public institutional infrastructure and prioritized their technical assistance needs. They have discussed their priorities with the staff.

In the financial sector, my authorities attach high importance to strengthening the supervision, improving the regulatory framework, and addressing the problems and vulnerabilities of the sector. They have developed an action plan to resolve the problems of the banking sector within a realistic timeframe, benefiting from the FSAP recommendations.

Conclusion

The authorities' prudent policies have enabled Sudan to weather the ongoing global crisis and maintain reasonably high economic growth. Sudan continues to make progress in realizing national political and social objectives but faces difficult and complex challenges. In this context, and in the thirteenth year of an SMP, the authorities continue to show strong commitment to strengthening their engagement with the Fund and the international community. They seek Fund support for arrears clearance and ascending to the path of debt relief.