



SUDAN

2013 ARTICLE IV CONSULTATION

October 2013

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 2013 Article IV consultation with Sudan, the following documents have been released and are included in this package:

- The **Staff Report** for the 2013 Article IV Consultation, prepared by a staff team of the IMF for the Executive Board's consideration on September 20, 2013, following discussions that ended on July 16, 2013, 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 September 5, 2013.
- An **Informational Annex** prepared by the IMF.
- A **Financial Sector Review** dated September 5, 2013 prepared by the IMF
- A **Debt Sustainability Analysis** dated September 5, 2013 prepared by the staffs of the IMF and World Bank
- A **Staff Statement** of September 20, 2013 updating information on recent developments
- A **Press Release** summarizing the views of the Executive Board as expressed during its September 20, 2013 consideration of the staff report that concluded the Article IV consultation with Sudan.
- A **Statement by the Executive Director** for Sudan.

The documents listed below have been or will be separately released.

Poverty Reduction Strategy Paper
Joint Staff Advisory Note
Selected Issues Paper

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 2013 ARTICLE IV CONSULTATION

September 5, 2013

KEY ISSUES

Context: The July 2011 secession of South Sudan led to the buildup of large economic imbalances in Sudan. The authorities responded in June 2012 with a comprehensive package of corrective measures, which laid the ground for a much-needed adjustment process. The reform process was expected to continue in 2013, through a second package of measures, which the authorities recently put together, but has yet to be implemented. The March 2013 agreement with South Sudan on oil and security matters is offering an opportunity to continue the adjustment process by implementing bold reforms to address the post-secession challenges.

Outlook and risks: Risks are mainly to the downside and risks include domestic political instability and volatile security conditions, notably tensions at the border with South Sudan. Strong and steady implementation of reforms is crucial for improving macroeconomic stability and enhancing medium-term growth prospects.

Focus of the Article IV discussions: Discussions focused on: (i) near-term policies for restoring macroeconomic stability; and (ii) a medium-term strategy for rebuilding the economy and implementing policies for sustained and inclusive growth, higher employment, and poverty reduction.

Policy recommendations: Action is needed on the following fronts: (i) fiscal adjustment grounded in a sound medium-term framework, including a gradual phase-out of fuel and wheat subsidies, and strengthening of social safety nets thus making way for higher quality spending; (ii) a tighter monetary stance to address high inflation and exchange rate pressures; (iii) unification of the exchange rates and markets together with further exchange rate flexibility; and (iv) further liberalization of the economy and improvement in the business environment in order to boost private sector-led growth.

Staff-Monitored Program: Strong corrective policy measures to address the large economic imbalances and reforming the economy are needed to serve as the basis for a successor staff-monitored program.

Debt relief: Relief is predicated on reaching out to creditors, normalizing relations with international financial institutions, and establishing a track record of cooperation with the IMF on policies and payments.

Approved By
**A. Mazarei (MCD) and
 R. Salgado (SPR)**

Discussions were held in Khartoum during July 2–16, 2013. The staff team consisted of Messrs. Gemayel (head), Bessaha, Jenkins, Ms. Shi (all MCD), Mr. Kim (FAD), Mr. Erasmus (FIN), Mrs. DeLong and Kwak (both LEG), and Mr. Kiff (MCM). Mr. Todani (OED) participated in the discussions. The mission was assisted by Mr. Yasin (IMF resident representative office). The mission met with Minister of Finance and National Economy Ali Mahmood Mohamed Abdelrasool, Governor of the Central Bank Mohamed Kheir Ahmed Elzubeir, representatives of the private sector and civil society, and development partners.

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CONTEXT

1. The July 2011 secession of South Sudan led to a buildup of large economic imbalances in Sudan.

As a result of this permanent shock, Sudan lost almost 75 percent of its oil production, nearly 55 percent of its fiscal revenues, and about two-thirds of its foreign exchange earnings. Against the background of a weak policy response to the shock, growth slowed, inflation rose to high double digits, and the fiscal and current account balances deteriorated (Text Table 1).

2. The June 2012 package was so far the authorities' main policy response in the effort to tackle the economic imbalances and engineer a turnaround.

Notwithstanding this package, economic developments during 2012 remained weak reflecting half year implementation of these measures. Furthermore, the interruption of the reform process in the context of the 2013 budget somewhat disrupted the adjustment process, as evidenced by the mixed performance through the first half of this year. This slow start brings again to the top of the policy agenda the need for the authorities to take sustained and bold policy actions to reestablish macroeconomic stability, support the needed recovery, and create the conditions for higher growth and poverty reduction.

3. The signing in March 2013 of the implementation matrix of the agreement between Sudan and South Sudan opens a window of opportunity for renewed policy reforms to address the post-secession challenges.¹

The announcement of the agreement lessened tensions and reactivated bilateral cooperation on a host of issues. It also enabled resumption of oil production in South Sudan despite some initial setbacks.² As a result, in the second half of 2013 Sudan is expected to begin receiving

¹ The Cooperation Agreement was signed by Sudan and South Sudan on September 27, 2012 and covers 10 areas. However, the implementation matrix was finalized in March 2013.

² The first oil shipment left Port Sudan in early July.

Text Table 1. Sudan: Key Economic Indicators, 2010–12

| | 2010 | 2011 Est. | 2012 Prel. |
|---------------------------------------|------|--------------|---------------|
| (Annual changes in percentage) | | | |
| Real GDP (at factor costs) 1/ | 3.4 | -1.0 | -2.6 |
| Nonoil GDP 1/ | 5.1 | 6.0 | 4.6 |
| Consumer prices (period average) | 13.1 | 18.0 | 35.1 |
| (In percent of GDP) | | | |
| Overall fiscal balance | 0.3 | 0.2 | -3.8 |
| (Annual changes in percentage) | | | |
| Broad money | 24.9 | 17.7 | 40.3 |
| Reserve money | 17.2 | 27.8 | 46.7 |
| (In percent of GDP) | | | |
| Current account balance | -2.1 | -0.4 | -10.8 |
| Total external debt | 60.2 | 62.0 | 71.4 |
| Total external debt (in US\$ billion) | 39.5 | 41.4 | 43.2 |

Sources: Sudanese authorities; and IMF staff calculations.

1/ Growth rates for 2011 compare the 2011 Sudan (which excludes South Sudan after July 9) with 2010 unified Sudan. The growth rates for 2012 compare today's Sudan with 2011 Sudan described before.

Text table 2. Sudan: Outcome of Reform Measures Adopted in June 2012
(In percent of GDP; unless otherwise indicated)

| | 2012 | | |
|--|-------------|--------------|-------|
| | Projections | | Act. |
| | Pre-reforms | Post-reforms | |
| Revenue | 9.1 | 11.5 | 9.5 |
| Tax revenue | 6.1 | 6.9 | 6.2 |
| Current Expenditure | 14.1 | 15.3 | 12.3 |
| Wage bill | 5.8 | 5.9 | 4.8 |
| Subsidies | 1.4 | 2.9 | 2.0 |
| Transfers | 3.5 | 3.6 | 2.6 |
| Overall Fiscal Balance | -5.3 | -3.7 | -3.8 |
| Memorandum Items: | | | |
| Nominal GDP (in millions of SDGs) | 192.3 | 190.4 | 223.5 |
| Nominal nonoil GDP (in millions of SDGs) | 181.7 | 180.6 | 214.2 |

Sources: Sudanese authorities; and staff estimates.

significant oil transit fees and payments linked to the Transitional Financial Arrangement (TFA) (Text Table 3).

| | 2013 | 2014 | 2015 | 2016 |
|------------------------------------|------|-------|-------|-------|
| Transit fees | 194 | 528 | 368 | 255 |
| Transitional Financial Arrangement | 248 | 896 | 1,028 | 857 |
| Total | 442 | 1,424 | 1,396 | 1,112 |
| Total (in percent of GDP) | 0.8 | 2.5 | 2.4 | 1.8 |

Sources: Sudanese authorities; and IMF staff calculations.

4. The political situation remains uncertain. The forthcoming presidential elections in 2015, and regional conflicts are fueling political uncertainty and complicating the economic policy-making process. The unstable security situation at the border with South Sudan is, at the same time, shifting the decision makers' attention away from the economic sphere, and clouding economic prospects.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

A. Recent Developments

5. Sudan's economic performance in 2012 was unfavorable, despite the introduction in June 2012 of a package of reforms (Table 1).³ Non-oil real GDP growth slowed to 4.6 percent, reflecting a broad-based slowdown in economic activity. Inflation reached 44.4 percent at end-year, largely driven by the monetization of the fiscal deficit and a weakening exchange rate. The gap between the official and curb market exchange rates, despite dropping from a peak of almost 100 percent after the June 2012 depreciation, remained at about 20 percent by end-December. The overall fiscal deficit peaked at 3.8 percent of GDP, mostly on account of a significant fall in oil revenues in the aftermath of the secession (Table 3). The external current account deficit is estimated to have reached 10.8 percent of GDP, reflecting the large drop in oil exports, and was mainly financed by a combination of FDI, grants and loans from official sources (Table 2). Gross international reserves, supported by loans and grants increased to 1.9 months of prospective imports.

³ For a description of the package, see IMF Country Report No. 12/298; September 7, 2012.

6. Economic conditions during the first half of 2013 remained weak despite some signs of improvements (Text Table 4). The twelve-month consumer price inflation fell to 27.1 percent in June as a result of a sharp drop in food prices (-18 percent) and housing (-14 percent).⁴ Fiscal performance exceeded budget projections on account of an improvement in tax collection as well as higher imports. Current spending was contained at 4.9 percent of GDP, in line with the budget target. The overall fiscal deficit reached 1.3 percent of full-year GDP, against a budget target of 1.6 percent of GDP. The gap between the official and curb market rates remained at 20 percent, due in good part to the uncertainty surrounding the implementation of the oil agreement with South Sudan. Reserve money increased modestly by 4.6 percent, compared with end-December 2012, largely reflecting the drop in gold purchase by the central bank. Private sector credit growth remained sluggish (5 percent) while central bank credit to the government rose by 12 percent. Overall, broad money recorded a modest growth of 7.2 percent. Gross international reserves stood at US\$1.56 billion, a decline of US\$134 million from end-December 2012.

Text Table 4. Sudan: Key Economic Indicators, 2012–13 H1

| | 2012 | 2013H1 |
|--------------------------------------|--|--------|
| | (Annual changes in percentage) | |
| Consumer prices (end of period) | 44.4 | 27.1 |
| | (In percent of GDP) | |
| Non-oil tax revenue | 6.2 | 2.8 |
| Current expenditure | 12.3 | 4.9 |
| Overall fiscal deficit | -3.8 | -1.3 |
| | (Percentage change over the beginning of the year) | |
| Broad money | 40.3 | 7.2 |
| Reserve money | 46.7 | 4.6 |
| Net credit to the central government | | |
| by CBOS | 14.3 | 12.0 |
| Credit to the private sector | 34.1 | 5.0 |
| | (In percent of GDP) | |
| Trade balance 1/ | -5.5 | -7.1 |
| | (In millions of U.S. dollar) | |
| Gross international reserves | 1,693 | 1,558 |

Sources: Sudanese authorities; and Fund staff calculations.

1/ As of end-May 2013.

7. Financial sector indicators have improved slightly (Table 8). At June-2013, the capital adequacy ratio increased to 14.9 percent. At the same time, bank liquidity increased to 39.8 percent, and bank profitability was also on the rise since the beginning of the year. Data through end-June 2013 suggest that nonperforming loans (NPLs) have dropped to 10.4 percent from 11.8 percent at end-December 2012.

B. Outlook and Risks

8. The outlook for 2013 will remain difficult, absent a new package of corrective measures (Text Table 5). Non-oil economic growth is expected to slow to 2.3 percent on account of a slowdown in industrial and service activities and the shortage of foreign exchange. Inflation is expected to decelerate somewhat but will remain high at about 32 percent. However, the fiscal deficit is projected to be contained at about 2 percent of GDP, mainly reflecting higher transit

Text Table 5. Sudan: Key Economic Indicators, 2012–18

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---------------------------------------|--------------------------------|-------|------|------|-------|------|------|
| | Prel. | | | | Proj. | | |
| | (Annual changes in percentage) | | | | | | |
| Real GDP (at factor costs) 1/ | -2.6 | 4.1 | 3.0 | 3.6 | 2.9 | 3.3 | 3.8 |
| Nonoil GDP 1/ | 4.6 | 2.3 | 2.7 | 2.6 | 3.0 | 3.3 | 3.9 |
| Consumer prices (period average) | 35.1 | 32.1 | 27.4 | 24.5 | 20.5 | 14.5 | 10.0 |
| | (In percent of GDP) | | | | | | |
| Overall fiscal balance | -3.8 | -2.0 | -0.9 | -1.4 | -1.6 | -2.9 | -3.2 |
| | (Annual changes in percentage) | | | | | | |
| Broad money | 40.3 | 17.6 | 18.6 | ... | ... | ... | ... |
| Reserve money | 46.7 | 14.0 | 14.4 | ... | ... | ... | ... |
| | (In percent of GDP) | | | | | | |
| Current account balance | -10.8 | -11.9 | -7.0 | -6.0 | -6.4 | -7.4 | -7.3 |
| Total external debt | 71.4 | 85.8 | 82.5 | 83.0 | 83.3 | 85.1 | 84.5 |
| Total external debt (in US\$ billion) | 43.2 | 45.0 | 46.7 | 48.4 | 50.2 | 51.9 | 53.7 |

Sources: Sudanese authorities; and IMF staff calculations.
1/ Growth rates for 2011 compare the 2011 Sudan (which excludes South Sudan after July 9) with 2010 unified Sudan. The growth rates for 2012 compare today's Sudan with 2011 Sudan described before.

⁴ These items represent about 67 percent of the household consumption basket.

fees and the transitional financial arrangement (TFA) inflows expected to take place during the second half of the year. In contrast, the current account deficit is projected to widen to 11.9 percent of GDP, reflecting a marked decline in gold exports and a slight increase in imports.

9. Under current policies, Sudan's medium-term outlook is unfavorable. Non-oil real GDP growth would remain below potential at about 3 percent. Consumer price inflation is expected to decline gradually, although it would still remain in the double-digits, reflecting continued monetization of the deficit as well as the depreciation of the Sudanese pound.

10. The outlook is subject to significant risks (Text Table 6). On the downside, domestic risks dominate, including the protracted economic and political transition shaping up ahead of the 2015 presidential election, and unsettled regional civil conflicts, resulting in weaker growth and higher inflation. Altogether, these risks are expected to slow economic policy formulation and delay the adjustment process. Looking ahead, delays in reaching the HIPC Decision Point by September 2014 could activate the apportionment of Sudan's external debt under the "zero option" arrangement (see paragraph 48) and could create renewed tensions with South Sudan. Contentious relations with major donors and creditors, weakening-prospects for debt relief, and deeper-than-expected slowdown in emerging market countries pose additional risks on the external side. On the upside, the implementation of the recent agreement with South Sudan on oil-related matters would lessen the country's fiscal and external constraints and facilitate the adjustment process.

The Authorities' Views

11. The authorities assessed the downside risks somewhat differently. They viewed the domestic political risk rather on the low side. In contrast, they reckoned that the volatile domestic social situation, as well as regional developments, are challenges for policy-making. They considered that the current economic conditions are difficult and require further bold measures to address macroeconomic imbalances. At the same time, they stressed that Sudan's challenges are complicated by delays in receiving debt relief, protracted economic sanctions, and a lack of international support.

Text Table 6. Sudan: Risk Assessment Matrix
(Scale - high, medium, or low)

| Nature/Source of Main Threats | Likelihood of Severe Realization of Threat in the Next 1–3 years | Expected Impact on Sudan if Threat is Realized | Policy Responses |
|--|--|--|---|
| 1. Spillover from wider regional unrest that leads to a sharp slowdown in the GCC and neighboring countries. | Low to Medium <ul style="list-style-type: none"> • Could affect Sudan through lower remittances, lower exports, and drop in FDI. • Lower growth. | Medium <ul style="list-style-type: none"> • A severe shock will further lower GDP growth in Sudan and increase the unemployment rate. • Inflation will likely decelerate as a global recession leads to lower commodity prices. | <ul style="list-style-type: none"> • Greater exchange rate flexibility will help reduce external pressures. Social safety nets targeting vulnerable groups to be strengthened. |
| 2. Delays in reaching the HIPC decision point (beyond September 2014) | High <ul style="list-style-type: none"> • Possible activation of the debt apportionment clause under the “zero option” agreed between Sudan and South Sudan. | High <ul style="list-style-type: none"> • Political tensions between the two countries, possibly translating into border tension. • Economic tensions, which could result in reversing efforts made since the signing of the September 2012 Agreement, possibly leading to macroeconomic instability. | <ul style="list-style-type: none"> • As called for under the recent agreement, Sudan and South Sudan should reach out to the creditor and donors’ community to mobilize support in favor of debt relief. |
| 3. 2015 Presidential elections and heightened social tension | Medium to High <ul style="list-style-type: none"> • Could lead to higher spending and lack of fiscal discipline. • Slow down in the reform process. | Medium to High <ul style="list-style-type: none"> • Rising imbalances. • Inflation would rise. | <ul style="list-style-type: none"> • Fiscal slippages linked to election spending should be offset by equivalent cuts in non priority spending. |
| 4. Heightened tensions between Sudan and South Sudan | Low to Medium <ul style="list-style-type: none"> • The implementation of the agreement between Sudan and South Sudan would be derailed. • Tensions in the past escalated into military skirmishes, which could lead to economic pressure. | Low to Medium <ul style="list-style-type: none"> • Military and defense spending would rise. • Budget deficit would increase. • Higher risk of monetization of the budget deficit. • Inflation would rise. | <ul style="list-style-type: none"> • Fiscal slippages will need to be addressed through higher revenue or spending cuts in non priority areas. Monetary tightening to keep inflation in check. |
| 5. Global food price increases caused by supply shocks | Medium <ul style="list-style-type: none"> • Geopolitical uncertainty in the Middle East would increase. • Sudan is dependent on imports of food (especially wheat). | Medium <ul style="list-style-type: none"> • Inflation rate would increase further, affecting the poor as social protection networks are weak. • Higher subsidies. | <ul style="list-style-type: none"> • Careful monitoring of second-round effects on inflation and readiness to tighten monetary policy to counter pressures on core inflation. Reliance on a well-targeted social safety net to cushion the impact on poor. Communication efforts about the policies in place are needed. |
| 6. Deeper-than-expected slowdown in emerging market countries (synchronized growth shock triggered by financial sector stress and/or setbacks in fiscal and structural reforms) | Medium <ul style="list-style-type: none"> • Exposure to weak demand, falling commodity prices (commodities constitute 43 percent of GDP), and remittances (2 percent of GDP). | Medium <ul style="list-style-type: none"> • The shock would worsen the external balance sharply, putting pressure on exchange rate and reserves. Growth would slowdown in the near-term, which could lead to permanent output losses. The reserve buffer would not be adequate to absorb the shock. | <ul style="list-style-type: none"> • Greater exchange rate flexibility would help maintain external stability and prevent reserve losses. Declining revenue and lack of fiscal space would likely require pro-cyclical spending cuts. Weakening commodity prices and the widening output gap would facilitate faster disinflation. |

12. Recommendations from the 2012 Article IV consultation remain valid. At that time, Executive Directors recommended: (i) a fiscal adjustment grounded on sound medium-term framework; (ii) a further monetary tightening against the backdrop of high inflation and exchange rate pressures; and (iii) unification of the foreign exchange rates, and the pursuit of greater exchange rate flexibility. In line with these recommendations, the authorities started improving revenue collection, and took preliminary steps to tighten monetary policy, including putting a ceiling on government guarantees,⁵ reducing gold purchase to slow inflation while preparing the grounds for a shift to reserve money as anchor.

POLICY DISCUSSIONS

13. There was broad consensus on the key challenges ahead. The authorities recognized that while the June 2012 package had yielded some positive returns, further policy actions are required to adequately address Sudan's deep-seated macroeconomic imbalances and support broad-based and inclusive growth and poverty reduction.

14. Discussions centered on the government strategy for completing its adjustment process and transforming the economy in line with the country's reduced economic and financial potential following the secession of South Sudan. In particular, discussions focused on policies to: (i) continue fiscal consolidation; (ii) unify the exchange rates and markets; (iii) enhance the monetary framework and improve financial intermediation; and (iv) further liberalize the economy and improve the business environment.

A. Restoring Macroeconomic Stability and Addressing Near-Term Challenges

15. The government's main policy objective in the near-term should be to address the large economic imbalances. This will require a coordinated three-pronged policy mix:

- Rationalizing government spending and improving revenue collection to address the fiscal imbalances and limit the monetization of the fiscal deficit;
- Rapidly unifying the foreign exchange rates and markets, and pursuing a flexible exchange rate policy to lessen pressure on the exchange rate and build up external reserves; exchange restrictions, for their part, will need to be removed gradually; and
- Tightening credit to the government in line with the adjustment of the fiscal stance, while improving monetary management by providing commercial banks with appropriate opportunities to recycle their unused balances with the central bank.

⁵ These are guarantees provided by the central bank of Sudan (CBOS) to borrowing by the ministry of finance.

Fiscal Policy

16. The fiscal policy stance underpinned by the 2013 budget lacks adequate measures to sustain the needed fiscal consolidation path. Progress on this front will require bold tax policy measures. Sudan's revenue-to-GDP ratio is very low compared with peers, reflecting in part exemptions and extensive tax incentives. Improving tax revenue will entail raising some taxes, streamlining tax exemptions, rationalizing business tax incentives, and taxing gold activities (Box 1). Tax efforts should be accompanied by revenue administration measures aimed at developing a tax procedure code, strengthening the audit capacity, reinforcing the penalty procedures for non-compliant taxpayers, and enhancing the business registration process and core operations' workflow

Box 1. Sudan: Taxations of Gold

A low tax intake. Sudan's total revenue and tax-to-GDP ratio are very low compared with neighboring countries. Whereas the average tax revenue of regional peers is around 17 percent of GDP, Sudan only collected 6.2 percent in 2012. Such a low revenue mobilization limits the fiscal space for ramping up physical and social infrastructure development that in turn is crucial to sustain economic growth and promote social fairness.

The gold sector in Sudan. In 2012, the gold sector became Sudan's most important export earner. Whereas it accounted for approximately 1 percent of export earnings in 2008, by 2012 its share increased to over 40 percent. Over the medium term, it is projected to contribute about one-third of total exports. While the central bank managed so far to boost its foreign reserves as a result of its gold trading activities, the benefits accruing to the budget, on the other hand, were negligible.

Comparison of Sudan's Gold Mining Fiscal Regime with other Countries (In percent)

| Country | Royalty Rate | Corporate Income Tax | State Equity |
|--------------|--|----------------------|--------------|
| Australia | 2.5 | 29 | None |
| Ghana | 5 | 35 | 10 |
| Indonesia | 3.75 | 25 | None |
| Mongolia | 5 (plus price based progressive royalty) | 25 | Up to 34 |
| South Africa | 7 | Variable rate | None |
| Sudan | 7 | 30 | Varies |
| Tanzania | 4 | 30 | 5 |

Source: IMF staff calculations.

Sudan: Structure of Exports, 2008–16 (In millions of U.S. dollars)

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|-----------------------|--------|-------|--------|--------|-------|-------|-------|-------|-------|
| | | | | | Est. | Proj. | Proj. | Proj. | Proj. |
| Total exports | 12,628 | 8,087 | 12,700 | 11,063 | 5,174 | 5,378 | 6,091 | 6,760 | 6,802 |
| of which oil exports | 12,052 | 7,067 | 10,991 | 8,679 | 2,012 | 2,576 | 3,265 | 3,817 | 3,780 |
| Gold | 112 | 403 | 1,018 | 1,442 | 2,158 | 2,104 | 2,150 | 2,238 | 2,290 |
| gold/total export (%) | 0.9 | 5.0 | 8.0 | 13.0 | 41.7 | 39.1 | 35.3 | 33.1 | 33.7 |

Source: IMF

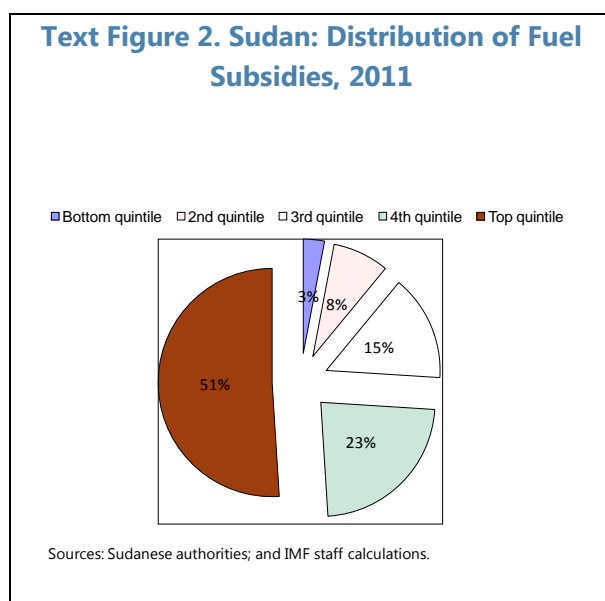
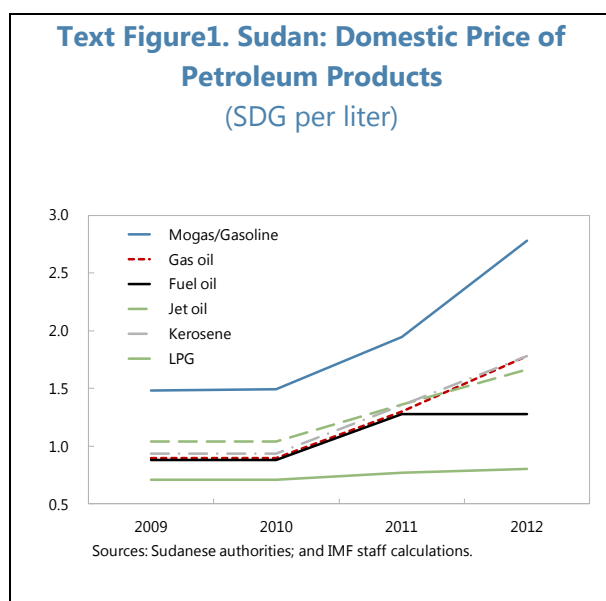
Strategy for Reforming Gold Taxation. Currently there are two groups of gold miners in Sudan: the first consists of the five main gold mining companies¹ and the second includes the thousands of small artisanal miners. Under the current taxation system, while artisanal miners are not taxed, gold mining companies are subject to a royalty (7 percent), a business profit tax (BPT; 30 percent), and pay a dividend proportional to for the equity share held by the government. This system of taxations compares favorably to systems in place in other gold producing countries. However, in the long-term there is a need to:

- Levy on mining companies a tax with a view to improving progressivity. This will ensure that taxation will move in line with changes in activity.
- Levy a withholding tax on artisanal miners. Unlike the mining companies, it is very difficult and costly to collect the business profit tax from small traditional miners because most of them are operating in the remote desert areas of the country. The simplest approach would be to impose a withholding tax, in lieu of BPT, on the payments to the artisanal miners when they are paid by gold merchants who are licensed to buy gold from them and sell it to the central bank. The withholding tax rate should be high enough to approximate the BPT, but not so high as to encourage smuggling.

¹ By the end of this year seven more companies are expected to begin producing gold.

17. Streamlining spending remains a key priority. In particular, it will be important to contain non-priority spending (e.g., goods and services), phase out subsidies, and gradually reduce current transfers to states, while reallocating part of the savings to better targeted social programs and higher capital spending.

18. Wage policy should not be used as a social protection tool. The recent announcement by the government to increase public salaries by about 20 percent could be inflationary, due to its contagion effects on the rest of the economy and would adversely affect the disinflationary process. More generally, in order to boost the economy and strengthen competitiveness, the government needs to promote a wage policy linking wage increases to the economy's productivity.



19. The subsidy reform initiated last year should proceed. In 2012, the authorities have taken a bold decision to increase the price of fuel products (Text Figure 1), and by year-end overall subsidies were estimated at 2.8 percent of GDP, as follows: (i) fuel subsidies equivalent to 2.1 percent of GDP; (ii) food subsidies representing 0.4 percent of GDP; and (iii) an electricity subsidy equivalent to 0.3 percent of GDP. Fuel subsidies in Sudan disproportionately benefit the rich: the bottom quintile of the population receives about 3 percent of the subsidy, whereas the top quintile receives more than 50 percent (Text Figure 2). Against this background, the phasing of fuel subsidies should proceed in a gradual fashion over the next four to five years.⁶

20. Protection of the poor should be a priority. About 47 of the Sudanese population lives below the poverty line.⁷ Therefore, any further increase in fuel products will negatively impact a large segment of the population. Therefore, an increase in social expenditures should accompany

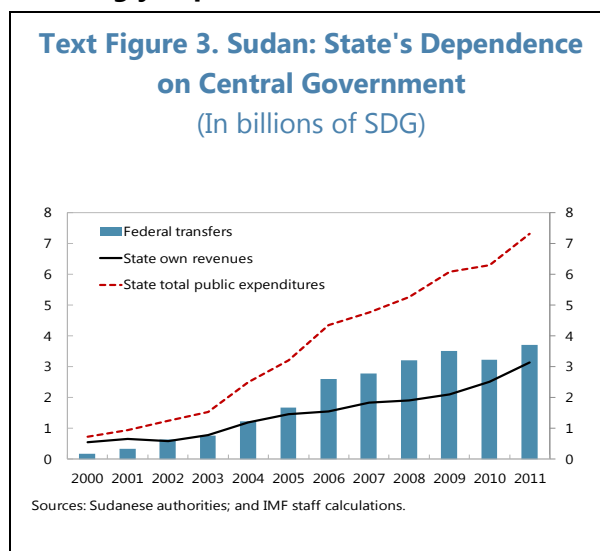
⁶ See discussion in "Fiscal Cost and Distributional Impact of Fuel Subsidies" (IMF Country Report No. 12/299).

⁷ World Bank estimates based on Sudan's 2009 National Budget Household Survey (NBHS).

the phasing out of subsidies. Over the medium term, the authorities should gradually move from a broad-based subsidy scheme to a targeted one.

21. Since the late 1990s, states have become increasingly dependent on central transfers.

This dependence largely stems from states' weak capacity to mobilize own resources, which contrasts with their expenditure obligations (Text Figure 3). Staff encourages the authorities to use the flexibility allowed under the constitution to enhance revenue collection capacity and rationalize expenditure control at the federal level. This would need initiating a gradual process of transformation in revenue autonomy at the state level. In addition, the states would benefit from rebalancing of federal transfers toward capital spending in those areas where the delivery of basic social services is inadequate.⁸



22. Over the medium term, fiscal consolidation remains key to maintaining macroeconomic stability.

To that effect, fiscal policy should be anchored in a primary surplus, which would ensure a steady and gradual consolidation of the non oil primary balance. In that respect, it is critical that the 2014 budget sets a fiscally sustainable path along the lines of the reforms discussed above, namely by: (i) adjusting the government revenue model; (ii) streamlining non-priority spending; (iii) overhauling state finances; and (iv) designing a well-targeted social safety net. These reforms are expected to provide a basis for a sustained medium-term fiscal adjustment with a view to moving towards a primary surplus, while ensuring a steady consolidation of the non-oil primary balance.

23. An adequate public financial management framework is critical to strengthening budget preparation, execution and monitoring.

In this context, staff welcomes steps under way to finalize the Treasury Single Account (TSA) and establish quarterly cash-flow tables. It will be important to frame the annual budget for 2014 within a rolling three-year medium-term fiscal framework. Progress in the area of budget reporting and monitoring is predicated on (i) reforming the financial guarantees that are used to cover government expenditure; (ii) incorporating in the annual budget all the medium- and long-term domestic debt maturities falling due during the year;⁹

⁸ See discussion in "Fiscal Decentralization: Trends, Challenges, and Perspectives." (IMF Country Report No. 12/299).

⁹ While modest domestic arrears may materialize from time to time, there is no evidence that such arrears have been sustained or of macroeconomic significance.

and (iii) the continued implementation and rollout of the global overall financial requirements (GOFR).¹⁰

The Authorities' Views

24. The authorities agreed that fiscal consolidation should be at the center of their strategy to engineer a sustainable economic turnaround. On the revenue side, the authorities indicated that they are committed to increasing fiscal revenues through a combination of tax hikes, expanding the tax base, and enhancing revenue administration. On the spending side, they indicated that they intend to continue phasing out fuel subsidies, which will be accompanied by a coherent social safety net program to protect the most vulnerable segments of the population. They also concurred with staff that it is crucial to streamline transfers to states, which they indicated will need to be implemented through a progressive approach, as it requires revisiting the legal and constitutional framework that governs state finances.

25. The authorities indicated that they intend to take the appropriate measures to improve public financial management. They reported that progress was being made regarding the TSA as well as on building quarterly cash flow tables. They agreed to a comprehensive budget reporting by including all the medium- and long- term domestic debt maturities falling due during the year. They requested technical assistance to introduce a three-year rolling medium-term budget and the GOFR.

Enhancing the Monetary Policy Framework

26. Monetary conditions in Sudan have weakened noticeably since the secession of South Sudan. This reflects the increased monetization of the budget deficit, which has led to high inflation and commercial banks holding excess reserves at the central bank. Accordingly, the authorities need to refocus the objective of monetary policy on combating inflation. This is predicated on: (i) tightening Central Bank of Sudan (CBOS) credit to the government so as not to exceed the ceiling of SDG 2.5 billion for the year; (ii) mopping up excess reserves; (iii) reimbursing, by year-end, the CBOS temporary advances provided to the government in the first half of the year, and refraining from rescheduling them; (iv) phasing out the practice of holding government deposits with commercial banks and placing them with CBOS instead; (v) minimizing the provision of credit to public enterprises until an interbank market is in place;¹¹ and (vi) refraining from acquiring Government Musharaka Certificates (GMCs) in the primary market.

27. The use of reserve money as an anchor will help strengthen the monetary policy framework (Box 2). In support of this practice, the authorities need to: (i) closely coordinate

¹⁰ The GOFR will include: (i) the overall fiscal balance; (ii) the cash payment for the amortization of the external debt; (iii) the amortization of the GMC's maturities falling due; and (iv) the amortization of the medium- and long-term domestic debt falling due.

¹¹ In 2012, the Central Bank of Sudan expanded provision of loans to public enterprises.

monetary policy with fiscal policy to make room for more credit to the private sector; (ii) promote an inter-bank market of GMCs and Government Investment Certificates (GICs), with no cap on commercial banks' holdings of government and central bank securities; (iii) expand the auction system to provide commercial banks with the opportunity to recycle their unused cash balances; (iv) discontinue the practice of direct and subsidized credits; (v) gradually withdraw CBOS from the gold activities; and (vi) discontinuing the provision of guarantees by the CBOS to the government.

The Authorities' Views

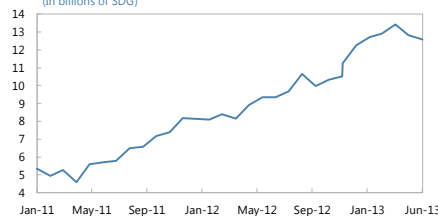
28. The authorities were in broad agreement with staff on the need for a refocusing of monetary policy. They agreed that monetary policy should cease to be accommodative. To that effect, they indicated that they have: (i) established a ceiling on the provision of guarantees to the government; (ii) committed to limit credit to the government within the legally established ceiling; and (iii) slowed down gold purchases. They are confident that these bold new measures are crucial to bring down inflation. They are also in full agreement on using reserve money as the monetary anchor in order to strengthen the traction of monetary policy and contain inflationary pressures.

Box 2. Sudan: Monetary Policy Transmission Mechanism

Sudan’s monetary policy framework lacks adequate instruments for monetary operations, liquidity management, and non-inflationary financing of government deficits. Money supply is regulated through quantitative control by fixing ad hoc credit ceilings, and imposing high unremunerated reserve requirements, which has not proven to be very ineffective. Furthermore, the absence of an active interbank market has led to large excess reserves and a loss of monetary control by the CBOS. The lack of adequate monetary instruments has led to high intermediation costs and persistent inflationary pressures. Lastly, the recourse to multiple exchange rates raises the need for another anchor for monetary policy.

Monetization of the rising fiscal deficits has further undermined the effectiveness of monetary policy, particularly after the secession of South Sudan. The rising fiscal deficit following the secession of South Sudan has been mostly financed by the CBOS (Box Figure 1), resulting in rapid monetary expansion that reached 40 percent at end of 2012. The sharp increase in net credit to the government exceeded the statutory limit of SDG 1.5 billion and fueled inflation which reached a peak of 47.8 percent in March 2013, nearing hyperinflation. As a result, the central bank’s independence has significantly weakened, thus undermining its ability to ensure price stability.

Box Figure 1. Sudan: Net Credit to Central Government, 2011-2013 1/
(In billions of SDG)



Sources: Sudanese authorities; and IMF staff calculations.
1/ Excluding IMF.

Empirical evidence suggests that expansionary monetary policy led to high inflation in Sudan through the exchange rate channel and bank lending channel. A

model is used to regress the inflation rate (year-on-year percentage change) on the three independent variables: reserve money, nominal effective exchange rate (NEER) based on the parallel exchange rate and credit to the private sector (all monthly data and year-on-year percentage changes). As expected, reserve money has a positive and significant effect on inflation with a lag of four to five months, suggesting that monetization of the deficits does lead to high inflation. Credit to the private sector also has a positive and significant effect on the inflation rate with no lags. The effect of the NEER is significant with a lag of three months and has the correct sign, i.e., a devaluation of the exchange rate will fuel inflation (Box Table 1).

Box Table 1. Sudan: Effectiveness of Monetary Transmission

| Dependent variable: inflation rate | (1) | (2) |
|------------------------------------|---------------------|---------------------|
| Reserve money (lag 4) | 0.542*** (0.168) | |
| Reserve money (lag 5) | | 0.522*** (0.150) |
| NEER (lag 3) | -0.402* (0.202) | -0.403* (0.191) |
| Credit to the private sector | 0.545*** (0.078) | 0.601*** (0.065) |
| Constant | -3.649 (7.250) | -3.664 (6.925) |

Note: * denotes significant at 10 percent level; ** denotes significant at 5 percent level; *** denotes significant at 1 percent level.

Need for a comprehensive package. The econometric analysis concludes that reserve money, the exchange rate, and private sector credit are the main determinants of inflation after the secession of South Sudan and that the transmission lags have been shortened significantly compared with previous studies (WP/08/189).¹ These findings reinforce the need for a comprehensive package of fiscal and monetary measures that strengthens the monetary policy framework and improves its effectiveness.

¹ As inflation is known to have downward stickiness due to rigidities in labor market, i.e., “inflation inertia,” a deflationary monetary policy is expected to take longer period to have the desired impact on reducing inflation.

Further Exchange Rate Flexibility

29. Greater exchange rate flexibility is warranted in order to cushion against shocks and mitigate external imbalances. Notwithstanding the June 2012 devaluation, which reversed a major part of the overvaluation, the exchange rate remains overvalued and the gap between the official and curb market rates remains stubbornly high at about 20 percent (Box 3). The authorities are, therefore, encouraged to limit market intervention to smoothing excessive exchange rate volatility, without hampering the underlying trend in the exchange rate. Over the long term, greater exchange rate flexibility will be even more important as non-oil exports become more diversified.

30. More efforts are needed to unify the four foreign exchange rates currently in effect.¹² This will require: (i) eliminating the subsidized wheat and fuel exchange rates; (ii) introducing a unique reference rate at a level consistent with the current market conditions, which would also be used as a central rate; (iii) allowing commercial banks and exchange bureaux to set the exchange rates to reflect prevailing market conditions; and (iv) ensuring that only authorized banks and dealers participate in the foreign exchange market.

31. The operations of the foreign exchange market need to be improved. This will require improving the mechanism for intervention and creating an interbank foreign exchange market, including the steps and sequencing, the organization of the market itself, and the role of the commercial banks.

¹² These rates are as follows: (i) a central rate of SDG 4.42 per U.S. dollar that applies also to the importation of fuel products, the payment of government obligations, and valuation assessment at customs; (ii) a subsidized rate for wheat of SDG 2.9 per U.S. dollar; (iii) a gold exchange rate used by the central bank in its gold transactions, which is in line with the curb market rate; and (iv) a commercial bank rates that applies to all other transactions.

Box 3. Sudan: External Stability Assessment

Sudan's external stability continues to be at risk. The loss of oil exports and FDI after the secession of South Sudan in mid-2011 resulted in a structural BOP shift that exacerbated long-standing vulnerabilities and created permanent adjustment needs. The moderate substitution of gold for oil exports has not changed the dependence on natural resources and some key trading partners. It is thus crucial for Sudan to further develop and diversify its export base, alleviate financing constraints and allow for more exchange rate flexibility.

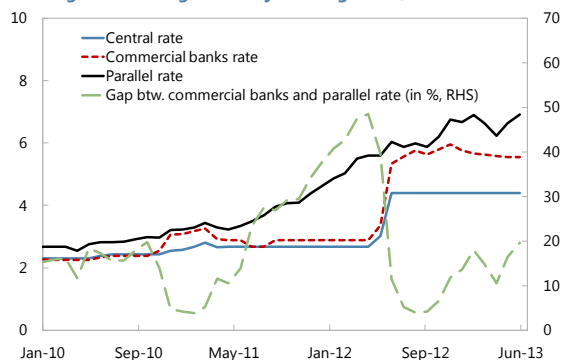
Price competitiveness. Five available exchange rate surveillance indicators suggest that the June 2012 devaluation and reforms have not significantly reduced the overvaluation of the SDG:¹

- (i) Current account dynamics have worsened;
- (ii) The curb rate has become the main indicator and its gap to official rates remains in double-digits (Box Figure 1);
- (iii) The devaluation-induced depreciation of the REER has recently almost fully been reversed, while the NEER remains on a depreciating path (Box Figure 2);
- (iv) Reserves have suffered because of protracted exchange market interventions in one direction (Box Figure 3); and
- (v) Growing external arrears add to an already unsustainable external public debt burden.

Non-price competitiveness. Qualitative indicators continue to point to significant structural and institutional bottlenecks, calling for substantial structural reforms to improve the business climate – especially facilitating cross-border trading, accelerating financial sector development, investing in infrastructure to reduce production and distribution costs, and improving governance.

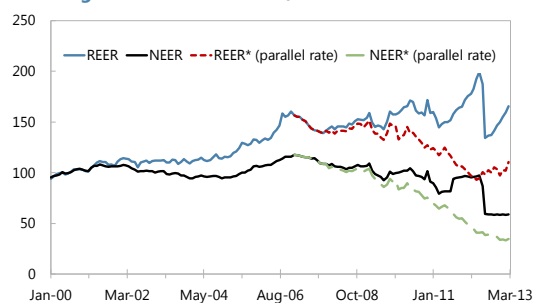
Reserve adequacy. Reserves remain too low as to effectively buffer against shocks as suggested by the new methodology for assessing the adequacy of reserve holdings for LICs. The latter makes the case for coverage of more than 4.5 months of prospective imports.

Box Figure 1. Average Monthly Exchange Rate, 2007M1-2013M6



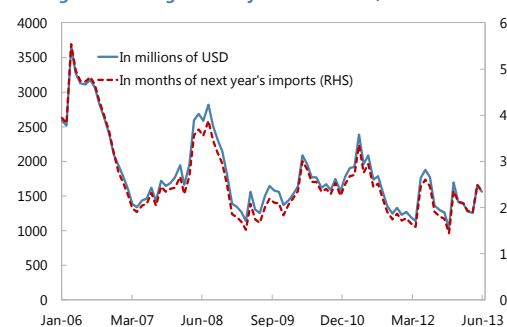
Sources: Sudanese authorities; and IMF staff calculations.

Box Figure 2. REER and NEER, 2000M1-2013M3



Sources: Sudanese authorities; and IMF staff calculations.

Box Figure 3. Average Monthly Reserve Levels, 2006M1-2013M6



Sources: Sudanese authorities; and IMF staff calculations.

¹ Conceptual and methodological obstacles prevent a formal empirical analysis based on the Consultative Group on Exchange Rates (CGER) approach (above all, data limitations related to secession-induced loss of time series).

The Authorities' Views

32. The authorities were in broad agreement regarding the need to unify the exchange rates but disagreed with staff on the pace. They plan to unify the wheat, oil, and customs rates and will allow a commercial bank rate around a +/- 4 percent band. They felt that a gradual approach is more appropriate to accompany the phasing out of subsidies, which is expected to significantly affect prices. They also agree with staff on the need to allow further exchange rate flexibility to enhance external competitiveness and to build up reserves. They concurred with staff that the foreign exchange market should be modernized and requested to that effect, technical assistance from the Fund.

Financial Intermediation and Stability

33. The financial system in Sudan fully operates under Islamic principles, and, as in many other low income countries (LICs), is dominated by the banking sector (Box 4). Commercial banks represent about 97 percent of the financial system, based on total assets. Insurance companies account for virtually all of the remainder although there is a small microfinance sector. There is effectively no interbank funding market.

34. The banking system is weaker than its peers in sub-Saharan Africa. Capital asset ratios are generally below the required 12 percent, NPLs are high while provisioning is low, although both have been on improving trends over the past five years. Some of the weaknesses in bank supervision, inspection and enforcement identified by the 2005 FSAP remain. Sudan's AML/CFT framework is currently monitored by the Financial Action Task Force (FATF) due to serious deficiencies. These deficiencies are being addressed on the basis of an action plan agreed with FATF.

35. The authorities are extremely keen to deepen financial intermediation. Commercial bank credit to the private sector has increased by an annual average of about 21 percent a year over the past three years, reflecting increased liquidity in the banking sector, and large current transfers. However, at about 12.1 percent of GDP at end-2012, credit to the private sector stands below the average for LICs (Text Table 7). This gap reflects a broad range of factors, including the secession of South Sudan, bank concentration around the capital city (which leaves much of the country under-banked), outdated legal, regulatory, and institutional frameworks, and recent restrictions on Foreign Exchange operations introduced by CBOS. It is crucial to strengthen financial intermediation to support the growth agenda.

36. Recently the authorities have made a number of moves to broaden access to banking services. These include, simplifying the procedures for opening bank accounts, encouraging banks to open new branches and expand ATM networks, and setting up a credit registry.

37. Equity trading on the Khartoum Stock Exchange (KSE) is thin, and it suffers from weak corporate governance, poor regulation, and a lack of corporate transparency. Plus, government securities dominate trading, and what little equity trading that occurs is dominated by one firm. There is currently no legislative and regulatory framework for the securities market, nor are there

institutions to implement it. Furthermore, the KSE is self-regulated under laws that have not been amended since 1994.

38. The microfinance sector (MF) is still small relative to the needs, although the authorities are actively promoting its development and it has recently started to grow rapidly.

The number of CBOS-regulated MF institutions went from zero in 2007 to 18 at end-2012, and over the same period, the number of borrowers went from 49,000 to 494,000. However, one of the factors that may slow further growth is that MF institutions depend on wholesale funding, for which they have to compete with high-yielding Government Musharaka Certificates (GMCs).

Text Table 7. Credit to Private Sector, 2001–12
(In percent of GDP)

| | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 |
|--------------------|-------------|-------------|-------------|-------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Chad | 4.34 | 4.21 | 4.20 | 3.13 | 2.88 | 2.61 | 2.96 | 3.79 | 5.14 | 5.29 | 5.60 | 6.67 |
| Congo, Dem. Rep. o | 0.77 | 0.69 | 0.86 | 1.57 | 1.90 | 2.89 | 3.71 | 7.14 | 7.25 | 6.58 | 6.34 | 7.02 |
| Egypt | 54.93 | 54.66 | 53.90 | 54.04 | 51.17 | 49.29 | 45.52 | 42.80 | 36.09 | 33.07 | 31.16 | 29.74 |
| Ethiopia | 17.91 | 18.12 | 17.63 | 16.66 | 19.01 | 20.61 | 18.67 | 17.85 | ... | ... | ... | ... |
| Kenya | 25.08 | 25.77 | 24.94 | 27.30 | 26.28 | 26.27 | 27.04 | 29.90 | 30.27 | 33.84 | 37.66 | 36.21 |
| Sudan | 3.89 | 4.61 | 6.21 | 7.92 | 11.11 | 13.27 | 12.72 | 11.15 | 12.62 | 11.87 | 10.89 | 12.07 |
| Uganda | 6.90 | 7.38 | 7.53 | 7.89 | 8.09 | 9.35 | 9.48 | 12.47 | 12.29 | 14.77 | 15.73 | 15.43 |

Sources: National authorities; and IMF staff calculations.

Box 4. Sudan: Banking Sector Soundness and Development

Sudan was selected to be one of the pilot cases for enhancing surveillance of financial systems called for by Executive Board in May 2012 (FO/DIS/12/66).¹ The Board discussion found that a shallow and undiversified financial sector creates macro-financial vulnerabilities that affect the macro economy, and its ability to sustain growth and reduce poverty. The main policy recommendations suggested by this exercise are as follows:

The central bank should continue its good progress in moving towards best practice in bank supervision, inspection and enforcement, with the assistance of the IMF's Middle East Regional Technical Assistance Center (METAC).

The authorities should put in place an up to date legislative and regulatory framework for the securities market, and institutions to implement it, based on the IOSCO Objectives and Principles for Securities Regulation.

¹ To date, Benin, Ghana, Haiti, Senegal, and the West African Economic and Monetary Union have been included as pilot cases.

The Authorities' Views

39. The authorities were appreciative of Sudan's inclusion in the pilot exercise. They were in broad agreement with the staff's assessment of the financial sector. They recognized that further progress is needed to enhance financial deepening and broaden access to banking services, together with structural reforms in support of private sector investment. The key challenge was deciding on the appropriate sequencing of reforms. They also agreed with the recommendation to upgrade supervision and compliance in line with prudential norms. They welcomed technical assistance from the Fund in this regard. In addition, they pointed out that new securities market legislation is currently working its way through the system that will rectify deficiencies identified by the pilot exercise.

40. They also pointed out that they have made good progress in putting in place many of the banking sector regulatory reforms called for in the 2004 FSAP. This included requiring banks to significantly increase their paid-up capital, and setting up a dedicated financial stability unit in the CBOS.

Reforms and Revised Policies Outcome

41. The implementation of the reforms outlined above could significantly improve the outlook and pave the way for an agreement with staff on a successor staff-monitored program (SMP) (Text Table 8). Non-oil GDP growth would pick up and average about 5 percent. Inflation would gradually come down to single digits as a result of a steady improvement in the fiscal position. The primary surplus is projected to be at about 2.5 percent of GDP on average. The current account deficit would be contained at about 5 percent of GDP.

Text Table 8. Sudan: Selected Economic Indicators, 2013–18
(Adjustment scenario)

| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|--------------------------------|-------|-------------|-------|-------|-------|
| | | | Projections | | | |
| Output and prices | | | | | | |
| | (Annual changes in percentage) | | | | | |
| Real GDP (at factor costs) 1/ | 4.2 | 2.5 | 4.9 | 4.7 | 5.1 | 5.5 |
| Nonoil GDP 1/ | 2.3 | 2.2 | 4.1 | 4.9 | 5.2 | 5.7 |
| Consumer prices (period average) | 32.0 | 21.1 | 14.3 | 9.5 | 7.2 | 6.0 |
| | (In percent of GDP) | | | | | |
| Government operations | | | | | | |
| Revenue and Grants | 11.2 | 13.4 | 13.9 | 13.6 | 12.7 | 13.1 |
| Revenues | 9.9 | 11.0 | 11.3 | 11.5 | 11.9 | 12.3 |
| Total expenditure | 13.2 | 13.6 | 13.3 | 12.5 | 11.8 | 11.4 |
| Current expenditure | 11.9 | 11.9 | 11.3 | 10.2 | 9.2 | 8.3 |
| Wage bill | 4.2 | 4.2 | 4.0 | 3.9 | 3.8 | 3.6 |
| Subsidies | 2.6 | 2.5 | 2.3 | 1.5 | 0.8 | 0.2 |
| Transfers | 2.5 | 2.6 | 2.6 | 2.6 | 2.6 | 2.5 |
| Capital expenditure | 1.3 | 1.7 | 2.0 | 2.3 | 2.7 | 3.0 |
| Overall balance | -2.0 | -0.2 | 0.6 | 1.2 | 0.8 | 1.7 |
| Nonoil primary balance | -4.6 | -3.9 | -3.3 | -2.4 | -2.2 | -1.4 |
| Monetary sector | | | | | | |
| | (Annual changes in percentage) | | | | | |
| Broad money | 17.8 | 17.9 | ... | ... | ... | ... |
| Reserve money | 13.2 | 12.1 | ... | ... | ... | ... |
| External sector | | | | | | |
| | (In percent of GDP) | | | | | |
| Current account balance | -11.6 | -6.3 | -5.3 | -5.5 | -6.1 | -5.7 |
| Total external debt | 85.0 | 82.7 | 81.8 | 80.4 | 78.1 | 74.4 |
| Total external debt (in US\$ billion) | 44.7 | 46.2 | 47.8 | 49.4 | 51.1 | 52.8 |
| Gross international reserves (in millions of US\$) | 1,629 | 1,849 | 2,063 | 2,304 | 2,688 | 2,978 |
| In months of next year's imports of G&S. | 2.0 | 2.2 | 2.4 | 2.6 | 2.8 | 2.8 |

Sources: Sudanese authorities; and IMF staff calculations.

1/ Growth rates since 2011 exclude South Sudan.

42. The envisaged adjustment path is an overarching policy priority. Although the program may encounter social and political resistance, the pursuit of current policies would widen current imbalances and jeopardize social stability. Successful implementation of the reform strategy would require consensus and ownership. In this context, staff encouraged the authorities to adopt a clear and sustained communication strategy to explain their reform agenda and ensure broad support among various stakeholders.

The Authorities' Views

43. The authorities recognized that unforeseen regional and domestic political and security factors have so far unduly delayed the adoption of a package of corrective reforms. They recognize that further delays in containing inflationary pressures will continue to erode the purchasing power of the population and ultimately could result in social unrest. They indicated that they have just finalized a comprehensive package of corrective measures, which benefited extensively from consultation with various stakeholders, and has the backing of the political leadership (Text table 9). However, its implementation awaits appropriate timing, most likely in the fall. They also reiterated their interest in a successor SMP to reestablish a track record of cooperation with the Fund on policies and payments, which in due time could pave the way for debt relief.

Text Table 9. Authorities' Projected Reform Measures

Revenue Measures

Tax and Customs Measures

- Increase the VAT
- Increase the Business Profit Tax on trade sector
- Modify the exchange rate for customs
- Broaden the tax base and enhance tax administration
- Strengthen smuggling controls and reduce customs exemptions
- Levy an additional tax on imported luxury goods

Increase Fuel Prices of:

- Diesel
- Gasoline
- LPG

Expenditure Measures

- Raise the salary of civil servants
 - Phase out fuel subsidy
 - Remove wheat subsidy
 - Increase spending on social benefit to strengthen social safety net
 - Expand investment in development projects
-

B. A Strategy for Sustainable and Inclusive Growth

Over the medium term, the challenge remains to rebuild the economy and implement a strategy for sustained and inclusive growth, higher employment, and poverty reduction.

44. Sudan's economy needs to adjust to the reduced economic and financial potential caused by the secession of South Sudan, and needs to increase investment and productivity.

Due in part to the absence of debt relief and the current economic sanctions, Sudan performs below its growth potential. Appropriate policies in this context need to rely on domestic resources to create the conditions for broad-based and inclusive growth, higher employment, and reduced poverty. These conditions could be achieved through: (i) better-targeted investment projects and promotion of export activities of goods with a higher value added, notably in the agricultural sector; (ii) progress toward closer integration with South Sudan and other regional partners by facilitating cross-border transfers, harmonizing payment and settlement systems, and encouraging operations of bank branches or subsidiaries; and (iii) a stepped-up pace to reform the business environment, including facilitating cross-border trading, accelerating financial sector development, expanding the KSE, investing in infrastructure to reduce the costs of production and distribution, and improving governance. The strengthening of anti-corruption efforts, including by mobilizing existing AML tools, would also help improve the business climate.

45. Efforts to increase employment need to be accelerated. With total unemployment standing at about 20 percent, and mostly affecting youth and women, it is important to: (i) explore fiscal, institutional, and legal actions to encourage the creation of an integrated network of labor-intensive small- and medium-sized enterprises in sectors with growth potential; and (ii) develop programs for job training.

46. Coherent social policies will need to be an essential complement to raising growth prospects of the economy, increasing its resilience, and combating poverty. Building the economy's prospects would require putting a comprehensive social safety net, with support from the donors, which can enhance the efficiency of social spending. It may be useful in this context to examine the feasibility of food programs and fee waivers in the health and education sectors, and of public work programs in rural areas. Helping the poor through the community-based network overseen by the Zakat Chamber is also an important possible avenue to assess.

The Authorities' Views

47. The authorities agreed with the need for an overall strategy to accelerate structural reforms. They indicated that their 2011 three-year emergency program envisages several reforms that will help revive the non-oil economy, particularly the agricultural sector. They also attached particular importance to improving project management to enhance the efficiency of public investment, and welcomed technical assistance in this area. They also look forward to completing a plan to identify export production chains. They stressed their commitment to more social protection and saw ample space to strengthen the current mechanisms. They indicated that the focus on social policies will translate into more resources for priority areas, starting with the 2014 budget.

EXTERNAL DEBT ISSUES

48. Sudan remains in debt distress with an external debt at end-2012 estimated at US\$43 billion, about 85 percent of which is in arrears. An update to the debt sustainability analysis (DSA) based on the joint IMF–WB debt sustainability framework and discussed with the authorities indicates that at end-2012, all debt ratios exceed their indicative policy-dependent thresholds and stay beyond the threshold through the long-term, except for the debt service-to-revenue ratio. Arrears clearance and debt relief will be needed to bring Sudan’s external debt to a sustainable level and to gain access to external financing. Staff strongly recommended to the authorities to: (i) reach out to their creditors in order to gain broad support for debt relief; (ii) normalize relations with IFIs; and (iii) reestablish a track record of cooperation with the IMF on policies and payments.

49. Sudan’s arrears to the Fund totalled SDR 982.6 million at end-June. Staff welcomed the payments made so far in 2013 totalling SDR 2.3 million against obligations falling due of SDR 1.0 million. Staff strongly encourages the authorities to continue making payments to the Fund, to make them on a regular basis, and to increase them, as their payment capacity improves.

50. The non-resolution of Sudan’s debt is poised to create tensions with South Sudan under the “zero option”. Prior to the secession, Sudan and South Sudan agreed on the zero option under which Sudan would retain the entire external debt, provided that: (i) South Sudan joined Sudan in outreach efforts for debt relief for Sudan; and (ii) the international community gave firm commitments to the delivery of debt relief within two years. Absent such a commitment, Sudan’s external debt would be apportioned based on a formula to be determined.¹³ As part of the September 2012 discussions that led to the resumption of oil shipments and associated oil-related-payments, the beginning of the two-year period was reset, implying a deadline of September 2014. However, agreement on any debt apportionment may prove to be very difficult because it would likely require extensive negotiations between Sudan and South Sudan, as well as a consensus view from Sudan’s entire pool of creditors. Staff encouraged the authorities to work closely with South Sudan on reaching out to creditors and donors to: (i) mobilize support in favor of debt relief; and (ii) encourage them to finance South Sudan’s development needs.

51. Minimizing non-concessional borrowing is essential to restoring external stability. Non-concessional borrowing—which in most cases is associated with specific productive investment projects—represents the major source of financing for Sudan whose access to international financial assistance remains very limited.¹⁴ Staff pointed that any new borrowing would eventually need to be treated as part of any comprehensive debt relief workout that would restore Sudan to a sustainable level of external debt. Staff underscored the need to use such resources to finance priority

¹³ In this case Sudan will retain IMF debt.

¹⁴ Sudan’s nonconcessional borrowing during the first half of 2013 amounted to US\$277 million.

investment with positive returns. In this vein, staff strongly recommended upgrading the project management framework to address current weaknesses in selection, execution and reporting.

The Authorities' Views

52. The authorities broadly agreed with staff's assessment and advice. They continued to express frustration about the slow progress towards debt relief, which they consider as being elusive despite having satisfied key technical requirements, including a long track record of economic performance with the IMF, a finalized I-PRSP, and a reconciliation of their external debt stock. They remained, however, determined to step up their efforts for a wider outreach to creditors, with the goal of gaining commitment for debt relief and thereby avoiding the "zero option" clause, which in their view may generate unnecessary tensions with South Sudan. They noted that they were seeking non concessional support given that it is their only source of financing.

ARTICLE VIII ISSUES

53. Sudan has put in place an exchange rate regime, as well as measures to restrict access to foreign exchange, that have been determined to give rise to exchange restrictions and multiple currency practices (MCPs), which are subject to Fund jurisdiction under Article VIII of the IMF's Articles of Agreement. These measures include, in particular, an exchange rate regime with multiple effective rates, and a policy of rationing of foreign exchange and its allocation to certain sectors, such that foreign exchange is limited for other current international transactions (e.g., payments for imports and the transfer of profits and revenues abroad). Staff indicated that such measures are not helping Sudan's economy to face shocks, attract foreign investment, improve resource allocation, or enhance external competitiveness. Staff has completed its jurisdictional review of these measures and has presented the authorities with recommendations on steps that could be taken to eliminate these measures, to the extent they are subject to Fund jurisdiction under Article VIII. A detailed overview of the exchange restrictions and MCPs is set forth in the Informational Annex to this report.

The Authorities' Views

54. The authorities indicated that the multiple currency practices and exchange restrictions were largely due to the secession of South Sudan, as a result of which they lost ¾ of their oil production, two-thirds of their external payment capacity and more than half of their fiscal revenues. With CBOS ability to meet all the foreign exchange demand constrained, it had to impose temporary restrictions for balance of payments reasons and engage in multiple currency practices for strategic priority needs.¹⁵ They indicated that although the economic conditions in Sudan remain unstable, the CBOS intends to gradually remove the exchange

¹⁵ See footnote 12.

restrictions following the unification of the exchanges rates, which they indicate will take place in 2014.

OTHER ISSUES

55. The authorities have completed the Interim-Poverty Reduction Strategy Paper (I-PRSP). This I-PRSP provides an integrated framework of policies aimed at accelerating poverty reduction in Sudan. Staff urges the authorities to promptly implement those short-term policies as well as to continue to build the track record of implementation of its medium-term poverty reduction strategy. Progress in this context will be assessed periodically.

56. Sudan's current statistical data base is broadly adequate for surveillance and program monitoring but needs further improvements. Staff urged the authorities to take action aimed to address: (i) data gaps in national accounts, balance of payments and social and labor market indicators caused by capacity constraints; and (ii) the statistical changes arising from the impact of the South's secession. An action plan is being developed by the authorities. Staff reiterated IMF availability to provide technical assistance to help in these areas.

STAFF APPRAISAL

57. Sudan's economy has been facing major pressures since the July 2011 secession of South Sudan and current policies need to be strengthened for stabilizing the economy and guarding against downside risks. Economic growth is low, inflation remains very high and largely driven by the monetization of the fiscal deficit, the gap between the official and curb market exchange rates continues unabated, and the external current account deficit is widening.

58. The recent agreement with South Sudan on oil provides a unique opportunity to implement bold corrective policies. Given that access to external assistance is limited, the Sudanese authorities have little option but to significantly tighten macroeconomic policies. Staff urges the authorities to act swiftly and implement their reform package to reverse the downside trend and create the conditions for a successor staff-monitored program. Looking forward, staff encourages the authorities to seize the opportunity of the 2014 budget to continue the required fiscal consolidation path before the country enters the presidential election year in 2015.

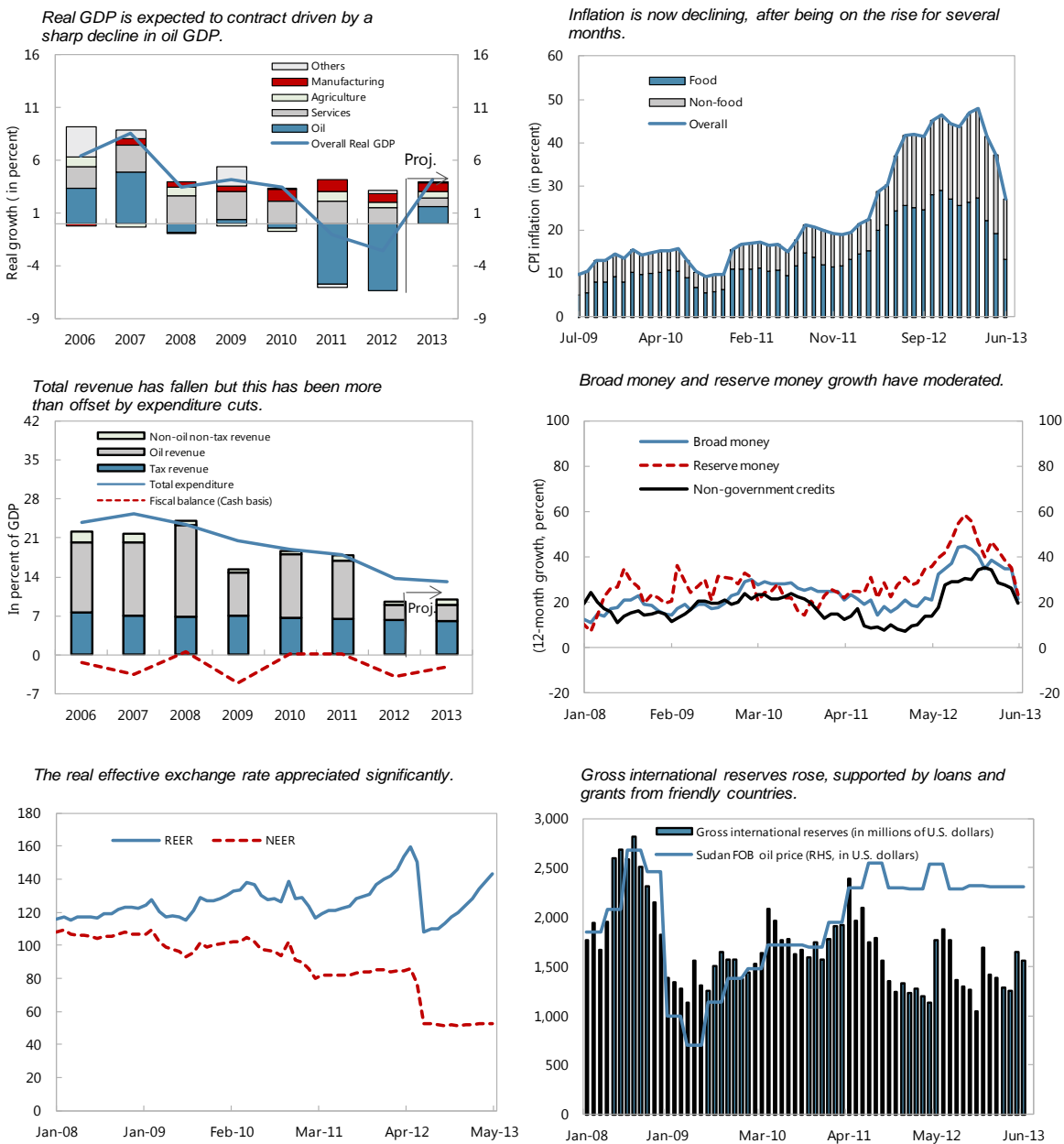
59. Addressing current fiscal imbalances is crucial. While most of the adjustment effort will need to focus on reducing government expenditures, notably subsidies, tax revenues will also need to be increased. On the revenue side, this will require implementing tax policy measures, including taxing gold activities, and strengthening revenue administration by streamlining tax exemptions and rationalizing tax incentives. On the spending side, there is a need to streamline non priority spending, including the phasing out of subsidies and the reduction in transfers to states. In parallel, it is important to strengthen social safety nets, while refraining from using the wage bill as a social protection tool

- 60. Monetary policy should be geared toward combating inflation while CBOS independence should be enhanced.** The current monetary policy framework is hampered by fiscal dominance and reliance on central bank financing of the budget deficit which is fueling inflation. Containing inflation will necessitate a clear central bank mandate for operational independence and accountability with a view to containing and reducing the monetization of the deficit. It will also require the elimination of the cap on commercial banks' holdings of government and central bank securities. In view of the strong correlation between reserve money and inflation, the monetary policy framework can be improved by focusing on reserve money as the nominal anchor. To restore the monetary transmission mechanism, staff advises CBOS to mop up excess reserves, and to provide the commercial banks with the appropriate opportunities to recycle any unused deposit liabilities once aggregate excess reserves have been mopped up..
- 61. Immediate unification of existing official exchange rates together with greater exchange rate flexibility is crucial to facilitate the required adjustment as well as safeguard and rebuild foreign exchange reserves.** Continued foreign exchange intervention and the introduction of exchange restrictions will not address the underlying problem of excess demand for foreign exchange, and should be avoided. Staff welcomes the authorities' move towards the elimination of the exchange restrictions and the multiple currency practices. In the interim, the authorities are requesting approval of these measures. Given that these measures are temporary, non-discriminatory and adopted for balance of payments reasons, staff recommends the approval of these restrictions and multiple currency practices.
- 62. Further progress is needed to enhance financial intermediation.** A broader access to banking services will help support growth and reduce poverty. Other reforms should aim at upgrading banking supervision and compliance to best practice standards, as well as the regulatory frameworks of insurance and security markets.
- 63. There is a need for bold structural reforms to lift growth prospects and help address the challenges facing Sudan.** The agenda should focus on improving revenue administration and public financial management, and enhancing the monetary policy framework. It will be also important to step up the pace to reform the business environment, notably strengthening financial intermediation, facilitating cross-border trading, and improving governance and strengthen anti-corruption efforts.
- 64. Staff welcomes the completion of the I-PRSP.** The latter offers a vehicle for implementing coherent macroeconomic and structural reforms to lift growth prospects and make indent in poverty. The participatory process for the I-PRSP was encouraging. Staff encourages the authorities to strengthen it for the full PRSP.
- 65. Sudan is in debt distress and the huge volume of arrears continues to hinder the country's access to external financing.** Staff strongly encourages the authorities to reach out to their creditors to elicit their support for debt relief. Staff recommends limiting non concessional borrowing. In the meantime, closer cooperation with the Fund on policies and payments is crucial to reestablishing a track record.

66. The support of the international community is crucial to the success of Sudan's reform strategy. A lack of support could jeopardize the adjustment process, create social tensions, and hinder poverty reduction. Staff encourages Sudan to jointly reach out with South Sudan to the international community to elicit support for debt relief and avoid triggering the "zero option" in September 2014. Such an outcome could complicate relations with South Sudan. In the meantime, the authorities' implementation of sound economic policies is vital for domestic stability as well as for mobilization of international support and debt resolution.

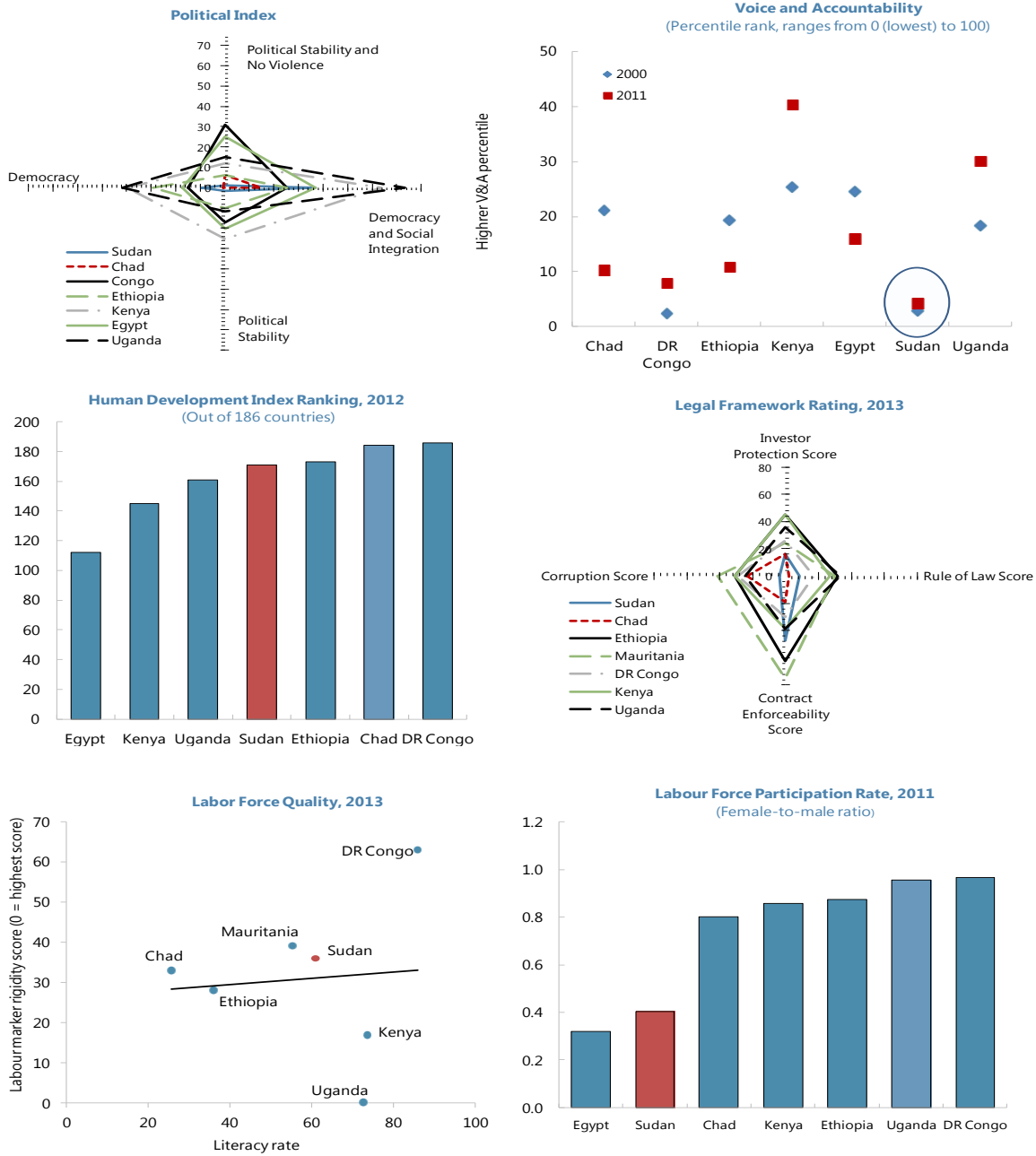
It is recommended that the next Article IV consultation with Sudan takes place on the standard 12-month cycle.

Figure 1. Sudan: Selected Economic Indicators



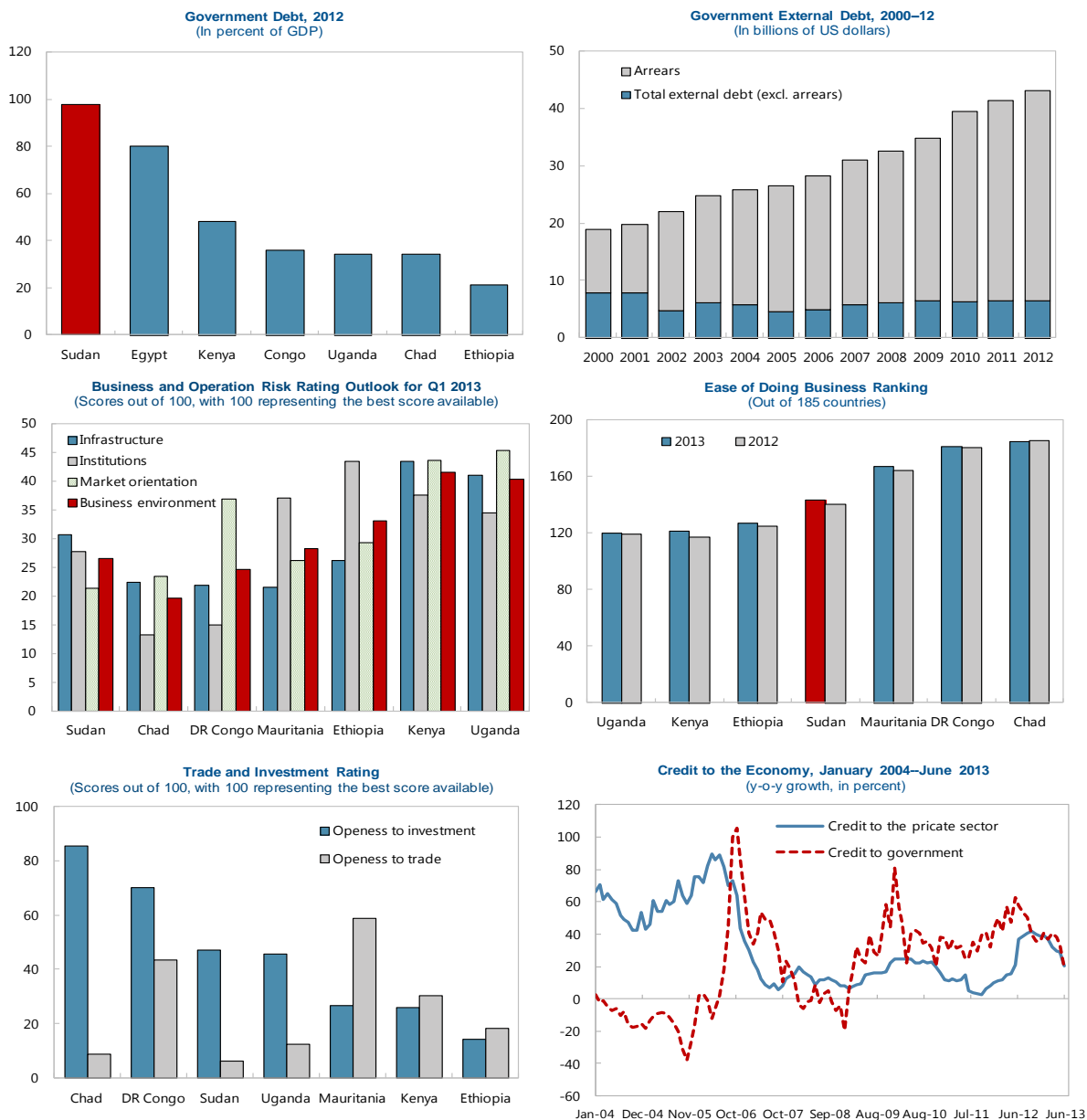
Sources: Sudanese authorities; and Fund staff estimates and projections.

Figure 2. Sudan: Selected Political and Social Indicators



Sources: Worldwide Governance Indicators; Global Competitiveness Indicators; UNDP Human Development Indicators; World Bank Development Indicators; and Business Monitor International.

Figure 3. Sudan: Selected Economic and Financial Indicators



Sources: Worldwide Governance Indicators; Business Monitor International; IFC Doing Business Rankings; Sudanese authorities; and IMF staff estimates.

Table 1. Sudan: Selected Economic Indicators, 2010–18

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---------|---------|---------|---------|---------|-------------|---------|---------|---------|
| | | Est. | Prel. | | | Projections | | | |
| Output and prices (Annual changes in percentage) | | | | | | | | | |
| Real GDP (at factor costs) 1/ | 3.4 | -1.0 | -2.6 | 4.1 | 3.0 | 3.6 | 2.9 | 3.3 | 3.8 |
| Oil GDP 1/ | -3.9 | -36.0 | -62.4 | 46.9 | 8.4 | 17.9 | 2.5 | 2.7 | 2.3 |
| Nonoil GDP 1/ | 5.1 | 6.0 | 4.6 | 2.3 | 2.7 | 2.6 | 3.0 | 3.3 | 3.9 |
| Consumer prices (end of period) | 15.4 | 18.9 | 44.4 | ... | ... | ... | ... | ... | ... |
| Core CPI | 10.4 | 17.7 | 46.5 | ... | ... | ... | ... | ... | ... |
| Consumer prices (period average) | 13.1 | 18.0 | 35.1 | 32.1 | 27.4 | 24.5 | 20.5 | 14.5 | 10.0 |
| Nonoil GDP deflator | 13.8 | 15.2 | 32.7 | 32.2 | 27.7 | 23.1 | 21.0 | 12.5 | 9.8 |
| Oil GDP deflator | 60.9 | 62.0 | 32.6 | 55.8 | 15.0 | 22.0 | 9.1 | 10.2 | 13.3 |
| Investment and saving (In percent of GDP, unless otherwise specified) | | | | | | | | | |
| Gross disposable income | 95.4 | 97.5 | 97.4 | 97.5 | 98.7 | 98.9 | 98.9 | 97.6 | 97.9 |
| Gross domestic expenditure | 97.5 | 98.0 | 108.2 | 109.5 | 105.7 | 104.9 | 105.3 | 105.0 | 105.2 |
| Final consumption | 77.4 | 78.9 | 89.5 | 89.2 | 88.1 | 87.2 | 87.5 | 87.1 | 87.2 |
| Gross capital formation | 20.1 | 19.1 | 18.7 | 20.3 | 17.6 | 17.7 | 17.8 | 17.9 | 18.0 |
| Gross Savings | 18.0 | 18.7 | 7.9 | 8.3 | 10.6 | 11.7 | 11.4 | 10.5 | 10.7 |
| Government operations | | | | | | | | | |
| Revenue and Grants | 19.3 | 18.1 | 10.0 | 11.2 | 12.9 | 13.2 | 13.0 | 12.0 | 12.3 |
| Revenues | 18.7 | 17.8 | 9.5 | 9.9 | 10.6 | 10.7 | 10.8 | 11.2 | 11.5 |
| Total expenditure | 19.0 | 17.9 | 13.8 | 13.2 | 13.9 | 14.6 | 14.6 | 14.9 | 15.6 |
| Current expenditure | 16.5 | 16.2 | 12.3 | 11.9 | 12.5 | 13.1 | 13.0 | 13.1 | 13.7 |
| Wage bill | 5.0 | 5.5 | 4.8 | 4.2 | 4.2 | 4.3 | 4.3 | 4.3 | 4.2 |
| Subsidies | 0.6 | 1.5 | 2.0 | 2.6 | 3.1 | 3.8 | 3.6 | 3.6 | 3.9 |
| Transfers | 7.7 | 6.2 | 2.6 | 2.5 | 2.5 | 2.6 | 2.6 | 2.7 | 2.8 |
| Capital expenditure | 2.6 | 1.7 | 1.6 | 1.3 | 1.4 | 1.5 | 1.6 | 1.8 | 1.9 |
| Overall balance | 0.3 | 0.2 | -3.8 | -2.0 | -0.9 | -1.4 | -1.6 | -2.9 | -3.2 |
| Overall primary balance | 1.4 | 1.5 | -2.4 | -0.6 | 0.4 | -0.1 | -0.4 | -1.6 | -1.7 |
| Nonoil primary balance | -3.8 | -4.1 | -4.8 | -4.3 | -0.9 | -1.0 | -1.2 | -2.9 | -3.2 |
| In percent of nonoil GDP | -4.5 | -4.7 | -5.0 | -4.6 | -4.6 | -5.3 | -5.1 | -5.7 | -6.0 |
| Monetary sector (Annual changes in percentage, unless otherwise specified) | | | | | | | | | |
| Broad money | 24.9 | 17.7 | 40.3 | 17.6 | 18.6 | 18.4 | 18.0 | 17.6 | 16.8 |
| Reserve money | 17.2 | 27.8 | 46.7 | 14.0 | 14.4 | 11.2 | 11.0 | 10.0 | 8.3 |
| Credit to the economy | 16.4 | 8.0 | 34.1 | 14.5 | 18.8 | 20.5 | 20.7 | 21.1 | 21.5 |
| Velocity (Non oil GDP/M2 ratio, eop) | 3.6 | 3.7 | 3.6 | 3.8 | 3.9 | 3.9 | 3.9 | 3.9 | 3.9 |
| Ratio of Money to M2 | 69.5 | 70.9 | 71.4 | 70.0 | ... | ... | ... | ... | ... |
| Net claims on government as a ratio to Nonoil GDP | 10.9 | 11.9 | 11.7 | 11.5 | 10.1 | 9.2 | 8.5 | 8.6 | 8.6 |
| Credit to the economy as a ratio to Nonoil GDP | 16.9 | 15.0 | 14.6 | 12.3 | 11.1 | 10.6 | 10.3 | 10.7 | 11.4 |
| External sector (In percent of GDP) | | | | | | | | | |
| Exports of goods (in US\$, annual percent change) | 57.0 | -12.9 | -53.2 | -1.2 | 10.3 | 11.5 | -2.4 | 0.7 | 1.9 |
| Exports of oil | 16.3 | 12.5 | 2.9 | 4.3 | 5.0 | 5.7 | 5.4 | 5.3 | 5.1 |
| Imports of goods (in US\$, annual percent change) | 3.1 | -7.5 | 2.6 | 1.1 | -8.0 | 2.1 | 0.1 | -0.9 | 3.6 |
| Merchandise trade balance | 5.7 | 4.1 | -5.5 | -6.7 | -4.1 | -3.1 | -3.3 | -3.1 | -3.2 |
| Current account balance | -2.1 | -0.4 | -10.8 | -11.9 | -7.0 | -6.0 | -6.4 | -7.4 | -7.3 |
| Ext. debt service (in percent of exp. of G&S.) | | | | | | | | | |
| Commitment basis | 22.7 | 24.4 | 50.2 | 48.6 | 42.3 | 38.2 | 38.9 | 39.1 | 38.8 |
| Cash basis | 2.9 | 2.4 | 4.7 | 8.8 | 8.0 | 6.5 | 5.9 | 6.2 | 6.3 |
| Total external debt | 62.2 | 59.8 | 82.2 | 87.6 | 89.3 | 89.2 | 88.8 | 89.1 | 88.0 |
| Total external debt (in US\$ billion) | 39.5 | 41.4 | 43.2 | 45.0 | 46.7 | 48.4 | 50.2 | 51.9 | 53.7 |
| Gross international reserves (in millions of US\$) | 1,566 | 1,325 | 1,693 | 1,636 | 1,921 | 2,020 | 2,022 | 2,116 | 2,234 |
| In months of next year's imports of G&S. | 1.8 | 1.5 | 1.9 | 2.0 | 2.3 | 2.4 | 2.4 | 2.5 | 2.5 |
| Memorandum items: | | | | | | | | | |
| Nominal GDP (in millions of SDGs) | 151,339 | 178,345 | 223,481 | 311,700 | 404,941 | 514,437 | 636,623 | 738,948 | 841,240 |
| Nominal nonoil GDP (in millions of SDGs) | 127,709 | 154,915 | 214,184 | 290,368 | 380,865 | 481,867 | 601,557 | 699,891 | 798,315 |
| Nominal GDP (in \$US million) | 65,628 | 66,881 | 60,503 | 52,498 | 56,595 | 58,294 | 60,181 | 60,994 | 63,552 |
| Exchange rate (SDG/US\$, end of period) | 2.48 | 2.68 | 4.42 | ... | ... | ... | ... | ... | ... |
| Exchange rate (SDG/US\$, period average) | 2.31 | 2.67 | 3.69 | ... | ... | ... | ... | ... | ... |
| NEER (2007=100, percent change, period average) | -1.3 | -16.0 | ... | ... | ... | ... | ... | ... | ... |
| REER (2007=100, percent change, period average) | 7.7 | -4.9 | ... | ... | ... | ... | ... | ... | ... |

Sources: Sudanese authorities; and staff estimates and projections.

1/ Growth rates since 2011 exclude South Sudan.

Table 2. Sudan: Balance of Payments, 2010–18
(In millions of U.S. dollars)

| | 2010 | 2011 Est. | 2012 Frel. | 2013 | 2014 | 2015 Projections | 2016 | 2017 | 2018 |
|--|--------|--------------|---------------|---|--------|---------------------|--------|--------|--------|
| Current account balance | -1,359 | -290 | -6,527 | -6,268 | -3,940 | -3,500 | -3,857 | -4,509 | -4,659 |
| Current account balance (on cash basis) | 284 | 1,343 | -4,914 | -4,722 | -2,394 | -1,954 | -2,311 | -2,963 | -3,113 |
| Trade balance | 3,711 | 2,751 | -3,353 | -3,515 | -2,300 | -1,820 | -1,984 | -1,868 | -2,044 |
| Exports, f.o.b. | 12,700 | 11,063 | 5,174 | 5,110 | 5,637 | 6,288 | 6,134 | 6,177 | 6,293 |
| Oil exports | 10,991 | 8,679 | 2,012 | 2,573 | 3,251 | 3,797 | 3,699 | 3,702 | 3,720 |
| Crude oil | 10,702 | 8,378 | 1,755 | 2,245 | 2,837 | 3,313 | 3,228 | 3,230 | 3,245 |
| Petroleum products | 289 | 301 | 257 | 328 | 415 | 484 | 472 | 472 | 474 |
| Non-oil products | 1,709 | 2,384 | 3,162 | 2,537 | 2,386 | 2,491 | 2,435 | 2,475 | 2,573 |
| Of which: Gold | 1,018 | 1,442 | 2,158 | 1,830 | 1,694 | 1,766 | 1,675 | 1,657 | 1,685 |
| Imports, f.o.b. | -8,989 | -8,312 | -8,528 | -8,625 | -7,938 | -8,108 | -8,118 | -8,045 | -8,337 |
| Foodstuffs | -2,128 | -1,699 | -1,844 | -2,029 | -1,910 | -1,903 | -1,898 | -1,856 | -1,817 |
| Petroleum products | -385 | -662 | -947 | -1,799 | -1,064 | -1,001 | -812 | -679 | -836 |
| Machinery and transport equipments | -3,215 | -2,892 | -2,707 | -2,393 | -2,490 | -2,625 | -2,744 | -2,813 | -2,918 |
| Manufactured goods | -1,832 | -1,610 | -1,761 | -1,542 | -1,610 | -1,694 | -1,763 | -1,803 | -1,872 |
| Other | -1,429 | -1,450 | -1,268 | -862 | -863 | -885 | -901 | -894 | -894 |
| Services (net) | -2,063 | -1,389 | -1,615 | -1,448 | -908 | -1,056 | -1,184 | -1,194 | -1,281 |
| Receipts | 259 | 764 | 419 | 608 | 984 | 877 | 752 | 724 | 706 |
| Of which: Oil fees charged to South Sudan | 0 | 0 | 0 | 194 | 528 | 368 | 255 | 224 | 197 |
| Payments | -2,321 | -2,153 | -2,033 | -2,056 | -1,893 | -1,933 | -1,936 | -1,918 | -1,988 |
| Income (net) | -5,139 | -2,765 | -2,422 | -2,507 | -2,655 | -2,767 | -2,758 | -2,770 | -2,763 |
| Receipts | 138 | 108 | 14 | 27 | 22 | 29 | 34 | 41 | 72 |
| Non-oil payments | -1,932 | -1,886 | -2,220 | -2,232 | -2,245 | -2,260 | -2,278 | -2,298 | -2,321 |
| Public interest due 1/ | -1,716 | -1,701 | -1,676 | -1,671 | -1,668 | -1,666 | -1,666 | -1,667 | -1,670 |
| Of which: interest cash payments | -72 | -67 | -64 | -125 | -122 | -119 | -119 | -121 | -124 |
| Other payments | -217 | -185 | -544 | -560 | -577 | -594 | -612 | -631 | -651 |
| Oil related expenses 1/ | -3,344 | -987 | -215 | -303 | -432 | -536 | -514 | -512 | -514 |
| Current transfers (net) | 2,131 | 1,112 | 863 | 1,202 | 1,923 | 2,143 | 2,068 | 1,323 | 1,430 |
| Private | 940 | 439 | 445 | 521 | 583 | 651 | 726 | 815 | 888 |
| Official | 1,191 | 673 | 418 | 681 | 1,340 | 1,492 | 1,343 | 508 | 542 |
| Of which: TFA transfers | ... | 0 | 0 | 248 | 896 | 1,028 | 857 | 0 | 0 |
| Capital account and Financial Account | -1,451 | -1,000 | 4,061 | 4,700 | 2,715 | 2,113 | 2,348 | 3,042 | 3,215 |
| Capital account | 174 | 162 | 320 | 172 | 143 | 126 | 117 | 120 | 129 |
| Financial account (net) | -1,625 | -1,161 | 3,741 | 4,528 | 2,572 | 1,987 | 2,232 | 2,922 | 3,085 |
| Disbursements | -569 | 606 | 376 | 474 | 474 | 488 | 504 | 511 | 532 |
| Amortization | -485 | -445 | -402 | -381 | -405 | -347 | -286 | -305 | -317 |
| O/w: Cash payments | -309 | -216 | -198 | -381 | -405 | -347 | -286 | -305 | -317 |
| Net foreign assets of banks (increase -) | -429 | 313 | -61 | 100 | 75 | -75 | -25 | -30 | -45 |
| Investors' net income-cost oil | -1,641 | -1,362 | -731 | -762 | -762 | -764 | -758 | -759 | -759 |
| Foreign direct investment and portfolio (net) | 2,900 | 2,666 | 2,466 | 2,874 | 2,382 | 2,094 | 1,946 | 2,007 | 2,158 |
| Other net capital flows | -2,539 | -2,938 | 2,092 | 2,223 | 808 | 592 | 851 | 1,499 | 1,517 |
| Public | -1,289 | -1,385 | 555 | 549 | 605 | 675 | 659 | 664 | 676 |
| Private | -1,250 | -1,550 | 1,536 | 1,673 | 202 | -84 | 191 | 835 | 840 |
| Errors and omissions | -1,873 | -800 | 899 | 0 | 0 | 0 | 0 | 0 | 0 |
| Overall Balance | -4,683 | -2,090 | -1,567 | -1,568 | -1,226 | -1,387 | -1,509 | -1,467 | -1,444 |
| Overall Balance (on cash basis) | -2,864 | -228 | 250 | -22 | 321 | 159 | 37 | 79 | 102 |
| Financing | -119 | 288 | -208 | -2 | -346 | -186 | -66 | -111 | -136 |
| Change in net international reserves (increase -) | -124 | 287 | -210 | -3 | -348 | -188 | -68 | -112 | -137 |
| Gross reserves | -195 | 240 | -368 | 57 | -286 | -99 | -2 | -94 | -117 |
| Gross usable reserves (increase -) | -195 | 240 | -368 | 57 | -286 | -99 | -2 | -94 | -117 |
| Gross earmarked and other reserves (increase -) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Short-term foreign liabilities (increase +) | 83 | 51 | 164 | -50 | -50 | -75 | -50 | 0 | 0 |
| IMF (net) | -11 | -5 | -7 | -10 | -12 | -14 | -16 | -18 | -20 |
| Disbursements | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Repayments | -11 | -5 | -7 | -10 | -12 | -14 | -16 | -18 | -20 |
| Exceptional financing | 5 | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Of which: Change in arrears | 4,807 | 1,804 | 1,776 | 1,571 | 1,573 | 1,575 | 1,577 | 1,579 | 1,582 |
| Financing gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Memorandum items: | | | | (In percent of GDP) | | | | | |
| Current account balance (accrual basis) | -2.1 | -0.4 | -10.8 | -11.9 | -7.0 | -6.0 | -6.4 | -7.4 | -7.3 |
| Current account balance (cash basis) | 0.4 | 2.0 | -8.1 | -9.0 | -4.2 | -3.4 | -3.8 | -4.9 | -4.9 |
| Excluding official transfers (cash basis) | -1.4 | 1.0 | -8.8 | -10.3 | -6.6 | -5.9 | -6.1 | -5.7 | -5.8 |
| Non-oil current account (on cash basis) | -10.6 | -8.5 | -9.5 | -10.3 | -8.3 | -7.9 | -8.2 | -9.3 | -8.9 |
| Current transfers (net) | 3.2 | 1.7 | 1.4 | 2.3 | 3.4 | 3.7 | 3.4 | 2.2 | 2.2 |
| Of which: Private transfers | 1.4 | 0.7 | 0.7 | 1.0 | 1.0 | 1.1 | 1.2 | 1.3 | 1.4 |
| Gross international reserves (in US\$ Million) | 1,566 | 1,325 | 1,693 | 1,636 | 1,921 | 2,020 | 2,022 | 2,116 | 2,234 |
| In months of next year's imports | 1.8 | 1.5 | 1.9 | 2.0 | 2.3 | 2.4 | 2.4 | 2.5 | 2.5 |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| | | | | (Annual changes in percent, unless otherwise specified) | | | | | |
| Exports of goods (value) | 57.0 | -12.9 | -53.2 | -1.2 | 10.3 | 11.5 | -2.4 | 0.7 | 1.9 |
| Non-oil exports of goods (value) | 67.5 | 39.5 | 32.6 | -19.8 | -6.0 | 4.4 | -2.3 | 1.7 | 4.0 |
| Imports of goods (value) | 3.1 | -7.5 | 2.6 | 1.1 | -8.0 | 2.1 | 0.1 | -0.9 | 3.6 |
| Nominal GDP (in millions of U.S. dollars) | 65,628 | 66,881 | 60,503 | 52,498 | 56,595 | 58,294 | 60,181 | 60,994 | 63,552 |
| Crude oil exports (volume, in millions of barrels) | 151.3 | 87.5 | 18.5 | 24.2 | 32.1 | 37.5 | 39.8 | 41.0 | 42.1 |
| Sudanese crude oil price (U.S. dollars per barrel) | 70.7 | 95.8 | 94.6 | 92.6 | 88.5 | 88.0 | 81.1 | 78.8 | 77.0 |

Sources: Sudanese authorities; and staff estimates and projections.

Table 3. Sudan: Government Operations, 2010–18
(In millions of SDGs)

| | 2010 | 2011 | 2012 | 2013 | | 2014 | 2015 | 2016 | 2017 | 2018 | |
|---|--------|--------|---------|---------------------|---------|---------|---------|---------|---------|---------|--|
| | | | | Budget | Proj. | | | | | | |
| Revenues and grants | 29,245 | 32,357 | 22,305 | 25,211 | 34,912 | 52,349 | 68,123 | 82,923 | 88,660 | 103,891 | |
| Revenues | 28,270 | 31,739 | 21,299 | 23,398 | 30,871 | 42,762 | 54,960 | 68,720 | 82,502 | 96,721 | |
| Tax revenues | 10,008 | 11,426 | 13,879 | 15,160 | 18,785 | 25,009 | 32,186 | 41,105 | 48,106 | 55,298 | |
| Income, profits and capital gains | 1,136 | 1,061 | 1,433 | 1,322 | 1,826 | 2,706 | 3,492 | 4,708 | 5,642 | 6,628 | |
| Property | 14 | 36 | 47 | 71 | 59 | 87 | 111 | 145 | 169 | 192 | |
| Goods and services | 5,966 | 6,877 | 7,703 | 9,440 | 10,104 | 13,698 | 17,639 | 22,460 | 26,328 | 30,218 | |
| International trade and transactions | 2,882 | 3,443 | 4,688 | 6,108 | 6,783 | 8,502 | 10,924 | 13,767 | 15,939 | 18,226 | |
| Other | 10 | 10 | 9 | 263 | 12 | 16 | 20 | 25 | 29 | 33 | |
| Oil revenues | 17,336 | 18,686 | 5,975 | 6,000 | 9,013 | 11,349 | 16,053 | 19,446 | 25,008 | 30,810 | |
| Domestic sales | 5,025 | 7,668 | 5,955 | 6,000 | 8,780 | 11,030 | 15,585 | 18,467 | 21,452 | 25,847 | |
| Oil exports revenues | 12,311 | 11,018 | 19 | 0 | 233 | 319 | 468 | 979 | 3,556 | 4,963 | |
| Other nontax revenues | 925 | 1,627 | 1,445 | 2,238 | 3,073 | 6,404 | 6,721 | 8,169 | 9,389 | 10,614 | |
| Property income | 504 | 879 | 437 | 1,139 | 820 | 1,076 | 1,361 | 2,209 | 2,570 | 2,932 | |
| Administrative fees | 405 | 708 | 500 | 827 | 827 | 1,193 | 1,661 | 2,695 | 3,449 | 4,328 | |
| Transit fees | 0 | 0 | 0 | 0 | 1,154 | 3,779 | 3,249 | 2,702 | 2,715 | 2,608 | |
| Other (nontax oil revenues) | 16 | 41 | 509 | 272 | 272 | 356 | 451 | 563 | 655 | 747 | |
| Grants | 976 | 618 | 1,007 | 1,813 | 4,041 | 9,587 | 13,163 | 14,203 | 6,157 | 7,169 | |
| Total expenditure | 28,815 | 31,979 | 30,901 | 35,004 | 41,275 | 56,195 | 75,196 | 92,845 | 109,934 | 131,130 | |
| Expense (current expenditure) | 24,915 | 28,947 | 27,419 | 30,822 | 37,093 | 50,492 | 67,423 | 82,570 | 96,990 | 115,520 | |
| Wages | 7,516 | 9,763 | 10,730 | 12,652 | 13,032 | 17,100 | 21,929 | 27,217 | 31,786 | 35,664 | |
| Goods and services | 2,417 | 2,603 | 2,032 | 2,628 | 2,707 | 3,657 | 4,766 | 6,128 | 7,343 | 8,627 | |
| Interest due | 1,669 | 2,210 | 3,327 | 2,000 | 4,548 | 5,654 | 6,476 | 7,577 | 9,150 | 12,686 | |
| Foreign interest due | 167 | 179 | 235 | | 743 | 872 | 1,054 | 1,263 | 1,468 | 1,640 | |
| Domestic interest due | 1,502 | 2,031 | 3,092 | | 3,806 | 4,783 | 5,422 | 6,314 | 7,682 | 11,047 | |
| Subsidies | 845 | 2,712 | 4,574 | 4,830 | 8,094 | 12,624 | 19,580 | 23,198 | 26,588 | 33,002 | |
| Fuel subsidies | 755 | 2,290 | 4,522 | | 7,185 | 11,528 | 18,229 | 21,579 | 24,733 | 30,976 | |
| Other subsidies | 90 | 422 | 52 | | 909 | 1,095 | 1,351 | 1,620 | 1,855 | 2,027 | |
| Transfers | 11,655 | 11,037 | 5,785 | 7,780 | 7,780 | 10,246 | 13,281 | 16,779 | 20,118 | 23,234 | |
| South | 5,867 | 4,820 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| North | 5,755 | 6,187 | 5,720 | 7,557 | 7,557 | 9,986 | 12,983 | 16,447 | 19,771 | 22,879 | |
| Current | 3,843 | 4,278 | 4,222 | 4,418 | 4,418 | 5,706 | 7,149 | 8,734 | 10,055 | 11,163 | |
| Capital | 1,912 | 1,909 | 1,498 | 3,139 | 3,139 | 4,280 | 5,834 | 7,713 | 9,716 | 11,716 | |
| Other transfers | 27 | 29 | 65 | | 223 | 261 | 298 | 332 | 347 | 355 | |
| Other expenditures | 814 | 623 | 971 | 0 | 932 | 1,211 | 1,392 | 1,671 | 2,005 | 2,306 | |
| Net acquisition of NFA (capital expenditure) | 3,900 | 3,032 | 3,482 | 4,182 | 4,182 | 5,702 | 7,773 | 10,276 | 12,944 | 15,609 | |
| Operating balance (accrual basis) | 4,330 | 3,410 | -5,114 | -5,611 | -2,181 | 1,857 | 700 | 353 | -8,330 | -11,630 | |
| Overall accrual balance | 430 | 379 | -8,596 | -9,793 | -6,363 | -3,845 | -7,072 | -9,922 | -21,274 | -27,239 | |
| Overall accrual balance (including discrepancy) | 430 | 379 | -8,596 | -9,793 | -6,363 | -3,845 | -7,072 | -9,922 | -21,274 | -27,239 | |
| Nonoil primary balance 1/ | -5,737 | -7,331 | -10,646 | | -13,331 | -17,691 | -25,641 | -30,418 | -40,011 | -47,852 | |
| Financing (accrual basis) | -430 | -379 | 8,596 | 9,793 | 6,363 | 3,845 | 7,072 | 9,922 | 21,274 | 27,239 | |
| Foreign financing | 192 | 427 | -93 | 1,302 | 551 | 493 | 1,245 | 2,300 | 2,492 | 2,845 | |
| Disbursements | 1,311 | 1,615 | 1,390 | 3,061 | 2,811 | 3,390 | 4,306 | 5,329 | 6,186 | 7,042 | |
| Principal repayment (-) | 1,119 | 1,188 | 1,483 | 1,759 | 2,260 | 2,897 | 3,062 | 3,029 | 3,693 | 4,197 | |
| Domestic financing | -623 | -806 | 8,689 | 8,491 | 5,932 | 3,353 | 5,828 | 7,622 | 18,782 | 24,395 | |
| Financing Gap | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | |
| | | | | (In percent of GDP) | | | | | | | |
| Revenues and grants | 19.3 | 18.1 | 10.0 | 8.0 | 11.2 | 12.9 | 13.2 | 13.0 | 12.0 | 12.3 | |
| Revenues | 18.7 | 17.8 | 9.5 | 7.5 | 9.9 | 10.6 | 10.7 | 10.8 | 11.2 | 11.5 | |
| Tax revenues | 6.6 | 6.4 | 6.2 | 4.8 | 6.0 | 6.2 | 6.3 | 6.5 | 6.5 | 6.6 | |
| Oil revenues | 11.5 | 10.5 | 2.7 | 1.9 | 2.9 | 2.8 | 3.1 | 3.1 | 3.4 | 3.7 | |
| Other nonoil nontax revenues | 0.6 | 0.9 | 0.6 | 0.7 | 1.0 | 1.6 | 1.3 | 1.3 | 1.3 | 1.3 | |
| Grants | 0.6 | 0.3 | 0.5 | 0.6 | 1.3 | 2.4 | 2.6 | 2.2 | 0.8 | 0.9 | |
| Total expenditure | 19.0 | 17.9 | 13.8 | 11.1 | 13.2 | 13.9 | 14.6 | 14.6 | 14.9 | 15.6 | |
| Expense (current expenditure) | 16.5 | 16.2 | 12.3 | 9.8 | 11.9 | 12.5 | 13.1 | 13.0 | 13.1 | 13.7 | |
| Wages | 5.0 | 5.5 | 4.8 | 4.0 | 4.2 | 4.2 | 4.3 | 4.3 | 4.3 | 4.2 | |
| Goods and services | 1.6 | 1.5 | 0.9 | 0.8 | 0.9 | 0.9 | 0.9 | 1.0 | 1.0 | 1.0 | |
| Interest | 1.1 | 1.2 | 1.5 | 0.6 | 1.5 | 1.4 | 1.3 | 1.2 | 1.2 | 1.5 | |
| Subsidies | 0.6 | 1.5 | 2.0 | 1.5 | 2.6 | 3.1 | 3.8 | 3.6 | 3.6 | 3.9 | |
| Transfers | 7.7 | 6.2 | 2.6 | 2.5 | 2.5 | 2.5 | 2.6 | 2.6 | 2.7 | 2.8 | |
| Other | 0.5 | 0.3 | 0.4 | 0.0 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | 0.3 | |
| Net acquisition of NFA (capital expenditure) | 2.6 | 1.7 | 1.6 | 1.3 | 1.3 | 1.4 | 1.5 | 1.6 | 1.8 | 1.9 | |
| Operating balance (accrual basis) | 2.9 | 1.9 | -2.3 | -1.8 | -0.7 | 0.5 | 0.1 | 0.1 | -1.1 | -1.4 | |
| Overall accrual balance | 0.3 | 0.2 | -3.8 | -3.1 | -2.0 | -0.9 | -1.4 | -1.6 | -2.9 | -3.2 | |
| Nonoil primary balance as a ratio to Nonoil GDP | -4.5 | -4.7 | -5.0 | 0.0 | -4.6 | -4.6 | -5.3 | -5.1 | -5.7 | -6.0 | |
| Financing (accrual basis) | -0.3 | -0.2 | 3.8 | 3.1 | 2.0 | 0.9 | 1.4 | 1.6 | 2.9 | 3.2 | |
| Foreign financing | 0.1 | 0.2 | 0.0 | 0.4 | 0.2 | 0.1 | 0.2 | 0.4 | 0.3 | 0.3 | |
| Domestic financing | -0.4 | -0.5 | 3.9 | -3.5 | 1.9 | 0.8 | 1.1 | 1.2 | 2.5 | 2.9 | |
| O/w: Net accumulation of arrears | -1.0 | -0.5 | -0.1 | 0.0 | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |
| Financing gap | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | |

Sources: Sudanese authorities; and staff estimates and projections.

1/ Nonoil balances exclude oil revenues, grants, transfers to South, oil related transfers to Northern states and pipelines fees paid by the government.

Table 4. Sudan: Monetary Survey, 2010–14
(In millions of SDGs)

| | 2010 | 2011 | 2012 | 2013 H1 | 2013 | 2014 |
|---|--------|--------|---------|---------|-------------|---------|
| | | | | | Projections | |
| Net foreign assets | -4,187 | -6,056 | -7,248 | -9,277 | -10,004 | -11,515 |
| Bank of Sudan | -6,429 | -7,770 | -10,348 | -12,113 | -13,808 | -15,165 |
| Commercial banks | 2,242 | 1,713 | 3,100 | 2,836 | 3,804 | 3,650 |
| Net domestic assets | 39,799 | 47,970 | 66,040 | 72,324 | 79,121 | 93,458 |
| Net domestic credit | 35,483 | 41,707 | 56,238 | 60,014 | 69,073 | 80,739 |
| Net claims on general government (NCGG) | 13,951 | 18,443 | 25,031 | 26,985 | 33,355 | 38,319 |
| NCGG excluding IMF | 10,166 | 14,217 | 18,353 | 20,300 | 23,932 | 26,444 |
| Bank of Sudan (Central Government) | 6,186 | 8,173 | 11,233 | 12,578 | 14,383 | 16,283 |
| Deposits of GOSS (with Bank of Sudan) | 2 | 0 | 0 | 3 | ... | ... |
| Commercial banks (central government) | 3,980 | 6,044 | 7,120 | 7,722 | 9,550 | 10,162 |
| Claims on nongovernment sectors | 21,532 | 23,264 | 31,207 | 33,029 | 35,718 | 42,420 |
| Public enterprises | 2,810 | 2,821 | 3,170 | 3,541 | ... | ... |
| Private sector | 17,959 | 19,427 | 26,966 | 28,320 | ... | ... |
| Other sectors | 763 | 1,016 | 1,071 | 1,168 | ... | ... |
| Other items (net) | 4,316 | 6,263 | 9,802 | 12,310 | 10,048 | 12,719 |
| Broad money | 35,612 | 41,914 | 58,792 | 63,047 | 69,116 | 81,943 |
| Money | 24,748 | 29,729 | 42,006 | 44,132 | ... | ... |
| Currency in circulation | 10,068 | 12,850 | 16,751 | 16,222 | ... | ... |
| Demand deposits | 14,680 | 16,879 | 25,254 | 27,910 | ... | ... |
| Domestic currency | 9,840 | 12,000 | 14,242 | 17,274 | ... | ... |
| Foreign currency | 4,840 | 4,879 | 11,012 | 10,636 | ... | ... |
| Quasi-money | 10,864 | 12,185 | 16,786 | 18,915 | ... | ... |
| Domestic currency | 10,380 | 10,894 | 13,969 | 15,833 | ... | ... |
| Foreign currency | 484 | 1,291 | 2,817 | 3,082 | ... | ... |
| (In percent of beginning of the period money stock) | | | | | | |
| Money | 18.6 | 14.0 | 29.3 | 3.6 | ... | ... |
| Quasi-money | 6.3 | 3.7 | 11.0 | 3.6 | ... | ... |
| Net foreign assets | 3.6 | -5.2 | -2.8 | -3.5 | -4.7 | -2.2 |
| Net domestic assets | 21.3 | 22.9 | 43.1 | 10.7 | 22.3 | 20.7 |
| Net claims on government | 13.5 | 12.6 | 15.7 | 3.3 | 14.2 | 7.2 |
| Credit to the economy | 10.6 | 4.9 | 18.9 | 3.1 | 7.7 | 9.7 |
| Nonfinancial public enterprises | 1.8 | 0.0 | 0.8 | 0.6 | ... | ... |
| Private sector | 8.6 | 4.1 | 18.0 | 2.3 | ... | ... |
| (Changes in percent, end of period) | | | | | | |
| Broad money | 24.9 | 17.7 | 40.3 | 7.2 | 17.6 | 18.6 |
| Money | 27.3 | 20.1 | 41.3 | 5.1 | ... | ... |
| Currency in circulation | 24.8 | 27.6 | 30.4 | -3.2 | ... | ... |
| Demand deposits | 29.0 | 15.0 | 49.6 | 10.5 | ... | ... |
| O/w: Public enterprises | 31.5 | 28.6 | 37.1 | 4.4 | ... | ... |
| Private enterprises | 24.0 | 11.9 | 42.1 | 12.2 | ... | ... |
| Quasi-money | 19.8 | 12.2 | 37.8 | 12.7 | ... | ... |
| O/w: Public enterprises | 23.3 | -13.7 | 0.6 | 4.4 | ... | ... |
| Private enterprises | 19.5 | 8.3 | 27.7 | 14.1 | ... | ... |
| Deposits | 24.9 | 13.8 | 44.6 | 11.4 | ... | ... |
| Domestic currency | 23.2 | 13.2 | 23.2 | 17.4 | ... | ... |
| Foreign currency | 31.7 | 15.9 | 124.1 | -0.8 | ... | ... |
| Net foreign assets | -19.7 | 44.6 | 19.7 | 28.0 | -4.7 | -2.2 |
| Net domestic assets | 18.0 | 20.5 | 37.7 | 9.5 | 22.3 | 20.7 |
| Net claims on government | 38.0 | 32.2 | 35.7 | 7.8 | 7.7 | 9.7 |
| Credit to the economy | 16.4 | 8.0 | 34.1 | 5.8 | 14.5 | 18.8 |
| Nonfinancial public enterprises | 22.9 | 0.4 | 12.4 | 11.7 | ... | ... |
| Private sector | 15.8 | 8.2 | 38.8 | 5.0 | ... | ... |
| (Ratios in percentage) | | | | | | |
| Memorandum items | | | | | | |
| Ratio of Money to M2 | 69.5 | 70.9 | 71.4 | 70.0 | 70.0 | ... |
| Ratio of Currency in Circulation to M2 | 28.3 | 30.7 | 28.5 | 25.7 | ... | ... |
| Ratio of Private sector deposits to M2 | 63.0 | 59.9 | 60.7 | 63.5 | ... | ... |
| Net claims on government as a ratio to GDP | 9.2 | 10.3 | 11.2 | ... | 10.7 | 9.5 |
| Net claims on government as a ratio to NHGDP | 10.9 | 11.9 | 11.7 | ... | 11.5 | 10.1 |
| Credit to the economy as a ratio to GDP | 14.2 | 13.0 | 14.0 | ... | 11.5 | 10.5 |
| Credit to the economy as a ratio to NHGDP | 16.9 | 15.0 | 14.6 | ... | 12.3 | 11.1 |
| Velocity 1 (GDP, eop) | 4.2 | 4.3 | 3.8 | ... | 4.5 | 4.9 |
| Velocity 2 (NHGDP, eop) | 3.6 | 3.7 | 3.6 | ... | 3.8 | 3.9 |
| CBOS's gross foreign assets/M2 ratio | 11.3 | 8.8 | 13.1 | 11.3 | 17.2 | 21.3 |
| Foreign currency deposits/M2 ratio | 14.9 | 14.7 | 23.5 | 21.8 | ... | ... |
| Reserve money growth (annual changes, pa) | 17.2 | 27.8 | 46.7 | 23.4 | 14.0 | 14.4 |
| Money multiplier (average) | 2.2 | 2.2 | 2.0 | 2.0 | 2.0 | 2.0 |

Sources: Sudanese authorities; and staff estimates and projections.

Table 5. Sudan: Summary Accounts of the Monetary Authorities, 2010–14
(In millions of SDGs)

| | 2010 | 2011 | 2012 | 2013 H1 | 2013 | 2014 |
|--|--------|--------|---------|---------|-------------|---------|
| | | | | | Projections | |
| Net foreign assets | -6,429 | -7,770 | -10,348 | -12,113 | -13,808 | -15,165 |
| Gross foreign assets | 4,040 | 3,693 | 7,718 | 7,121 | 11,883 | 17,474 |
| O/w: Gross international reserve | 3,887 | 3,547 | 7,482 | 6,888 | 10,346 | 15,512 |
| o/w: SDR holdings | 480 | 537 | 850 | 850 | ... | ... |
| Foreign liabilities | 10,470 | 11,463 | 18,066 | 19,234 | 25,691 | 32,639 |
| O/w: Short term foreign liabilities | 3,097 | 3,202 | 4,561 | 5,776 | 6,527 | 8,331 |
| O/w: IMF-related liabilities | 4,466 | 4,988 | 7,886 | 7,892 | 11,123 | 14,045 |
| Net domestic assets | 22,530 | 28,372 | 40,601 | 43,713 | 48,372 | 54,705 |
| Net domestic credit | 12,376 | 15,227 | 21,360 | 23,032 | 27,646 | 32,396 |
| Net claims on general government (NCGG) | 9,971 | 12,399 | 17,911 | 19,263 | 23,805 | 28,157 |
| NCGG excluding IMF | 6,186 | 8,173 | 11,233 | 12,578 | 14,383 | 16,283 |
| Claims | 10,563 | 13,154 | 18,765 | 21,092 | 24,459 | 28,811 |
| O/w: Government Musharka Certificates | 1,565 | 2,217 | 3,375 | 3,902 | 6,325 | 8,225 |
| IMF on lent | 3,785 | 4,226 | 6,678 | 6,685 | 9,422 | 11,875 |
| Deposits | 591 | 755 | 854 | 1,828 | 654 | 654 |
| Of which: OSA | 0 | 0 | 0 | 0 | ... | ... |
| Deposits of Govt. of Southern Sudan | 2 | 0 | 0 | 0 | ... | ... |
| BOS claims on public enterprises | 346 | 397 | 724 | 748 | 796 | 836 |
| BOS claims on banks | 1,997 | 2,372 | 2,663 | 2,897 | ... | ... |
| Money market instruments (CICs) | 63 | 58 | 62 | 123 | 62 | 62 |
| Other items (net) | 10,154 | 13,145 | 19,241 | 20,681 | 20,726 | 22,309 |
| Reserve money | 16,164 | 20,661 | 30,316 | 31,724 | 34,564 | 39,540 |
| Currency outside banks | 10,068 | 12,850 | 16,751 | 16,222 | 22,098 | 27,280 |
| Reserves of commercial banks | 5,448 | 6,365 | 10,864 | 12,586 | 9,386 | 8,737 |
| Required reserves | 1,356 | 1,537 | 3,442 | 3,757 | ... | ... |
| Excess reserves | 4,092 | 4,827 | 7,422 | 8,829 | ... | ... |
| Cash in vault | 829 | 810 | 1,118 | 1,543 | ... | ... |
| Excess reserves on deposits | 3,263 | 4,017 | 6,303 | 7,286 | .. | .. |
| Deposits at BOS included in broad money | 648 | 1,446 | 2,701 | 2,916 | 3,079 | 3,523 |
| Memorandum items | | | | | | |
| Gross international reserves (GIR, US\$) | 1,566 | 1,325 | 1,693 | 1,558 | 1,636 | 1,921 |
| Net international reserves (NIR, US\$) | 318 | 129 | 661 | 251 | 604 | 890 |

Sources: Sudanese authorities; and staff estimates and projections.

Table 6. Sudan: Summary Accounts of the Commercial Banks, 2010–14
(In millions of SDGs)

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|--------|--------|------------------------|-------------|---------|
| | | | | Projections | |
| Net foreign assets | 2,242 | 1,713 | 3,100 | 3,804 | 3,650 |
| Gross foreign assets | 3,494 | 2,489 | 4,894 | 6,370 | 6,925 |
| Gross foreign liabilities | 1,252 | 776 | 1,793 | 2,566 | 3,276 |
| Net domestic assets | 23,555 | 26,626 | 37,453 | 40,135 | 47,490 |
| Reserves | 5,831 | 6,838 | 13,134 | 10,861 | 10,559 |
| O/w: Cash in vaults | 829 | 810 | 1,118 | 1,475 | 1,821 |
| Required reserves | 1,318 | 1,646 | 3,775 | ... | ... |
| Other reserves | 3,400 | 3,950 | 7,988 | ... | ... |
| Net claims on central government | 3,980 | 6,044 | 7,120 | 9,550 | 10,162 |
| Claims | 4,907 | 6,132 | 7,277 | 9,677 | 10,269 |
| O/w: GMCs | 4,907 | 6,132 | 7,277 | 9,677 | 10,269 |
| Deposits | 927 | 88 | 157 | 127 | 107 |
| Claims on state & local government | 145 | 613 | 758 | 758 | 758 |
| Claims on non-government sectors | 21,040 | 22,254 | 29,724 | 34,922 | 41,584 |
| Private sector | 17,959 | 19,427 | 26,966 | ... | ... |
| Non-financial Public enterprises | 2,464 | 2,424 | 2,446 | ... | ... |
| Non-bank financial institutions | 618 | 403 | 312 | ... | ... |
| Other items, net | -7,441 | -9,123 | -13,284 | -15,957 | -15,572 |
| Unclassified assets | 7,690 | 8,179 | 11,262 | ... | ... |
| Unclassified liabilities | 7,602 | 8,195 | 13,668 | ... | ... |
| Capital accounts | 7,478 | 9,036 | 10,831 | ... | ... |
| Other (incl. discrepancies) | 52 | 70 | 48 | ... | ... |
| Deposits | 24,896 | 27,623 | 39,340 | 43,939 | 51,140 |
| Demand deposits | 14,117 | 16,159 | 24,753 | ... | ... |
| Domestic currency | 9,278 | 11,280 | 13,741 | ... | ... |
| Foreign currency | 4,840 | 4,879 | 11,012 | ... | ... |
| Quasi-money deposits (Time & saving) | 10,778 | 11,459 | 14,586 | ... | ... |
| Domestic currency | 10,380 | 10,893 | 13,969 | ... | ... |
| Foreign currency | 398 | 566 | 617 | ... | ... |
| Liabilities to BOS 1/ | 902 | 721 | 1,213 | 1,359 | 1,522 |
| Memorandum items | | | | | |
| Deposits with commercial banks | 25,823 | 27,711 | 39,497 | 44,066 | 51,247 |
| Central government | 927 | 88 | 157 | 127 | 107 |
| Other sectors | 24,896 | 27,623 | 39,340 | 43,939 | 51,140 |
| State and local government deposits | 412 | 521 | 1,756 | ... | ... |
| Demand deposits | 350 | 371 | 1,302 | ... | ... |
| Time and savings deposits | 62 | 150 | 454 | ... | ... |
| Public enterprises deposits | 2,037 | 1,995 | 1,896 | ... | ... |
| Demand deposits | 712 | 852 | 746 | ... | ... |
| Time and savings deposits | 1,325 | 1,143 | 1,150 | ... | ... |
| Private sector deposits | 22,446 | 25,107 | 35,687 | ... | ... |
| Demand deposits | 13,056 | 14,942 | 22,705 | ... | ... |
| Time and savings deposits | 9,390 | 10,165 | 12,982 | ... | ... |
| Time deposits | 2,297 | 3,165 | 4,397 | ... | ... |
| Savings deposits | 7,093 | 7,001 | 8,585 | ... | ... |
| | | | (Ratios in percentage) | | |
| Banks' credit to deposits ratio | 85.1 | 82.8 | 77.5 | 81.2 | 82.8 |
| Bank reserves as a ratio to bank deposits | 21.1 | 23.0 | 27.5 | ... | ... |
| Reserve requirements as a ratio to bank deposits | 5.2 | 5.5 | 8.7 | ... | ... |
| Excess reserves as a ratio to bank deposits | 15.8 | 17.4 | 18.8 | ... | ... |
| Banks' cash to deposit Ratio | 3.2 | 2.9 | 2.8 | ... | ... |
| GMC as a ratio to Bank reserves | 119.9 | 127.0 | 98.0 | ... | ... |
| GMC as a ratio to Bank excess reserves | 90.1 | 96.3 | 67.0 | ... | ... |

Sources: Sudanese authorities; and staff estimates and projections.

1/ The difference between commercial banks' liabilities to BOS and BOS's claims on banks is due to misclassification of government guarantees.

Table 7. Sudan: Medium-Term Macroeconomic Outlook, 2010–18

| | 2010 | 2011 Est. | 2012 Prel. | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|-------|--------------|---------------|-------------|-------|-------|-------|-------|-------|
| | | | | Projections | | | | | |
| Production and prices | | | | | | | | | |
| Nominal GDP (billions of SDGs) | 151.3 | 178.3 | 223.5 | 311.7 | 404.9 | 514.4 | 636.6 | 738.9 | 841.2 |
| Nominal GDP (billions of US\$) | 65.6 | 66.9 | 60.5 | 52.5 | 56.6 | 58.3 | 60.2 | 61.0 | 63.6 |
| Nonoil GDP billions of US\$) | 55.4 | 58.1 | 58.0 | 48.9 | 53.2 | 54.6 | 56.9 | 57.8 | 60.3 |
| Nonoil GDP (percent of total GDP) | 84.4 | 86.9 | 95.8 | 93.2 | 94.1 | 93.7 | 94.5 | 94.7 | 94.9 |
| Annual changes in percent | | | | | | | | | |
| Real GDP growth | 3.4 | -1.0 | -2.6 | 4.1 | 3.0 | 3.6 | 2.9 | 3.3 | 3.8 |
| Oil Sector | -3.9 | -36.0 | -62.4 | 46.9 | 8.4 | 17.9 | 2.5 | 2.7 | 2.3 |
| Non-oil sector | 5.1 | 6.0 | 4.6 | 2.3 | 2.7 | 2.6 | 3.0 | 3.3 | 3.9 |
| CPI Inflation (period average) | 13.1 | 18.0 | 35.1 | 32.1 | 27.4 | 24.5 | 20.5 | 14.5 | 10.0 |
| Core CPI (Period average) | 9.9 | 15.7 | 34.0 | ... | ... | ... | ... | ... | ... |
| GDP deflator | 19.9 | 20.3 | 29.7 | 34.9 | 26.7 | 23.4 | 19.9 | 12.3 | 10.0 |
| Nonoil GDP deflator | 13.8 | 15.2 | 32.7 | 32.2 | 27.7 | 23.1 | 21.0 | 12.5 | 9.8 |
| Oil GDP deflator | 60.9 | 62.0 | 32.6 | 55.8 | 15.0 | 22.0 | 9.1 | 10.2 | 13.3 |
| Income, expenditure and saving | | | | | | | | | |
| In percent of GDP | | | | | | | | | |
| Gross national income (GNI) | 92.2 | 95.9 | 96.0 | 95.2 | 95.3 | 95.3 | 95.4 | 95.5 | 95.7 |
| Gross disposable income (GDI) | 95.4 | 97.5 | 97.4 | 97.5 | 98.7 | 98.9 | 98.9 | 97.6 | 97.9 |
| Gross domestic expenditure (GDE) | 97.5 | 98.0 | 108.2 | 109.5 | 105.7 | 104.9 | 105.3 | 105.0 | 105.2 |
| Final consumption | 77.4 | 78.9 | 89.5 | 89.2 | 88.1 | 87.2 | 87.5 | 87.1 | 87.2 |
| Gross capital formation | 20.1 | 19.1 | 18.7 | 20.3 | 17.6 | 17.7 | 17.8 | 17.9 | 18.0 |
| Gross Savings | 18.0 | 18.7 | 7.9 | 8.3 | 10.6 | 11.7 | 11.4 | 10.5 | 10.7 |
| Central government operations | | | | | | | | | |
| Total revenue and grants | 19.3 | 18.1 | 10.0 | 11.2 | 12.9 | 13.2 | 13.0 | 12.0 | 12.3 |
| Revenue | 18.7 | 17.8 | 9.5 | 9.9 | 10.6 | 10.7 | 10.8 | 11.2 | 11.5 |
| o/w: Oil revenue | 11.5 | 10.5 | 2.7 | 2.9 | 2.8 | 3.1 | 3.1 | 3.4 | 3.7 |
| Grants | 0.6 | 0.3 | 0.5 | 1.3 | 2.4 | 2.6 | 2.2 | 0.8 | 0.9 |
| Total expenditure | 19.0 | 17.9 | 13.8 | 13.2 | 13.9 | 14.6 | 14.6 | 14.9 | 15.6 |
| Current expenditure | 16.5 | 16.2 | 12.3 | 11.9 | 12.5 | 13.1 | 13.0 | 13.1 | 13.7 |
| Capital expenditure | 2.6 | 1.7 | 1.6 | 1.3 | 1.4 | 1.5 | 1.6 | 1.8 | 1.9 |
| Overall balance | 0.3 | 0.2 | -3.8 | -2.0 | -0.9 | -1.4 | -1.6 | -2.9 | -3.2 |
| Money and banking | | | | | | | | | |
| Annual changes in percent, unless otherwise specified | | | | | | | | | |
| Broad money | 24.9 | 17.7 | 40.3 | 17.6 | 18.6 | ... | ... | ... | ... |
| Reserve money | 17.2 | 27.8 | 46.7 | 14.0 | 14.4 | ... | ... | ... | ... |
| Credit to the economy | 16.4 | 8.0 | 34.1 | 14.5 | 18.8 | ... | ... | ... | ... |
| Credit to the economy as a ratio to NHGDP | 16.9 | 15.0 | 14.6 | 12.3 | 11.1 | ... | ... | ... | ... |
| Velocity (Non oil GDP/M2 ratio, eop) | 3.6 | 3.7 | 3.6 | 3.8 | 3.9 | ... | ... | ... | ... |
| External sector | | | | | | | | | |
| In percent of GDP, unless otherwise specified | | | | | | | | | |
| External trade balance | 5.7 | 4.1 | -5.5 | -6.7 | -4.1 | -3.1 | -3.3 | -3.1 | -3.2 |
| Exports, f.o.b. | 19.4 | 16.5 | 8.6 | 9.7 | 10.0 | 10.8 | 10.2 | 10.1 | 9.9 |
| Non-oil exports | 2.6 | 3.6 | 5.2 | 4.8 | 4.2 | 4.3 | 4.0 | 4.1 | 4.0 |
| Imports, f.o.b. | -13.7 | -12.4 | -14.1 | -16.4 | -14.0 | -13.9 | -13.5 | -13.2 | -13.1 |
| Current account balance | -2.1 | -0.4 | -10.8 | -11.9 | -7.0 | -6.0 | -6.4 | -7.4 | -7.3 |
| Gross useable reserves (in months of imports) | 1.8 | 1.5 | 1.9 | 2.0 | 2.3 | 2.4 | 2.4 | 2.5 | 2.5 |
| Public debt | | | | | | | | | |
| Public debt | 73.1 | 70.9 | 95.7 | 99.5 | 99.7 | 98.9 | 98.4 | 100.4 | 101.2 |
| External debt | 62.2 | 59.8 | 82.2 | 87.6 | 89.3 | 89.2 | 88.8 | 89.1 | 88.0 |
| Domestic debt 1/ | 10.9 | 11.1 | 13.4 | 11.9 | 10.4 | 9.7 | 9.6 | 11.3 | 13.1 |
| Total debt in US\$ billion | 46.1 | 48.8 | 50.0 | 50.7 | 51.7 | 53.2 | 55.2 | 58.1 | 61.3 |
| Memorandum item: | | | | | | | | | |
| Crude oil export price (U.S. dollars per barrel) 2/ | 70.7 | 95.8 | 94.6 | 92.6 | 88.5 | 88.0 | 81.1 | 78.8 | 77.0 |
| Crude oil production (million barrels per year) | 168.5 | 106.1 | 37.6 | 54.8 | 60.3 | 71.1 | 73.1 | 75.1 | 76.8 |
| Crude oil exports (million barrels per year) | 151.3 | 87.5 | 18.6 | 24.2 | 32.1 | 37.6 | 39.8 | 41.0 | 42.1 |

Sources: Sudanese authorities; and staff estimates and projections.

1/ Staff estimates and projections

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

Table 8. Sudan: Financial Soundness Indicators for the Banking Sector, 2006–13

| | Dec-06 | Dec-07 | Dec-08 | Dec-09 | Dec-10 | Dec-11 | Dec-12 | Mar-13 | Jun-13 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| (In percent, unless otherwise indicated) | | | | | | | | | |
| Capital Adequacy | | | | | | | | | |
| Regulatory capital to risk-weighted assets 1/ | 19.7 | 22.0 | 10.5 | 7.1 | 10.0 | 13.0 | 12.0 | - | 14.9 |
| Regulatory Tier I capital to risk-weighted assets 1/ | 17.4 | 20.0 | 8.7 | 6.1 | 8.9 | 11.0 | 10.5 | - | 13.6 |
| Asset composition and quality | | | | | | | | | |
| Loans to nongovernment to total assets | 46.3 | 50.7 | 51.1 | 52.3 | 51.8 | - | - | - | - |
| Gross NPLs to gross loans | 19.4 | 26.0 | 22.4 | 20.5 | 14.4 | 12.6 | 11.8 | 11.3 | 10.4 |
| NPLs net of provisions to gross loans | 17.0 | 22.0 | 17.9 | 17.9 | 10.4 | 7.6 | 7.5 | 7.5 | 5.8 |
| NPLs net of provisions to capital | 63.7 | 85.0 | 71.0 | 74.8 | 43.7 | 33.3 | 33.5 | 30.5 | 25.5 |
| Loans provisions to NPLs | 14.0 | 15.0 | 20.0 | 23.9 | 31.7 | 39.8 | 36.5 | 33.3 | 43.7 |
| Foreign currency loans to total loans | 26.0 | 13.2 | 15.8 | 20.4 | 13.7 | 9.0 | 15.7 | 13.2 | 11.8 |
| Deposits and investment accounts to total assets | 60.0 | 55.5 | 57.4 | 63.2 | 63.9 | 63.5 | 63.4 | 64.5 | 65.1 |
| Foreign currency deposits to total deposits | 22.0 | 21.4 | 21.2 | 19.2 | 22.0 | 18.7 | 27.0 | 26.9 | 24.9 |
| Off- balance sheet commitments to assets | 33.0 | 32.5 | 34.4 | 28.0 | 31.5 | 29.8 | 32.2 | 29.9 | 28.9 |
| Earnings and Profitability | | | | | | | | | |
| ROA (before tax) | 3.6 | 3.7 | 3.0 | 3.8 | 3.9 | 4.2 | 4.4 | 1.0 | 1.3 |
| ROE(before tax) | 35.4 | 26.5 | 23.3 | 25.5 | 26.5 | 27.8 | 36.4 | 7.6 | 10.0 |
| Liquidity | | | | | | | | | |
| BOS deposits to total assets | 8.0 | 8.6 | 9.1 | 12.7 | 10.8 | 13.1 | 17.5 | 17.3 | 18.1 |
| Required reserves to total assets | 4.0 | 3.0 | 2.9 | 2.1 | 3.2 | 3.5 | 5.5 | 5.6 | 5.6 |
| Required reserves to total reserves | 39.0 | 34.8 | 26.0 | 14.5 | 25.5 | 23.9 | 28.6 | 28.9 | 28.0 |
| Cash in vault to total assets | 1.0 | 2.5 | 2.2 | 2.0 | 1.9 | 2.1 | 2.0 | 2.6 | 2.6 |
| Liquid assets to total assets | 25.0 | 25.6 | 28.0 | 34.2 | 35.3 | 36.3 | 41.7 | 39.6 | 39.8 |
| Liquid assets to total short-term liabilities | 75.0 | 75.0 | 85.0 | 97.0 | 98.2 | 93.8 | 102.5 | 96.3 | 96.7 |

Source: Central Bank of Sudan.

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

**Table 9. Sudan: Selected Economic Indicators, 2010–18
(Adjustment Scenario)**

| | 2010 | 2011 Est. | 2012 Prel. | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|--|---------|--------------|---------------|-------------|---------|---------|---------|---------|---------|
| | | | | Projections | | | | | |
| Output and prices | | | | | | | | | |
| (Annual changes in percentage) | | | | | | | | | |
| Real GDP (at factor costs) 1/ | 3.4 | -1.0 | -2.6 | 4.2 | 2.5 | 4.9 | 4.7 | 5.1 | 5.5 |
| Oil GDP 1/ | -3.9 | -36.0 | -62.4 | 46.9 | 8.4 | 17.9 | 2.5 | 2.7 | 2.3 |
| Nonoil GDP 1/ | 5.1 | 6.0 | 4.6 | 2.3 | 2.2 | 4.1 | 4.9 | 5.2 | 5.7 |
| Consumer prices (end of period) | 15.4 | 18.9 | 44.4 | ... | ... | ... | ... | ... | ... |
| Core CPI | 10.4 | 17.7 | 46.5 | ... | ... | ... | ... | ... | ... |
| Consumer prices (period average) | 13.1 | 18.0 | 35.1 | 32.0 | 21.1 | 14.3 | 9.5 | 7.2 | 6.0 |
| Nonoil GDP deflator | 13.8 | 15.2 | 32.7 | 32.3 | 21.2 | 13.7 | 9.8 | 6.7 | 6.0 |
| Oil GDP deflator | 60.9 | 62.0 | 32.6 | 55.8 | 11.6 | 13.9 | -0.4 | 2.1 | 8.0 |
| Investment and saving | | | | | | | | | |
| (In percent of GDP, unless otherwise specified) | | | | | | | | | |
| Gross disposable income | 95.4 | 97.5 | 97.4 | 97.5 | 98.7 | 98.9 | 98.9 | 97.9 | 98.3 |
| Gross domestic expenditure | 97.5 | 98.0 | 108.2 | 109.1 | 105.0 | 104.3 | 104.4 | 104.0 | 104.1 |
| Final consumption | 77.4 | 78.9 | 89.5 | 88.8 | 87.1 | 86.1 | 85.9 | 85.1 | 84.9 |
| Gross capital formation | 20.1 | 19.1 | 18.7 | 20.3 | 17.9 | 18.2 | 18.5 | 18.9 | 19.2 |
| Gross Savings | 18.0 | 18.7 | 7.9 | 8.7 | 11.6 | 12.9 | 13.0 | 12.8 | 13.4 |
| Government operations | | | | | | | | | |
| Revenue and Grants | 19.3 | 18.1 | 10.0 | 11.2 | 13.4 | 13.9 | 13.6 | 12.7 | 13.1 |
| Revenues | 18.7 | 17.8 | 9.5 | 9.9 | 11.0 | 11.3 | 11.5 | 11.9 | 12.3 |
| Total expenditure | 19.0 | 17.9 | 13.8 | 13.2 | 13.6 | 13.3 | 12.5 | 11.8 | 11.4 |
| Current expenditure | 16.5 | 16.2 | 12.3 | 11.9 | 11.9 | 11.3 | 10.2 | 9.2 | 8.3 |
| Wage bill | 5.0 | 5.5 | 4.8 | 4.2 | 4.2 | 4.0 | 3.9 | 3.8 | 3.6 |
| Subsidies | 0.6 | 1.5 | 2.0 | 2.6 | 2.5 | 2.3 | 1.5 | 0.8 | 0.2 |
| Transfers | 7.7 | 6.2 | 2.6 | 2.5 | 2.6 | 2.6 | 2.6 | 2.6 | 2.5 |
| Capital expenditure | 2.6 | 1.7 | 1.6 | 1.3 | 1.7 | 2.0 | 2.3 | 2.7 | 3.0 |
| Overall balance | 0.3 | 0.2 | -3.8 | -2.0 | -0.2 | 0.6 | 1.2 | 0.8 | 1.7 |
| Overall primary balance | 1.4 | 1.5 | -2.4 | -0.5 | 1.3 | 1.8 | 2.2 | 1.6 | 2.4 |
| Nonoil primary balance | -3.8 | -4.1 | -4.8 | -4.3 | -0.8 | -0.5 | -0.5 | -1.8 | -1.6 |
| In percent of nonoil GDP | -4.5 | -4.7 | -5.0 | -4.6 | -3.9 | -3.3 | -2.4 | -2.2 | -1.4 |
| Monetary sector | | | | | | | | | |
| (Annual changes in percentage, unless otherwise specified) | | | | | | | | | |
| Broad money | 24.9 | 17.7 | 40.3 | 17.8 | 17.9 | ... | ... | ... | ... |
| Reserve money | 17.2 | 27.8 | 46.7 | 13.2 | 12.1 | ... | ... | ... | ... |
| Credit to the economy | 16.4 | 8.0 | 34.1 | 15.6 | 19.7 | ... | ... | ... | ... |
| Velocity (Non oil GDP/M2 ratio, eop) | 3.6 | 3.7 | 3.6 | 3.8 | 3.9 | ... | ... | ... | ... |
| Ratio of Money to M2 | 69.5 | 70.9 | 71.4 | 71.4 | ... | ... | ... | ... | ... |
| Net claims on government as a ratio to Nonoil GDP | 10.9 | 11.9 | 11.7 | 11.4 | 10.4 | ... | ... | ... | ... |
| Credit to the economy as a ratio to Nonoil GDP | 16.9 | 15.0 | 14.6 | 12.4 | 11.9 | ... | ... | ... | ... |
| External sector | | | | | | | | | |
| (In percent of GDP) | | | | | | | | | |
| Exports of goods (in US\$, annual percent change) | 57.0 | -12.9 | -53.2 | 1.8 | 13.7 | 13.1 | 2.0 | 5.2 | 6.4 |
| Exports of oil | 16.3 | 12.5 | 2.9 | 4.3 | 5.1 | 5.7 | 5.2 | 4.9 | 4.6 |
| Imports of goods (in US\$, annual percent change) | 3.1 | -7.5 | 2.6 | 1.1 | -8.4 | 4.2 | 2.3 | 2.5 | 7.0 |
| Merchandise trade balance | 5.7 | 4.1 | -5.5 | -6.4 | -3.4 | -2.5 | -2.5 | -2.1 | -2.1 |
| Current account balance | -2.1 | -0.4 | -10.8 | -11.6 | -6.3 | -5.3 | -5.5 | -6.1 | -5.7 |
| Ext. debt service (in percent of exp. of G&S.) | | | | | | | | | |
| Commitment basis | 22.7 | 24.4 | 50.2 | 47.1 | 39.9 | 35.6 | 34.6 | 33.3 | 31.6 |
| Cash basis | 2.9 | 2.4 | 4.7 | 8.5 | 7.5 | 6.0 | 5.1 | 5.1 | 5.0 |
| Total external debt | 60.2 | 62.0 | 71.4 | 85.0 | 82.7 | 81.8 | 80.4 | 78.1 | 74.4 |
| Total external debt (in US\$ billion) | 39.5 | 41.4 | 43.2 | 44.7 | 46.2 | 47.8 | 49.4 | 51.1 | 52.8 |
| Gross international reserves (in millions of US\$) | 1,566 | 1,325 | 1,693 | 1,629 | 1,849 | 2,063 | 2,304 | 2,688 | 2,978 |
| In months of next year's imports of G&S. | 1.8 | 1.5 | 1.9 | 2.0 | 2.2 | 2.4 | 2.6 | 2.8 | 2.8 |
| Memorandum items: | | | | | | | | | |
| Nominal GDP (in millions of SDGs) | 151,339 | 178,345 | 223,481 | 312,200 | 387,920 | 467,188 | 538,580 | 607,371 | 686,210 |
| Nominal nonoil GDP (in millions of SDGs) | 127,709 | 154,915 | 214,184 | 290,870 | 362,093 | 430,558 | 498,157 | 561,637 | 631,570 |
| Nominal GDP (in \$US million) | 65,628 | 66,881 | 60,503 | 52,583 | 55,870 | 58,406 | 61,521 | 65,427 | 70,940 |
| Exchange rate (SDG/US\$, end of period) | 2.48 | 2.68 | 4.42 | | | | | | |
| Exchange rate (SDG/US\$, period average) | 2.31 | 2.67 | 3.69 | | | | | | |
| NEER (2007=100, percent change, period avera | -1.3 | -16.0 | ... | ... | ... | ... | ... | ... | ... |
| REER (2007=100, percent change, period avera | 7.7 | -4.9 | ... | ... | ... | ... | ... | ... | ... |

Sources: Sudanese authorities; and staff estimates and projections.

1/ Growth rates since 2011 excludes South Sudan.



SUDAN

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 5, 2013

Prepared By

Middle East and Central Asia Department
(In Consultation with Other Departments)

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RELATIONS WITH THE FUND

(As of July 31, 2013)

Membership Status

Joined 09/05/1957; Article VIII.

General Resources Account

| | SDR Million | Percent Quota |
|---|-------------|---------------|
| Quota | 169.70 | 100.00 |
| Fund holdings of currency (Exchange Rate) | 349.59 | 206.00 |
| Reserve Tranche Position | 0.01 | 0.01 |

SDR Department

| | SDR Million | Percent Quota |
|---------------------------|-------------|---------------|
| Net cumulative allocation | 177.99 | 100.00 |
| Holdings | 125.31 | 70.40 |

Outstanding Purchases and Loans

| | SDR Million | Percent Quota |
|-----------------------|-------------|---------------|
| Stand-by Arrangements | 114.85 | 67.68 |
| Trust Fund | 59.23 | 34.90 |
| Extended Arrangements | 65.02 | 38.31 |

Latest Financial Arrangements

In millions of SDR, (mm/dd/yyyy)

| Type | Date of Arrangement | Expiration Date | Amount Approved | Amount Drawn |
|----------|---------------------|-----------------|-----------------|--------------|
| Stand-By | 06/25/1984 | 06/24/1985 | 90.00 | 20.00 |

Projected Payments to Fund

(SDR million; based on existing use of resources and present holdings of SDRs)

| | 31-Jul-13 | Overdue | | Forthcoming | | |
|------------------|----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | | 2013 | 2014 | 2015 | 2016 | 2017 |
| Principal | 239.10 | | | | | |
| Charges/interest | <u>743.64</u> | <u>1.14</u> | <u>2.26</u> | <u>2.26</u> | <u>2.26</u> | <u>2.26</u> |
| Total | <u>982.73</u> | <u>1.14</u> | <u>2.26</u> | <u>2.26</u> | <u>2.26</u> | <u>2.26</u> |

Exchange Rate Arrangement

The legal tender is the Sudanese guinea, which replaced the Sudanese dinar in proportion SDG 1=SDD 100 in mid-2007. Sudan has a de jure managed floating and a de facto other managed exchange rate regime. Sudan continues to maintain an exchange restriction and multiple currency practices (MCP) arising from the cash margin requirement for imports, whereas the previously identified exchange restriction arising from the imposition of the absolute ceiling on foreign exchange for travels has been removed.

Staff has identified the following new exchange restrictions and MCPs subject to IMF jurisdiction under Article VIII: 1) an exchange restriction arising from the government's limitations on the availability of foreign exchange and the CBOS' allocation of foreign exchange to certain priority items; 2) an exchange restriction arising from a tax certification requirement in respect of transfers abroad of profits generated by enterprises other than joint stock companies; 3) a MCP arising from the establishment by the government of a system of multiple exchange rates used for official and commercial transactions, which gives rise to effective exchange rates that deviate by more than 2 percent; 4) a MCP and exchange restriction arising from the channeling of market participants to the parallel market due to the CBOS' establishment of exchange rates that do not reflect market conditions and the limitations on availability of foreign exchange; and 5) an exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports.

Sudan is on a 12-month consultation cycle. The last Article IV consultation discussion was concluded by the Executive Board on September 21, 2012.

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.

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.

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).

Sudan: Technical Assistance from the Fund, 2004–13

| 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 |
| Petroleum fiscal regime | Short-term | October 2010 | MOF |
| Budget management reform | Short-term | February 2010, June 2012 | MOF |
| Tax payer compliance management | Short-term | August 2011 | MOF |
| Fuel subsidy reform | Short-term | April 2012 | MOF |
| Tax reform strategy | Short-term | April 2013 | MOF |
| Budget classification and chart of account (METAC) | Short-term | April 2013 | 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 | Short-term | August 2005, August, September and December 2006, November 2012, July 2013 | 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 and May 2012 | 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 |
| Interbank market development | Long-term | June 2012 | CBOS |
| Credit Bureau/registry/scoring | Short-term | September and December 2012, June 2013 | 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, September 2012 | CBS |
| Balance of payments statistics | Short-term | September 2006, January 2007, July 2012 | 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 |
| SRFs Data Improvement | Short-term | October 2012 | CBS |
| Multisector Statistics | Short-term | April/May 2012, January 2013 | CBOS,MOF,CBS TAT |
| Legal Department | | | |
| Payment system law | Short-term | September 2007 | CBOS |

RELATIONS WITH THE WORLD BANK

(As of July 31, 2013)

1. 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 made small, intermittent debt service payments between mid-1999 and 2008. The amount of payments has not been sufficient to prevent a continued accumulation of arrears, which currently stand at about US\$715.7 million and are growing.
2. 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 partners¹ 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 MDTF will close at the end of 2012 and a successor arrangement is currently being discussed with international partners.
3. A new World Bank's Interim Strategy Note (ISN) for Sudan will be discussed by the World Bank's Board in September 2013. The ISN aims to support the Government of Sudan to achieve the overarching goal of shared growth and institutional reform that provides economic opportunities and reduces conflict. The Bank will focus on supporting activities that accelerate growth and expand sources of growth, ensure equitable distribution of resources and access to services, and respond urgently to opportunities to consolidate peace in areas emerging from conflict. The Bank will support Sudan through carefully selected knowledge products and projects financed through partnership funds and structured across two pillars: (1) Manage the Economic Transition, and (2) Address Socio-economic Roots of Conflict.

¹ 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.

4. The entry points for World Bank support—through management of the MDTF and other partnership funds as well as non-lending activities—vary according to the diverse conditions facing different regions of Sudan. At the National level, a focus on managing the transition and stabilizing peace entails a major role for analytical work and policy dialogue in support of the recently published Interim Poverty Reduction Strategy of the Government of Sudan which focuses to a large extent on activities to promote economic diversification through a vibrant private sector. In Darfur, the World Bank works with partners, as security allows, to assess development and recovery needs and to prepare rehabilitation and development programs to be implemented as soon as conditions are right.

5. 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, together with the IMF supports the technical preparation of Sudan for a debt relief process through the Technical Working Group on Sudan's External Debt, which met 6 times between 2011 and 2013 and brings together major bilateral and multilateral creditors of Sudan.

6. The World Bank has completed a series of major non-lending products since the CPA in 2005, including a National Public Expenditure Review in 2007, a Diagnostic Trade Integration Study (on behalf of its Integrated Framework partners) in 2008, a Country Economic Memorandum in 2009, a Country Integrated Fiduciary Assessment in 2011 and a Sub-National Public Expenditure Review in 2013. Other major sector works include an Investment Climate Assessment in 2010 and Education and Health Status Reports in 2011 and 2012. Major non-lending products planned to be completed and delivered by the end of calendar year 2014 are: A new Country Economic Memorandum focusing on economic diversification, an Update to the 2008 Diagnostic Trade Integration Study, Promoting Private Sector Revitalization in Darfur, and Financial Sector Capacity Building with a focus on financial inclusion.

7. 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: managing the economic transition; making fiscal decentralization work; promoting economic diversification; and local area development.

RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

(As of June 30, 2013)

Group's Portfolio and Arrears

1. Since its first intervention in 1971 in Sudan, the Bank Group (AfDB) has approved to date 41 operations amounting to a total net commitment of UA296 million.¹ The Bank also approved grants for emergency assistance under the Special Relief Fund in 2001, 2003, 2010 and 2013 amounting to a total of US\$3.0 million. The most recent is the Emergency Relief to Blue and White Nile States approved in June 2013 financed with US\$1 million from the Emergency Relief Fund (ERF). In terms of sector distribution, the portfolio is dominated by agriculture (54percent), followed by infrastructure (28.6 percent), multi sector (8.9 percent), finance (6 percent) and social sectors (2.5 percent).

2. The Bank ongoing operations include the Institutional Capacity Building for Poverty Reduction and Good Governance Project (ICBPRGGP), approved in March 2007 for US\$15 million in the form of a grant. Expected to be closed by March-2013, a major accomplishment of the ICBPRGGP was the completion in 2010 of the Sudan Baseline Household Survey (NBHS) for both the North and the South, which was instrumental in the subsequent preparation of the Interim Poverty Reduction Strategy Paper (I-PRSP) for Sudan and National Development Plan for South Sudan. Other ongoing operations include the Darfur Water Project for Conflict Resolution and Peace Building which was approved in April 2012 and is financed by Euro 3.3 Million from the African Water Facility (AWF). This project will rehabilitate and construct water infrastructure in Darfur and demonstrate an integrated approach to water development. Under the Fragile State Facility (FSF) the ongoing projects include Capacity Enhancement for Debt Management and Resource Mobilization (CEDMRM) approved in May 2012 for UA 1.05 Million, and Technical Assistance to Policy Dialogue on Arrears Clearance and Debt Relief (PDAC) which was approved in February 2013 for US\$75,000. CEDMRM will build institutional and human capacities in Debt Units and other departments in the Ministry of Finance and National Economy (MoFNE), and Central Bank of Sudan, while PDAC will advance dialogue on external debt. Also as part of FSF, the Bank, in June 2013, approved Technical Assistance and Capacity Building for a Poverty Reduction Strategy Paper (PRSP) for UA 1.9 Million. Sudan has also been able to access competitive Bilateral Trust Fund financing for notable projects including, Technical Assistance to Mamoun Beheiry Centre approved in August 2012 for US\$260,500 which aims to improve the quality of policy analysis and policy dialogue currently in Sudan, and the Capacity Building and Assessment of Options for Increasing Access to Energy in Sudan Project approved in October 2012 for US\$340,500. The project intends to identify and map out energy poverty in Sudan. In addition, a grant to support the University of Nyala (Darfur) to undertake a study on Scientific Adaptation of Livestock Breeds to Climate Change was approved in May 2013 for US\$497,000.

¹ For June 2012, the exchange rate between the Unit of Account (UA) and the US Dollar (USD): UA1 = USD1.51.

3. The AfDB has not been in a position of undertaking much needed full-fledged regular investment activities in the country since 1995 because of arrears. As at end-June 2013, the arrears to the Bank Group stood at UA 198.6 million, of which UA 83.5 million is from the African Development Fund (ADF) window and UA 115.1 from the African Development Bank (ADB).

**Sudan: Arrears to the AfDB Group as of 30
June 2013
(Thousands UA)**

| | Total | Principal | Charges |
|--------------|--------------|------------------|----------------|
| ADF | 83,470.77 | 60,147.33 | 23,323.44 |
| ADB | 115,080.83 | 54,891.14 | 60,189.70 |
| Total | 198,551.60 | 115,038.46 | 83,513.14 |

Strategy and Programming

4. The Bank has maintained field presence and sustained policy dialogue with the Government of Sudan and Development Partners. It has conducted technical assistance and capacity building activities, using grant resources that are not affected by the arrears situation of the country.

5. Given the arrears situation of Sudan, the Country Brief serves as the appropriate programming document. The last Country Brief was approved in October 2012 covering the period 2012–2014. It is aligned with the Interim Poverty Reduction Strategy Paper 2011–2013 and the National Development Plan 2012–2016. Under ADF-12 (2011–2013), Sudan is eligible to resources of the Supplemental Support Window (Pillar 1) of the Fragile State Facility (FSF) and the Performance-based Country Allocation, but conditional upon arrears clearance. Sudan has benefitted from resources of the Pillar 3 of the FSF (targeted support for capacity building and knowledge management).

6. In the last couple of years, the Bank's strategic engagement with Sudan has focused on: (i) accelerating a peaceful settlement of critical post-referendum economic issues with South-Sudan, by providing technical assistance to the African Union High-Level Implementation Panel (AUHIP); (ii) technical assistance, capacity building and donor coordination aimed at accelerating the process arrears clearance and debt relief for the reengagement of Sudan with the international community; and (iii) sustaining dialogue and conducting analytical work to prepare the ground for effective full-fledged support in addressing the development challenges of Sudan.

7. In this context, progress was made on a number of issues and initiatives, including: (i) Participations in meetings of the Technical Working Group; (ii) the Debt Sustainability Analysis workshop that targeted staff from the Debt Management Office of the Central bank of Sudan and MoFNE; (iii) support to the Government of Sudan in the preparation of the Sudan External Debt Relief and Arrears Clearance Strategy (SEDRACS); and (iv) Approval of four new operations namely, Technical Assistance and Capacity Building for Poverty Reduction Strategy Paper, Capacity building for the assessment of options of access to energy in Sudan, Technical Assistance on Arrears and Debt Relief, and Technical Assistance to Marmoun Beheiry Centre.

STATISTICAL ISSUES

(As of June 30, 2013)

| Assessment of Data Adequacy for Surveillance |
|---|
| <p>General: Sudan's current statistical data base appears broadly adequate for surveillance and program monitoring, but needs further improvements, including upgrading the base year, coverage, periodicity and timeliness of national accounts data; improving labor market and direct investment data; and more detailed and comprehensive fiscal accounting. Enhancing the status of the Central Bureau of Statistics (CBS) with the authority and resources to compile and disseminate official statistics and coordinate the national statistical work program is important for further statistical improvements, and should be addressed within the context of the ongoing work in developing a five-year National Strategy for the Development of Statistics (2012-16). Retooling of the CBS' computing infrastructure should also be accorded high priority.</p> |
| <p>National accounts: The CBS lacks a comprehensive data collection program, and relies largely on administrative reporting which is not optimal for national accounts compilation. Economic surveys were last conducted in the 1970s and 1980s, and the benchmarks derived from these surveys inform current estimates of value added. The compilation of GDP by activity depends heavily on indirect indicators of growth rates and price indicators that are less appropriate. Informal activities are not covered, and are likely to be significant in areas such as retail trade and construction. Sudan's national accounts data are based on the <i>System of National Accounts 1968 (SNA 1968)</i>, and the base year of the existing GDP constant price series (by activity and by expenditure) is 1981. National accounts statistics are compiled with a lag exceeding three years; and there are no national accounts or industrial production data at sub annual frequencies. On the expenditure side, data are lacking on final consumption by households, investment, and changes in stocks.</p> <p>The adoption of updated statistical guidelines (<i>SNA 2008</i>), rebasing of the national accounts, and developing procedures to improve the timeliness of GDP estimates should be among the core medium-term objectives of Sudan's national accounts work program. There is an urgent need to increase funding to the CBS and to rebuild its capacity for conducting household, agricultural and enterprise surveys.</p> |
| <p>Price statistics: Practices in the production of the Consumer Price Index (CPI) are good. Monthly CPI data (base year=2007) are provided shortly after the end of each month. However, the CBS should begin developing plans for a new household expenditure survey to facilitate weight updates to the existing CPI. The CBS is developing for the first time, a quarterly producer price index (PPI) for manufactured goods. STA's recent multisector statistics mission (April 2012) conducted a preliminary assessment of the methods and procedures for compiling the PPI; and issues regarding the frame and the sample size were raised with the authorities. The mission also advised on how the base year weights would need to be adjusted to reflect the reduced contributions of oil to the Sudan economy.</p> |

Government finance statistics: 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.

STA's recent multisector statistics mission (April 2012) noted that there has been no significant progress in implementing GFS classifications at the level of state governments and all other sub-national governments and extra budgetary funds. The responsibility for GFS compilation and dissemination is not assigned to any specific unit within the MOFNE. The mission also found that there are no comprehensive data reconciliations on government claims on and liabilities to the banking system; and the recording of "arrears securities" is not in line with the *GFSM* guidelines. The compilation of consolidated GFS for the general government with the objective of producing the statement of government operations should be a key priority.

Monetary and financial statistics (MFS): Sudan has received significant technical assistance to improve the collection, compilation, and dissemination of monetary and financial statistics. STA's recent multisector statistics mission (2012) found that all major recommendations made by the previous MFS mission in 2007 have been implemented. The current coverage of Sudan's monetary statistics includes the CBOS and 32 commercial banks, which constitute the other depository corporations (ODCs). Due to South Sudan's secession, the Bank of South Sudan (BOSS) and the conventional banks operating in South Sudan were excluded from the coverage of the CBOS and the ODCs, respectively, beginning with July 2011 data. The revised monthly statistical return has been used by all commercial banks to report data for compiling monetary statistics. However, stronger efforts are needed to improve the consistency in reporting of inter-bank data and the timeliness of data reporting and dissemination. The STA 2012 mission also identified areas for further improvement.

Going forward, the CBOS should also develop a work program for collecting and compiling data on insurance corporations and pension funds for inclusion in Sudan's monetary statistics.

External sector statistics: Daily exchange rate data are posted on the CBOS' web page with minimal lags. There are several areas for improvement in the external accounts, particularly with regard to direct investment (DI), remittances, goods and services, capital transfers and oil statistics. The lack of survey data continues to affect the compilation of important balance of payments and IIP items such as direct investment. 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 reserves assets in general, and those earmarked reserves in particular. Compilation of the data template on international reserves and foreign currency liquidity should be initiated.

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.

STA's recent multisector statistics mission assisted the CBOS in improving the compilation of a number of balance of payments and IIP items, including in particular, the calculation of reserve asset positions that were incorrectly recorded with a negative sign for some months in 2011. The mission also advised on the treatment of external debt arrears in the balance of payments and the IIP, and recommended steps for initiating the collection of data on capital transfers. METAC is providing ongoing support in the implementation of the DI survey.

Data Standards and Quality

Sudan participates in the General Data Dissemination System (GDDS) since August 2003. GDDS metadata and plans for improvement need to be updated. No data ROSC is available.

Reporting to STA

Annual data reported for the *Government Finance Statistics Yearbook* cover only budgetary central government up to 1999. No monthly and quarterly fiscal data are reported for the *International Financial Statistics (IFS)*. The reporting of external trade statistics for inclusion in the *Direction of Trade Statistics (DOTS)* database is done with significant lags. National accounts data are not provided for publication in the *IFS*. The CBOS has compiled and reported to STA for publication in the *IFS*, the Standardized Report Forms (SRFs) 1SR for the central bank and 2SR for ODCs. However, timeliness of data reporting and dissemination should be improved. The CBOS also reports to STA, quarterly balance of payments and annual IIP data. As a follow up the STA's recent multisector statistics mission, the authorities should submit updated GDDS metadata for dissemination on the Dissemination Standards Bulletin Board.

Sudan: Table of Common Indicators Required for Surveillance
(As of July, 2013)

| | Date of latest observation | Date received | Frequency of Data ⁷ | Frequency of Reporting ⁷ | Frequency of publication ⁷ |
|---|----------------------------|---------------|--------------------------------|-------------------------------------|---------------------------------------|
| Exchange Rates | 6/30/2013 | 6/30/2013 | D | D | D |
| International Reserve Assets and Reserve Liabilities of the Monetary Authorities ¹ | June 2013 | 7/7/2013 | M | M | M |
| Reserve/Base Money | June 2013 | 7/7/2013 | M | W | M/W |
| Broad Money | June 2013 | 7/7/2013 | W | W | M/W |
| Central Bank Balance Sheet | June 2013 | 7/7/2013 | M | M | M |
| Consolidated Balance Sheet of the Banking System | June 2013 | 7/7/2013 | M | M | M |
| Interest Rates ² | 12/31/05 | 1/09/06 | W | M | M/W |
| Consumer Price Index | June 2013 | 7/7/2013 | M | M | M |
| Revenue, Expenditure, Balance and Composition of Financing ³ – General Government ⁴ | 2013:Q2 | July 2013 | M | M | M |
| Stocks of Central Government and Central Government-Guaranteed Debt ⁵ | 2013:Q1 | July 2012 | A | A | A |
| External Current Account Balance | 2013:Q1 | July 2012 | Q | Q | Q |
| Exports and Imports of Goods and Services | 2013:Q1 | July 2013 | M | M | M |
| GDP/GNP | 2012 | July 2013 | A | A | A |
| Gross External Debt | 2013:Q2 | June 2013 | I | A | A |
| International Investment Position ⁶ | 2011 | June 2012 | A | A | A |

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

²Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

³Foreign, domestic bank, and domestic nonbank financing.

⁴The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

⁵Including currency and maturity composition.

⁶Includes external gross financial asset and liability positions vis-à-vis nonresidents.

⁷Daily (D); Weekly (W); Monthly (M); Monthly/Weekly (M/W); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).



SUDAN

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—FINANCIAL SECTOR REVIEW

September 5, 2013

Sudan was selected to be one of the pilot cases for enhancing bilateral financial sector surveillance in low-income countries (LICs) called for by Executive Board in May 2012 (FO/DIS/12/66). The Board discussion found that shallow and undiversified financial systems amplify macro-financial vulnerabilities, limit policy options to mitigate macroeconomic volatility, with adverse consequences for growth. The purpose of these reviews is to enhance the understanding of the interplay between financial development, macrostability, growth, and the effectiveness of macroeconomic policies in low income countries.

Sudan's financial system, as in many other LICs, is highly underdeveloped—even by LIC standards—and dominated by the banking sector. Commercial banks represent about 97 percent of the financial system, based on total assets. Insurance companies account for nearly all of the remainder although there is a small microfinance sector.

The financial system is run on purely Islamic principles, but most arrangements—for example, banking supervision—are largely the same as for conventional systems. However, it does present challenges for the development of an interbank funding market, which the authorities continue to wrestle with. Hence, banks tend to run with large amounts of excess liquidity. Monetization and financial intermediation is weak, with broad money at only 26.3 percent of GDP, compared to the 48 percent average for LICs, and domestic credit to the private sector at only 12.8 percent of GDP, compared to the 32.6 percent average for LICs, at end-2012. Few people access financial services, with only about seven percent of the adult population having a bank account. Access is concentrated in Khartoum, even though two-thirds of the population is rural.

Small and medium enterprises face difficulties accessing credit markets due to a highly risk-averse banking sector, as in most LICs. Corporate governance and transparency are weak and corporate accounting and managerial controls are poor. Hence, banks tend to impose onerous collateral and guarantee requirements.

The authorities have made a number of moves to broaden access to banking services. These include simplifying the procedures for opening bank accounts, encouraging banks to open new branches and expand ATM networks, and setting up a credit registry. However, impediments remain, including the costs of extending branch networks to the largely rural population, and crowding out by the government borrowing.

The banking system is weaker than its sub-Saharan African peers. Capital asset ratios are generally below the required 12 percent, nonperforming loans are high and provisioning is low, although both have recently been improving. Also, some of the weaknesses in bank supervision, inspection and enforcement identified by the 2005 FSAP remain.

The microfinance (MF) sector is small but the authorities are actively promoting its development and it has started to grow rapidly. However, one of the factors that may slow further growth is that MF institutions depend on wholesale funding, for which they have to compete with high-yielding government securities.

Sudan's shallow financial markets and underdeveloped financial system constrains macroeconomic policies and heightens its vulnerability to shocks. It's hampering households, businesses, and the government's scope to smooth spending over time. A cap on banks' lending to government further reduces fiscal flexibility and the space for counter-cyclical policies, and forces government when faced with negative income shocks to resort to sharp cuts in spending or inflationary credit from the central bank. This, together with persistently high excess liquidity and limited instruments for managing overall liquidity, severely hampers the scope for effective monetary policy.

Prepared by
the **Monetary and
Capital Markets
Department**

The authors are John Kiff, Patrick Imam, and Nils Maehle (all MCM), with important contributions from Rachid Awad (METAC).

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BACKGROUND: SECESSION OF SOUTH SUDAN, A STRUCTURAL BREAK

1. While the direct impact of the secession of South Sudan on July 9, 2011 on the economy was significant, the impact on the financial system was more modest, reflecting the concentration of the financial system in Khartoum. The secession resulted in a large fiscal shock, with Sudan losing some three-quarters of its oil production—half of its fiscal revenues—and a balance of payment squeeze, with about two-thirds of its international payment capacity vanishing overnight. This has weakened macroeconomic fundamentals. The stock of bank credit to the private sector decline by 7 percent (0.9 of GDP) during the secession, corresponding to the amount of credit outstanding provided by the southern branches of Sudanese banks. Nonetheless, the indirect impact over time on financial sector growth is likely to be significant. Oil revenues, which would in the past have transmitted through the Sudanese banking system will increasingly be channeled through neighboring countries such as Kenya.

2. Monetization and financial intermediation is weak. Broad money is only 26.3 percent of GDP, compared to 48 percent on average for LICs, and the share of currency in broad money is high. Deposits are also low at only 19 percent of GDP. As a result, domestic credit to the private sector is also low at only 12.1 percent of GDP versus the 32.6 percent LIC average at end-2012 (Figures 1 and 2).

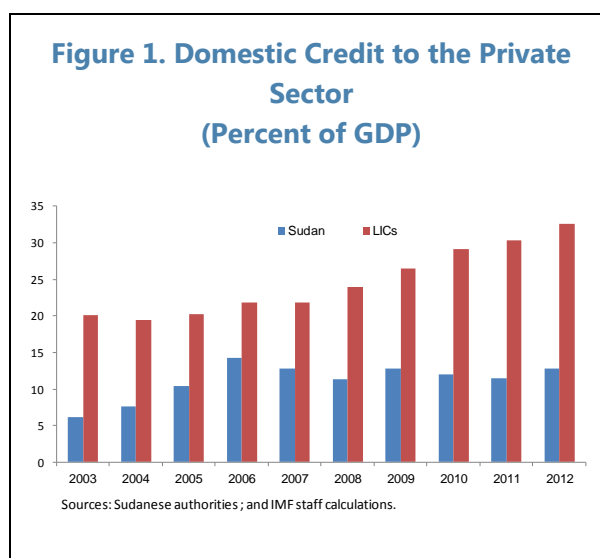
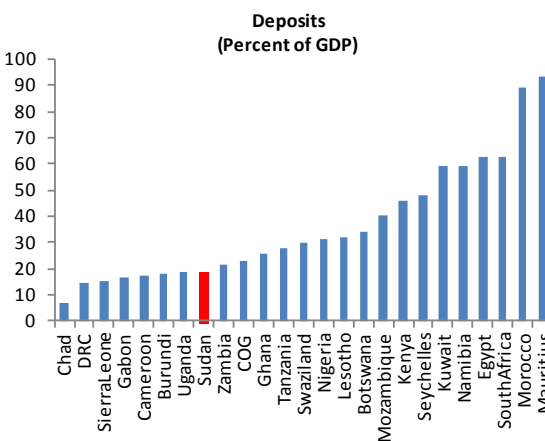
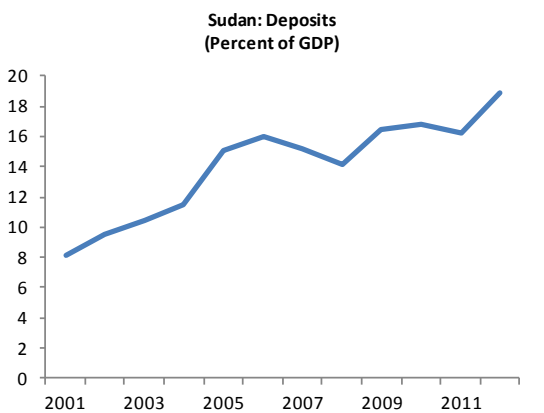
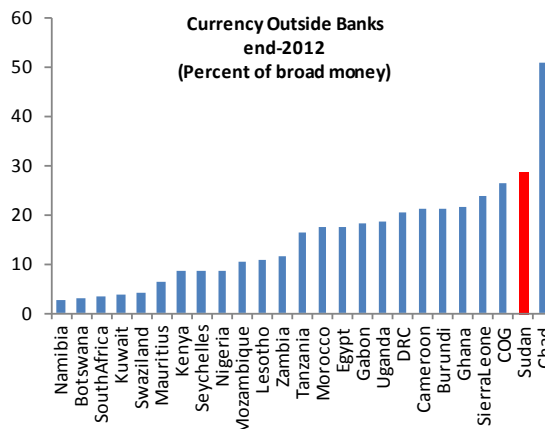
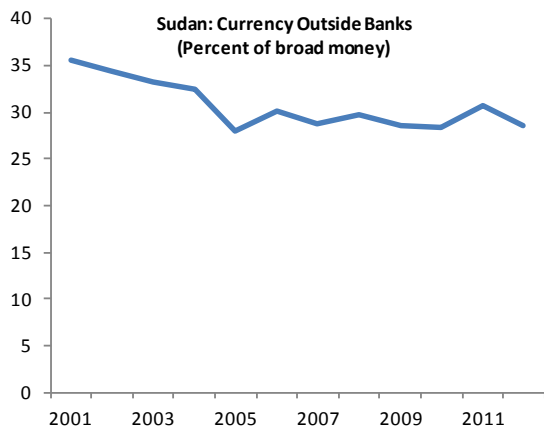
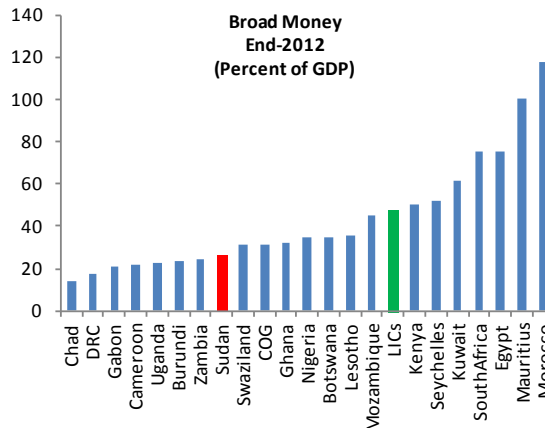
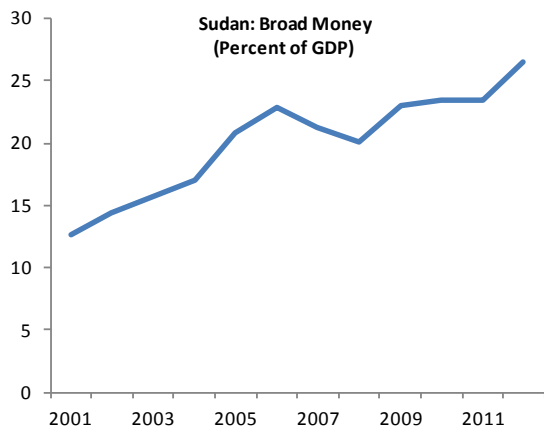


Figure 2. Sudan: Financial Depth



SUDAN'S FINANCIAL SYSTEM STRUCTURE

3. **Sudan's financial system, as in many other low-income countries (LICs), is dominated by the banking sector (Table 1).** Insurance companies account for virtually all of the remainder although there is a small but growing microfinance sector.

**Table 1. Structure of the Sudanese Financial
(End-2012)**

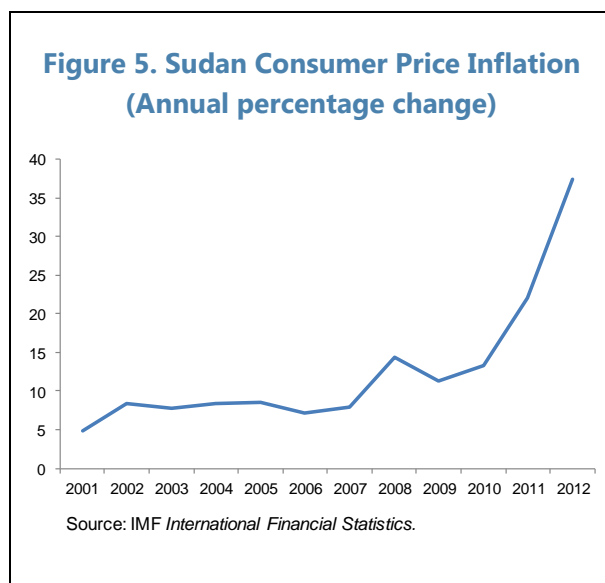
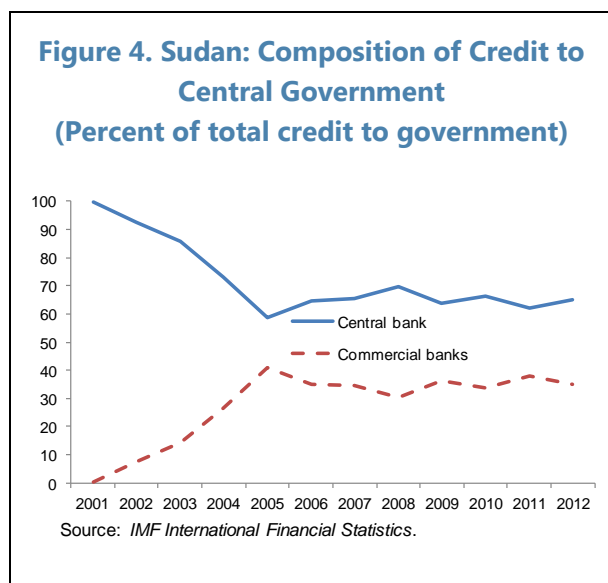
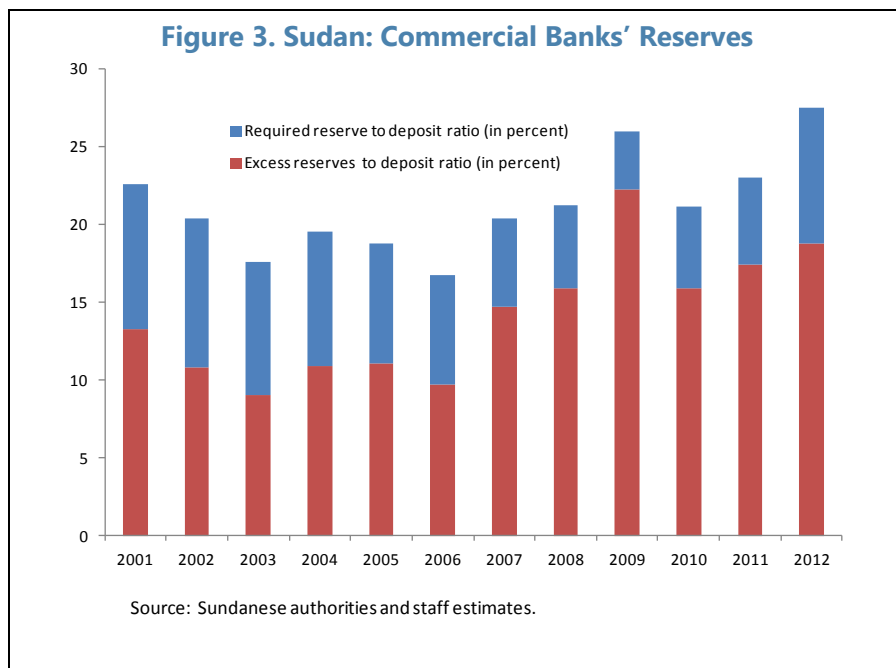
| | Assets | | |
|------------------|--------|-------------------------------|-------------------|
| | Number | Sudanese Pounds (millions) | Percent of Assets |
| Banks | | | |
| Government-owned | 4 | 9,075 | 13% |
| Joint venture | 25 | 52,324 | 77% |
| Foreign-owned | 6 | 5,650 | 8% |
| Insurers | | | |
| Others | n/a | 966 (2011) | 1% |

Source: Central Bank of Sudan.

4. **There is essentially no interbank market largely, due to the persistent excess liquidity in the system, lack of trust among banks, and the ease with which liquidity can be obtained from the CBOS.** More importantly, under purely Islamic systems, such as Sudan's, there are no short term liquidity products that comply with Shariah rules and principles. However, there is an informal inter-bank market (*Qard Hassan*) in which banks lend to each other without charging any fee or expecting any profit for short periods such as one week. This is done on a favor trading basis.

5. **The absence of an active interbank market and a cap on commercial bank holding of government and central bank securities have led to exceptionally large excess reserves (Figure 3) and a loss of monetary control with the CBOS providing direct credit to government (Figure 4) and to individual banks while lacking the means to mop up the resulting excess liquidity.** Banks can only invest up to 20 percent (25 percent prior to 2013) of their investable funds in government securities, short-term *Murabaha* investments, and central bank

certificates (Box 1).¹ As in other Islamic banking systems, the lack of adequate monetary instruments has led to high intermediation cost and persistent inflationary pressures (Figure 5).²



¹ Aggregate holdings of such investments are currently around 20 percent. Banks not yet complying with the limit have until September 30, 2013 to comply. This cap severely constrains the ability of the central bank to conduct monetary policy.

² See Shi, Haiyan, 2013, "Monetary Transmission Mechanism in Sudan," *2013 Sudan Article IV Staff Report Selected Issues Papers* (Washington: International Monetary Fund).

Box 1. Securities Subject to the 20 Percent Holding Ceiling

Banks may hold up to 20 percent (25 percent until end-2012) of their financing portfolio in Government Musharaka Certificates (GMCs), Government Investment Certificates (GICs), CBOS Ijarah Certificates (CICs), Khartoum Petroleum Refinery Certificates, and other Sukuk.

GMCs, also known as Shahama, are issued in registered form by the Ministry of Finance (MOF) through auctions. They are based on Musharaka with a one year renewable maturity at the government's option. The nominal value of each certificate is SDG 500 and their profits are distributed annually. The return on GMCs is based on the return from underlying projects and capital gains derived from revaluations of project assets. These are the highest yielding certificates.

GICs known as Sarh/Sukuk and issued in registered form by the MOF are used to finance development projects. They are based on a pool of Islamic financial instruments such as Mudarabah and Ijara with nonrenewable maturities ranging from two to six years (typically five). Investors get a share of the profits generated by the underlying projects. The nominal value of each certificate is SDG 100 and their profits are distributed quarterly and semi-annually. There are also GICs known as Shama backed by the assets of the Petroleum Refinery of Khartoum. The yield is fixed and is paid on a quarterly basis. Central Bank Ijara Certificates (CICs) known as Shehab are issued only to banks by the CBOS with a 10 year-maturity and a fixed annual return of 12 percent paid monthly. CICs are backed by the CBOS building and are issued by the SFSC. These are mainly used by the CBOS for open market operations, and purely for monetary policy purposes. Dealing in these certificates is restricted among the banks and the CBOS. The nominal value of each certificate is SDG 1,000.

A. Banking Sector

6. The banking sector is composed of 35 banks, 4 of which are CBOS/government-owned, 25 are jointly CBOS/government- and privately-owned, and 6 are foreign-owned (Table 1).³ The government-owned banks include three specialized financial institutions (SFIs) jointly owned by the CBOS and Ministry of Finance, and mandated to fill specific access-to-finance gaps.⁴ In all, 90 percent of banking system assets are those of banks owned fully or jointly by the CBOS and/or government. Given the CBOS's supervisory role, this presents obvious conflicts of interest.

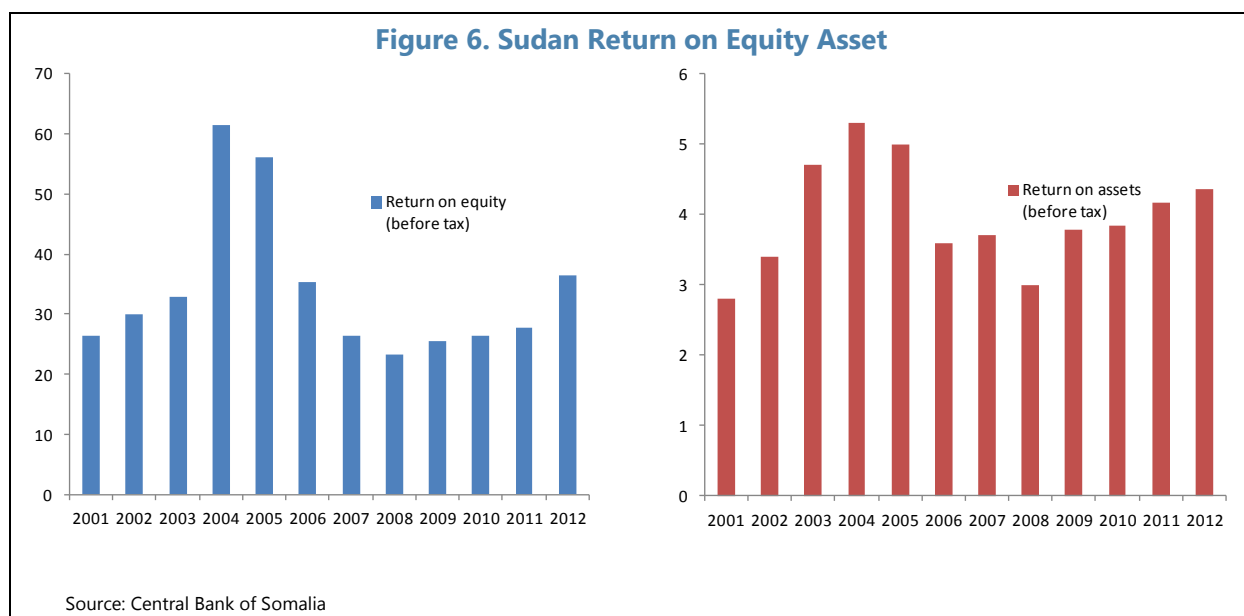
7. That the Sudanese banking system is largely Islamic has implications for financial stability. While conventional intermediation is largely *debt based* and allows for *risk transfer*, Islamic

³ Banks have been classified by ownership according to controlling interest, defined as holding more than 50 percent of equity.

⁴ The three SFIs are the Agricultural Bank of Sudan (ABS), the Industrial Development Bank and the Savings and Social Development Bank (SSDB). The ABS supplies about 53 percent of the bank financing of the agricultural sector. The SSDB specializes in supporting microfinance activity.

intermediation, in contrast, is *asset based* and centers on *risk sharing*, thereby being a better shock-absorber. Depositors share the risk and return in Islamic banks, with no guaranteed return. Resilience is therefore achieved, as leverage through debt is not permitted, and derivatives are typically prohibited, though other sources of risks, such as liquidity risks, may indeed be higher than in conventional banks. Islamic banks also lack the instruments for managing risks—such as derivatives—and hedge against risks that conventional banks have.

8. The banking system is weaker than its sub-Saharan African peers. Return on assets and equity have gradually recovered since the lows reached in 2008, although it is still well below the inflation rate (Table 2, Figures 5 and 6). Capital asset ratios, moreover, are generally below the required 12 percent—reflecting a lack of compliance—nonperforming loans (NPLs) are high but provisioning is low—suggesting potentially weak buffers—although they have recently been improving (Figures 7 to 11). However, Sudanese banks are required to denote loans as nonperforming when they are more than one month overdue for all *Murahaba* mode assets, which comprise the majority of bank loans. The NPL threshold for other loans is three months. The international standards generally use a three-month threshold.⁵



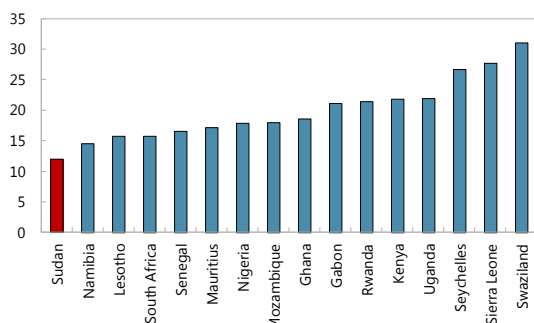
⁵ *Murahaba* are instruments in which a financier purchases good with agreement on resale at a price based on initial cost plus a mark-up (see annex for more detail)

**Table 2. Recent Rates of Return on Sudanese Bank Assets and Liabilities
(In percent)**

| Bank Assets | | Bank Liabilities | |
|------------------------------------|-------|---------------------|-----|
| Murabaha & Musharakah ¹ | 10-12 | Deposits | 0 |
| GMCs and GICs | 16-18 | Investment accounts | 7-9 |

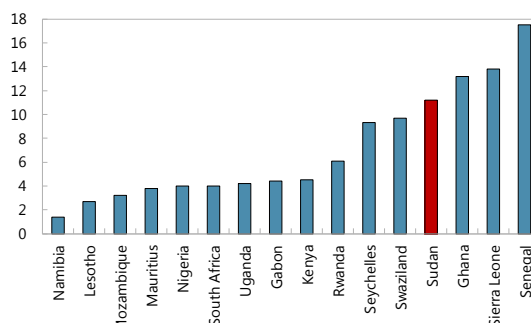
1/ Out of SDG 24.1 billion of total funding flows in 2012 SDG 12 billion were Murabaha and SDG 2.6 billion were Musharakah.

**Figure 7. Bank Regulatory Capital to Risk-Weighted Assets
(End-2012, in percent)**



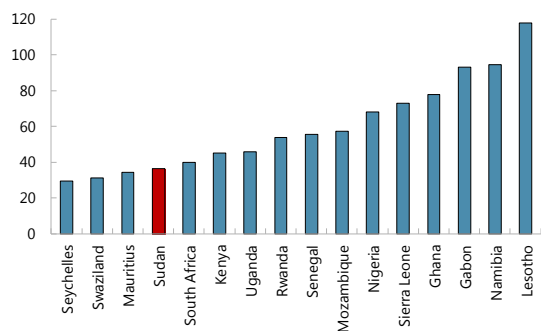
Sources: National authorities; and IMF staff calculations.

Figure 8. Nonperforming Loans to Total Loans



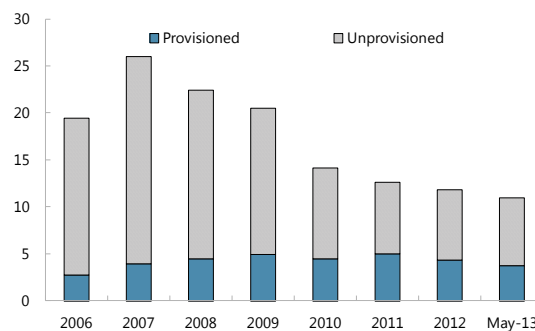
Sources: National authorities; and IMF staff calculations.

Figure 9. Loan Loss Provisions to Nonperforming Loans (End-2012, percent)



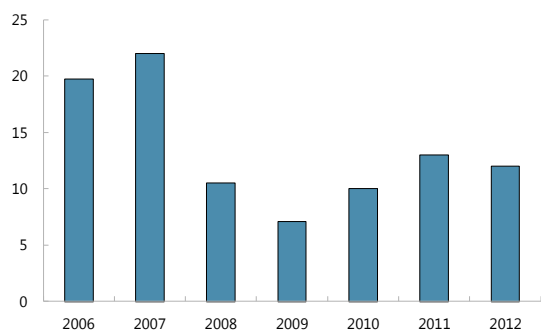
Sources: National authorities; and IMF staff calculations.

Figure 10. Gross Nonperforming Loans to Gross Loans (In percent)



Sources: Sudanese authorities; and IMF staff calculations.

Figure 11. Bank Regulatory Capital to Risk-Weighted Assets (In percent)



Sources: Sudanese authorities; and IMF staff calculations.

9. Although a recent reorganization of the onsite inspection teams was helpful (see Box 2), more effort is needed to build their capacity, develop a consistent inspection methodology and build a better and a more risk-based inspection plan. In addition, the coordination and exchange of information between the onsite and offsite functions need many enhancements to develop a complete and comprehensive assessment of banks and to achieve more effective supervision. It is worth noting that new functions have been added to the banking supervision department to improve the coordination between Prudential Supervision and the Inspection Directorates.

Box 2. Banking Supervision Structure

The Banking Supervision Department at the CBOS consists of the Prudential Supervision Directorate (PSD) and the Inspection Directorate (ID). The PSD is responsible for the regular offsite analysis of banks and financial companies, while the ID is in charge of the onsite assessment. The PSD is in charge of monitoring the financial performance of banks, financial companies, and the financial sector based on the analysis of their main prudential indicators and according to their “Capital, Assets’ Quality, Earnings, and Liquidity” (CAEL). The PSD assigns CAEL ratings to the banks according to specific benchmarks.

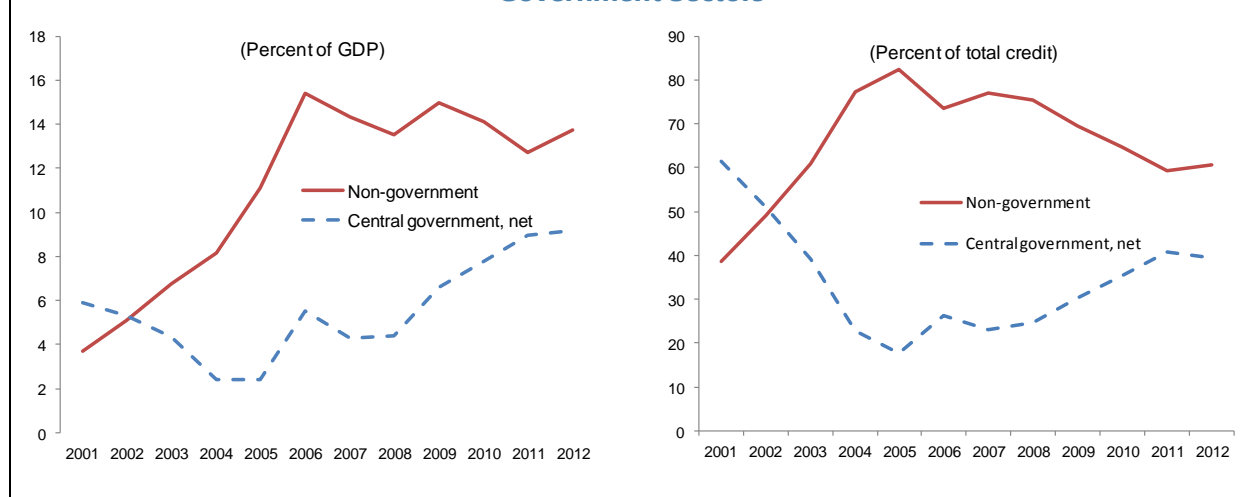
The ID used to consist of ten teams, each responsible for inspection of a specific theme at the banks (e.g., corporate governance, financial statements, etc.). Because of this purely theme-based methodology, the ID did not possess a comprehensive assessment of banks’ financial and managerial performance. During the first half of 2013, the inspection teams were restructured in order to be responsible for banks rather than specific themes. There are now eight 6-7 person teams, of which six are responsible for a number of banks, one is responsible for inspection of the payments systems, and the other is responsible for non-bank financial companies. This restructuring will provide better and more comprehensive onsite assessments.

10. Despite banks being restricted in lending to the sovereign, little lending takes place to the private sector. After a rapid increase in credit to both the government and non-government sectors in 2001-06, credit to non-government has been stagnant (as a percent of GDP; Figure 12). A number of obstacles, which are typical of LICs has contributed to this, including:

- **Informational asymmetries.** Lack of information on borrowers, including due to the limited size of the formal sector and the limited availability of audited company statements increases adverse selection and moral hazard issues, and ultimately leads to credit rationing. Information asymmetries are also an issue for the development of the interbank market. However, under Islamic banking, this problem is in part dealt with as the incentives of investors and entrepreneurs are aligned, given the risk-based sharing arrangement.
- **Business and judicial environment.** A key issue is the absence of formalized property rights in large parts of the country, which increases the difficulty of using land as collateral in lending. Moreover, the judicial process tends to be costly and slow. This inability to recoup losses at a reasonable cost, through collateral initially pledged, discourages lending further.

- **Skills.** The quality of human capital is critical for banks as it provides the necessary risk management expertise and the ability to design and sell the products that customers need. The lack of appropriate skills may explain why in recent years some MFIs that moved from dealing with micro-enterprises to dealing with SMEs saw their profitability decrease. Banks may face similar challenges moving from larger enterprises to SMEs.

Figure 12. Sudan: Commercial and Central Bank Credit to the Central Government and Non-Government Sectors



Financial Infrastructure

11. An important recent development has been the enhancement of the credit registry operated by the CBOS. The registry was formed in 1996 but it was not until 2006 that banks had online access to the data. Since June 2008, the IMF has been providing technical assistance (TA) to upgrade the registry to best practice, and in 2012 the Credit Information and Scoring Agency (CIASA) was established as a separate agency within the CBOS.⁶ More recently, newly installed software coupled with expanded data collection, will provide more accurate information on borrower performance and will allow more informed credit granting decisions. The enhanced registry will also allow the CBOS to more accurately and timely monitor credit risk in the banking sector and credit concentration at the level of banks as well as the banking sector as a whole.⁷

⁶ The TA project is aimed at enhancing the credit registry function through five phases: 1) adding more demographic data; 2) linking related parties to borrowers; 3) adding more financial information; 4) creating management reports and a new credit report template that would allow for the inclusion of expanded credit and demographic data along with other features; and 5) the migration of borrower codes and financial data from a test database to live production database. Major progress has been achieved towards the completion of the five phases of the project.

⁷ Future plans include setting up a credit scoring system, similar to the "FICO" scores used in the United States, although those plans are still in their infancy. Also, data collection may be expanded to include non-banks (e.g., insurance and microfinance institutions) and the stock exchange.

12. Substantial efforts have been made to complete the credit registry expansion project, but work is still needed to achieve a more effective coordination between the CIASA and various CBOS departments. This coordination has started, namely in producing and exchanging information about delinquent borrowers and clients banned from accessing financial services due to malpractices or irregularities. Coordination is also needed to ensure that the data submitted to the CIASA are accurate and complete. In this context, an inspection checklist prepared by CIASA is currently being used by the ID to verify the accuracy of the data sent by banks to CIASA in the course of the regular inspection performed over banks.

Deposit Insurance

13. All domestic currency bank deposits (current, savings and investment) are covered by the government-owned Bank Deposit Security Fund (BDSF) up to SDG 10,000 per depositor.⁸ Coverage is mandatory for all banks and the annual premia are 0.003 percent of total deposits.⁹ Accumulated premia (SDG 494 million at end-2012) now amount to about two percent of deposits versus a target of five percent. Local currency deposits totaled SDG 28.2 billion at end-2012. They have had to cover two failures since inception (in 1998 and 2000). The BDSF also stands ready to provide resources to solvent banks facing short-term liquidity problems. This “remedial role” is reserved for central banks in other countries.

B. Insurance Sector

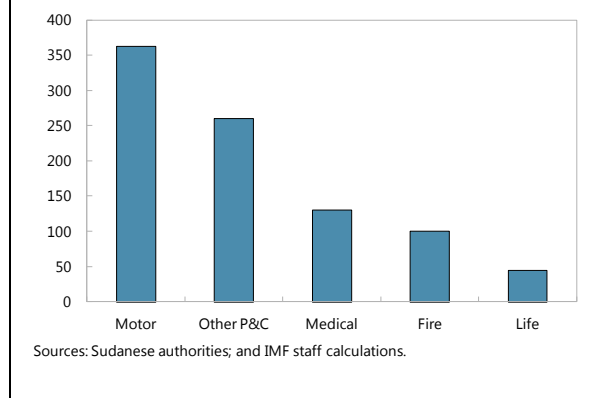
14. The insurance sector in Sudan is small, even compared to those in other African countries. According to Swiss Re, total 2012 premium revenue was about 0.4 percent of GDP, versus 3.7 percent in Africa as a whole, and 6.3 percent globally. However, Sudan’s low level of insurance penetration is not unusual for LICs.

15. The primary business line for insurance companies in Sudan is vehicle insurance (40 percent of gross premia in 2011), which is not an extraordinary phenomenon observed in developing markets, and vehicle third liability insurance is compulsory in Sudan. Life insurance comprises only five percent of gross premia (Figure 13).

⁸ The BDSF was established in 1996 with a coverage limit of SDG 1,000 on current and savings account, and 250 on investment accounts. The current levels were set in 2010 and further increases are being considered. SDG 10,000 is roughly equal to the country’s GDP per capita and about \$2,000 based on current exchange rates.

⁹ The Ministry of Finance and CBOS also each contribute an amount equal to 15 percent of total premia collected from the banks.

**Figure 13. Gross Insurance Premia
(2011, in Sudanese Pounds)**



16. All Sudanese insurance companies must operate in accordance with Islamic Sharia principles. Sharia requires insurance to be a “donation contract,” whereby policyholders donate the premiums to a common pool of resources, and claim payouts are considered a form of charity. Since policyholders are donors, no gambling is deemed to have occurred. Any surplus may be set aside as reserves or distributed to policyholders in proportion to the contributions paid.¹⁰

17. Insurers must maintain separate accounts for each policyholder to track all contributions. Administrative charges and costs of claims are allocated in proportion to contributions. Any surplus (after making provisions for pay-outs, operating costs, depreciation, bad debts and establishment of reserves) is allocated to policyholders in proportion to contributions paid, or set aside as reserves and investments on behalf of the policyholders.¹¹

18. The 2011 World Bank *Financial Sector Review* concluded that there were shortfalls in the Sudanese insurance regulatory and supervisory framework.¹² However, it is beyond the scope of this paper to update this analysis.

¹⁰ Owing to the charitable, voluntary nature of the business, company profits on underwriting and policyholders’ receipt of payouts are tax free, whereas profits on investment income are taxable.

¹¹ Shareholders—as opposed to policyholders—may not profit from the insurance business, for example, by receiving dividends, but may receive a fee for management services. In addition, it has been argued that shareholders can share in profits on the invested reserves, as distinct from the underwriting business itself. Investments must be in Sharia-compliant instruments.

¹² “The scope of regulation and supervision is defined by the Insurance Supervision Act, which is missing many key elements of a modern insurance supervision regime. However, the focus of the law is on regulation and compliance, and the supervisor does not have the mandate or powers to undertake a thorough analysis of possible financial and operational risks. Consequently, in practice, the ISA has limited scope to go beyond compliance oriented functions, go through the operations of the companies, and the requisite expertise and capacity to perform these functions have not been developed in its staff.

(continued)

C. Microfinance Sector

19. The microfinance (MF) sector is small but growing rapidly, thanks to the authorities' active promotion. The sector has come alive with the creation of a microfinance unit at the CBOS in 2007 and the establishment of the Sudanese Microfinance Development Facility (SMDF) in 2008. The SMDF has \$20 million of capital, and is jointly owned by the CBOS and the Ministry of Finance and National Economy, and financed by donors (through a trust fund administered by the World Bank).¹³ These developments are the result of a plan, established in 2006, aimed at positioning the MF sector within a wider framework for poverty alleviation and economic and financial development.¹⁴ As one part of this plan, the CBOS includes MF as a priority sector, and encourages banks to allocate at least 12 percent of their investable funds to the sector. Also two government-owned banks have been reorganized to focus on MF financing.¹⁵

20. The results of this push have been impressive to date. The number of MF borrowers went from 49,000 at end-2007 to 494,000 by 2012. The growth has occurred in both bank portfolios (49,000 to 300,000) and at the dedicated MF institutions (zero to 194,000). The CBOS MF Unit (MFU) estimates that the proportion of the adult population receiving MF funding from banks and MF institutions has gone from 0.7 percent to 8.2 percent over the same period. And returns are estimated to be competitive with those on Government *Musharaka* Certificates (GMC; see below) at about 18 percent. Moreover, NPLs on MF loans are much lower than those of commercial bank loans, although microinsurance, paid for by the borrower, plays a role in keeping them low.¹⁶

21. The banks are making slow but steady progress towards meeting the 12 percent of investable funds target for MF lending set by the CBOS. It was one percent in 2007 and about five percent at end-2012. But MF institutions, of which 18 are currently in operation (versus zero in 2007) and are regulated and supervised by the CBOS and MFU, may be the best suited to be the main drivers of future growth of this sector, even though banks are expected to continue to track towards the 12 percent target. This is to be accomplished mostly through the newly established Wholesale Guarantee Agency which would partially guarantee finance from banks to MF institutions.

Consideration should be made to move to a more independent and risk based supervisory and regulatory model with a suitable transition period. The model should be built around three pillars - solvency, governance and policyholder's protection. The sector should strengthen on-going supervisory capacities through increased suitable staffing in the Insurance Supervisory Authority (ISA) and encourage the development of insurance institutions to train insurance staff in insurance principles. Sudan should also encourage the development of specialist insurers (agriculture, bank assurance and micro life/ health insurance etc.)"

¹³ Also, in 2011 the CBOS and the Islamic Development Bank partnered to allocate around \$62.5 million for funding, technical assistance and information technology to the sector.

¹⁴ This push also includes the establishment of the Higher Council of Microfinance, headed by the First Vice President, and the launch of the 2013-2017 Comprehensive National MF Strategy.

¹⁵ Two government-owned banks, the Saving & Social Development Bank and Agricultural Bank, specialize in MF lending.

¹⁶ NPLs on MF funding transactions average about four percent. Typical microinsurance policies add about 1 to 3 percentage points to the annual cost, and cover 75 percent of losses.

This will help reduce the CBOS's participation in the MF wholesale funding market. In fact, the CBOS's share of MF institution wholesale funding has already declined – during the 2007-12 period the CBOS provided about 60 percent of such funding, but it now stands at only about 37 percent of outstandings.

22. In other countries with active MF sectors, trade unions play an active role in funding and setting up MF institutions. Although the MF regulatory framework in Sudan allows unions to establish MF institutions, so far there are only two that have.¹⁷ However, Sudanese trade unions have social programs that provide cash support to members, which would make their involvement in the MF sector a natural fit. Also, the 2013-2017 Comprehensive MF National Strategy calls for a review of the cooperatives regulations with the intent of increasing the involvement of cooperatives in the MF sector.

23. In terms of active clients, Sudan and Bangladesh are easily the global leaders in Islamic finance microfinance, with Sudan likely to take top spot given current growth rates. Nonetheless, this is still a very small market – about \$1 billion outstanding according to AlHuda Centre of Islamic Banking and Economics. *Murabaha* (cost plus mark-up) funding is the MF vehicle of choice in Sudan, as it is in other Islamic MF markets.

24. Finally, while high GMC indicative returns look like they could draw potential wholesale funds away from the MF sector, private-sector MF institution investors are looking to establish solid institutions for future higher returns. Also, some look at these investments as serving their communities and social obligations. Nevertheless, reductions in GMC issuance and/or returns could only be a good thing for the MF sector.

D. Equity Market

25. The Khartoum Stock Exchange (KSE) provides an organized market for the trading of equity shares, government certificates, and mutual funds backed by certificates or equities. However, the market is small and equity trading is thin, with weak corporate governance, poor regulation, lack of corporate transparency, and low awareness by the public hindering its development.¹⁸ Plus, government securities dominate trading, and what little equity trading that occurs is dominated by one firm (Sudatel).¹⁹

¹⁷ The Youth Microfinance Institution was established in 2010, and the AL-Amal Women's Microfinance Institution in 2013, by their respective trade unions. The former is in the process of becoming a deposit-taking microfinance bank.

¹⁸ Market capitalization, including government securities, was about \$3 billion at end-2005. This equates to about 12 percent of GDP, which was in the lower third of the selected Middle East and North Africa stock exchanges evaluated in Hearn, Bruce, Jenifer Piesse, and Roger Strange, 2011, "The Role of the Stock Market in the Provision of Islamic Development Finance: Evidence from Sudan," *Emerging Markets Review*, Vol. 12, pp. 338-43.

¹⁹ During the first half of 2013, the trading of government certificates accounted for 96 percent of trading volume, and the trading of one stock (Sudatel) accounted for 50 percent of the other 4 percent of total volume. Sudatel is a Sudanese telecommunications firm about 60 percent owned by the government.

26. Although the KSE switched from manual to computer-based trading in January 2012, trading still occurs for only one hour (10:00 am to 11:00 am) and brokers must be physically present at the exchange.

27. The KSE was established as a self-regulating government-owned institution controlled by a board of directors (appointed by the Council of Ministers). However, no amendments have been made to the original KSE law since 1994 in spite of the modernization of global financial systems, and developments in corporate governance around the world.²⁰ The 2005 FSAP pressed the need to establish a legislative and regulatory framework for the securities market, and institutions to implement it, based on the IOSCO Objectives and Principles for Securities Regulation.²¹

28. Also, the World Bank 2011 *Financial Sector Review* made a number of recommendations with respect to upgrading the KSE's regulatory framework. They called for the establishment of an independent market regulator to (i) supervise the market, and (ii) review and enforce rules on listing, disclosure and market operations. They also recommended establishing links with international regulatory bodies such as International Organization of Securities Commissions (IOSCO), for credibility and to improve investor appeal of the market.

ACCESS TO FINANCIAL SERVICES CHALLENGES

29. Challenges confront individuals and business enterprises in accessing financial services. Few people access financial services in Sudan, with only about 7 percent of the adult population having a bank account (versus 24 percent among LICs and other Sub-Sahara African (SSA) countries). Such access is concentrated in Khartoum, even though two-thirds of Sudan's population lives in rural areas. Although documentation standards for accessing financial services have been eased, they remain difficult to meet for most Sudanese.²²

30. Some access to financial service indices have been improving in recent years, but they are still at very low levels, even when compared against peer LICs. For example, even though the number of banks per 1,000 km² has risen from 0.19 in 2004 to 0.26 in 2011, the average for SSA

²⁰ The 2005 FSAP recommended the separation of control and supervision from the administrative and executive functions of the market but this is yet to be implemented.

²¹ The latest version of the IOSCO Objectives and Principles document (June 2010) can be downloaded at: <http://www.iosco.org/library/pubdocs/pdf/IOSCOPD323.pdf>. The FSAP also thought that there was insufficient surveillance or investigative expertise available to the KSE; and no market-oriented criminal legislation. Furthermore, there was little or no cooperation with regulators of overseas exchanges where Sudanese shares are traded

²² Prior to the reform process started in 2012, to open a savings account national identity cards and a proof of residence were required, and for a checking account proof of insurance and employment, a minimum opening balance far exceeds the per capita national income was required, and banks were not allowed to operate during afternoons. Now only the identity cards and a minimum balance of SDG 50 are required, although SDG 50 is still a large sum of money for most Sudanese. Also there are actually no national financial identity cards. Prospective depositors must obtain the required identity card from the central bank through their local bank.

countries is 0.90 and 1.20 for LICs in general. Over the same period the number of branches per 100,000 of population has gone from 2.01 to 2.37 (versus an SSA average of 3.40 and LIC average of 2.50).

Also, small and medium enterprises face difficulties accessing credit markets. This is partially because banks, facing poor accounting and managerial controls in many companies, rely on onerous collateral and guarantee requirements, and on the borrower's personal financial health. Also, according to the most recent World Bank *Doing Business* survey Sudan scores very low on contract enforcement.²³

POLICY CONSTRAINTS IMPOSED BY FINANCIAL SHALLOWSNESS AND THE CAP ON BANK HOLDING OF GOVERNMENT AND CBOS SECURITIES

31. Sudan's shallow financial system and the cap in place on commercial bank holding of government and central bank securities constrain its macroeconomic policy options.

32. Shallow financial markets impact the real economy negatively, making it more difficult for firms and households in Sudan to access financial services, leading to:

- **Higher volatility:** One of the key functions of banks—to enable agents, including households, to smooth consumption over time—is not performed in the underdeveloped Sudanese banking system. Shocks—droughts for instance—have to be fully absorbed by a household's existing assets, and should they be insufficient, adjustment has to be instantaneous, leading in extreme cases to destitution or worse. In fact, a shallow banking system tends to create pro-cyclical financing conditions, providing the private sector with credit in good times, but cutting it back in bad times, accentuating volatility. Financial sector development can help alleviate these liquidity constraints, thereby ultimately reducing volatility.
- **Lower growth:** Financial development affects economic growth by facilitating the mobilization of savings to finance investment and by contributing to a better allocation of resources. Rioja and Valev (2004a)²⁴ find that finance boosts growth in rich countries primarily by speeding-up productivity growth, while finance encourages growth in poorer countries primarily by accelerating capital accumulation. The impact is also nonlinear, with countries with very low levels of financial development experience very little growth acceleration from a marginal

²³ Sudan ranks 143rd out of 185 countries on the World Bank "ease of doing business" index, 151st on contract enforcement, and 158th on investor protection.

²⁴ Rioja, Felix and Neven Valev, 2004. "Finance and the Sources of Growth at Various Stages of Economic Development," *Economic Inquiry*, Vol. 42(1), pp. 127-140

increase in financial development, while the effect is larger for rich countries and particularly large for middle-income countries. This means that a deepening of the financial system going forward could help spur growth in the Sudanese context.

33. From a policy perspective, the constraints on fiscal policy of a shallow financial system and the cap on bank holding of government securities are multiple, making fiscal and monetary policy largely procyclical and unstable. Fiscal policy effectiveness will be impacted through the following channels:

- **Liquidity risk:** With debt issued with short maturities, liquidity risks faced by the government are significant. Should liquidity dry up, the government would be in a difficult position to roll over its debt, and may have to finance itself through arrears for instance, turning a fiscal issue into a financial stability risk (if arrears are to banks) or a risk to private sector development (if arrears to suppliers). Short maturities also expose to significant interest rate risks.
- **Fiscal cost:** A deeper financial market, by creating more liquidity and allowing for economies of scale in debt issuance, may reduce the marginal cost of borrowing to the sovereign. These costs tend to be high presently, particularly for longer maturities.
- **Scope for counter-cyclical policy:** Sudan's economy is susceptible to shocks. This puts a premium of fiscal flexibility and fiscal space. A deeper financial system and removal of the cap on commercial bank holding of government securities would give the government more scope to run counter-cyclical policies in the event of a shock; this would allow more time to adjust to the shock, avoiding costly adjustment particularly on the part of the population that lives close to the subsistence level and has itself limited access to credit. It would also avoid delaying investment projects, which generally results in higher costs (beyond lost output in the medium term).

34. Shallowness and the cap on commercial bank holding of government and central bank securities also hamper monetary policy formulation, implementation, and effectiveness. Four transmission channels are generally distinguished: The bank lending channel; the interest rate channel; the asset price channel; and the exchange rate channel. To be efficient, all channels require functioning financial markets. Research on monetary transmission in LICs²⁵ shows that for all the channels to be effective, a country should have a strong institutional setup, an independent central bank, a high degree of capital mobility, a floating exchange rate, and a well functioning interbank, government securities, equities and real estate markets. Most of these preconditions are not met in the Sudan, impeding monetary policy. The factors hampering monetary policy in particular include:

²⁵ Based on a stylized presentation for LICs in Mishra, Prachi, Peter J. Montiel, and Antonio Spilimbergo (2012), "Monetary Transmission in Low-Income Countries: Effectiveness and Policy Implications," *IMF Economic Review* 60, 270–302.

- Persistent excess liquidity:** The Sudanese banking system is highly heterogeneous and segmented, including with regard to the distribution of liquidity. The reluctance of banks to trade liquidity means that liquidity needs from illiquid banks need to be met by injections from the central bank. In addition, banks also tend to hold large precautionary excess reserves due to weaknesses with the payments system (e.g., remote branches may need to hold large cash balances due to transportation problems). Such a context makes it very hard for the central bank to focus on overall liquidity management. As a result, monetary policy implementation is limited to direct instruments such as changes to reserve requirements and statutory liquidity ratios (as opposed to market-based instruments such as open market operations). Furthermore, in the absence of vibrant money markets banks maintain high precautionary liquid asset balances. In addition, in the absence of interbank lending markets, the CBOS lacks flexible means to mop up excess system liquidity. Shallow banking systems also tend to create pro-cyclical financing conditions, providing the private sector with credit in good times, but cutting it back in bad times, accentuating volatility.
- Credit rationing:** Imperfect information is an important issue in Sudan, in particular for households and smaller firms in the sizable informal sector, including those located outside Khartoum. When a financial institution tightens credit extension following a tightening of monetary policy, it may increase the riskiness of new lending due to adverse selection. If unwilling to accept higher risk, the bank may ultimately decide to keep its lending rates unchanged, muting the impact of monetary policy decisions.
- Restriction on commercial bank holding of government and central bank securities:** The restriction forces government to resort to inflationary central bank financing of the budget and a loss of monetary control. Caps on direct central bank lending to the government and directing all of the government's domestic borrowing to the domestic commercial banks and domestic securities market without any restrictions on their holdings of government securities would help the central bank regain control over the money supply. This would also help the development of the domestic financial markets and secondary trading in government securities, which are hampered by the current cap on commercial bank holding of government securities. Removing this cap on commercial bank holding of government and central bank securities would also facilitate the development of a proper central bank liquidity management framework by allowing commercial banks to hold central bank instruments intended for managing liquidity, and by allowing the central bank to use outright sale and purchases of government securities in the primary or secondary market to manage market liquidity.

CONCLUSIONS AND POLICY RECOMMENDATIONS

35. While the secession of South Sudan did not have a large impact on the North Sudanese banking system, the second round effect has probably been larger than it appears. With the loss of large oil revenues, the role of the financial system as a driver of diversification and growth is bound to become ever larger. This note illustrated that the shallowness of the financial system has both retarded growth, and reduced the effectiveness of fiscal and monetary policy in

mitigating shocks to the financial system and the real economy. The large CBOS/government banking sector footprint remains a concern, with only about 10 percent of aggregate banking sector assets being owned by fully privately-owned institutions. This raises conflict of interest concerns, and it is recommended that a drive to full privatization be pursued.

36. Access to finance needs to be enhanced to promote growth. Challenges confront individuals and business enterprises in accessing credit. In part it is because banks are concentrated in Khartoum, whereas most of the population is rural. Non-deposit taking microfinance institutions can play an important role in reaching out to rural areas, but they face funding challenges too.

37. The current restriction on commercial banks' holding of government and central bank securities should be removed. It amplifies the constraints on Sudan's macroeconomic policy options posed by the shallow financial system. It severely limits the government's scope in the event of a shock to run counter-cyclical policies and reducing the adjustment costs, including for the most vulnerable part of the population. It also severely impedes monetary policy and monetary control, including by forcing government to resort to inflationary central bank funding, hampering development of the security market, and restricting the few available market-based instruments available to the central bank to manage liquidity and controlling inflation. Concerns over government domestic borrowing possibly causing a crowding out of credit to the private sector should be addressed by reducing the fiscal deficit not preventing lenders to lend to government.

38. Supervisory weaknesses also need to be addressed, with the aim to move to risk-based supervision high on the agenda. While banks do not deal in sophisticated financial products, the secession, risk environment and challenges of supervising Islamic banks require an even better tailored supervisory and regulatory architecture.

39. The large commercial bank holding of excess liquidity at the central bank poses a risk to monetary control and require a careful sequencing of reforms. It could result in an excessively large credit and broad money expansion that would put further pressure on the exchange rate and inflation if put into circulation. Improving the traction of monetary policy would require measures to mop up the excess reserves, and once achieved, putting in place a better functioning interbank market.

40. Progress has been made in dealing with the weaknesses in bank supervision, inspection and enforcement identified by the 2005 FSAP but some remain. However, the central bank is making good progress in moving towards best practice, including with the assistance of the IMF's Middle East Regional Technical Assistance Center (Box 3).

41. There is currently no legislative and regulatory framework for the securities market, and institutions to implement it. Furthermore, the Khartoum Stock Exchange is self-regulated under laws that have not been amended since 1994. However, new securities market legislation is currently working its way through the system that will rectify these deficiencies.

Box 3. Bank Supervision Recommendations

Although the CBOS has made many efforts to improve the quality of its oversight function over banks and financial companies, substantial steps are still needed to move the supervision from a compliance-based exercise to a more risk-based practice. The main actions that would be required by the CBOS can be summarized as follows:

1. The current structure of the offsite supervision unit should be reviewed with an eye towards limiting redundancies and enhancing effectiveness.
2. The risk-based manuals for offsite and onsite supervision need to be updated, and supervisors trained on them
3. An annual supervisory plan for each bank should be developed. For this purpose, the offsite supervision unit should establish an early warning system in which it analyzes regular data on banks and the banking sector and produces timely reports on their performance and the actions that need to be taken in this respect. The onsite supervision unit should prepare an annual risk-based inspection plan that allocates the resources of the directorate according to the risk of the banks and financial companies and their impact on the overall financial stability. The offsite and onsite supervision units should establish regular formal and informal coordination arrangements to perform a comprehensive assessment and monitoring of banks and to prepare the supervisory plan for them accordingly.
4. Review the current division of responsibilities within the banking supervision department and between it and other CBOS departments to allow more effective regulation and supervision of banks and financial companies and to enhance the coordination between the onsite and the offsite functions.
5. Develop the CBOS bank enforcement framework through: (i) developing enforcement regulations and manuals, (ii) setting up the institutional framework and responsibilities for monitoring weak banks and taking enforcement actions against them; and (iii) building the capacity of supervisors to implement the new enforcement framework.

Annex: Islamic Banking Terms Used in this Report²⁶

42. Islamic banking refers to a system of banking or banking activity which is consistent with Islamic law (Sharia) principles and guided by Islamic economics. In particular, Islamic law prohibits usury, the collection and payment of interest, also commonly called *Riba* in Islamic discourse. Instead, profit-and-loss sharing arrangements (PLS) or purchase and resale of goods and services form the basis of contracts. In PLS modes, the rate of return on financial assets is not known or fixed prior to undertaking the transaction. Islamic law also generally prohibits trading in financial risk (which is seen as a form of gambling). In addition, Islamic law prohibits investing in businesses that are considered haram (such as businesses that sell alcohol or pork, or businesses that produce un-Islamic media).

Bai salam is a contract in which the buyer pays the seller the full negotiated price of a product that the seller promises to deliver at a future date (pre-payment, deferred delivery).

Ijara is a contract in which a party leases a particular product for a specific sum and a specific time period (lease, lease-purchase). In the case of a lease purchase, each payment includes a portion that goes toward the final purchase and transfer of ownership of the product.

Istisna is a contract in which a manufacturer (contractor) agrees to produce (build) and to deliver a certain good (or premise) at a given price on a given date in the future (deferred payment, deferred delivery). The price does not have to be paid in advance (in contrast to *Bai Salam*). It may be paid in installments or part may be paid in advance with the balance to be paid later on, based on the preferences of the parties.

Mudarabah is a contract in which a *Rabb -ul- mal* provides the entire capital needed to finance a project while the entrepreneur offers his labor and expertise (trustee finance contract). Profits are shared between them at a certain fixed ratio, whereas financial losses are exclusively borne by *Rabb -ul- mal*. The liability of the entrepreneur is limited only to his time and effort.

The Murabaha is a contract in which the seller informs the buyer of the cost of acquiring or producing a specified product (mark-up financing). The profit margin is then negotiated between them. The total cost is usually paid in installments.

Musharakah is a contract in which a bank enters into an equity partnership agreement with one or more partners to jointly finance an investment project (joint project). Profits (and losses) are shared strictly in relation to the respective capital contributions.

Qard Hassan is a zero-return funding transaction that the Qur'an encourages Muslims to make to the needy. Banks are allowed to charge borrowers a service fee to cover the administrative expenses of handling it. The fee should not be related to the amount or maturity.

²⁶ Everything in this annex is taken verbatim from Appendix I of Čihák, Martin and Heiko Hesse, 2008, "Islamic Banks and Financial Stability: An Empirical Analysis," IMF Working Paper 08/16 (Washington: International Monetary Fund).



SUDAN

STAFF REPORT FOR THE 2013 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

September 5, 2013

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As in the last debt sustainability analysis (DSA) in 2012 (IMF Country Report No. 12/298), Sudan continues to be assessed in debt distress.¹ Given the current size and evolution of the debt stock (that is mostly in arrears), both baselines external and public DSA suggest that Sudan's public sector debt remains unsustainable. All debt ratios exceed their indicative policy-dependent thresholds at end-2012. This continues even through the long term, except for the debt service-to-revenue ratio. Compared to the 2012 DSA, some external and domestic debt ratios improve modestly, because of an assumed slowdown of new external borrowing in the face of growing challenges to the economy from a continued deterioration of macroeconomic fundamentals after the secession of South Sudan in July 2011 and incessant accumulation of external arrears. Against this background, it remains critical for Sudan to follow sound policies consistent with a prudent borrowing strategy, also with a view to garner support for debt relief.

¹ As Sudan is an IDA-only country, this DSA update was prepared jointly by IMF and World Bank staff under the joint Fund-Bank Low-Income Country (LIC) Debt Sustainability Framework (DSF). It was also discussed with the authorities. Sudan's fiscal year runs from January 1 to December 31.

BACKGROUND AND RECENT DEVELOPMENTS

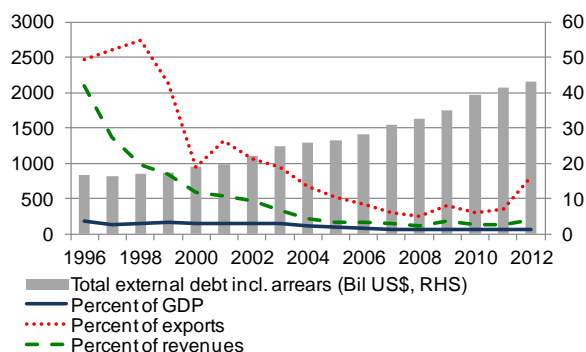
1. Sudan continues to struggle with the enormous macroeconomic challenges arising from the secession of South Sudan in mid-2011. The secession of South Sudan has inflicted a large permanent fiscal and external shock on Sudan, involving the loss of some $\frac{3}{4}$ of its oil output, 60 percent of fiscal revenues, and about two thirds of the country's current account payment capacity. This has not only presented the authorities with the exacerbation of an already difficult economic situation, but also weighs on the longer macroeconomic outlook and debt servicing capacity. Against the backdrop of a sizable external debt overhang and continued uncertainties as to the implementation of an oil wealth sharing agreement between Sudan and South Sudan, the authorities have yet to implement a comprehensive package of ambitious policy responses that succeeds in tackling the sizable imbalances.

STRUCTURE OF DEBT

A. External Debt

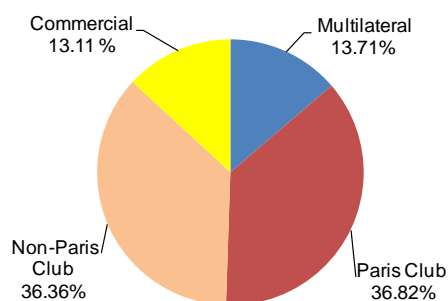
2. At end-2012, Sudan's stock of external debt remained very high. In nominal terms, it amounted to about US\$43.2 billion (72 percent of GDP), of which 85 percent was in arrears (Figure 1 and Table 4). The structure of external debt has not changed over the last decade. Only a small fraction is private, owed to suppliers (US\$1.6 billion). The bulk is public and publicly guaranteed (PPG) debt (US\$41.6 billion, of which 88 percent in arrears), mainly owed to bilateral creditors (Figure 2). In present value (PV) terms, the latter corresponds to almost US\$95 billion, or 158 percent of GDP, 1790 percent of exports and 1633 percent of revenues (Table 4).²

Figure 1. Stock of External Debt, 1996–12



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

Figure 2. Structure of 2012 PPG external debt



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

² This mainly reflects an increase in the stock external debt and a denominator effect, mainly on account of a sharp currency devaluation (66 percent in June 2012 alone) and secession-induced drop in GDP, exports and government revenues.

3. The external debt stock and arrears have continued to grow, albeit at a slower pace. This is the result of a debt strategy that focuses on: (i) adhering to the ceiling on new non-concessional external public borrowing established in previous SMPs (US\$700 million) and (ii) continuing to partially repay outstanding public debt. In fact, in recent years, Sudan has limited new external public borrowing, especially on non-concessional terms (Table 1). Mainly provided by either multilateral or non-Paris Club bilateral creditors, newly contracted debt was mainly directed to projects in the agriculture, services and energy sector. Meanwhile, debt disbursements and actual debt service continued at lower levels (Table 2). The latter remained partial, even to creditors providing new financing. The private sector has neither tapped, nor repaid, any international debt in decades.

Table 1. New Contracted Debt (2009–12)

| | 2009 | 2010 | 2011 | 2012 |
|--------------------------|-------------------|------------|------------|------------|
| | (in million US\$) | | | |
| Total new debt | 1,655 | 419 | 857 | 431 |
| Concessional | 204 | 150 | 193 | 134 |
| Non-Concesional | 1,451 | 269 | 664 | 296 |
| | (in percent) | | | |
| Creditors | 100 | 100 | 100 | 100 |
| Multilateral | 3 | - | 82 | 79 |
| Non-Paris Club bilateral | 97 | 100 | 18 | 21 |
| Other | - | - | - | - |

Source: Sudanese authorities and IMF staff calculations.

Table 2. Debt Flows (in million US\$, 2010–12)

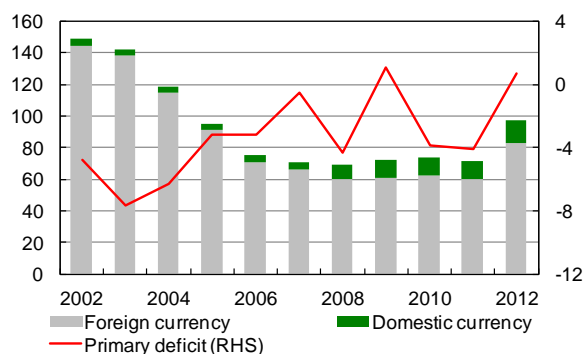
| | 2010 | 2011 | 2012 |
|---|--------------|--------------|--------------|
| Debt disbursements | 569 | 606 | 376 |
| Multilateral | 161 | 222 | 185 |
| Non-Paris Club bilateral | 408 | 383 | 192 |
| Other | - | - | - |
| Total actual debt service | 395 | 288 | 268 |
| Multilateral | 115 | 114 | 153 |
| Non-Paris Club bilateral | 279 | 174 | 115 |
| Other | - | - | - |
| Scheduled debt service on disbursed outstanding debt | 637 | 436 | 389 |
| Multilateral | 167 | 18 | 21 |
| Non-Paris Club bilateral | 450 | 400 | 350 |
| Other | 19 | 19 | 18 |
| Penalties and late interest on arrears | 1,564 | 1,564 | 1,546 |
| Multilateral | 28 | 28 | 29 |
| Non-Paris Club bilateral | 478 | 478 | 473 |
| Other | 1,057 | 1,057 | 1,044 |

Sources: Sudanese authorities and IMF staff calculations.

B. Total Public Debt and Its Domestic Component

4. In recent years, total public debt continued to be on the rise (Figure 3), reaching a stock of SDG215 billion at end-2012. This corresponds to 97 and 170 percent of GDP in nominal and PV terms, respectively (Table 6). The main driver was the rise in foreign currency denominated debt. Yet, on account of primary deficits continuously financed by domestic resources, the domestic component has also recently been on the rise, albeit to a still relatively small level (14.2 percent of GDP).

**Figure 3. Stock of Public Debt, 2002–12
(in percent of GDP)**



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

DEBT SUSTAINABILITY ANALYSIS

C. Underlying Assumptions

5. This DSA update generally builds on the same assumptions as the 2012 DSA (Box 1).³

Changes arise from newly available information emanating from the actual 2012 outcome (especially the stronger persistence of the deterioration of post-secession fundamentals and difficulties tapping external financing) and other developments relevant for the medium-term outlook. The most notable change is the implementation of a 3½-year oil-revenue sharing agreement between Sudan and South Sudan. This is expected to lead to the resumption of oil exports through Sudan and associated payments, beginning in mid-2013. As in the 2012 DSA, this DSA update also refrains from presenting alternative scenarios based on speculations about the timing and magnitude of arrears clearance, possible external debt relief or debt apportionment between Sudan and South Sudan.^{4,5}

³ Debt data have provided by the Sudanese authorities, complemented by information obtained during the 2011 external debt reconciliation exercise as well as Fund and World Bank staffs' estimates.

⁴ Sudan is potentially eligible for debt relief under different initiatives including the Heavily Indebted Poor Countries Initiative (HIPC) Initiative, since it is included in the list of ring-fenced countries. Sudan has made good progress toward finalizing the technical work required to advance towards the decision point of the HIPC Initiative. The government has taken three important steps: (i) it has reconciled over 90 percent of the end-2010 external debt stock in collaboration with creditors; (ii) Parliament approved an ambitious interim-PRSP in June 2012; and (iii) Sudan has implemented 13 Staff-Monitored Programs (SMPs) with the Fund since 1997, establishing a sound track record of cooperation on economic policies and payments. Besides, Sudan has continuously indicated its desire to continue demonstrate a strong commitment to cooperation with the Fund on policies and the payment of arrears, preferably also formally in the framework of a new SMP.

⁵ Prior to the secession, Sudan and South Sudan agreed on the so-called zero option plan, under which Sudan would retain the entire external debt, provided that (i) South Sudan joined Sudan in outreach efforts for debt relief for Sudan, and (ii) the international community gave firm commitments to the delivery of debt relief within two years. Absent such a commitment, Sudan's external debt would be apportioned based on a formula to be determined. As part of the discussions that led to the resumption of oil shipments and associated oil-related-payments, the beginning of the two-year period was reset, implying a deadline in the

(continued)

D. Results

6. This DSA Update broadly confirms the 2012 DSA outcome.⁶ Also, alternative scenario and standard bound tests again fully back up the robustness of the external and public debt baseline scenarios.⁷ Some ratios experience some level shift effects, mainly due to an interaction between updated paths of the denominators and an assumed slowdown of new external borrowing in the face of growing challenges to the economy from continued adverse macroeconomic developments and further accumulation of external arrears. In addition, especially PV terms reflect the larger-than-expected currency depreciation in 2012.

- i) *External sector DSA baseline scenario.* Most debt ratios continue to breach their indicative thresholds for poor performers through the long term, Tables 3 and 4).⁸ Most debt ratios show a declining trend, but persist at very high levels (rather because of the growing stock of unaddressed arrears than because of the accumulation of new debt). Debt-to-export ratios show little tendency toward improvement, because of a dwindling export base built on natural resources (especially oil and gold), underlining the need for economic diversification.

Table 3. Summary of Debt Burden Thresholds for External Public Debt 1/

| | <i>Indicative threshold</i> | 2013 | 2023 | 2033 |
|--------------------------|-----------------------------|------|------|------|
| PV of debt-to GDP | 30 | 166 | 125 | 86 |
| PV of debt-to-exports | 100 | 1500 | 1364 | 1572 |
| PV of debt-to-revenues | 200 | 1649 | 1152 | 880 |
| Debt service-to-exports | 15 | 36 | 28 | 34 |
| Debt service-to-revenues | 18 | 39 | 24 | 19 |

Source: IMF staff calculations and estimates.

1/ Threshold over which countries considered as weak policy performers (i.e. countries with a CPIA of less than 3.25) would have at least a 25 percent chance of having a prolonged debt distress episode in the coming year.

- ii) *External sector DSA robustness checks.* The *alternative scenario* is a financing scenario involving a 2 percentage point higher interest rate (Table 5, Scenario A1). The outcome does not deviate much from the baseline, suggesting that Sudan's external

second half of 2014 or early 2015. However, agreement on any debt apportionment may prove to be very difficult since it would likely require extensive negotiations to reach a consensus view from Sudan's entire pool of creditors.

⁶ This worsening of the debt ratios relative to those in pre-2012 DSAs mainly owes to the secession-induced deterioration in fundamentals and to the more complete external debt portfolio compiled at the 2011 reconciliation exercise.

⁷ With secession-induced structural breaks in the time series undermining the validity of the historical scenario, this DSA update follows the 2012 DSA in omitting the historical scenario (in which the main variables that determine debt dynamics are assumed to remain at their 10-year historical averages).

⁸ According to the World Bank Country Policy and Institutions Assessment (CPIA), Sudan is a weak performer, i.e. a country with poor quality of policies and institutions. Its average CPIA rating for 2010–12 is 2.37 on a scale from 1 to 6 and below the operational cutoff of 3.25 for medium performers.

debt is relatively resilient to new public loan terms. This is not surprising since Sudan's debt dynamics are driven less by new debt accumulation than by the stock of outstanding debt and arrears. The *bound tests* (Table 5, Scenarios B1 to B6) assess Sudan's vulnerability to a range of unexpected external shocks. They show that the PV of debt-to-GDP, debt-to-revenue and debt service-to-revenue ratios are most vulnerable to a one-time depreciation shock, whereas the PV of debt-to-exports and debt service-to-exports ratio are most vulnerable to an exports shock.

- iii) *Public sector DSA baseline scenario.* Public debt stock and service indicators mirror their external counterparts (Figure 5 and Table 6). They depict a declining trend, but converge to relatively high levels in the long term.
- iv) *Public sector DSA robustness checks.* The *alternative scenarios* are a no-reform scenario (involving a primary balanced persisting at the 2013 level) and a permanent growth shock (Table 7, Scenarios A1–A2). Both scenarios underline how crucially public debt sustainability depends on improving fiscal soundness and above all growth, particularly in the non-oil economy. The *bound tests* (Table 7, Scenarios B1–B5) show the vulnerability of public debt ratios to especially a one-time 30 percent real depreciation in the coming year (B4).

CONCLUSIONS

7. As in the previous 2012 DSA, Sudan continues to be assessed in debt distress. Overall public sector debt dynamics remain unsustainable. Throughout the long term, all external debt burden ratios remain well above their respective indicative thresholds (except for the debt service-to-revenue ratio in the middle of the projection horizon, and the present value of the debt-GDP ratio which dips slightly below at the extreme end of the period).

8. To reduce external debt to a sustainable level and regain access to external financing, Sudan needs to:

- i) *re-engage with key creditors and donors.* This is a necessary step towards a comprehensive arrears clearance and debt relief strategy, especially since even after traditional debt relief according to Paris Club Naples Terms⁹ and HIPC Initiative assistance, Sudan will likely be left with a sizeable stock of external debt. This will either need to be serviced or addressed through further assistance (such as Paris Club beyond-HIPC bilateral,¹⁰ Multilateral Debt Relief Initiative (MDRI) on remaining eligible debt of IDA and the African Development

⁹ Paris Club members provide a reduction of pre-cutoff date bilateral non-official development assistance and commercial debt up to 67 percent in present value terms. Other non-multilateral creditors generally join with comparable actions.

¹⁰ Paris Club members can provide debt relief on a voluntary basis.

Fund (AfDF)¹¹ or MDRI-like¹² debt relief). The qualification for debt relief will be announced at the appropriate time.

- ii) *continue to cooperate with the IMF on economic policies and payments.* A track record of sound macro policies, especially under a new SMP, and regular payments in line with Sudan's repayment capacity is critical to secure access to possible debt relief under the Enhanced HIPC Initiative and MDRI.
- iii) *pursue prudent public debt management.* The debt management strategy should continue to limit borrowing on non-concessional terms as much as possible (since it further increases the future debt burden, undermining debt sustainability even after possible debt relief) and secure foreign support on highly concessional terms to finance necessary development and infrastructure expenditures.
- iv) *effectively address debt and macroeconomic vulnerabilities.* To this aim, Sudan needs to focus on strengthening its external and fiscal stance and on providing a more stable political and business environment.

¹¹ MDRI is provided by the IDA, AfDF, and IMF at the HIPC Initiative's completion point. Eligible for MDRI assistance are debt obligations contracted before end-December 2003 for IDA and end-December 2004 for the IMF and AfDB that are still outstanding at the HIPC Initiative's completion point date. All of Sudan's current debt to IDA and the AfDF qualifies for MDRI since it has been contracted prior to the cut-off date.

¹² None of Sudan's debt to the Fund would be eligible for MDRI debt relief. However, following the approach developed for Liberia's debt relief, "MDRI-like" debt relief could be provided if the necessary financing is secured at the appropriate time."

Box 1. Macroeconomic Assumptions 2013–33

Natural resources. After the secession-induced loss of $\frac{3}{4}$ of oil production oil now accounts for only 4 to 7 percent of GDP, 25 to 35 percent of government revenue, and 35 to 40 percent of exports. At the same time, there has been an increase in gold production, with gold exports having tripled since 2009. The price outlook for major commodity exports is guided by the IMF's latest World Economic Outlook (WEO) 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\$83 per barrel for Sudanese crude over the medium term before settling to around US\$79 per barrel in the longer term.

Oil deal. In recent months, Sudan and South Sudan have implemented an oil-revenue-sharing agreement, which is expected to lead to the resumption of oil exports and associated payments from South Sudan to Sudan around mid-2013. The agreement includes a 3½-year Transitional Financial Arrangement (TSA), involving payments of \$15/bl by South Sudan, until a ceiling of approximately \$3 billion is reached. It also involves a payment of about \$10/bl for the use of Sudanese pipelines and related infrastructure. This transit fee is assumed to continue indefinitely.

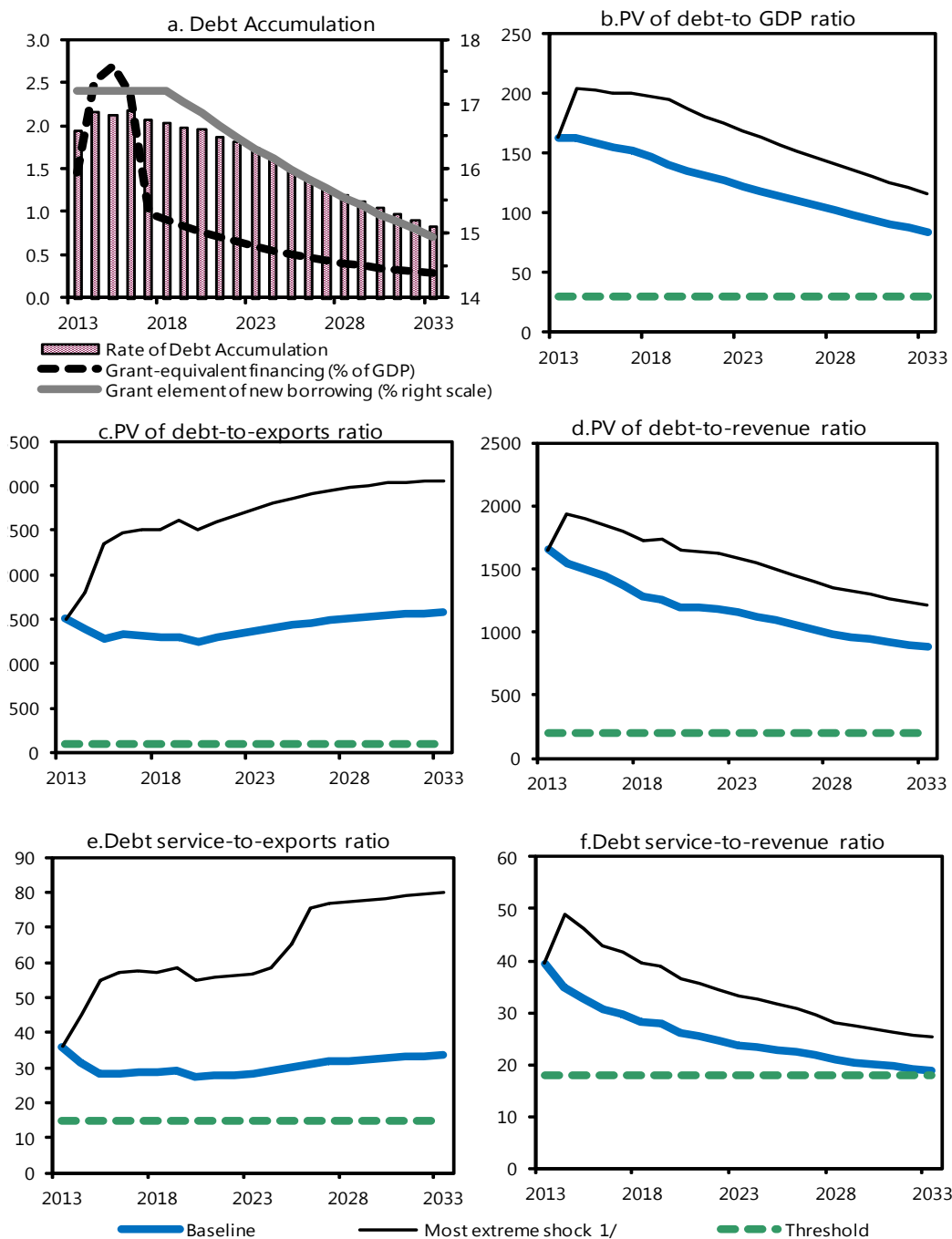
Real sector. The real GDP growth rate is expected to gradually increase to 4.4 percent until 2017 and then to average 4.8 percent over 2018–32. Given the smaller post-secession oil sector, real GDP growth will mainly reflect non-oil GDP growth in the presence of renewed macroeconomic stabilization, new attempts at structural reform and finance-constrained low infrastructure investments. Inflation, as measured by the GDP deflator, is a projected to grow in line with CPI inflation over the long term, implying stable terms of trade. After averaging 20.3 percent over the medium term, inflation will gradually come down to 6 percent by 2033.

Fiscal sector and domestic debt. The projected fiscal deficit averages 1.3 percent of GDP during the period 2013–18, reflecting a combination of factors, including: (i) some improvements in tax revenue collection; (ii) a progressive increase in oil revenues; (iii) the continuation of current public wage and employment policies; (iv) a gradual phasing out of fuel subsidies; (v) slight decrease of current spending shares on transfers to states; and (vi) rising capital expenditure outlays. During 2018–32, the fiscal deficit is expected to average some 2.6 percent of GDP, reflecting (i) a gradual increase in tax revenues, against the backdrop of decreasing oil revenues, (ii) the continuation of current expenditure policies, and (iii) increasing interest payments. Owing to continued limited access to international financing, the projected budget deficit will be financed mostly domestically, assuming no further accumulation of arrears.

External sector and financing. The balance of payments is expected to benefit from export growth until 2020 and then to gradually contract, mainly due to waning production of traditional natural resource exports (notably petroleum and gold) limited development of other exports, and continued limitations on foreign direct investment, aid inflows and access to international financing. Stronger export growth in the medium term contributes to a decline in the current account deficit (incl. official transfers), and a contraction in imports.

External debt. Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans are projected at about 0.5 percent of GDP during 2013–33. In line with the recent portfolio of new contracted debt, the share of new concessional loans is kept at around one third. Starting in 2012, Sudan is assumed to remain current on debt service falling due on disbursed outstanding debt (including new borrowing), but continue to fail to service obligations arising from the stock of arrears (i.e., late interest and penalties as well as arrears themselves).

Figure 4. Sudan: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2013–33 1/, 2/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023. 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 figure f. to a One-time depreciation shock

2/ The secession-induced structural breaks in the time series undermine the historical scenario, which is therefore omitted from the figures.

Table 4. Sudan: External Debt Sustainability Framework, Baseline Scenario, 2010–33 1/
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Historical Average | Standard Deviation | Projections | | | | | | 2019-2033 | | | | |
|---|-------------|-------------|--------------|-----------------------|-----------------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------|------|--------------|-------------|------|
| | 2010 | 2011 | 2012 | | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Average | 2023 | 2033 | Average | |
| External debt (nominal) 1/ | 64.6 | 62.2 | 84.9 | | | 90.7 | 92.2 | 92.1 | 91.7 | 92.0 | 90.8 | | | 82.7 | 65.8 | |
| <i>of which: public and publicly guaranteed (PPG)</i> | 62.2 | 59.8 | 82.2 | | | 87.6 | 89.3 | 89.2 | 88.8 | 89.1 | 87.9 | | | 80.1 | 63.6 | |
| Change in external debt | 1.0 | -2.4 | 22.7 | | | 5.8 | 1.5 | -0.1 | -0.4 | 0.3 | -1.2 | | | -1.4 | -1.8 | |
| Identified net debt-creating flows | -14.3 | -4.6 | 13.3 | | | 3.0 | 0.4 | -0.4 | 0.9 | 1.7 | 1.4 | | | 1.4 | -1.2 | |
| Non-interest current account deficit | -0.6 | -2.1 | 8.0 | 2.0 | 3.8 | 8.7 | 4.0 | 3.2 | 3.7 | 5.0 | 5.4 | | | 5.1 | 1.5 | 3.9 |
| Deficit in balance of goods and services | -2.5 | -2.0 | 8.2 | | | 9.4 | 5.7 | 5.0 | 5.4 | 5.5 | 6.1 | | | 6.1 | 2.5 | |
| Exports | 19.7 | 17.7 | 9.2 | | | 10.9 | 11.8 | 12.5 | 11.7 | 11.6 | 11.4 | | | 9.0 | 5.3 | |
| Imports | 17.2 | 15.6 | 17.5 | | | 20.3 | 17.5 | 17.5 | 17.1 | 17.1 | 17.5 | | | 15.1 | 7.8 | |
| Net current transfers (negative = inflow) | -3.2 | -1.7 | -1.4 | -3.3 | 2.0 | -2.3 | -3.4 | -3.7 | -3.5 | -2.2 | -2.3 | | | -2.5 | -2.0 | -2.4 |
| <i>of which: official</i> | -1.8 | -1.0 | -0.7 | | | -1.3 | -2.4 | -2.6 | -2.3 | -0.9 | -0.9 | | | -1.2 | -0.8 | |
| Other current account flows (negative = net inflow) | 5.2 | 1.6 | 1.2 | | | 1.5 | 1.7 | 1.9 | 1.8 | 1.8 | 1.7 | | | 1.5 | 1.0 | |
| Net FDI (negative = inflow) | -4.4 | -4.0 | -4.1 | -6.1 | 2.0 | -5.5 | -4.2 | -3.6 | -3.3 | -3.4 | -3.7 | | | -3.2 | -1.6 | -2.7 |
| Endogenous debt dynamics 2/ | -9.3 | 1.6 | 9.4 | | | -0.2 | 0.6 | 0.1 | 0.5 | 0.1 | -0.4 | | | -0.6 | -1.0 | |
| Contribution from nominal interest rate | 2.6 | 2.8 | 2.8 | | | 3.8 | 3.2 | 3.3 | 3.2 | 3.1 | 2.9 | | | 2.3 | 1.5 | |
| Contribution from real GDP growth | -1.8 | 0.6 | 1.8 | | | -4.0 | -2.6 | -3.2 | -2.6 | -3.0 | -3.3 | | | -2.9 | -2.5 | |
| Contribution from price and exchange rate changes | -10.1 | -1.9 | 4.8 | | | ... | ... | ... | ... | ... | ... | | | ... | ... | |
| Residual (3-4) 3/ | 15.2 | 2.2 | 9.4 | | | 2.8 | 1.1 | 0.3 | -1.3 | -1.4 | -2.6 | | | -2.8 | -0.5 | |
| <i>of which: exceptional financing</i> | -7.3 | -2.7 | -2.9 | | | -3.0 | -2.8 | -2.7 | -2.7 | -2.7 | -2.6 | | | -2.1 | -1.3 | |
| PV of external debt 4/ | ... | ... | 159.6 | | | 166.3 | 165.6 | 161.9 | 157.7 | 155.0 | 150.1 | | | 125.0 | 86.3 | |
| In percent of exports | ... | ... | 1726.1 | | | 1528.4 | 1407.6 | 1296.7 | 1350.2 | 1336.5 | 1319.4 | | | 1393.2 | 1612.8 | |
| PV of PPG external debt | ... | ... | 156.9 | | | 163.2 | 162.6 | 159.0 | 154.8 | 152.1 | 147.2 | | | 122.4 | 84.1 | |
| In percent of exports | ... | ... | 1697.4 | | | 1499.9 | 1382.6 | 1273.2 | 1325.3 | 1311.1 | 1293.8 | | | 1364.0 | 1571.8 | |
| In percent of government revenues | ... | ... | 1646.4 | | | 1649.4 | 1541.3 | 1491.2 | 1436.8 | 1366.2 | 1286.5 | | | 1151.6 | 879.8 | |
| Debt service-to-exports ratio (in percent) | 17.1 | 18.3 | 37.6 | | | 36.3 | 31.7 | 28.4 | 28.7 | 29.1 | 29.0 | | | 28.8 | 35.2 | |
| PPG debt service-to-exports ratio (in percent) | 17.0 | 18.1 | 37.2 | | | 35.8 | 31.3 | 28.0 | 28.3 | 28.6 | 28.5 | | | 28.1 | 33.7 | |
| PPG debt service-to-revenue ratio (in percent) | 18.0 | 18.0 | 36.0 | | | 39.4 | 34.8 | 32.8 | 30.7 | 29.8 | 28.3 | | | 23.7 | 18.9 | |
| Total gross financing need (Billions of U.S. dollars) | -1.1 | -1.9 | 4.5 | | | 3.8 | 2.0 | 1.8 | 2.2 | 3.0 | 3.1 | | | 3.5 | 2.1 | |
| Non-interest current account deficit that stabilizes debt ratio | -1.6 | 0.2 | -14.7 | | | 2.9 | 2.5 | 3.2 | 4.1 | 4.8 | 6.6 | | | 6.5 | 3.2 | |
| Key macroeconomic assumptions | | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.4 | -1.0 | -2.6 | 3.9 | 3.6 | 4.1 | 3.0 | 3.6 | 2.9 | 3.3 | 3.8 | 3.4 | 3.6 | 3.9 | 3.8 | |
| GDP deflator in US dollar terms (change in percent) | 18.8 | 3.0 | -7.1 | 11.4 | 11.3 | -16.6 | 4.0 | -1.6 | -0.2 | -2.4 | -0.6 | -2.9 | 1.3 | 1.1 | 1.0 | |
| Effective interest rate (percent) 5/ | 5.0 | 4.4 | 4.1 | 5.0 | 0.4 | 3.9 | 3.8 | 3.6 | 3.5 | 3.4 | 3.3 | 3.6 | 2.9 | 2.3 | 2.7 | |
| Growth of exports of G&S (US dollar terms, in percent) | 52.7 | -8.7 | -52.7 | 17.4 | 36.7 | 2.2 | 15.8 | 8.2 | -3.9 | 0.0 | 1.2 | 3.9 | -1.3 | 0.5 | -0.3 | |
| Growth of imports of G&S (US dollar terms, in percent) | 6.4 | -7.5 | 0.9 | 17.2 | 25.1 | 1.1 | -8.0 | 2.1 | 0.1 | 0.9 | 5.4 | 0.3 | -0.9 | -1.5 | -0.6 | |
| Grant element of new public sector borrowing (in percent) | ... | ... | ... | ... | ... | 17.2 | 17.2 | 17.2 | 17.2 | 17.2 | 17.2 | 17.2 | 16.3 | 14.9 | 15.9 | |
| Government revenues (excluding grants, in percent of GDP) | 18.7 | 17.8 | 9.5 | | | 9.9 | 10.6 | 10.7 | 10.8 | 11.1 | 11.4 | | | 10.6 | 9.6 | 10.4 |
| Aid flows (in Billions of US dollars) 7/ | 0.6 | 0.4 | 0.4 | | | 0.7 | 1.3 | 1.5 | 1.3 | 0.5 | 0.5 | | | 0.4 | 0.2 | |
| <i>of which: Grants</i> | 0.4 | 0.2 | 0.3 | | | 0.7 | 1.3 | 1.5 | 1.3 | 0.5 | 0.5 | | | 0.4 | 0.2 | |
| <i>of which: Concessional loans</i> | 0.2 | 0.2 | 0.1 | | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | 0.0 | 0.0 | |
| Grant-equivalent financing (in percent of GDP) 8/ | ... | ... | ... | | | 1.5 | 2.5 | 2.7 | 2.4 | 1.0 | 0.9 | | | 0.6 | 0.3 | 0.5 |
| Grant-equivalent financing (in percent of external financing) 8/ | ... | ... | ... | | | 66.0 | 78.3 | 79.5 | 77.3 | 58.3 | 56.5 | | | 48.9 | 35.9 | 44.9 |
| Memorandum items: | | | | | | | | | | | | | | | | |
| Nominal GDP (Billions of US dollars) | 65.6 | 66.9 | 60.5 | | | 52.5 | 56.6 | 58.3 | 60.2 | 61.0 | 63.6 | | | 76.5 | 124.7 | |
| Nominal dollar GDP growth | 22.9 | 1.9 | -9.5 | | | -13.1 | 7.1 | 2.0 | 2.7 | 0.8 | 3.2 | 0.4 | 4.9 | 5.1 | 4.9 | |
| PV of PPG external debt (in Billions of US dollars) | ... | ... | 79.3 | | | 80.5 | 81.6 | 82.8 | 84.1 | 85.3 | 86.5 | | | 92.7 | 103.6 | |
| (PVt-PVt-1)/GDPt-1 (in percent) | ... | ... | ... | | | 1.9 | 2.2 | 2.1 | 2.2 | 2.1 | 2.0 | 2.1 | 1.7 | 0.8 | 1.4 | |
| Gross workers' remittances (Billions of US dollars) | 2.2 | 1.4 | 1.1 | | | 1.2 | 1.3 | 1.4 | 1.5 | 1.6 | 1.8 | | | 2.0 | 2.5 | |
| PV of PPG external debt (in percent of GDP + remittances) | ... | ... | 154.1 | | | 159.6 | 159.0 | 155.2 | 151.0 | 148.0 | 143.1 | | | 119.3 | 82.4 | |
| PV of PPG external debt (in percent of exports + remittances) | ... | ... | 1420.9 | | | 1240.2 | 1156.7 | 1065.5 | 1087.2 | 1059.5 | 1034.0 | | | 1059.9 | 1144.8 | |
| Debt service of PPG external debt (in percent of exports + remittances) | ... | ... | 31.1 | | | 29.6 | 26.1 | 23.5 | 23.2 | 23.1 | 22.8 | | | 21.8 | 24.6 | |

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as $[r - g - p(1+g)] / (1+g+p+g)$ times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and p = 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 5. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33

| | Projections | | | | | | | 2033 |
|--|-------------|------|------|------|------|------|-------------|------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 | |
| PV of debt-to GDP ratio | | | | | | | | |
| Baseline | 163 | 163 | 159 | 155 | 152 | 147 | 122 | 84 |
| A. Alternative Scenarios | | | | | | | | |
| A.1 New public sector loans on less favorable terms in 2013-2033 /2 | 163 | 145 | 145 | 143 | 144 | 142 | 123 | 86 |
| B. Bound Tests | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2014-2015 | 163 | 149 | 153 | 150 | 151 | 149 | 127 | 88 |
| B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/ | 163 | 148 | 152 | 150 | 151 | 148 | 128 | 85 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015 | 163 | 150 | 147 | 145 | 146 | 143 | 123 | 84 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/ | 163 | 147 | 148 | 146 | 147 | 144 | 124 | 84 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 163 | 145 | 138 | 136 | 137 | 135 | 116 | 78 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/ | 163 | 204 | 202 | 200 | 201 | 197 | 169 | 116 |
| PV of debt-to-exports ratio | | | | | | | | |
| Baseline | 1500 | 1383 | 1273 | 1325 | 1311 | 1294 | 1364 | 1572 |
| A. Alternative Scenarios 1/ | | | | | | | | |
| A.1 New public sector loans on less favorable terms in 2013-2033 /2 | 1500 | 1235 | 1159 | 1227 | 1246 | 1251 | 1374 | 1616 |
| B. Bound Tests | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2014-2015 | 1500 | 1232 | 1152 | 1215 | 1230 | 1232 | 1339 | 1544 |
| B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/ | 1500 | 1805 | 2344 | 2473 | 2506 | 2511 | 2740 | 3049 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015 | 1500 | 1232 | 1152 | 1215 | 1230 | 1232 | 1339 | 1544 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/ | 1500 | 1249 | 1183 | 1248 | 1264 | 1266 | 1379 | 1562 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 1500 | 1457 | 1510 | 1593 | 1614 | 1616 | 1760 | 1996 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/ | 1500 | 1232 | 1152 | 1215 | 1230 | 1232 | 1339 | 1544 |
| PV of debt-to-revenue ratio | | | | | | | | |
| Baseline | 1649 | 1541 | 1491 | 1437 | 1366 | 1286 | 1152 | 880 |
| A. Alternative Scenarios 1/ | | | | | | | | |
| A.1 New public sector loans on less favorable terms in 2013-2033 /2 | 1649 | 1376 | 1358 | 1330 | 1298 | 1244 | 1160 | 905 |
| B. Bound Tests | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2014-2015 | 1649 | 1410 | 1431 | 1396 | 1359 | 1299 | 1198 | 916 |
| B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/ | 1649 | 1402 | 1426 | 1393 | 1356 | 1297 | 1201 | 886 |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015 | 1649 | 1426 | 1378 | 1345 | 1309 | 1251 | 1155 | 883 |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/ | 1649 | 1392 | 1386 | 1353 | 1317 | 1259 | 1164 | 874 |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 1649 | 1378 | 1296 | 1265 | 1232 | 1178 | 1089 | 819 |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/ | 1649 | 1930 | 1897 | 1852 | 1802 | 1722 | 1589 | 1215 |

Table 5. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2013–33 (continued)

| | Projections | | | | | | | | |
|--|-------------|------|------|------|------|------|-----------|------|--|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 | 2033 | |
| Debt service-to-exports ratio | | | | | | | | | |
| Baseline | 36 | 31 | 28 | 28 | 29 | 28 | 28 | 34 | |
| A. Alternative Scenarios 1/ | | | | | | | | | |
| A.1 New public sector loans on less favorable terms in 2013-2033 /2 | 36 | 31 | 28 | 28 | 29 | 29 | 29 | 38 | |
| B. Bound Tests | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2014-2015 | 36 | 31 | 28 | 28 | 28 | 28 | 28 | 32 | |
| B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/ | 36 | 45 | 55 | 57 | 58 | 57 | 57 | 80 | |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015 | 36 | 31 | 28 | 28 | 28 | 28 | 28 | 32 | |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/ | 36 | 31 | 28 | 29 | 29 | 29 | 29 | 37 | |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 36 | 37 | 36 | 37 | 37 | 37 | 37 | 47 | |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/ | 36 | 31 | 28 | 28 | 28 | 28 | 28 | 32 | |
| Debt service-to-revenue ratio | | | | | | | | | |
| Baseline | 39 | 35 | 33 | 31 | 30 | 28 | 24 | 19 | |
| A. Alternative Scenarios 1/ | | | | | | | | | |
| A.1 New public sector loans on less favorable terms in 2013-2033 /2 | 39 | 35 | 33 | 31 | 30 | 29 | 25 | 21 | |
| B. Bound Tests | | | | | | | | | |
| B1. Real GDP growth at historical average minus one standard deviation in 2014-2015 | 39 | 36 | 35 | 32 | 31 | 30 | 25 | 19 | |
| B2. Export value growth at historical average minus one standard deviation in 2014-2015 3/ | 39 | 35 | 33 | 32 | 31 | 30 | 25 | 23 | |
| B3. US dollar GDP deflator at historical average minus one standard deviation in 2014-2015 | 39 | 36 | 34 | 31 | 30 | 29 | 24 | 18 | |
| B4. Net non-debt creating flows at historical average minus one standard deviation in 2014-2015 4/ | 39 | 35 | 33 | 31 | 30 | 29 | 24 | 21 | |
| B5. Combination of B1-B4 using one-half standard deviation shocks | 39 | 35 | 31 | 29 | 28 | 27 | 23 | 19 | |
| B6. One-time 30 percent nominal depreciation relative to the baseline in 2014 5/ | 39 | 49 | 46 | 43 | 42 | 40 | 33 | 25 | |
| <i>Memorandum item:</i> | | | | | | | | | |
| Grant element assumed on residual financing (i.e., financing required above baseline) 6/ | 15 | 15 | 15 | 15 | 15 | 15 | 15 | 15 | |

Sources: Country authorities; and staff estimates and projections.

1/ The secession-induced structural breaks in the time series undermine the historical scenario, which is therefore omitted.

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.

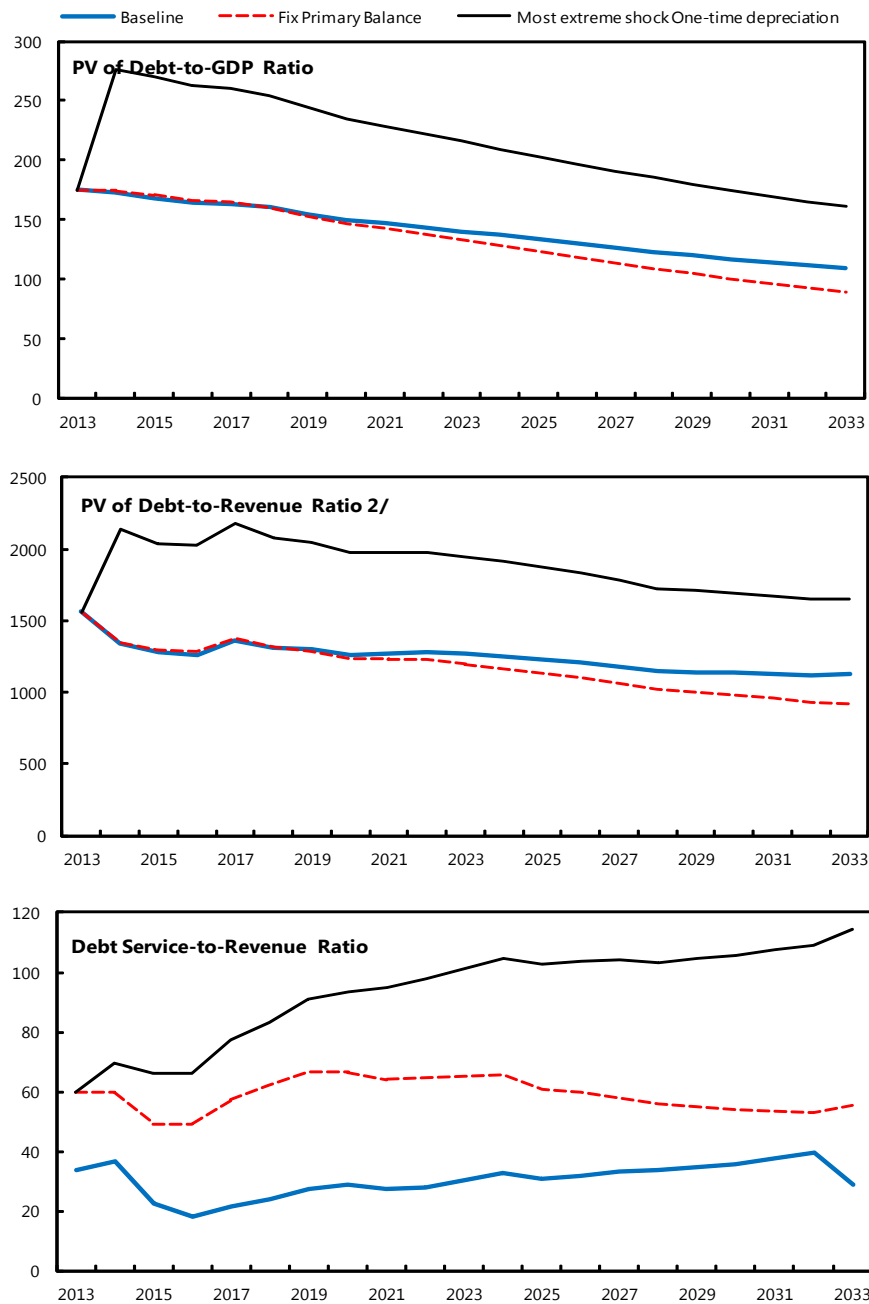
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).

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.

Figure 5. Sudan: Indicators of Public Debt Under Alternative Scenarios, 2013–33 1/, 2/,



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in 2023.

2/ Revenues are defined inclusive of grants.

3/ The secession-induced structural breaks in the time series undermine the historical scenario, which is therefore omitted from the figures.

Table 6. Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2010–33
(In percent of GDP, unless otherwise indicated)

| | Actual | | | Average ^{5/} | Standard Deviation ^{5/} | Estimate | | | | | | Projections | | | | |
|--|--------|------|--------|-----------------------|----------------------------------|----------|--------|--------|--------|--------|--------|-----------------|------|------|-----------------|--------|
| | 2010 | 2011 | 2012 | | | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2013-18 Average | 2023 | 2033 | 2019-33 Average | |
| Public sector debt 1/ | 73.1 | 70.9 | 95.7 | | | 99.5 | 99.7 | 98.9 | 98.4 | 100.4 | 101.2 | | | | 98.4 | 89.5 |
| <i>of which: foreign-currency denominated</i> | 62.2 | 59.8 | 82.2 | | | 87.6 | 89.3 | 89.2 | 88.8 | 89.1 | 88.0 | | | | 80.1 | 63.6 |
| Change in public sector debt | 1.4 | -2.2 | 24.7 | | | 3.8 | 0.2 | -0.8 | -0.5 | 2.0 | 0.8 | | | | -0.7 | 0.1 |
| Identified debt-creating flows | -5.9 | -4.9 | 23.4 | | | 3.3 | -0.2 | -1.2 | -1.0 | 1.5 | 0.4 | | | | 0.4 | 1.3 |
| Primary deficit | -1.4 | -1.5 | 2.4 | 0.2 | 2.2 | 0.6 | -0.4 | 0.1 | 0.4 | 1.6 | 1.7 | 0.7 | 2.9 | 4.3 | 3.2 | |
| Revenue and grants | 19.3 | 18.1 | 10.0 | | | 11.2 | 12.9 | 13.2 | 13.0 | 12.0 | 12.2 | | | | 11.1 | 9.7 |
| <i>of which: grants</i> | 0.6 | 0.3 | 0.5 | | | 1.3 | 2.4 | 2.6 | 2.2 | 0.8 | 0.8 | | | | 0.5 | 0.2 |
| Primary (noninterest) expenditure | 17.9 | 16.7 | 12.3 | | | 11.8 | 12.5 | 13.3 | 13.4 | 13.6 | 13.9 | | | | 14.0 | 14.0 |
| Automatic debt dynamics | -4.3 | -3.2 | 21.5 | | | 2.8 | 0.3 | -1.3 | -1.4 | -0.2 | -1.3 | | | | -2.5 | -2.9 |
| Contribution from interest rate/growth differential | -0.9 | 1.6 | 2.2 | | | -4.0 | -2.6 | -2.8 | -2.1 | -2.0 | -2.3 | | | | -3.1 | -3.5 |
| <i>of which: contribution from average real interest rate</i> | 1.5 | 0.8 | 0.3 | | | -0.2 | 0.4 | 0.6 | 0.7 | 1.1 | 1.3 | | | | 0.3 | -0.1 |
| <i>of which: contribution from real GDP growth</i> | -2.4 | 0.7 | 1.9 | | | -3.8 | -2.9 | -3.4 | -2.8 | -3.1 | -3.6 | | | | -3.4 | -3.4 |
| Contribution from real exchange rate depreciation | -3.4 | -4.8 | 19.3 | | | 6.9 | 2.8 | 1.6 | 0.7 | 1.9 | 0.9 | | | | ... | ... |
| Other identified debt-creating flows | -0.2 | -0.2 | -0.4 | | | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | 0.0 | 0.0 |
| Privatization receipts (negative) | -0.2 | -0.2 | -0.4 | | | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | | | | 0.0 | 0.0 |
| 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 | 7.2 | 2.7 | 1.3 | | | 0.6 | 0.4 | 0.3 | 0.6 | 0.5 | 0.4 | | | | -1.1 | -1.3 |
| Other Sustainability Indicators | | | | | | | | | | | | | | | | |
| PV of public sector debt | ... | ... | 170.3 | | | 175.1 | 173.1 | 168.6 | 164.4 | 163.4 | 160.4 | | | | 140.7 | 110.0 |
| <i>of which: foreign-currency denominated</i> | ... | ... | 156.9 | | | 163.2 | 162.6 | 159.0 | 154.8 | 152.1 | 147.3 | | | | 122.4 | 84.1 |
| <i>of which: external</i> | ... | ... | 156.9 | | | 163.2 | 162.6 | 159.0 | 154.8 | 152.1 | 147.2 | | | | 122.4 | 84.1 |
| PV of contingent liabilities (not included in public sector debt) | ... | ... | ... | | | ... | ... | ... | ... | ... | ... | | | | ... | ... |
| Gross financing need 2/ | 2.0 | 1.6 | 7.8 | | | 5.3 | 5.2 | 3.9 | 3.5 | 5.0 | 5.6 | | | | 7.8 | 9.2 |
| PV of public sector debt-to-revenue and grants ratio (in percent) | ... | ... | 1706.5 | | | 1564.7 | 1339.7 | 1276.2 | 1264.7 | 1366.2 | 1314.8 | | | | 1267.4 | 1128.5 |
| PV of public sector debt-to-revenue ratio (in percent) | ... | ... | 1787.2 | | | 1769.5 | 1640.1 | 1581.8 | 1526.0 | 1468.2 | 1402.4 | | | | 1323.9 | 1151.4 |
| <i>of which: external 3/</i> | ... | ... | 1646.4 | | | 1649.4 | 1541.3 | 1491.2 | 1436.8 | 1366.2 | 1286.5 | | | | 1151.6 | 879.8 |
| Debt service-to-revenue and grants ratio (in percent) 4/ | 12.9 | 11.9 | 45.2 | | | 33.6 | 36.7 | 22.5 | 17.9 | 21.5 | 24.0 | | | | 30.2 | 28.8 |
| Debt service-to-revenue ratio (in percent) 4/ | 13.3 | 12.1 | 47.4 | | | 38.0 | 45.0 | 27.9 | 21.6 | 23.1 | 25.6 | | | | 31.6 | 29.4 |
| Primary deficit that stabilizes the debt-to-GDP ratio | -2.7 | 0.7 | -22.4 | | | -3.2 | -0.7 | 1.0 | 0.8 | -0.4 | 0.9 | | | | 3.6 | 4.2 |
| Key macroeconomic and fiscal assumptions | | | | | | | | | | | | | | | | |
| Real GDP growth (in percent) | 3.4 | -1.0 | -2.6 | 3.9 | 3.6 | 4.1 | 3.0 | 3.6 | 2.9 | 3.3 | 3.8 | 3.4 | 3.6 | 3.9 | 3.8 | |
| Average nominal interest rate on forex debt (in percent) | 5.1 | 4.5 | 4.2 | 5.1 | 0.4 | 4.0 | 3.9 | 3.7 | 3.6 | 3.5 | 3.3 | 3.7 | 2.9 | 2.3 | 2.7 | |
| Average real interest rate on domestic debt (in percent) | -6.6 | -5.7 | -10.1 | 0.6 | 6.7 | -15.9 | -10.4 | -8.2 | -6.2 | 0.0 | 2.9 | -6.3 | -2.1 | -1.2 | -1.8 | |
| Real exchange rate depreciation (in percent, + indicates depreciation) | -5.6 | -7.5 | 30.6 | -0.9 | 12.6 | 8.5 | ... | ... | ... | ... | ... | ... | ... | ... | ... | |
| Inflation rate (GDP deflator, in percent) | 19.0 | 19.1 | 28.7 | 14.9 | 7.0 | 34.1 | 26.1 | 22.8 | 20.2 | 12.5 | 10.0 | 20.9 | 9.7 | 9.0 | 9.5 | |
| Growth of real primary spending (deflated by GDP deflator, in percent) | 0.0 | -0.1 | -0.3 | 0.1 | 0.2 | 0.0 | 0.1 | 0.1 | 0.0 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| Grant element of new external borrowing (in percent) | ... | ... | ... | ... | ... | 17.2 | 17.2 | 17.2 | 17.2 | 17.2 | 17.2 | 17.2 | 16.3 | 14.9 | ... | ... |

Sources: Country authorities; and staff estimates and projections.

1/ General government gross debt.

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.

Table 7. Sudan: Sensitivity Analysis for Key Indicators of Public Debt 2013–33

| | Projections | | | | | | | |
|---|-------------|------|------|------|------|------|------|------|
| | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2023 | 2033 |
| PV of Debt-to-GDP Ratio | | | | | | | | |
| Baseline | 175 | 173 | 169 | 164 | 163 | 160 | 141 | 110 |
| A. Alternative scenarios 3/ | | | | | | | | |
| A1. Primary balance is unchanged from 2013 | 175 | 174 | 171 | 167 | 165 | 160 | 133 | 90 |
| A2. Permanently lower GDP growth 1/ | 175 | 175 | 172 | 170 | 170 | 168 | 155 | 136 |
| B. Bound tests | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015 | 175 | 178 | 180 | 177 | 176 | 173 | 153 | 121 |
| B2. Primary balance is at historical average minus one standard deviations in 2014-2015 | 175 | 176 | 174 | 170 | 168 | 164 | 142 | 110 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 175 | 177 | 176 | 172 | 171 | 167 | 146 | 114 |
| B4. One-time 30 percent real depreciation in 2014 | 175 | 276 | 270 | 263 | 260 | 254 | 216 | 161 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2014 | 175 | 183 | 178 | 173 | 171 | 167 | 144 | 111 |
| PV of Debt-to-Revenue Ratio 2/ | | | | | | | | |
| Baseline | 1565 | 1340 | 1276 | 1265 | 1366 | 1315 | 1267 | 1128 |
| A. Alternative scenarios 3/ | | | | | | | | |
| A1. Primary balance is unchanged from 2013 | 1565 | 1350 | 1292 | 1284 | 1376 | 1313 | 1198 | 923 |
| A2. Permanently lower GDP growth 1/ | 1565 | 1351 | 1299 | 1300 | 1420 | 1378 | 1391 | 1394 |
| B. Bound tests | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015 | 1565 | 1374 | 1350 | 1347 | 1467 | 1415 | 1373 | 1239 |
| B2. Primary balance is at historical average minus one standard deviations in 2014-2015 | 1565 | 1364 | 1318 | 1305 | 1405 | 1347 | 1283 | 1133 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 1565 | 1365 | 1326 | 1318 | 1426 | 1371 | 1317 | 1173 |
| B4. One-time 30 percent real depreciation in 2014 | 1565 | 2139 | 2042 | 2024 | 2176 | 2079 | 1947 | 1651 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2014 | 1565 | 1420 | 1347 | 1332 | 1431 | 1369 | 1297 | 1138 |
| Debt Service-to-Revenue Ratio 2/ | | | | | | | | |
| Baseline | 34 | 37 | 23 | 18 | 22 | 24 | 30 | 29 |
| A. Alternative scenarios 3/ | | | | | | | | |
| A1. Primary balance is unchanged from 2013 | 60 | 60 | 49 | 49 | 57 | 62 | 65 | 55 |
| A2. Permanently lower GDP growth 1/ | 60 | 60 | 49 | 48 | 57 | 62 | 82 | 113 |
| B. Bound tests | | | | | | | | |
| B1. Real GDP growth is at historical average minus one standard deviations in 2014-2015 | 60 | 61 | 51 | 50 | 59 | 65 | 83 | 99 |
| B2. Primary balance is at historical average minus one standard deviations in 2014-2015 | 60 | 60 | 50 | 53 | 63 | 67 | 76 | 87 |
| B3. Combination of B1-B2 using one half standard deviation shocks | 60 | 60 | 50 | 51 | 60 | 65 | 78 | 92 |
| B4. One-time 30 percent real depreciation in 2014 | 60 | 70 | 66 | 66 | 77 | 83 | 101 | 114 |
| B5. 10 percent of GDP increase in other debt-creating flows in 2014 | 60 | 60 | 53 | 64 | 69 | 74 | 79 | 89 |

Sources: Country authorities; and staff estimates and projections.

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection period.

2/ Revenues are defined inclusive of grants.

3/ The secession-induced structural breaks in the time series undermine the historical scenario, which is therefore omitted.

Statement by the IMF Staff Representative on Sudan

September 20, 2013

I would like to update Directors on recent information and data that have become available to staff since the staff report was circulated to the Executive Board on September 6. The new information does not change the thrust of the staff appraisal.

1. **Political Situation:** Discussion between Sudan and South Sudan in early September averted a complete shutdown of oil production that was expected to take place as of September 6. The last minute agreement paved the way for a steady implementation of the Cooperation Agreement that was signed between the two countries, including continuing oil production.
2. **Oil Agreement.** By mid-September, the Sudanese authorities received oil payments from South Sudan amounting to about US\$ 65 million as a result of shipments of crude oil from Port Sudan.
3. **Payments to the Fund.** The authorities made last week a fourth payment to the Fund this year for an amount equivalent to SDR 550 thousand. This brings the total amount of payments this year to SDR 2.9 million, compared to obligations falling due of SDR 2.3 million.
4. **Exchange restrictions:** The authorities have informed staff this week that they have removed an exchange restriction on tax certification requirement in respect to transfers abroad of profits generated by enterprises other than joint stock companies. Also, the authorities informed staff that they issued a circular to clarify that there are no limitations on sale of foreign exchange by banks.
5. **Inflation.** The consumer price inflation continued its downward trend, dropping to 22.9 percent at end-August, against a peak of 47.9 percent in April 2013. This significant deceleration of inflation mainly reflects continued lower food prices and transportation costs, as well as modest growth in monetary aggregates.
6. **Revised WEO Oil Prices.** The WEO oil price projections were recently revised upward. The revisions for Sudan will translate into higher prices per barrel (US\$4.4 per barrel for 2013 and an average of \$3.7 per barrel for 2014–16). Due to the limited role of the oil sector in post-secession Sudan, these changes, however, will lead to modest improvements in the fiscal and external current account balances, within an estimated range of 0.2–0.4 percentage point of GDP.

7. **Next steps:**

- a) **Annual Meetings.** A Sudanese delegation is expected to visit Washington to attend the Annual Meetings. Staff will take the opportunity to inquire about the status of the reform package, and discuss prospects for a successor Staff Monitored Program.
- b) **Technical Working Group.** Fund and World Bank staffs plan to organize the 7th Technical Working Group at the margins of the Annual Meetings. At that meeting, representatives from the African Union, as well as Sudan and South Sudan will be invited to brief on progress made on the joint debt relief outreach activities. In this context, the Presidents of Sudan and South Sudan as well as the Chairman of the African High Level Implementation Panel (AUHIP) President Thabo Mbeki have recently signed a letter to the international community to request support for debt relief for Sudan and the lifting of unilateral sanctions.
- c) **Next mission.** Staff is planning to visit Khartoum in late October to discuss the 2014 budget. If by then, the corrective policies discussed in the staff report are in place, staff may then also initiate discussions for a successor Staff Monitored Program.
- d) **Resident representative:** A new resident representative is expected to take up his assignment in early October.



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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Concludes 2013 Article IV Consultation with Sudan

On September 20, 2013, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Sudan.

Sudan's economic performance in 2012 was unfavorable despite the introduction in June 2012 of a package of reforms. Non-oil real GDP growth slowed to 4.6 percent, inflation rose to 44.4 percent by the end of the year, largely driven by the monetization of the fiscal deficit and a weakening exchange rate, and the gap between the official and curb market exchange rates remained at about 20 percent by end-December. The budget posted a deficit of 3.8 percent of GDP, as a result of a significant fall in oil revenues in the aftermath of South Sudan's secession in July 2011. The external current account deficit widened significantly to 10.8 percent of GDP, reflecting the large drop in oil exports. Gross international reserves, supported by loans and grants, however, increased to 1.9 months of prospective imports.

Economic conditions remained weak in the first half of 2013 despite some signs of improvement. Year-on-year inflation declined to 22.9 percent at end-August, in part on account of a sharp drop in food prices. Fiscal performance exceeded budget projections on account of an improvement in revenue collections and good expenditure controls—the deficit reached 1.3 percent of GDP compared with a budget target of 1.6 percent of GDP. Growth in monetary aggregates slowed significantly from the end of 2012. The gap between the official and curb market rates, however, remained at 20 percent, largely due to the uncertainty surrounding the implementation of the oil agreement with South Sudan.

The outlook for 2013 and the medium term are unfavorable, absent a new package of corrective measures. Non-oil real GDP growth is projected to slow further to 2.3 percent in 2013, and to remain below potential at about 3 percent over the medium term. Inflation would decelerate somewhat, but would remain in double-digit levels, reflecting the monetization of the budget

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

deficit, as well as the continued depreciation of the Sudanese pound. While the overall budget deficit is projected to narrow over the next two years, mainly reflecting the impact of oil transit fees and the transitional financial arrangement with South Sudan, it is projected to widen again in subsequent years. The outlook is subject to significant risks—the main risk relates to the protracted economic and political transition in the period leading up to the 2015 presidential election and unsettled regional civil conflicts that could result in weaker growth and higher inflation.

Current economic policies have to be strengthened to reestablish macroeconomic stability and guard against downside risks. The recent agreement with South Sudan provides a unique opportunity to implement bold corrective policies. An immediate priority is to address fiscal imbalances. While most of the adjustment effort will need to focus on reducing expenditures by reducing transfers to states, and gradually phasing out subsidies, tax revenues will also need to be increased, in part through streamlining tax exemptions and rationalizing tax incentives. Monetary policy should be geared towards combating inflation; a key requirement in this regard is formulation a clear mandate for the Central Bank to facilitate its operational independence. Immediate unification of the exchange rates and greater exchange rate flexibility is crucial to facilitate the required external adjustment and to safeguard and rebuild official exchange reserves. In light of Sudan's large stock of overdue external debt obligations, the government should work closely with South Sudan, as part of the recently signed Comprehensive Agreement, on reaching out to creditors to elicit their support for comprehensive debt relief, given the approaching deadline of the “*zero option*” for debt apportionment. In the meantime, closer cooperation with the IMF is important to re-establish a track record of cooperation with the IMF on policies and payments, which in due time would facilitate debt relief.

Executive Board Assessment²

Executive Directors noted that Sudan continues to face daunting economic challenges since the secession of South Sudan. Directors welcomed the measures put together by the authorities to address the imbalances but stressed that swift and steady implementation is necessary to reverse the downside trends, restore macroeconomic stability, and enhance medium-term prospects for growth. The recent agreement between Sudan and South Sudan provides a supporting environment to implement bold corrective policies, creating the conditions for a successor staff-monitored program.

Directors emphasized that fiscal consolidation, within a sound medium-term framework, is crucial. They noted that the 2014 budget represents an important step to resume the adjustment path initiated in 2012. They called for measures to broaden the tax base, including streamlining

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

tax exemptions, rationalizing tax incentives, and taxing gold activities, while improving revenue administration. On the expenditure side, the focus should be on reducing transfers to states and gradually phasing out subsidies, while designing a better-targeted social safety net and protecting capital spending. An adequate public financial management framework will be essential to strengthen budget preparation and execution.

Directors agreed that monetary policy needs to be tightened to contain inflationary pressures. They underscored the importance of reining in monetization of the fiscal deficit, and moving towards operational independence of the central bank. Directors encouraged the authorities to improve the monetary policy framework by focusing on reserve money as the nominal anchor, and to eliminate the cap on commercial banks' holdings of government and central bank securities. They highlighted the importance of taking steps towards unifying the official foreign exchange rates and pursuing greater exchange rate flexibility.

Directors emphasized that further progress is needed to enhance financial intermediation to boost growth and jobs as well as reduce poverty. They welcomed the authorities' efforts to promote the microfinance sector. Directors encouraged the authorities to pursue upgrading banking supervision and compliance to best practice standards, as well as the regulatory frameworks of insurance and securities markets.

Directors welcomed the completion of the Interim Poverty Reduction Strategy Paper. They stressed the importance of stepping up reforms aimed at improving the business environment, facilitating cross-border trading, and enhancing governance to support sustained and inclusive growth.

Directors recognized that Sudan is in debt distress and the huge volume of arrears continues to hinder the country's access to external financing, which along with technical assistance, is needed to support the reform agenda. They encouraged the authorities to work closely with South Sudan, as part of the Comprehensive Agreement, on reaching out to creditors to mobilize support for debt relief, given the approaching deadline of the "zero option" for debt apportionment. They also highlighted the need to limit non-concessional borrowing, and called for continued close cooperation with the Fund on payments and on strong economic policies, with a view to reaching an early agreement on an SMP and reestablishing a track record.

Sudan: Selected Economic Indicators, 2010–13

| | 2010 | 2011 | 2012 | 2013 |
|---|--------------------------------|-------|-------|-------|
| | | Est. | Prel. | Proj. |
| Real sector | (Annual changes in percentage) | | | |
| Real GDP (at factor costs) 1/ | 3.4 | -1.0 | -2.6 | 4.1 |
| Oil GDP 1/ | -3.9 | -36.0 | -62.4 | 46.9 |
| Nonoil GDP 1/ | 5.1 | 6.0 | 4.6 | 2.3 |
| Consumer prices (period average) | 13.1 | 18.0 | 35.1 | 32.1 |
| Gross capital formation (in percent of GDP) | 20.1 | 19.1 | 18.7 | 20.3 |
| Gross Savings (in percent of GDP) | 18.0 | 18.7 | 7.9 | 8.3 |
| Public finance | (In percent of GDP) | | | |
| Revenue and Grants | 19.3 | 18.1 | 10.0 | 11.2 |
| Total expenditure | 19.0 | 17.9 | 13.8 | 13.2 |
| Overall balance | 0.3 | 0.2 | -3.8 | -2.0 |
| Nonoil primary balance | -3.8 | -4.1 | -4.8 | -4.3 |
| In percent of nonoil GDP | -4.5 | -4.7 | -5.0 | -4.6 |
| Monetary sector | (Annual changes in percentage) | | | |
| Broad money | 24.9 | 17.7 | 40.3 | 17.6 |
| Credit to the economy | 16.4 | 8.0 | 34.1 | 14.5 |
| Balance of payments | (In percent of GDP) | | | |
| Exports of goods (in US dollars, annual percent change) | 57.0 | -12.9 | -53.2 | -1.2 |
| Imports of goods (in US dollars, annual percent change) | 3.1 | -7.5 | 2.6 | 1.1 |
| Current account balance | -2.1 | -0.4 | -10.8 | -11.9 |
| Total external debt | 62.2 | 59.8 | 82.2 | 87.6 |
| Gross international reserves (In months of next year's imports of goods and services) | 1.8 | 1.5 | 1.9 | 2.0 |
| Exchange rate: SDGs per U.S. dollar | | | | |
| End of period | 2.48 | 2.68 | 4.42 | ... |
| Period average | 2.31 | 2.67 | 3.69 | ... |

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

1/ Growth rates since 2011 exclude South Sudan.

**Statement by Momodou Bamba Saho, Executive Director for Sudan
September 20, 2013**

The Sudanese authorities continue to wrestle with the macroeconomic consequences of the secession of South Sudan in July 2011. High and unsustainable debt levels, together with the loss of oil revenue and foreign exchange reserves have generated huge economic imbalances. The authorities are aware of the complicated and challenging economic policy environment they face in the context of devastating international economic sanctions which severely constrain Sudan's access to international financial resources, border security tensions and other regional conflicts.

Notwithstanding these challenges, my authorities are committed to undertaking necessary policy adjustments and structural reforms to restore and sustain macroeconomic stability, as well as enhance inclusive growth. A new comprehensive package of corrective measures which benefited considerably from consultations with various stakeholders has almost been finalized. The authorities are awaiting appropriate timing for the implementation of these measures which will most likely be this fall. In order to succeed in these endeavors, my authorities appeal to the development partners, including the IMF, to provide the much needed technical and financial support to facilitate an adequate and timely response to these challenges. In particular, they appeal to the international community to assist in the resolution of the debt environment that confronts them.

Economic Developments

The comprehensive package of corrective measures introduced in June 2012 has laid the ground work for a much-needed adjustment process. Despite the implementation of this package, economic developments during 2012 remained weak although there are signs of improvement going forward. Fiscal performance in the first half of 2013 exceeded budget projections, while inflation is beginning to moderate. Non-oil GDP is estimated to have grown by 4.6 per cent in 2012, slightly lower than the 6.0 per cent estimated for 2011.

The Implementation Matrix of the Cooperation Agreement between Sudan and South Sudan, signed in March 2013, not only paved the way for the Sudanese government to recover part of the much-needed oil revenue lost as a result of the shutdown of oil production, but it also reduced the political tensions and reactivated bilateral cooperation thereby creating an opportunity for renewed policy reforms to address the post-secession challenges. The implementation of the agreement over vital cross-border oil exports has regrettably not always been smooth and almost collapsed in August this year. However, this was averted with an agreement reached between the governments of Sudan and South Sudan that oil will continue to be transported through Sudan's facilities and ports.

Additionally, the two authorities also agreed to honor all bilateral agreements signed - a development which should somewhat reduce uncertainty and ensure that the contribution of oil revenue to the Sudanese budget and foreign reserves continues. The Sudanese authorities are committed to continuing their constructive dialogue with South Sudan in resolving any outstanding issues. They undertake to work towards strengthening cooperation between the two countries in a manner that is consistent with their common interests and peace.

Fiscal Policy

My authorities recognize that while the June 2012 package yielded some positive results, further policy actions are required to adequately address Sudan's macroeconomic imbalances and support broad-based and inclusive growth. They agree with IMF staff that fiscal consolidation should be at the center of their strategy to engineer a sustainable economic turnaround. In this regard, they are committed to ensure that the 2014 budget reflects this priority. On the revenues side, the Sudanese authorities are committed to increasing fiscal revenues through expanding the tax base, strengthening revenue administration and where feasible through selected tax hikes. Already my authorities have begun to explore the most efficient way to enhance taxation of gold. The gold mining sector accounted for about 40 per cent of export earnings in 2012 and this is projected to increase. Therefore the authorities are approaching taxation reforms in the industry cautiously to avoid smuggling and disrupting the momentum gained in the growth of this sector. As and when necessary, my authorities will seek technical assistance in this regard.

On the expenditure side, the authorities intend to continue gradually phasing out fuel subsidies bearing in mind the potential inflationary and social impact of such action. This will require building appropriate social safety net programs to protect the most vulnerable in the society. Although the authorities recognize the need to streamline transfers to states, they consider this to be a medium to long term assignment as this may necessitate some amendments to the legal and constitutional framework that governs state finances.

Monetary and Exchange Rate Policy

My authorities recognize the weakening of monetary conditions since the secession of South Sudan. This, in part, reflects the increased monetization of the budget deficit which precipitated inflationary pressures. In this regard, my authorities are committed to refocus the objective of monetary policy towards combating inflation. Already they have established a ceiling on the provision of guarantees to the government, undertaken to limit credit to the government within the legally established ceiling, and slowed down gold purchases. Additionally, they agree that using reserve money as the monetary anchor is the best available option for Sudan to strengthen the traction of monetary policy and contain inflationary pressures.

The Sudanese authorities are fully committed to unifying the exchange rates and adopting a more flexible exchange rate regime. However, the process has to be gradual to avoid unintended consequences. It has to be borne in mind that, to a large extent, the multiple exchange rates enabled prices of essential commodities like medicine, wheat and energy to remain lower and stable than they would otherwise have been. A unification of exchange rates, which will most probably result in a depreciation of the Sudanese pound, can have devastating impact on prices, particularly against the backdrop of parallel fiscal action of phasing out other direct subsidies. Such an increase in prices can potentially generate undue social discontent which may worsen the already difficult policy environment.

Article VIII Consultation

My authorities noted the determination by the IMF staff that certain elements of the Sudanese exchange rate regime give rise to exchange restrictions and multiple currency practices which are subject to Fund jurisdiction under Article VIII of the IMF's Articles of Agreement. Owing to the secession of South Sudan and crippling international economic sanctions, which severely constrained the Central Bank of Sudan in meeting all the foreign exchange demand, the authorities had limited options to address the balance of payments implications – and hence the adoption of these practices.

The Sudanese authorities view these practices as essential short term interventions which would be phased out as and when economic circumstances permit. For the time being, they plead with the IMF to grant approval for the retention of the existing exchange measures as they consider appropriate timing for the gradual removal of exchange rate practices. They are also willing to consider advice on any other alternative short term policy interventions provided their potential impact can be robustly ascertained.

External Debt

The Sudanese debt situation is well known and the authorities have been battling this for some time now. Sudan is in debt distress and the authorities continue to be frustrated by the slow progress towards debt relief. Sudan has satisfied key technical requirements for debt relief, including a finalized I-PRSP, a reconciliation of their external debt stock, and a long track record of economic performance with the IMF evidenced by successful completion of many Staff Monitored Programs (SMPs). The Sudanese authorities are committed to step up their efforts for a wider engagement with creditors with the goal of attaining the much needed debt relief. They would like to avoid the activation of the “zero option” clause, which may generate needless tensions with South Sudan. With limited access to multilateral financial assistance, the authorities continue to seek non concessional support as this is their only source of financing.

Financial Intermediation and Stability

My authorities are appreciative of Sudan's inclusion in the pilot exercise for enhancing bilateral financial sector surveillance in low-income countries. They are in broad agreement with the staff's assessment of Sudan's financial sector. They recognize that further progress is needed to enhance financial deepening and broaden access to banking services, together with structural reforms in support of private sector investment. They also agree with the recommendation to upgrade supervision and compliance in line with prudential norms. They welcome the technical assistance from the Fund in this regard.

In addition, my authorities are in a process of finalizing new securities market legislation that will rectify deficiencies identified by the pilot exercise. Good progress has also been made in putting in place many of the banking sector regulatory reforms called for in the 2004 FSAP, including the provision that banks significantly increase their paid-up capital, and setting up a dedicated financial stability unit in the Central Bank of Sudan.

Conclusion

My authorities face a difficult economic policy environment. Notwithstanding this environment, they are determined to continue implementing economic reforms to enhance macroeconomic stability and promote economic activity. They are aware that part of these reforms should involve strategies to reduce dependency on oil revenue. In this regard they understand that it is crucial for Sudan to further develop and diversify its sources of growth and the export base. The authorities are also committed to reforms that aim at reducing structural and institutional bottlenecks, and investing in infrastructure to reduce production and distribution costs. This will facilitate improving the business environment to encourage private sector development. Finally, my authorities are interested in a successor SMP to continue building a track record of cooperation with the Fund and hopefully would, pave the way for debt relief, sooner rather than later.