INTERNATIONAL MONETARY FUND

IMF Country Report No. 14/345

REPUBLIC OF SOUTH SUDAN

December 2014

2014 ARTICLE IV CONSULTATION—STAFF REPORT; STAFF STATEMENT; AND PRESS RELEASE

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 2014 Article IV consultation with the Republic of South Sudan, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 15, 2014, following discussions that ended on October 29, 2014, with the officials of the Republic of South Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 2, 2014.
- An **Informational Annex** prepared by the IMF.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the World Bank.
- A **Staff Statement** of December 15, 2014 updating information on recent developments.
- A **Press Release** summarizing the views of the Executive Board as expressed during its December 15, 2014 consideration of the staff report that concluded the Article IV consultation with the Republic of South Sudan.

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

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

December 2, 2014

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION

KEY ISSUES

Context: Endowed with significant natural resources, South Sudan faces acute challenges: fractured politics, feeble institutions and capacity, underdevelopment, and corruption. Since the country's independence in 2011, institution building and development have been hindered by a number of factors, including volatile relations with Sudan, a 15-month shutdown of oil production, and more recently, a civil conflict. Inflation rose following an initial period of economic instability in 2011-12, but has been contained since then owing to fiscal and monetary restraint. However, distortions in the foreign exchange market and extra-budgetary expenditures remain significant, foreign exchange reserves are critically low, and near-term prospects for a durable political settlement are uncertain.

Focus of the consultation: This is the first Article IV Consultation with South Sudan since the country became an IMF member in April 2012. The discussions focused on policies to establish economic stability and move forward with reforms to build the legitimacy of the state, improve cooperation with the international community, and attract investment.

Key issues and recommendations: The priorities are to ensure political inclusion and lasting peace, reform the foreign exchange market and unify the exchange rate, improve budget execution, overhaul non-oil revenue administration, and foster transparency and accountability in oil, fiscal, and central bank operations. Key medium-term reforms to reduce fragility comprise the implementation of provisions in oil and public financial management legislation and well-prioritized demobilization and public investment plans. The authorities broadly concurred with these recommendations; the extent of progress will depend on commitment to nation building and political will to prevail over vested interests.

Exchange rate arrangement: South Sudan has maintained a number of exchange restrictions and multiple currency practices under the transitional arrangements of Article XIV of the IMF's Articles of Agreement, and introduced a multiple currency practice subject to Fund's jurisdiction under Article VIII after becoming a member.

Capacity building: Technical support and training from the IMF is being coordinated with other stakeholders and delivered through a dedicated five-year capacity building program set up in November 2012. In the coming year, support is expected to focus on the macroeconomic framework, petroleum fiscal management, non-oil revenue administration, foreign reserves management, monetary operations, banking supervision, and macroeconomic statistics.

Approved By
Roger Nord (AFR) and Ranil Salgado (SPR)

The discussions took place in Washington in April 2014 and in Juba in October 2014. The staff team comprised Mr. Gelbard (head), Mr. Issoufou, Ms. Chen, and Ms. Viseth (all AFR); and Mr. Quayyum (FIN). Mr. Egoume (resident representative) participated in the discussions and assisted the mission. Ms. Ngugi (OED) also participated. The staff met with Finance Minister Tisa Sabuni, Bank of South Sudan Governor Koriom Mayik, Minister of Petroleum, Mining, and Industry Dhieu Dau, other officials, academics, and representatives of the donor community, civil society, and the financial sector.

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CONTEXT

1. South Sudan's fragility is complex and multifaceted. A troubled history of conflict left a legacy of poverty, low human development indicators, weak governance, and lack of infrastructure and institutions. Although rich in natural resources, the economy is centered on oil production and subsistence agriculture, with almost all intermediate and consumer goods imported.[1] The Sudan's People Liberation Movement (SPLM) is still in the early stages of transitioning to being a political party after a peace deal with Sudan in 2005, and ethnic and other regional tensions persist, leading to a lack of cohesiveness and hindering nation building and development. Lastly, volatile relations with Sudan and recurrent internal conflicts contribute to poverty and frequent displacements of civilians.

Republic of South Sudan: Selected Social Indicators [1]

	South Sudan	Sub-Saharan Africa
GDP per capita (US$, 2012 data)	1,023	1,492
Share of the population below the poverty line (%)	51	48
Infant mortality rate (per 1,000 live births)	84	71
Literacy rate (age 15+, %)	27	63
Access to improved drinking water (% of population)	55	61
Access to electricity (% of population)	1	32
Paved roads (% of primary network)	2	16

Sources: World Bank World Development Indicators; South Sudan Authorities; and IMF staff estimates.

[1] Data for Sub-Saharan Africa are averages for 2009-2010, except for the GDP per capita (weighted; 2012) and poverty figures (average of 2003-2010).

2. Social indicators improved gradually after 2005 although little progress was made in building the public infrastructure. Between 2005 and 2011, foreign aid and technical assistance amounted to about US$500 million per year, focused on humanitarian support, health and education. Government spending amounted to about US$2.5 billion per year amidst large oil-related inflows, but its effectiveness was constrained by poor budget execution and governance problems.[2] Some progress was made in lowering child mortality rates, increasing school attendance, and reducing poverty, but little was achieved in terms of building the energy and the transport infrastructure.[3]

3. Unresolved issues with Sudan led to a shutdown of oil production in January 2012. Amidst disagreements with Sudan over oil transit fees (the infrastructure to export oil is within Sudan's territory), South Sudan suspended all oil production in January 2012.[4] Before the shutdown, South Sudan's oil production was about 330,000 barrels per day.[5]

[1] In the past year, oil production accounted for 99 percent of exports, 95 percent of government revenue, and about one-half of GDP. South Sudan has a large area of fertile arable land, important fishing and forestry resources, and undeveloped deposits of gold, silver, iron ore, copper, and other minerals.

[2] In his 2012 annual audit report of the financial year that ended in December 2008, the auditor general reported protracted problems with budget execution, including neglect for spending procedures, disregard for budget appropriations, nontransparent accounting, and weak legislative oversight (Report of the Auditor General on the Financial Statements of the Government of South Sudan, National Audit Chamber, http://www.auditchamber-ss.org/).

[3] National Bureau of Statistics, 2012 Millennium Development Goals Report (http://ssnbs.org/publications/).

[4] Following the 2005 peace agreement and until independence in 2011, oil proceeds were equally shared between the central government in Sudan and the regional government of South Sudan—where three-fourths of former Sudan's oil production was located.

[5] South Sudan is believed to have the largest oil reserves in sub-Saharan Africa after Nigeria and Angola. Proven oil reserves are 1.2 billion barrels, although observers contend that a new review would reveal a higher figure. To counteract Sudan's monopoly power on the transit of oil, the authorities are building domestic refineries and would like to build alternative pipelines through neighboring countries.

4. A new agreement with Sudan led to a resumption of oil production in April 2013. Under the agreement, South Sudan pays oil transit and pipeline fees of about US$10 per barrel plus a cumulative US$3 billion in direct financial transfers over about three and a half years (financial transfers are linked to the flow of oil production at the rate of US$15 per barrel). The agreement contains provisions for a demilitarized zone, forgiveness of bilateral claims, and regularization of cross-border and pension payments.[6] While some progress has been made in these areas, the settlement of important border issues (including the status of the disputed region of Abyei) remains outstanding.

5. More recently, a political struggle escalated into a civil war. In December 2013, growing tensions within the ruling party (SPLM) and a power struggle between President Kiir and former vice-President Machar triggered arrests and the exile of key party leaders and a conflict along ethnic lines (between the Dinka and the Nuer, the main ethnic groups) in four states, two of which (Upper Nile and Unity) produce most of South Sudan's oil.[7] The conflict left thousands dead, about 1.7 million people displaced, destroyed infrastructure in the affected areas, and worsened already poor humanitarian conditions, leading to a high risk of famine in coming months.[8]

MACROECONOMIC DEVELOPMENTS

6. Economic performance has been unsteady. Growth has been volatile owing to disruptions in oil production, weather conditions, and internal conflict. After the January 2012 shutdown, oil production recovered to more than 235,000 barrels per day at end 2013, only to fall to about 160,000 barrels per day in early 2014 as a result of the conflict. Despite an increase in private investment around Juba in recent years and a weather-related increase in agricultural production in 2012, non-oil economic activity is estimated to have declined since then. Because of the conflict, the forecast for the current fiscal year (ending in June 2015) is also subdued owing to constrained oil production and an expected fall in agricultural output (Table 1). The near-term macroeconomic framework is based on the assumption of a gradual normalization of the security situation in 2015, although serious risks remain (see below).

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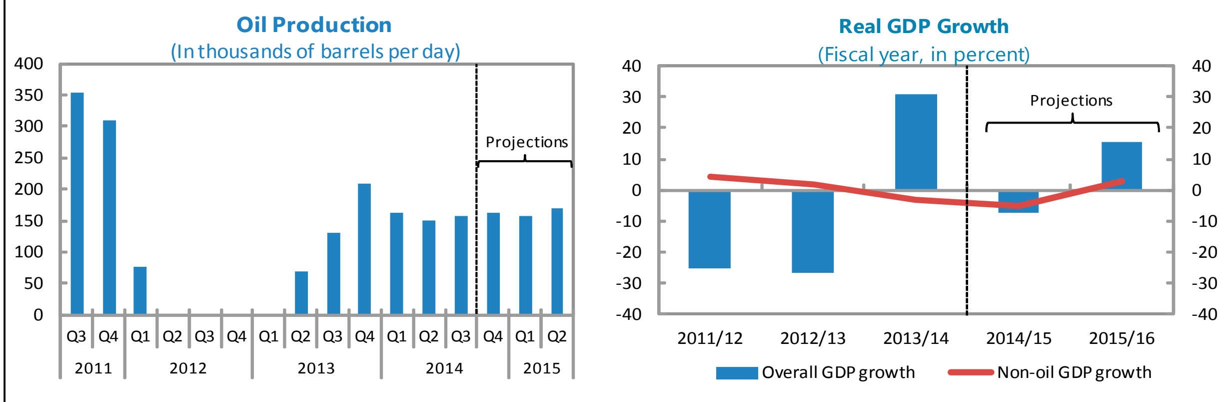
[6] The agreement, signed in September 2012, also stipulates that Sudan would assume all external debt of former Sudan subject to securing a "firm commitment" of international creditors for debt relief (i.e. Sudan's reaching the HIPC decision point) no later than two years from the date of agreement (this was termed the "zero option"). Upon expiration of the two-year window, the two countries agreed in November 2014 to extend the zero option to October 2016. Sudan's authorities have started implementing an outreach strategy with South Sudan under the auspices of the African Union High Implementation Panel to garner support for debt relief.

[7] Confrontations erupted between government and rebel forces (most of which splintered from the South Sudanese army) in four states. Other states, notably those in the Greater Bahr El Ghazal, were also affected by displaced populations.

[8] Heightened insecurity led to the evacuation of the IMF resident representative and four long-term advisors in December 2013. Technical advisors from all other agencies were also evacuated. As the situation in the capital Juba improved in 2014, Fund operations began resuming in August.

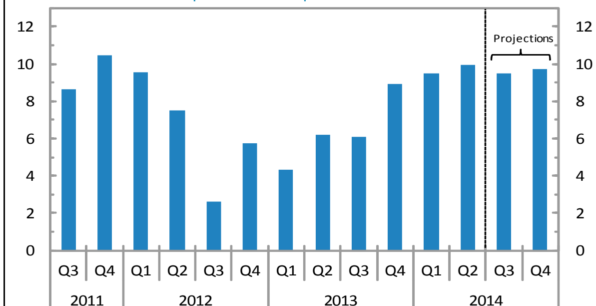
Figure 1. Republic of South Sudan: Oil Production and Real GDP Growth



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

7. **Instability in oil receipts and the conflict led to financial challenges.** The oil shutdown worsened the fiscal accounts. In response, the authorities cut expenditures by about 40 percent in real terms in 2012/13 and funded the budget with government deposits and short-term domestic and external borrowing. The resumption of oil production allowed spending to recover in 2013/14 and permitted servicing some of the debt. However, fiscal pressures re-emerged in 2014 as a result of the fall in oil production and the recent decline in international oil prices, leading to a projected worsening of the fiscal deficit in 2014/15 (Tables 2a and 2b). In addition, extra budgetary expenditures and financing shortfalls led to a continuous accumulation of domestic arrears that the authorities estimate could exceed 12 percent of GDP.

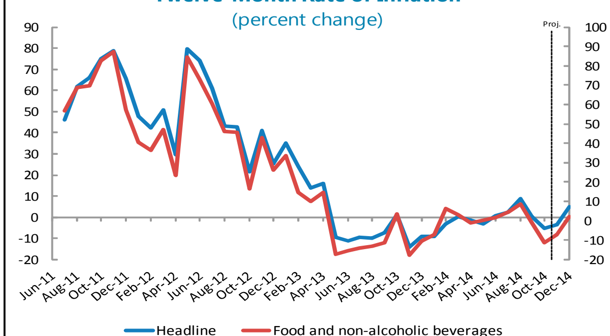
Figure 2. Republic of South Sudan: Government Expenditure in Real Terms
(Annualized, in billions of inflation adjusted South Sudanese pounds, base period: third quarter of 2011)



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

8. **Inflation rose after independence but has declined since 2012.** Higher government spending after independence and the initial monetization of the deficit caused by the oil shutdown pushed inflation to about 80 percent by mid-2012. Thereafter, lower food prices and fiscal austerity brought inflation down to near zero by mid-2013. As the fiscal situation is worsening again in 2014, shortfalls in revenues and in external financing are leading to a monetary expansion that threatens to bring inflation to double digit levels in 2015 (Tables 3 and 4).[9]

Figure 3. Republic of South Sudan: Twelve-Month Rate of Inflation
(percent change)

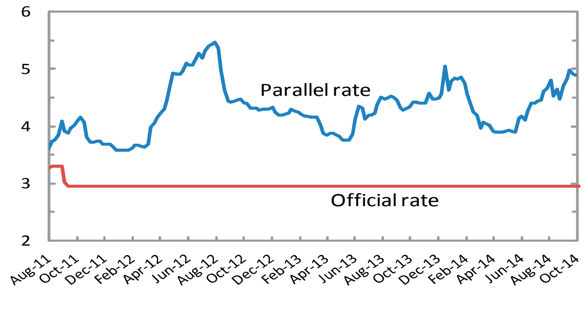


Sources: South Sudanese authorities and IMF staff estimates and projections.

[9] Recent inflation data is based only on consumer price indices for the cities of Juba and Wau as data for the city of Malakal are not available because of the conflict. As a result, the true inflation figures for 2014 may be higher than reported.

9. Foreign currency rationing led to a parallel market for foreign exchange. The parallel market emerged in September 2011 as the Bank of South Sudan (the central bank) decided to peg the currency at an overvalued level and ration foreign exchange.[10] The rationing entails a hidden transfer of resources from the government to those with privileged access to foreign exchange at the official rate. The number of foreign exchange houses grew rapidly as they became beneficiaries of foreign exchange allocations.[11] Since 2011, the parallel market rate has responded closely to monetary stimuli and expectations about oil flows; the widening of the parallel market premium in recent months reflects the challenges regarding oil production and the expansion in monetary aggregates.

Figure 4. Republic of South Sudan: Official and Parallel Market Exchange Rates
(South Sudanese pounds per U.S. dollar)



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

10. Financing the projected fiscal deficit in 2014/15 will be difficult. Government deposits and foreign reserves have reached all-time lows this year (as of end-September 2014, net foreign assets of the central bank amounted to US$379 million, about 3 weeks of imports), and the availability of external financing has been limited owing to high levels of country risk.

DISCUSSIONS ON NEAR-TERM PRIORITIES

11. The discussions centered on the strategy to address the country's main political and economic challenges. A political settlement and peace are essential. In addition, steps to deal with pressing fiscal issues, a distorted foreign exchange regime, and insufficient transparency and accountability in public financial management (including oil revenue management) are needed for economic stability and to enhance the legitimacy of the state.[12]

12. Staff advised the authorities to adopt appropriate policies to deal with the current financing shortfall and the threat of economic instability. The authorities indicated that they would most likely adopt a combination of measures that could increase non-oil revenue and reduce fiscal spending, and possibly undertake additional external borrowing. Yet they recognized that the benefits of non-oil reforms will not be large enough, that spending cuts will be difficult, and that

[10] As per the Central Bank Law, the authorities were expected to allow the currency to float for a period of up to six months beginning in July 2011 and subsequently peg it at a sustainable level vis-à-vis the U.S. dollar.

[11] By mid-2013, there were 79 foreign exchange houses licensed in South Sudan. A significant part of goods are imported at the parallel market exchange rate while only a small number of transactions (i.e. imports of food, medicine, fuel, and construction materials) benefit from foreign exchange acquired at the official exchange rate.

[12] Discussions with Fund staff on economic challenges and policies began in 2012 when the authorities requested feedback on policies to respond to the challenges of the oil shutdown; they continued through regular staff visits since then. In parallel, a program of IMF technical assistance in selected areas of Fund competence began in late 2012.

access to external borrowing may be limited, leaving the residual financing gap to be filled through central bank financing. In this regard, the staff urged the authorities to proceed with exchange rate unification, a policy that could yield substantial fiscal benefits in the near term (see below).

A. Peace and Political Inclusion

13. Resolving the conflict requires political inclusion. Violence has continued in conflict-affected areas despite frequent negotiations between the government and rebels and the signing of cessation of hostilities agreements. A peace process sponsored by the Intergovernmental Authority on Development (comprising Djibouti, Ethiopia, Kenya, Somalia, Sudan, and Uganda) has been under way since early 2014, and pressure has intensified on all parties to bring about peace, yet prospects are uncertain. The authorities expect that a dialogue within the ruling party comprising those in the government, former Vice-President Machar, and those that signaled their dissent in 2013, would result in a political settlement and a government of national unity in 2015.

B. Fiscal Management

14. There are four main fiscal challenges in the near term:

- *Financing the higher deficit.* The authorities are aware of the risks of monetizing the fiscal deficit and are contemplating expenditure cuts. They are also considering exchange rate unification, a measure that could have a significant positive effect on the fiscal accounts (since about 95 percent of revenues are denominated in foreign currency). As no decision has been made yet, the near-term macroeconomic projections (Tables 1-5) assume a spending envelope in line with the approved budget and no exchange rate unification.[13]

- *Improving budget execution and preventing arrears.* Budget execution has been complicated by emergency unbudgeted expenditures and extra-budgetary spending by government agencies.[14] The authorities agreed to monitor expenditure commitments for consistency with monthly budget limits, enforce procurement regulations (a procurement act is about to be passed by Parliament), and proceed with steps to set up a single treasury account. On the latter, the authorities are expected to prepare a plan including a list of all government accounts held at commercial banks and a timetable to centralize the management of fiscal resources and expenditures. The authorities also agreed to conduct an inventory of valid arrears and prepare a plan for their repayment; they have requested assistance from the World Bank to begin evaluating claims from two key ministries (Ministry of Defense and Ministry of Roads and Transport).

[13] In the baseline, expenditures are in line with the 2014/15 budget but oil and non-oil revenues have been adjusted downward in light of lower oil price and output projections. Compared to the previous year's budget, current spending has been increased while capital expenditures have been curtailed. The overall spending envelope is somewhat higher, although in real terms it is around its level in 2011/12.

[14] In early 2014, a "crisis management committee" took over spending decisions to deal with the security challenges; the committee was recently dissolved in order to restore budgetary procedures.

- *Establish a functioning revenue administration.* Severe capacity constraints, corruption, and lack of a legal framework and resources have delayed setting up an efficient system of non-oil revenue administration. In the near-term, with support from the IMF and other providers, the authorities intend to implement a new customs tariff schedule, automate customs operations at the largest customs post, and allocate additional resources to enforce compliance with domestic taxes, especially through the large taxpayers' unit. In addition, the National Assembly has approved a Financial Bill specifying all the elements of the tax system at the federal level.[15] Staff also encouraged the authorities not to divert their efforts to establish a National Revenue Authority in the near-term; such an institution could be important in the medium term but it need not be a priority compared to the basic measures required to boost collection.

- *Reorient spending towards development.* About 40 percent of public spending goes to security and a similar share is devoted to public sector salaries, while infrastructure spending has been meager and declining since 2011/12. The authorities concurred on the need to reverse this trend as soon as fiscal pressures become less severe and oil revenues recover.

C. Exchange Rate Regime

15. South Sudan maintains a fixed exchange rate. Given severe capacity constraints and lack of tools to implement monetary policy, and in line with staff's view, the authorities consider that the fixed exchange rate regime mandated by the Central Bank Law is the best option at this point and that, if the exchange rate is set at a realistic level, it can serve as an anchor for prices. However, as oil receipts have proven to be quite volatile, the authorities do not preclude moving towards a more flexible exchange rate regime in the medium term.

16. Foreign exchange market distortions are a major challenge. The minister of finance and the governor of the central bank agreed that the rationing and allocation of foreign exchange since 2011 have created significant distortions in the economy and reinforced perceptions of poor economic management by fostering corruption and rent-seeking, altering critical price signals, and detering foreign invesment.[16] And while the paucity and quality of historical data does not permit the estimation of an equilibrium exchange rate, the persistent parallel market premium since September 2011 strongly suggests that the official exchange rate is overvalued. South Sudan maintains a

[15] The above measures are consistent with technical advice from the IMF's Fiscal Affairs Department. For a description of South Sudan's tax system, see Appendix I.

[16] The premium on the parallel market rate has been between 30 and 80 percent since 2011, although most recently it has hovered around 70 percent. The exchange restrictions and the dual rate also lead to large quasi-fiscal losses as the government has not been servicing its debt to the central bank and has been building more debt. As of end-September 2014, this debt amounted to SSP 4 billion (8.8 percent of GDP).

number of exchange restrictions under the transitional arrangements of Article XIV and one multiple currency practice subject to the Fund's approval under Article VIII (see Informational Annex). [17]

17. The authorities concurred on the need for exchange rate reform. The Ministry of Finance and Economic Planning (MoFEP), recognizing that current policies are too costly for the budget and the economy, planned to carry out a reform of the market in 2013, but the reform could not proceed because of opposition by vested interests.[18] The reform entails unifying the exchange rate and setting up two-way fixed rate auctions and an interbank market for foreign exchange where foreign exchange houses would bid for foreign currency only through commercial banks and the market would clear at a sustainable exchange rate without rationing (Box 1). During the Article IV discussions, the authorities indicated that they would like to proceed with the reform soon, but that the timing will depend on securing the necessary political consensus. They were also concerned about not having enough foreign reserves to defend a new parity. The staff noted that, if the exchange rate is set at a realistic level, the excess demand for foreign currency could be eliminated if backed by a consistent fiscal policy.

[17] In September 2013, the IMF's Legal Department conducted a review of South Sudan's foreign exchange system. The multiple currency practice subject to the Fund's jurisdiction under Article VIII is related to an exchange rate guarantee arrangement established by the central bank with a commercial bank and introduced after South Sudan joined the Fund.

[18] Upon request by the authorities, the IMF's Monetary and Capital Markets Department provided technical advice and training on all aspects of the reform in 2013. In November of that year, the central bank announced a 34 percent devaluation of the South Sudanese pound, but the announcement was reversed immediately and the reform was not implemented.

Box 1. Why Exchange Rate Reform Matters

Reforming the foreign exchange market in South Sudan could provide the following benefits:

Improved fiscal position and reserve buffers. Exchange rate unification, through an adjustment of the official rate to a realistic level, will substantially increase the value of oil and non-oil (i.e. customs) revenues. This would alleviate financing needs, thus reducing reliance on external borrowing and facilitate an increase in government deposits and in central bank's foreign exchange reserves (the text table illustrates the estimated effect of exchange rate unification on key macroeconomic variables in fiscal year 2014/15).

Simulation: Effect of Exchange Rate Unification in FY 2014/15[1]
(In percent of GDP, unless otherwise indicated)

	No Unificatior	Unification	Difference
Revenue and Grants	28.6	40.0	11.4
Of which : Oil revenues	20.0	29.5	9.5
Non-Oil Revenue	3.9	4.4	0.5
Expenditure	35.4	37.0	1.6
Overall balance[2]	-10.7	2.4	13.1
Financing	10.7	-2.4	-13.1
Domestic (net)	4.0	-0.7	-4.7
Foreign borrowing (net)	6.7	-1.7	-8.4
NFA of the Central Bank (millions of U.S. dollars)	222	1157	935
Net Foreign Borrowing (in millions of U.S. dollars)	1026	33	-993
Projected Inflation (end of period, percent)	25.5	8.7	-16.8

Source: IMF staff estimates
[1]The figures assume exchange rate unification for the entire fiscal year.
[2]Including payment of arrears.

Build legitimacy in government policies. The reform will eliminate the large transfer of funds from the government to a few beneficiaries and provide reliable and transparent access to foreign exchange for the public and businesses. Unification of the exchange rate will help reduce the large demand for dollars created by the artificially low price at which they could supposedly be purchased. It will also signal a commitment to transparency and remove incentives for corruption.

Set up an interbank market for foreign exchange. The envisaged two-way trading by banks and the central bank is an important step to foster financial market development. The ensuing interbank foreign exchange market will facilitate the monitoring and managing of liquidity and pave the way for the introduction of monetary instruments and the establishment of a money market.

Foster non-oil economic activity. The reform will instill clarity in the price for foreign currency and reduce foreign exchange market distortions which, in turn, will lower risks for import competing or non-oil export activities, notably agriculture, and promote foreign investment.

Focus on core central bank activities. Scarce resources were used since 2011 to deal with administrative controls and exchange rate allocations. The allocations, at first roughly equal in volume to exchange houses and banks, became increasingly discretionary as central bank's foreign reserves dwindled. The reform will lower administrative costs and allow the Bank of South Sudan to focus on its core mandates.

To be successful, the reform requires (i) an appropriate communications strategy, (ii) a sustainable set of fiscal and monetary policies; (iii) a level of the exchange rate that is consistent with these policies; and (iv) proper regulations, including those to prevent overbidding by banks. The reform is expected to have a very small effect on consumer prices since most goods and services are already priced at the parallel market rate (staff estimates a pass through of 10-20 percent).

D. Transparency and Accountability

18. Steps to increase transparency and accountability in oil, fiscal, and central bank operations can build confidence. Based on provisions of current or forthcoming legislation[19], the staff urged the authorities to: (i) publish regularly detailed and comprehensive data on oil production, sales, costs, profit oil, and receipts from bonuses from sales of mining rights; (ii) conduct competitive bidding for new oil and mining exploration and sharing arrangements and disclose the content of contracts; (iii) begin publication of quarterly budget execution reports, including financing details; (iv) seek Parliamentary approval and publish details of public debt operations in accordance with the Public Financial Management and Accounting Law; and (v) implement the recommendations of the 2012 external audit of the central bank and conduct an external audit of the 2013 accounts by a reputable audit firm.[20] The minister of finance and the central bank governor agreed on the need to proceed with these steps as a way to increase transparency and accountability in the use of public resources and build legitimacy in the state.

MEDIUM TERM: FOUNDATIONS TO EXIT FRAGILITY

19. The discussions also touched on the medium-term outlook and priority reforms that could help build economic resilience. The authorities consider that the outlook is broadly positive but subject to significant risks. To counteract these risks, they appreciate the importance to begin focusing on key reforms to improve public financial management (especially oil revenue management), change the composition of public spending towards social and infrastructure spending, implement a demobilization program, engage with donors and investors, and facilitate regional integration.[21]

A. Outlook and Risks

20. The baseline projections assume a gradual normalization of the political and security situation, regional stability, and economic reforms. In the next 10 years, annual real GDP growth could expand at an average of 6-7 percent. This reflects the recovery of oil production after the 2012/13 shutdown and the recent slowdown, the low initial level of non-oil GDP (including an

[19] The Petroleum Law, the Petroleum Revenue Management Act (forthcoming), the Public Financial Management and Accounting Law, the Mining Law, and the Central Bank Law.

[20] An external audit of the 2012 accounts of the central bank was conducted but could not be completed because of limited information. As a result, the country's auditor general issued a disclaimer of opinion for the audit. The issues include, but are not limited to, mismatches related to "nostro" accounts and suspense accounts that remain to be cleared. In response to the audit findings, the authorities have initiated steps to begin addressing the issues raised in the report, and a time-bound plan of action is being prepared.

[21] The authorities have applied to join the East Africa Community (EAC). Integration with the EAC could bring about important benefits, including principles of good governance and the rule of law (Article 3.3 of the EAC charter stipulates that membership is contingent upon adherence to universally acceptable principles of governance, democracy, the rule of law, human rights, and social justice). Given South Sudan's low levels of development and human capital, the transition will need to be managed carefully to ensure that the non-oil economy can develop in a competitive environment.

estimated decline in 2013/14 and a projected decline in 2014/15 because of the conflict), and a recovery in trade with Sudan in light of the recent reopening of the border. The GDP path is driven by the oil production profile, as the latter first recovers from the current slowdown to reach about 260 thousand barrels per day by 2016/17, then decline until 2022 as production rates fall in aging oil fields, and ultimately increase again as a result of assumed investment in enhanced recovery and exploitation of new fields in the early 2020s (oil output could reach about 400 thousand barrels per day by 2026.[22] In the medium term, non-oil GDP (especially agriculture and services) is also expected to benefit from higher post-conflict spending (particularly the rebuilding of destroyed infrastructure), while other non-oil activities could also expand as investments in transport and energy begin facilitating economic diversification (Table 6).

21. In the next five years, two priorities will be building foreign reserves and scaling up public investment. In light of South Sudan's vulnerabilities, it is estimated that a target for foreign reserves of 6-8 months of imports could be appropriate.[23] In addition, the country has massive infrastructure needs, requiring public investments of at least US$15 billion in the next 10 years.[24] However, capacity constraints imply that the scaling up of public investment will need to be gradual, with priority given to transport and energy infrastructure as a way to enable other investments over time.

22. A debt sustainability analysis puts South Sudan at a moderate risk of debt distress. South Sudan's external debt ratios are presently very low, there are no external arrears, and the baseline scenario projects that a moderate amount of external debt (mostly non-concessional) may be incurred in coming years to fill temporary investment gaps, yielding debt ratios that are below their respective thresholds (see accompanying Staff Report "Republic of South Sudan: Debt Sustainability Analysis"). However, several factors linked to the country's fragility and heavy dependence on oil revenues pose serious vulnerabilities, thus implying a moderate risk of debt distress.

23. The authorities agreed that five major risks could lead to a worse outcome compared to the baseline. First, lack of political inclusiveness could intensify internal conflicts, leading to

[22] Preliminary industry estimates suggest that, under a secure and stable environment, sufficient investment could bring oil output to nearly 700 thousand barrels per day. The baseline takes a less optimistic view in light of lingering political and regional risks. Barring new discoveries, oil production is expected to fall to negligible levels by 2035.

[23] This is a preliminary reserve adequacy estimate for South Sudan. Vulnerabilities include the country's dependence on volatile oil revenue flows. A full reserve adequacy analysis is not applicable at this point as many key variables (namely, the bottom 10 percentile of the distribution of external demand growth, terms of trade growth, change in FDI to GDP, and change in Aid to GDP) are not available. Nevertheless, comparable averages for fragile states with fixed exchange rates indicate that an appropriate reserve cover would be around 6-8 months of imports (Dabla-Norris, Kim, and Shirono, Optimal Precautionary Reserves for Low-Income Countries: A Cost-Benefit Analysis, IMF Working Paper 11/249, October 2011).

[24] A 2011 World Bank study estimated that South Sudan will need about US$1.4 billion per year in infrastructure investment for about 10 years, of which one-half would need to be spent on transport and 40 percent on energy and water projects. These figures did not include the construction of alternative oil pipelines (through Kenya or Ethiopia and Djibouti), a project that could add another US$4 billion.

protracted economic instability. Second, failure to embark on economic reforms, especially the unification of the exchange rate and improved fiscal management, will prevent an appropriate buildup of reserves and force additional borrowing, arrears, and/or lead to high inflation. Third, unresolved territorial issues with Sudan and the expiration of the oil sharing agreement in 2016 could reignite tensions and threaten to disrupt oil production. Fourth, rent seeking behavior and corruption, if not combated, would concentrate wealth and resources within a few and stifle development. Lastly, a further and sustained decline in international oil prices would create serious macroeconomic tensions, possibly leading to a fiscal and balance of payments crisis (Table 7).

24. Given these risks, alternative scenarios with protracted political instability and insufficient reforms or a shutdown of oil production cannot be ruled out. Under such scenarios, fiscal and balance of payments gaps could become impossible to manage, domestic arrears could continue to mount, real GDP growth would be stifled and inflation higher, and debt ratios could climb to unsustainable levels.[25] These risks, which would perpetuate fragility and threaten the country's viability, underscore the importance of a strong commitment to internal peace, economic reforms, good relations with Sudan, and close cooperation with the international community.

B. Oil Revenue Management

25. A proper management of oil revenues is crucial for South Sudan's development. The Petroleum Revenue Management Act (PRMA), passed by parliament in October 2013, is an important step, and complements the already enacted Petroleum Law. These two pieces of legislation include provisions to prevent corruption and mismanagement, and their reporting and transparency requirements go beyond EITI requirements.[26] The PRMA prescribes that all oil revenue should flow through specific accounts, that utilization of this revenue should be approved by the National Legislative Assembly and flow through the budget, and that key information and reports should be regularly published. The act also provides for prudent financial management, with investment guidelines and auditing provisions for two reserve funds and an explicit prohibition against oil-guaranteed borrowing except in a case of a national emergency (Box 2). The PRMA is yet to be signed into law by the President, yet the authorities indicated that the implementation of some of its provisions can begin in coming months. At the same time, the Petroleum Law requires that all oil contracts should be awarded through competitive tender, and that data on contracts, production, and revenue should be publicly available.

[25] See Staff Report "Republic of South Sudan: Debt Sustainability Analysis".

[26] The authorities stated their intention to join the Extractive Industries Transparency Initiative (EITI) and take steps to make South Sudan an EITI candidate.

Box 2. Saving Provisions of the Petroleum Revenue Management Act

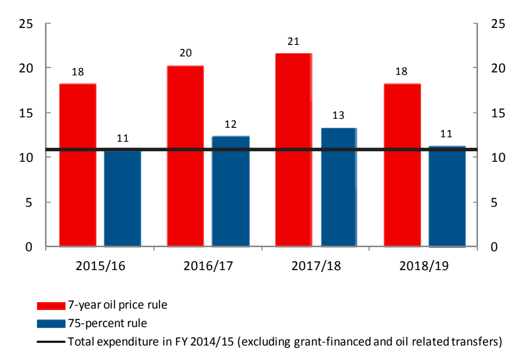
The Petroleum Revenue Management Act aims at ensuring a transparent and efficient management of the oil wealth and at preventing wasteful spending before the necessary improvements in absorption capacity and public financial management are introduced.

The act enshrines the provisions of South Sudan's provisional constitution to establish two reserve funds: a Petroleum Revenue Stabilization Account to shelter public expenditure from unexpected fluctuations in oil revenues, and a Future Generation Fund that accumulates savings for future investment spending. The rationale for the latter is that the projected profile for oil revenues anticipates sizable amount of revenues that could be available within certain timeframes, even though such amounts cannot possibly be efficiently invested within the same periods.

While the act is model legislation, one drawback is the coexistence of two fiscal rules that stipulate the maximum amount of oil revenues that can be made available for use by the budget in a given year. One of the rules puts a cap on these transfers at 75 percent of oil revenue, with the remaining 25 percent to be saved in the stabilization account (15 percent) and the future generation funds (10 percent). The other rule uses a seven-year historical average of oil prices to compute the maximum oil revenues available to the budget.

During the discussions, the authorities agreed that the 75 percent rule is inferior compared to the 7-year rule as the former: (i) creates confusion in interpreting the minimum level of mandated savings; (ii) could provide for unfeasibly low levels of government spending in some years; and (iii) could foster pro-cyclical fiscal spending. A simulation of both rules (see box figure) shows that the fixed 75 percent cap will likely be too restrictive considering that public spending will most likely need to increase in nominal terms and that, over time, higher levels of public investment should be largely financed by current oil receipts. The authorities shared the view that the law will need to be amended to address these drawbacks.

Fiscal rules: Oil revenues available for the budget
(Fiscal year, in billions of South Sudanese pounds)



Source: IMF staff estimates.

C. Fiscal Framework: Peace, Demobilization, and Infrastructure Spending

26. **Future budgets will need to devote resources to foster peace and increase social and infrastructure spending while seeking to gradually reduce current spending over time.** At first, peace will likely require budget allocations to reintegrate militias into the government and begin a disarmament program. At the same time, sustaining peace and reconciliation over time will require a well-designed demobilization program to allow for the gradual absorption of former combatants into the private sector together with a civil service strategy to keep a lean and more efficient government. Furthermore, social and infrastructure needs are massive in South Sudan, now

exacerbated by the recent conflict.[27] Attending to these needs will require a gradual scaling up of investment in the social and physical infrastructure (health, energy, transport, and water). The medium-term fiscal framework (as portrayed in Table 6 and in the accompanying debt sustainability analysis) contains preliminary estimates of this path. The authorities recognize that the process will need to be properly planned and timed as cost overruns, poor governance, or lack of complementary infrastructure (e.g., roads) could significantly weaken the effectiveness of the investments. In order to ensure the targeting of non-oil balance for stabilization and intergenerational savings, and given finite oil reserves, the non-oil domestic current fiscal balance would be an appropriate medium-term fiscal anchor.[28] A clear commitment to development, together with technical assistance and donor involvement will be needed to deliver visible results in these areas.

D. Engaging Donors and the Private Sector

27. Steps to enable support through country systems will be important. Over time, the authorities will need to improve service delivery and build legitimacy in the state. At present, donors are focusing on humanitarian assistance and have been encouraging the authorities to bring the conflict to an end, a precondition for increasing development assistance.[29] At the same time, no aid would be channeled through the budget unless there are improvements in fiscal management. Therefore, a partnership between the government and donors under which the former undertakes key reforms to improve transparency and accountability in budget execution and expenditure management will facilitate the process, even if the actual service delivery has to be temporarily subcontracted because of capacity constraints.

28. In the medium-term, private sector investment will also be essential to sustain growth and diversify the economy. In this regard, the staff noted that a stable political environment, investment in basic infrastructure, and the implementation of the economic and governance reforms described above will go a long way to increase competitiveness and attract investment, thus fostering economic diversification over time. In this process, improvements in the regulatory framework and attention to financial sector development will be important.[30]

[27] Before the conflict broke out, the transport and the energy infrastructure were already seriously deficient. Less than 2 percent of the primary road network was paved and less than a third of the unpaved roads were in good condition. Power generation and transmission networks were lacking, serving a mere 1 percent of the population.

[28] Defined as non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan, minus transfers to oil producing states and communities.

[29] For a description of the activities of the World Bank and the African Development Bank in South Sudan, please see Republic of South Sudan, 2014 Article IV Consultation—Informational Annex.

[30] South Sudan's financial sector is very small and undeveloped, a cash-based economy with negligible levels of intermediation and private sector credit. Over time, measures to foster financial development should become a priority. For a description of the financial system and related issues, see Appendix 2.

CAPACITY BUILDING AND DATA ISSUES

29. **The IMF provides capacity-building to South Sudan under a five-year program.** The program was launched in November 2012 to complement efforts by other donors and providers to build capacity in economic areas and statistics. The program focuses on building economic institutions and developing skills through selective technical assistance and training on the macroeconomic framework, central banking, foreign reserves management, monetary and foreign exchange operations, banking supervision, public financial management, non-oil taxation, and macroeconomic statistics (Box 3). The program was interrupted in December 2013 as a result of the conflict and resumed in September 2014.

30. **Data shortcomings complicate economic analysis and policymaking.** Price, exchange rate, and monetary data are generally reliable and a country page has been introduced in the November 2013 issue of the International Financial Statistics (although data for the central bank has a few gaps and further improvements in accounting and controls are needed). At the same time, there is an urgency to produce and publish comprehensive oil sector and fiscal data (the authorities expressed their intention to begin regular publication of quarterly budget execution reports and oil data). Lastly, national accounts lack source data, especially on non-oil activities, and balance of payments data are rudimentary (see accompanying Informational Annex).

Box 3. Capacity Building in South Sudan

Background. Capacity building is a key component of the technical assistance South Sudan receives from the international community. Since 2006, South Sudan has received substantial technical assistance from Norway, the United States' Agency for International Development, the United Kingdom's Department for International Development, the World Bank, and the African Development Bank on petroleum issues, statistics, macroeconomic analysis, public financial management, and basic central bank functions. Since 2012, as IMF assistance was requested, the Fund coordinated support with the authorities and other providers to ensure complementary support in selected areas.

IMF support. The Trust Fund has an initial budget of US$10.2 million and is supported by the European Union, the United Kingdom, and Norway. It is guided by a Steering Committee comprising the authorities, donors, and IMF staff and operates under a results-based management framework.

Goals. The main goals of the program are: (i) develop an integrated macroeconomic framework; (ii) set up a fully functional central bank; (iii) modernize tax and customs administration; (iv) strengthen oil revenue management; and (v) build capacity for the production of basic macroeconomic data. About 50 percent of the assistance comprises monetary and central banking issues, with the rest applied to the other areas.

Delivery. IMF support is delivered through short-term and long-term advisors, headquarters' missions, and training depending on periodic assessments of needs. There are currently 4 long-term advisors in the field (central bank accounting, banking supervision, monetary operations, and monetary statistics), and four more could be added in 2015 (macroeconomic framework, oil revenue management, foreign reserves management, and central bank organization) depending on the security situation and the extent of engagement by the authorities. Missions cover public financial management, non-oil revenue administration, anti-money-laundering, national accounts, and fiscal and balance of payments statistics. Since the inception of the program, most technical assistance included training.

STAFF APPRAISAL

31. South Sudan is a fragile state facing huge challenges. Social and human development indicators are below sub-Saharan African averages, the economy is underdeveloped, institutions are nascent and governance is weak, road and energy infrastructures are lacking, and a legacy of internal conflicts and tensions with Sudan are sources of fragility. The recent civil conflict has further complicated or even reversed initial steps on institution building and development.

32. Some progress has been made since 2011. Three years after independence, the authorities have made some progress with legislation to set up institutions and rules for sovereign economic policy making, including the Petroleum Law, the Petroleum Revenue Management Act, the Public Financial Management and Accounting Law, and the Public Procurement Act. And on macroeconomic management, the decision to control fiscal spending and monetary growth after the oil shutdown and subsequent financial prudence prevented an inflation-depreciation spiral that could have led to the demise of the local currency and a far more severe economic crisis.

33. However, critical vulnerabilities that threaten economic stability and development need to be urgently addressed. The foreign exchange market is distorted, reserves buffers are critically low, the fiscal deficit is growing, social and infrastructure spending is inadequate, governance problems abound, and public financial management (especially oil revenue management) needs to change radically.

34. In the near term, political inclusion and peace are necessary but insufficient to address other important causes of South Sudan's fragility. Beyond the importance of an inclusive political settlement, there is an urgent need for commitment and focus on nation building and on priority measures to help build stability and the legitimacy of the state:

- **Fiscal management needs to be improved.** The budget process suffered a blow in early 2014 as spending allocation decisions prioritized security spending and bypassed budgetary procedures. Recent steps to reverse that process are welcomed, together with plans to enforce monthly budget allocations and prevent extra-budgetary spending and domestic arrears. At the same time, there is a need to enact the PRMA and to accelerate the passage of the Public Procurement Act, begin preparing an inventory of valid domestic arrears and a plan to pay claims, and proceed to set up a single treasury account. The staff also urges the authorities to shift the composition of spending towards social and infrastructure outlays in preparation for the FY15/16 budget.

- **Exchange rate reform is critical.** The exchange rate is the most important price in an economy, and multiple exchange rates and restrictions lead to costly distortions. Exchange rate reform will improve public finances and the availability of foreign exchange, reduce corruption and rent-seeking behavior, contribute to financial development, and improve price signals and the environment for non-oil activities. The authorities should move forward with measures to unify the exchange rate and adopt a market-based allocation system.

- **Increasing transparency and accountability in oil, fiscal, and central bank operations are also a priority.** Steps in this direction include the timely publication of budget execution reports; the publication of comprehensive data on oil production, sales, and costs; the publication of data on foreign debt commitments, and the implementation of recommendations from the 2012 audit of the central bank as well as the initiation of an audit for 2013.

35. Further reforms will also be needed in the medium-term. The focus will need to be on implementing the petroleum and public financial management legislation and on a well-planned disarmament, demobilization, and reintegration program. Regarding the PRMA, consideration may need to be given to outsourcing some key functions such as those of investment and management of the petroleum revenue savings funds. These tasks will require cooperation with the international community as well as continued technical assistance.

36. Staff considers that there is a moderate risk of debt distress. South Sudan's external debt ratios are presently very low, there are no external arrears, and the baseline projects a moderate amount of external debt, yielding debt ratios that are below their respective benchmarks. However, several risks linked to the country's fragility and its heavy dependence on oil revenues pose serious vulnerabilities which, if materialized, would lead to a higher risk of debt distress.

37. South Sudan's development will hinge on leadership and political will. The road to build resilience and ultimately exit fragility will be challenging. Above all, it will require political commitment and determination to put the welfare and future of the country over that of vested interests and proceed with much needed reforms. This, in turn, will build the legitimacy of the state, facilitate support from multilateral institutions, bilateral partners, and the private sector, and promote equitable development.

38. The staff encourages the authorities to remove the exchange restrictions and multiple currency practices under the transitional arrangements of Article XIV (as described in the Informational Annex) as soon as conditions permit. The staff recommends the approval until March 2015 of the multiple currency practice subject to Fund's jurisdiction under Article VIII as the conditions required for the approval under Decision No. 1034-(60/27) are met. The authorities committed to remove this multiple currency practice by March 2015.

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

Table 1. Republic of South Sudan: Selected Economic Indicators, 2011/12–14/15

(In percent of GDP, unless otherwise specified)

	2011/12 Act.	2012/13 Act.	2013/14 Prel.	2014/15 Proj.
Nominal GDP (billions of South Sudanese Pounds)	43.4	35.0	44.1	45.0
GNI per capita (US dollars)	1,196	950	1,221	1,171
Real GDP (percent change)	-25.1	-26.7	30.7	-7.5
Oil	-49.3	-74.6	259.6	-12.2
Non-oil	4.6	1.7	-3.2	-4.9
Inflation (percent change, end-of-period)	74.1	-11.1	0.6	25.5
Inflation (percent change, average)	59.2	22.7	-5.6	11.2
Central government budget				
Total Revenues and Grants	27.7	11.6	25.9	28.6
Of which: Oil	23.0	1.7	21.6	20.0
Expenditures	27.9	26.4	28.9	35.4
Current	22.7	22.5	24.9	32.3
Of which: transfers and oil service payments to Sudan	…	0.0	5.9	6.0
Capital	5.3	3.8	3.9	3.0
Overall balance (incl. statistical discrepancy and payment of domestic arrears)	3.7	-15.4	-3.0	-10.7
Money and credit (percent change)				
Broad money	…	-15.3	20.0	21.1
Reserve money	…	-36.1	37.0	21.4
Credit to the private sector	…	84.5	7.2	24.2
External Sector				
Current account balance	9.5	-18.0	7.7	-4.9
Memorandum Items:				
Population (millions)	10.1	10.6	11.1	11.6
Oil production (millions of barrels)	70.5	18.3	66.2	58.5
South Sudan's oil price (U.S dollars per barrel)	96.4	97.6	97.8	81.7
Net foreign assets of the central bank (in months of imports)	4.8	0.9	0.5	0.5
Nominal GDP (percent change)	-4.1	-19.3	26.0	2.0

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

Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2011/12–14/15

(in billions of South Sudanese pounds)

	2011/12 Act.	2012/13 Act.	2013/14 Prel.	2014/15 Proj.[1]
Total Revenue and Grants	12.0	4.0	11.4	12.9
Total oil revenues	10.0	0.6	9.5	9.0
Government share from oil exports	10.0	0.6	9.5	9.0
Signature bonuses	0.0	0.2	0.0	0.0
Non-Oil Tax Revenue	0.5	0.8	0.8	1.4
Other GoSS Revenue	0.0	0.1	0.2	0.3
Grants	1.6	2.5	1.0	2.1
Off-budget grants	1.6	2.5	1.0	1.8
Total expenditure	12.1	9.3	12.7	15.9
Current expenditure	9.9	7.9	11.0	14.5
Salaries	3.8	2.9	3.6	4.4
Operating expenses	2.7	1.5	1.9	2.3
Interest	0.0	0.0	0.3	0.3
Other expenses	3.4	3.5	2.7	4.8
Transfers to states	2.3	1.6	1.2	2.0
Transfers to oil producing states and communities (5%)	…	0.0	0.2	0.5
Off-budget grant-financed current spending	1.1	1.8	0.7	1.6
Block grants to states	0.0	0.1	0.7	1.0
Emergency and contingency fund	…	…	…	0.3
Transfers and oil service payments to Sudan	…	0.0	2.6	2.7
Transportation and transit fees	…	0.0	1.0	1.0
Financial transfer	…	0.0	1.6	1.7
Net acquistition of Non-Financial Assets	2.3	1.3	1.7	1.4
Domestically financed	1.8	0.6	1.5	0.7
Foreign financed	0.5	0.7	0.2	0.6
Off-budget grant-financed capital spending	0.3	0.7	0.2	0.2
Overall balance (net lending/borrowing)	-0.1	-5.2	-1.3	-3.0
Statistical discrepancy	1.7	-0.2	0.0	…
Payment of domestic arrears[1]	…	…	…	1.8
Overall balance (incl. statistical discrepancy and payment of arrears)	1.6	-5.4	-1.3	-4.8
Financing	-1.6	5.4	1.3	4.8
Domestic (net)	-1.6	3.1	2.5	1.8
Net credit from the central bank	-1.6	3.9	2.3	1.8
Net credit from commercial banks	0.0	1.1	0.1	0.0
Net acquisition of financial assets[2]	0.0	-1.9	0.0	0.0
Foreign (net)	0.0	2.3	-1.1	3.0
Disbursement	0.0	2.3	1.2	4.0
Amortization	0.0	0.0	-2.3	-1.0
Memorandum Items:				
Expenditure excl. off-budget grant-financed spending, and transfers to oil producing states and to Sudan	10.6	6.8	9.0	10.9
Non-oil domestic current fiscal balance[3]	-7.8	-4.4	-6.3	-7.8
Social Spending[4]	0.8	0.7	0.6	0.7
Nominal GDP (billions of South Sudanese pounds)	43.4	35.0	44.1	45.0

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

[1] Expenditures are in line with the 2014/15 budget but oil and non-oil revenues have been adjusted downward as per revised assumptions.

[2] Bond issued by the Ministry of Finance and Economic Planning in December 2012 to recapitalize the Bank of South Sudan for losses on account of old Sudanese pounds acquired during the introduction of the new currency and subsequently declared inconvertible by Sudan. The bond amounts to SSP 1.9 billion, repayable over seven years and carries an interest rate of 3 percent.

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

[4] Social spending comprises education, health, and social and humanitarian outlays.

Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2011/12–14/15

(in percent of GDP, unless otherwise indicated)

	2011/12	2012/13	2013/14	2014/15
	Act.	Act.	Prel.	Proj.[1]
Total Revenue and Grants	27.7	11.6	25.9	28.6
Oil Revenue	23.0	1.7	21.6	20.0
Non-Oil Tax Revenue	1.1	2.4	1.7	3.2
Other GoSS Revenue	0.1	0.3	0.4	0.7
Off-budget grants	3.6	7.1	2.2	4.1
Total expenditure	27.9	26.4	28.9	35.4
Current expenditure	22.7	22.5	24.9	32.3
Salaries	8.7	8.3	8.2	9.8
Operating expenses	6.2	4.2	4.2	5.2
Interest	0.0	0.0	0.6	0.6
Other expenses	7.8	10.0	6.0	10.7
Transfers to states	5.2	4.7	2.7	4.4
Transfers to oil producing states and communities (5%)	…	0.0	0.5	1.0
Off-budget grant-financed current spending	2.5	5.1	1.7	3.6
Block grants to states	0.1	0.2	1.6	2.1
Emergency and contingency fund	…	…	…	0.6
Transfers and oil service payments to Sudan	…	0.0	5.9	6.0
Transportation and transit fees	…	0.0	2.2	2.2
Financial transfer	…	0.0	3.7	3.7
Net acquistition of Non-Financial Assets	5.3	3.8	3.9	3.0
Overall balance (net lending/borrowing)	-0.2	-14.9	-3.0	-6.7
Statistical discrepancy	3.9	-0.5	-0.1	…
Payment of domestic arrears[1]	…	…	…	4.0
Overall balance (incl. statistical discrepancy and payment of arrears)	3.7	-15.4	-3.0	-10.7
Financing	-3.7	15.4	3.0	10.7
Domestic (net)	-3.7	8.8	5.6	4.0
Net credit from the central bank	-3.7	11.2	5.3	4.0
Net credit from commercial banks	0.0	3.1	0.3	0.0
Net acquisition of financial assets[2]	0.0	-5.4	0.0	0.0
Foreign (net)	0.0	6.6	-2.5	6.7
Disbursement	0.0	6.6	2.7	8.8
Amortization	0.0	0.0	-5.2	-2.1
Memorandum Items:				
Expenditure excl. off-budget grant-financed spending, and transfers to oil producing states and to Sudan	24.4	19.4	20.3	24.3
Non-oil domestic current fiscal balance[3]	-19.0	-14.7	-14.8	-17.8
Social Spending[4]	1.8	2.0	1.4	1.5
Nominal GDP (billions of South Sudanese pounds)	43.4	35.0	44.1	45.0

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

[1] Expenditures are in line with the 2014/15 budget but oil and non-oil revenues have been adjusted downward as per revised assumptions.

[2] Bond issued by the Ministry of Finance and Economic Planning in December 2012 to recapitalize the Bank of South Sudan for losses on account of old Sudanese pounds acquired during the introduction of the new currency and subsequently declared inconvertible by Sudan. The bond amounts to SSP 1.9 billion, repayable over seven years and carries an interest rate of 3 percent.

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

[4] Social spending comprises education, health, and social and humanitarian outlays.

Table 3. Republic of South Sudan: Bank of South Sudan Survey, June 2012–June 2015

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

	2012		2013		2014		2015
	Jun	Dec.	Jun	Dec	Jun	Dec	Jun
	Est.[1]	Est.[1]	Act.	Act.	Prel.	Proj.	Proj.
Net foreign assets	4.2	3.4	0.9	2.4	0.6	0.7	0.7
Claims on nonresidents	5.1	4.3	1.8	3.3	1.5	1.6	1.5
Liabilities to nonresidents	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Net domestic assets	2.1	1.7	3.2	2.6	4.9	5.6	6.0
Net domestic credit	-2.0	0.6	1.9	2.2	4.5	5.8	6.2
Claims on commercial banks	0.0	0.0	0.0	0.0	0.2	0.2	0.2
Net claims on central government	-2.0	0.6	1.9	2.1	4.2	5.6	6.0
Claims on central government	0.0	2.4	3.5	4.5	5.2	6.7	7.1
Liabilities to central government	2.0	1.8	1.7	2.4	0.9	1.0	1.0
Claims on other sectors	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other items (net)	4.1	1.1	1.3	0.4	0.5	-0.2	-0.2
Monetary base	6.3	5.1	4.0	5.0	5.5	6.4	6.7
Currency in circulation	2.2	2.2	1.8	2.2	2.3	2.7	3.1
Liabilities to commercial banks	2.6	1.7	1.8	2.2	2.7	3.3	3.3
Liabilities to other sectors	1.5	1.2	0.4	0.5	0.5	0.3	0.3
Memorandum items:							
Gross foreign assets (millions of dollars)	1,729	1,458	597	1,134	504	551	521
Net foreign assets (millions of dollars)	1,427	1,153	296	829	200	252	222
Monetary base (Year-on-year change in percent)	…	…	-36.1	-1.5	37.0	26.6	21.4

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

[1] Figures for 2012 are estimates, most of them are not derived from verified accounting data.

Table 4. Republic of South Sudan: Monetary Survey, June 2012–June 2015

(In billions of South Sudanses Pounds, unless otherwise indicated)

	2012		2013		2014		2015
	Jun	Dec	Jun	Dec	Jun	Dec	Jun
	Est.[1]	Est.[1]	Prel.	Prel.	Prel.	Proj.	Proj.
Net foreign assets	4.6	3.9	1.5	3.0	1.2	1.4	1.4
Claims on nonresidents	5.7	5.1	2.6	4.4	3.1	2.9	2.9
Central bank (BSS)	5	4.3	1.8	3.3	1.5	1.6	1.5
Commercial banks	1	0.8	0.9	1.1	1.6	1.3	1.3
Liabilities to nonresidents (comm. Banks)	1.1	1.2	1.2	1.4	1.9	1.5	1.5
Central bank (BSS)	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Commercial banks	0.2	0.3	0.3	0.5	1.0	0.6	0.6
Net domestic assets	1.9	2.7	4.1	3.5	5.4	6.2	6.7
Net domestic credit	-1.7	2.1	3.5	3.8	5.8	7.4	7.8
Net claims on central government	-2.0	1.6	2.9	3.2	5.2	6.6	7.0
Claims on other sectors	0.3	0.4	0.6	0.7	0.6	0.7	0.8
Other items (net)	3.6	0.6	0.6	-0.3	-0.4	-1.2	-1.2
Broad money	6.5	6.6	5.5	6.5	6.6	7.6	8.0
Memorandum items:							
Money velocity	6.7	5.3	6.3	6.8	6.7	5.9	5.6
Money multiplier	1.0	1.3	1.4	1.3	1.2	1.2	1.2
Reserve/deposits ratio	0.6	0.4	0.4	0.5	0.5	0.6	0.6
Private sector credit/GDP ratio (in percent)	0.7	1.3	1.7	1.5	1.4	1.6	1.7
Currency/domestic demand deposit ratio	0.8	0.8	0.7	0.7	1.0	0.8	0.9
Share of foreign currency deposits on total deposits	0.1	0.2	0.2	0.2	0.3	0.3	0.3
Net foreign assets of commercial banks (in millions of U.S. dollars)	147	161	195	180	213	214	237

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

[1] Figures for 2012 are estimates, most not derived from verified accounting data.

Table 5. Republic of South Sudan: Balance of Payments, 2012/13–18/19

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

	2012/13 Prel.	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
			Projections				
Current account balance	-2,130	1,149	-630	25	-24	-262	-874
Trade Balance	-2,838	3,454	1,500	2,697	3,182	2,799	2,063
Exports of goods	57	6,606	4,850	6,245	7,399	7,518	7,081
Oil	0	6,535	4,788	6,150	7,254	7,276	6,770
Nonoil	57	71	62	95	145	242	311
Imports of goods	-2,896	-3,152	-3,350	-3,548	-4,217	-4,719	-5,018
Balance of Services	-439	-792	-1,165	-1,467	-1,572	-1,447	-1,406
Exports of services	201	214	146	184	264	256	281
Imports of services	-641	-1,006	-1,311	-1,650	-1,836	-1,703	-1,687
of which non-oil	-443	-553	-730	-852	-931	-795	-814
Income	0	-2,008	-1,474	-1,441	-1,510	-1,280	-1,380
Wages of expatriate oil workers	0	-193	-205	-233	-223	-238	-261
Investors' profits	0	-1,788	-1,260	-1,208	-1,288	-1,042	-1,119
Investment income (net)	0	-27	-10	0	0	0	0
Current Transfers (net)	1,148	494	509	236	-124	-333	-150
General government	601	492	550	556	548	523	535
Workers' remittances (net)	201	179	176	175	172	164	162
Financial transfers to Sudan[1]	0	-494	-567	-816	-1,151	-1,316	-1,146
Other sectors	346	318	350	321	307	296	299
Capital and financial account	949	-1,113	653	91	458	1,025	1,404
Capital account	237	77	69	125	240	266	279
Financial account	713	-1,190	583	-34	217	759	1,125
Foreign direct investment[2]	161	-793	-419	-277	-74	385	638
of which: non-oil	161	71	110	130	150	289	389
Change in net foreign assets of commercial banks	-48	-17	-24	-74	-83	-81	-68
Public borrowing (net)	600	-380	1,026	318	375	455	555
Overall balance	-1,181	36	22	117	434	764	530
Errors and Omissions	50	-132	0	0	0	0	0
Financing	1,131	97	-22	-117	-434	-742	-530
Change in net foreign assets of the central bank	1,131	97	-22	-117	-434	-742	-530
Financing gap	0	0	0	0	0	0	0
Memorandum Items:							
Current account balance including transfers (percent of GDP)	-18.0	7.7	-4.9	0.2	-0.2	-1.5	-5.0
Current account balance excluding transfers (percent of GDP)	-27.6	4.4	-8.8	-1.5	0.6	0.4	-4.2
External Public Debt (percent of GDP)	6.4	3.6	9.0	10.7	12.9	16.8	18.6
South Sudan oil price (dollars per barrel; weighted average)	97.6	97.8	81.7	75.7	76.9	77.0	77.0
Net foreign assets of the Bank of South Sudan	296	200	222	339	773	1,515	2,045
In months of next year's imports of goods and services	0.9	0.5	0.5	0.7	1.4	2.7	3.3

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

[1] The agreement with Sudan over financial transfers for oil transit through its pipeline is set to expire in 2017. The figure for 2017/18 is added for illustrative purposes in order to complete the balance of payments projection and does not entail a prediction of a new agreement or any such payment or its magnitude.

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

Table 6. Republic of South Sudan: Medium-Term Macroeconomic Framework, 2013/14–2018/19

(In percent of GDP, unless otherwise specified)

	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
	Est.			Projections		
National Accounts and Prices						
Nominal GDP (billions of U.S. dollars)	14.9	13.0	14.4	15.9	17.2	17.3
GNI per capita (US dollars)	1,221	1,171	958	1,174	1,272	1,253
Real GDP (percent change)	30.7	-7.5	15.5	10.5	3.4	0.9
Oil	259.6	-12.2	40.0	17.4	-0.4	-5.6
Non-oil	-3.2	-4.9	3.1	5.8	6.2	5.6
Investment	9.9	9.6	8.0	12.8	15.7	16.2
Saving	17.6	4.8	8.2	12.7	14.1	16.7
Inflation (percent change, average)	-5.6	11.2	20.6	5.0	5.0	5.0
Central government budget						
Total Revenues and Grants	25.9	28.6	36.9	38.2	36.0	34.3
Oil	21.6	20.0	28.0	28.3	25.3	22.7
Non-Oil Tax Revenue	1.7	3.2	3.9	5.0	6.1	6.9
Off-budget grants	2.2	4.1	5.0	4.8	4.6	4.7
Expenditures	28.9	35.4	36.9	37.3	36.1	34.8
Current	24.9	32.3	33.2	32.6	30.5	28.7
Capital	3.9	3.0	3.7	4.7	5.6	6.1
Overall balance (incl. statistical discrepancy and payment of domestic arrears)	-3.0	-10.7	0.0	0.9	-0.1	-0.5
Public Debt	5.8	16.6	12.0	12.9	16.8	18.6
External Sector						
Current account balance including grants	7.7	-4.9	0.2	-0.2	-1.5	0.5
Current account balance excluding grants	4.4	-9.1	-3.7	-3.6	-4.6	-2.6
Non-oil exports	1.9	1.6	1.9	2.2	2.5	3.6
Imports of goods	24.2	33.2	34.2	37.5	40.6	40.3
External debt-to-export ratio[1]	6.8	31.6	24.0	26.8	37.3	43.1
Net foreign assets of the central bank (in months of imports)	0.5	0.5	0.7	1.4	2.6	4.6
Memorandum Items:						
Oil production (millions of barrels)	66.2	58.5	81.0	94.3	93.5	87.9
South Sudan's oil price (U.S dollars per barrel)	97.8	81.7	75.7	76.9	77.0	77.0

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

[1]Ratio of debt-to-exports of goods and non-factor services.

Table 7. Republic of South Sudan: Risk Assessment Matrix

Nature/Source of Main Threats	*Overall Level of Concern*		
	Likelihood of Realization in the Next one–three Years (high, medium or low)	*Expected Impact if Threat is Realized (high, medium or low)*	*Desired Policy Responses*
Political instability and lack of inclusiveness	High A history of tribal tensions masked by a common desire for independence from Sudan have surfaced and exposed a political struggle, leading to political instability and a civil conflict.	High Fiscal resources diverted away from development, heightened country risk, subdued or disrupted oil production, worsening social conditions, and economic instability and stagnation.	Implement an inclusive political arrangement, foster national reconciliation, and promote a transparent and equitable management of the mineral wealth.
Delays in dealing with governance issues	High South Sudan ranks lowest on key governance indicators, most notably rule of law and control of corruption. Allegations of high-level corruption abound, and President Kiir has demanded former officials to return stolen assets.	High Entrenched corruption will divert resources from development. Competition for rents could lead to protracted instability and further worsen income distribution, leading to discontent in the population and lack of legitimacy in the state.	Implement agreed steps to increase transparency in oil, fiscal, and central bank operations, focus on strengthening key economic institutions, and enforce petroleum and public financial management laws.
Tensions with Sudan over oil, territory, or borders	High The expiration of the oil transit agreement in 2016 could reignite differences over transit fees. Unresolved issues (including on the disputed region of Abyei) with Sudan could also lead to disputes.	High A decline or disruption of oil production will have negative effects on the economy and, depending on its severity, could lead to a fiscal crisis and economic instability.	Promote good relations and economic integration with Sudan, advance non-oil revenue reforms, and rebuild foreign reserves and fiscal buffers by keeping public spending under control.
Lack of unification of the exchange rate and continued restrictions in the foreign exchange market	High Strong vested interests and lack of political resolve could prevent reform.	High Persistent exchange rate misalignment creates fiscal gaps, leading to higher foreign borrowing and preventing the buildup of foreign reserves.	Unify the official rate with the parallel market rate, a good communications campaign, appropriate regulations, and a foreign exchange allocation system as advised by Fund staff.
Further and sustained decline in oil prices	Medium Deceleration of global demand, deeper slowdown in emerging markets, and coming-on-stream of excess capacity could lead to lower world oil prices.	High Lower oil prices will reduce the pace of reserve accumulation and could lead to a fiscal and balance of payments crisis.	Rebuild fiscal and external buffers, contain growth of public spending, and accelerate non-oil revenue reforms.
South Sudan undertaking an unsustainable debt owing to expiration of the "zero option" agreement with Sudan	Low The timing for expiration of the zero option has been deemed flexible by the parties and extended. South Sudan has indicated it would only undertake debt that can be shown to have benefited the country. .	Low If South Sudan were to take on a small share of Sudan's debt, the country's export potential will likely make the debt manageable.	Improve debt management capacity, control fiscal spending, and maintain low debt ratios.

Appendix I. Summary of the Tax System

The summary below is reflected in the Financial Bill 2014/15, which assembles relevant provisions from past legislations (Taxation Acts 2009, 2011, 2012, and the Customs Services Act 2013). It lists the tax, fees, and levy rates that prevail at the federal level for the fiscal year 2014/15. The Act has been approved by the National Assembly; it is currently waiting to be enacted.

Type of Tax	Nature of Tax	Deductions and Exemptions	Tax Tate
1. Personal income tax	Charged on taxable income from wages and entrepreneurial activities	Deductions from wages allowed for pension contribution Deductions from entrepreneurial income allowed for: - representation costs - contributions - capital allowances - amounts expended to repair, maintain, or improve capital Exemptions provided for taxable incomes below 300 SSP per month	Monthly taxable income less than SSP 300: 0% Monthly taxable income between SSP 301 and SSP 5000: 10% Monthly taxable income above SSP 5001: 15%
2. Business profit tax	Charged on taxable profits of business organizations	Deductions allowed for: - representation costs - capital allowances Exemptions provided for: - NGOs - the Bank of South Sudan - dividends and interest in relevant cases - income from foreign - contractor generated from contracts for the supply of goods and services to the - United Nations	Small business/enterprises (annual turnover under SSP 1 million): 10% Medium business/enterprises (annual turnover between SSP 1 million and SSP 75 million): 15% Large business/enterprises (annual turnover of about SSP 75 million and above): 20%
3. Advance payment of income tax on imported goods	Charged on imported goods	Exemptions provided for: - all food items considered basic necessities and unprocessed foods - humanitarian aid - goods imported by a contractor, under a contract with the United Nations - goods imported by the United Nations - personal goods accompanying a traveler - used household effects of any person intending to take up permanent residence in South Sudan	4%

Type of Tax	Nature of Tax	Deductions and Exemptions	Tax Tate
4. Sales tax on domestically produced goods	Charged on producers of goods in South Sudan. For that tax year, the value on which the tax is assessed is the greater of the manufacturers selling price inclusive of excise duties or fair market value	n.a	15%
5. Sales tax on hotels, restaurants and bar services	Charged on all providers of these services in South Sudan. For that tax year, the value on which the tax is assessed is the greater of the amount paid for the services inclusive of excise duties, or fair market value	n.a.	15%
6. Sales tax on imported goods	Charged for the tax year 2014/15 on importers of goods into South Sudan. For that tax year the value on which the tax is assessed is the customs value, plus excise duty and customs duty	Exemptions provided for: - goods and services related to diplomatic missions or donor-funded project, under relevant conditions	15%
7. Excise duties[1]	Charged on persons engaged in the production, importation, and provision of excisable goods	Exemptions provided for: - aviation fuel - goods or services directly related to diplomatic mission or donor-funded project, under relevant conditions	Non-alcoholic beverages, gasoline, fuel and petroleum products, insurance premiums, bodies of cars: 5% Buses and vehicles for the transport of goods, air

[1] There is a 30 percent surtax on excise for distribution to the states. The excise surtax is being collected and distributed in accordance with an agreed formula.

Type of Tax	Nature of Tax	Deductions and Exemptions	Tax Tate
			transport services, charter services, telecommunication services: 10% Cars for the transport of persons, motorcycles: 20% Alcoholic beverages: 30% Strong alcoholic beverages: 50% Cigars and other manufactured tobacco: 50%
8. Customs Duties	Levied on all physical and legal entities importing into and exporting from South Sudan	Exemptions provided for: - goods in transit - foodstuffs intended to be loaded on board of any aircraft, or for consumption on the vessels - articles and gifts brought from outside by any South Sudan resident for personal use	Agricultural tools, pharmaceutical and medical products: 1% Households items, fish: 2% Electronics, household appliances, industrial equipment, building materials: 3% Bed wear and footwear, bathroom product, edible product, live animals, shoe products: 5% Transport vehicles: 8% Indoor games, electronic equipment, jewelry, diesel, petrol and jet, furniture: 10% Other bathroom product, live animal, beers: 12% Hygienic product, wines and spirits, car engines: 20%

Appendix II. Financial Sector Issues

South Sudan's financial sector is small and undeveloped. The system grew a bit after independence, but has stalled in recent months as a result of increasing economic tensions and the conflict. The financial system seems well capitalized but the number of banks and exchange houses is excessive compared to its size. The priorities are monitoring liquidity conditions, developing monetary instruments, enforcing criteria for licensing new banks, strengthening supervision, establishing a credit bureau, and ensuring that property rights get established.

A. Financial Intermediation

1. The level of monetization is very small. The economy is cash-based, with limited use of demand deposits and almost no term deposits. The ratio of M2-to-GDP is at about 15 percent, well below the sub-Saharan Africa average of 36 percent. Banking sector assets are equivalent to just 18.4 percent of GDP.

2. Intermediation expanded a bit since independence, but it has recently stagnated. Bank assets and deposits grew at about 16 percent per year until 2014, but there has been little growth this year. At the same time, claims on the private sector expanded from a meager base since 2011, but has stagnated this year (Figure 1). Banks remain highly liquid—liquid asset ratios average about 70 percent—due to their reluctance to lend. The main sources of bank revenue are trade financing, foreign exchange transactions, and interest from a limited stock of government securities.

3. Banks' balance sheets are not dollarized, but many payments and most contracts are conducted in foreign currency (e.g. hotels, house rentals and purchases). Foreign exchange restrictions, multiple currency practices, and uncertainty have contributed to the prevalence of dollar-denominated transactions.

B. The Banking System

4. The number of financial institutions is excessive compared to the size of the financial sector. There are 28 licensed banks, out of which 7 are majority foreign-owned. In addition, there are 79 licensed foreign exchange bureaus, 12 microfinance institutions, and ten insurance companies. Most foreign owned banks tend to be subsidiaries of reputable banks in their home countries and provide some banking products and services, the plethora of local banks and exchange houses cater exclusively to the foreign exchange market.

5. The banking sector is small and concentrated.

- Deposits and credit have grown from a low base but remain small in proportion to GDP (Figure 1). Deposits are short term as well as loans, thereby with no maturity mismatch.
- Credit to the private sector is negligible at 10 percent of deposits. Despite a rise in credit to the private sector between 2011 and 2013, it has since tapered off due to the recent uncertainty and lower non-oil economic activity.

- Generous licensing of new banks and foreign exchange houses pose risks, including of money laundering and illicit transactions, not least because of limited capacity to supervise them. The staff noted the importance of applying strict regulatory procedures on new licenses.

6. **The availability of collateral is another concern**. Land titles are not available and property rights not established. Banks are reluctant to lend against leased land because if the land is leased to an investor, there is no clarity about asset ownership and assets cannot be ceased for foreclosure because the land owner (who is not typically the borrower) is the ultimate owner of the asset. This stifles economic activity and banking intermediation, as entrepreneurs and businesses have to either postpone capital purchases or finance them slowly out of their own savings.

C. Supervision

7. **There is a need to build capacity on banking supervision.** Risk-based supervision requires risk analysis and supervisors' capacity needs to be enhanced to allow for the implementation of Basel I requirements. The mandated capital adequacy ratio requires strict implementation among all banks along with the continuous enforcement of the Central Bank Law.

8. **Data quality should also be improved through supervision and training.** The quality of NPL data may not be robust, and the capacity to assess and manage such data needs to be built. The training of qualified staff accompanied by the implementation of IT systems will be a crucial step towards quality enhancement. And while data obtained through off-site supervision forms a good basis for monitoring banking sector risks, on-site inspections are even more important in assessing whether banks actually comply with prudential norms and regulations.

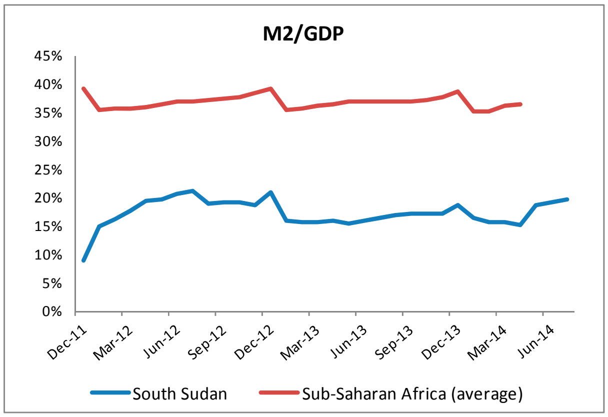
D. Financial Soundness Indicators

9. **Banks' profitability seems to have declined recently, but they are highly liquid and appear to be reasonably capitalized.** Profits seem to have fallen in the past year—the return on assets ratio fell to its 2011 level, and the return on equity has declined by almost 35 percent since June 2013 (see Table 1). Most of the decline is due to curtailed non-interest income, as the Bank of South Sudan has limited the allocation of foreign exchange to commercial banks significantly. At the same time, the consolidated capital position of the banking system has shown a positive trend since independence. The regulatory Tier 1 capital to risk-weighted assets ratio stood at 76.2 percent by end-June 2014 —due to low credit exposure—while the total capital-to-assets ratio was 15.6 percent. Lastly, the ratio of gross non-performing loans (NPLs) to total loans is low at 5.5 percent. The ratio has been declining as banks intensified efforts to recover loans directly from debtors rather than going through the judicial system.

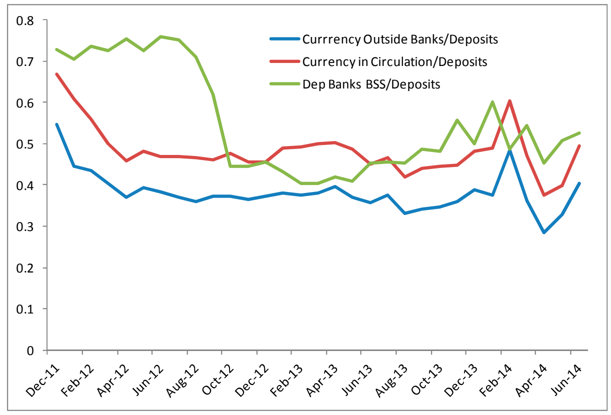
Appendix Figure 1. Banking System

The Banking sector is shallow and growth has stagnated.

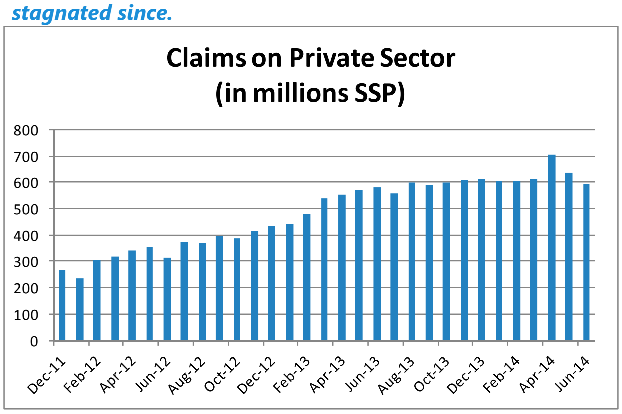
The banking system is very small …



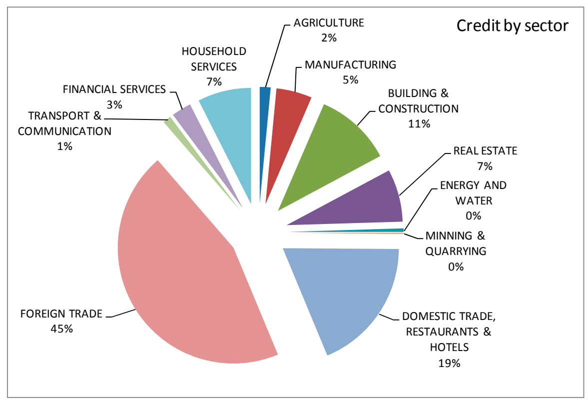
and financial intermediation remains low.



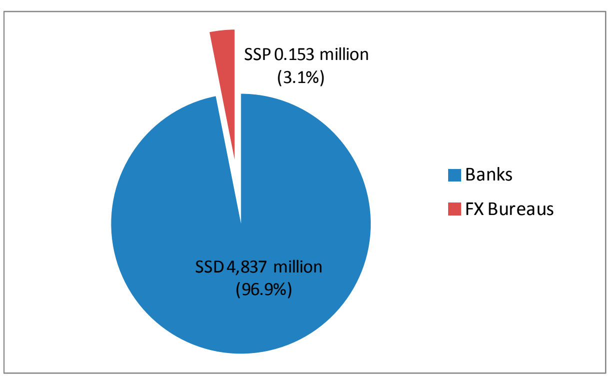
Claims on the private sector grew until mid-2013 and has stagnated since.



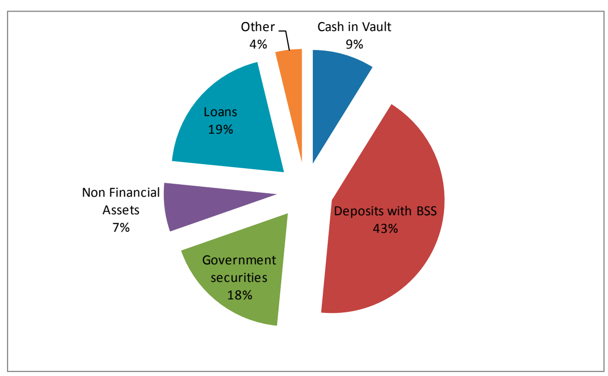
Foreign Trade has received the bulk of bank credit.



Although outnumbered by FX bureaus, commercial banks hold most of the capital in the financial system



… while they maintain assets in deposits with BSS and government securities.



Sources: South Sudanese authorities and IMF staff estimates.

Table 1. Banking Sector Financial Soundness Indicators, 2011-2014 [1]

(in percent)

	2011	2012	2013	2014
Capital Adequacy				
Regulatory Tier 1 Capital to Risk-Weighted Assets	41.2	51.8	73.4	76.2
Capital to Assets	9.5	13.1	15.4	15.6
Earnings				
Return on Assets (ROA)	5.8	4.1	7.7	5.9
Return on Equity (ROE)	61.8	34.4	52.2	34.0
Interest Margin to Gross Income	-14.3	7.5	13.6	16.2
Non Interest Expenses to Gross Income	41.4	56.2	52.9	50.0
Personal Expense to Noninterest Expense	35.5	21.9	28.2	22.4
Personal Expense to Gross Income	17.0	19.6	24.4	11.3
Non-interest Income to Gross Income	114.3	92.5	86.4	44.1
Expenses/Income	53.3	58.6	53.2	61.3
Liquidity				
Liquid Assets to Total Assets	79.9	80.6	78.7	68.8
Asset Quality				
FX Denominated Loans to Total Loans	19.9	19.2	16.6	8.9
FX Denominated Liabilities to Total Liabilities	26.4	23.9	20.3	20.0
Net Open Position in Foreign Exchange to Capital	44.5	3.5	2.6	5.6
Nonperforming loans to total gross loans	0.0	10.2	9.6	5.5
Nonperforming loans to net of provisions to capital	0.0	5.3	5.9	4.1

Source: South Sudanese authorities

[1] The data for 2011 and 2012 correspond to December. The data for 2013 and 2014 correspond to June.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

STAFF REPORT FOR 2014 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

December 2, 2014

Prepared by Staff of the International Monetary Fund in Consultation with staff from the World Bank and the African Development Bank

CONTENTS

SOUTH SUDAN: RELATIONS WITH THE FUND

(As of September 30, 2014)

Membership status. Joined on April 18, 2012.

General Resources Account	SDR Million	% Quota
Quota	123.00	100.00
Fund holdings of currency	93.48	76.00
Reserve Tranche Position	29.52	24.00

SDR Department	SDR Million	% Allocation
Net cumulative allocation	105.41	100.00
Holdings	77.14	73.19

Outstanding Purchases and Loans
None

Latest Financial Arrangements
None

Projected Payments to Fund (SDR million; based on current use of resources and present holdings of SDRs)

	Forthcoming				
	2014	2015	2016	2017	2018
Principal					
Charges/interest	0.00	0.01	0.01	0.01	0.01
Total	0.00	0.01	0.01	0.01	0.01

Safeguards assessments

The authorities are undertaking measures to strengthen central bank safeguards based on the 2012 roadmap provided by staff to facilitate completion of a safeguards assessment. The Bank of South Sudan (BSS) needs to intensify efforts to improve its governance, the management of foreign exchange, its internal audit function, currency and banking operations, and its financial reporting. An effective oversight by senior management is also needed to ensure that prompt remedial actions are undertaken in response to the 2012 external audit findings as well as on the implementation of provisions of the Petroleum Revenue Management Act that concern the central bank. Furthermore, a reputable audit firm should be appointed to audit the 2013 BSS financial statements.

Exchange rate arrangement

South Sudan introduced its currency (the South Sudanese Pound) upon independence in July 2011. In September 2011, the Bank of South Sudan (BSS) pegged the exchange rate at 2.95 SSP per U.S. dollar. The de jure exchange rate arrangement is a conventional peg against the U.S. dollar. Rationing of foreign exchange since September 2011 has led to a parallel market where the exchange rate trades at a premium compared to the official rate.

South Sudan maintains a number of exchange restrictions and multiple currency practices (MCPs) under the transitional arrangements of Article XIV. The exchange restrictions under Article XIV arise from (i) limiting the availability of foreign exchange through the rationing and further earmarking of foreign exchange by the central bank, (ii) imposing absolute ceilings on the availability of foreign exchange for certain invisible transactions (travel, remittances for living expenses of students and families residing abroad, transfers of salaries by foreign workers), (iii) the extra burden caused by channeling foreign exchange transactions to the parallel market, and (iv) requiring a tax clearance certificate for access to foreign exchange for priority imports. The MCPs maintained under Article XIV arise from (i) the spread of more than 2 percent between the official exchange rate (buying and selling exchange rates of the central bank) and the exchange rate at which commercial banks sell foreign currency within the limits set by the central bank, and (ii) the spread of more than 2 percent between the parallel market exchange rate on the one hand and that of the official exchange rate and the exchange rate in the formal commercial market on the other hand. In addition to the measures maintained under Article XIV, South Sudan maintains one MCP subject to the Fund's jurisdiction under Article VIII. The MCP arises from the exchange rate guarantee arrangements maintained by the BSS with one commercial bank. This arrangement was introduced after South Sudan joined the Fund and therefore, is not covered under transitional arrangements of Article XIV. The arrangement supports the system of foreign exchange allocations to priority imports.

Article IV consultation

The next Article IV consultation will be held in accordance with the 2010 decision on consultation cycles.

Capacity Development[1]

IMF technical assistance and training have been scaled up since independence. In October 2012, the Fund launched a five-year dedicated capacity building program supported by a multi-donor trust fund. South Sudan is not yet a member of the East Africa Technical Assistance Center.

A. Headquarters missions and short-term experts: July 2011-October 2014

Department[2]	Time of Delivery	Purpose
FAD	August 2011	Priority measures to reform the nonoil tax system and revamp tax and customs administration.
FAD	August 2011	Assessment of the public financial management system.
STA	November-December 2011	Monetary and Financial Statistics.
MCM	November 2011	Technical assistance needs assessment.
MCM	November 2011	Reserves management.
MCM	April 2012, June 2012	Assessment of the foreign exchange market.
MCM	August 2012	Assessment of Supervisory Capacity.
FAD	August-September 2012	Public Financial Management reform: implementation and Action Plan.
FAD	September-October 2012	Non-oil revenue administration.
ICD/AFR	October 2012	Financial Programming and Planning Course
STA	January 2013	Monetary and Financial Statistics.
MCM	February 2013, May 2013	Foreign exchange market liberalization.

[1] The program was suspended between December 2013 and September 2014 because of insecurity caused by political instability and the civil conflict.

[2] AFR: African Department; FAD: Fiscal Affairs Department; ICD: Institute for Capacity Development; LEG: Legal Department; MCM: Monetary and Capital Markets Department; STA: Statistics Department.

FAD	February-March 2013	Revenue Administration (follow-up mission).
MCM	March 2013	Payments' system.
STA	March 2013	External sector statistics.
LEG	April 2013	AML-CFT diagnostic and reform agenda.
MCM	July 2013	Payments System.
MCM	October 2013	TA Evaluation Mission.
MCM	October 2013	Payments System.
STA	October 2013	National Accounts Statistics.
FAD	October 2013	Program of capacity development to MOFCIEP on petroleum issues.
LEG	November 2013	AML/CFT reform agenda.
FAD	November 2013	Strengthening the large taxpayers' unit, management of exemptions.
FAD	November 2013	Review of Public Financial Management reforms.
STA	November 2013	Government Finance Statistics.
FAD	October 2014	Follow-up mission on tax administration

B. Long-term advisors

Department	Period of Delivery	Purpose
STA	February 2012-December 2013	Monetary and financial statistics
MCM	March 2012-September 2013	Central Bank Organization
AFR	February 2013-August 2014	Macroeconomic framework
ICD	May 2013-December 2013	Banking Supervision
MCM	May 2013-December 2013	Central bank accounting
MCM	May 2013-December 2013	Banking supervision

MCM	September 2014-September 2015	Central bank accounting
MCM	September 2014-September 2015	Banking supervision
MCM	October 2014-October 2015	Monetary and foreign exchange operations
STA	October 2014-October 2015	Monetary and Financial Statistics

Resident Representative

Mr. Philippe Egoume was appointed the Fund's Resident Representative in South Sudan in September 2014. He was preceded by Joseph Karangwa, who became the first Fund's Resident Representative when South Sudan became an IMF member in April 2012.

SOUTH SUDAN: JOINT BANK-FUND WORK PROGRAM

Title	Products	Timing of Missions	Target Board Date
A. Mutual Information on Relevant Work Program			
Bank work program in next 12 months	**Lending**		
	Statistical Capacity Dev. Project		Approved on July 2014
	Institutional Development and Capacity Building Credit		December 2014
	Energy Sector Technical Assistance		April 2015
	Agriculture Development		May 2015
	Rural Roads Additional Financing		April 2015
	Regional Communications Infrastructure		2015/16
	Capacity Development		**Completion Date**
	Oil sector support		May 2015
	Energy sector support		Delivered
	ICT sector support		Delivered
	Revival of Tertiary Education Sector		May 2015
	Credit Reporting		November 2014
	High Frequency Survey		March 2016
	Program Support to IDPs and Refugees		June 2016
	Analytical Work		**Completion Date**
	Quarterly Economic Briefs		At the end of each quarter, starting Sep 2014

Title	Products	Timing of Missions	Target Board Date
	Governance Review		November 2014
	Land Administration Study		Delivered
	Study on Regional Trade		Delivered
	Jobs and Livelihoods report		October 2014
	Assessment of PFM in Counties and Payams		December 2014
	Service Delivery Indicators		June 2016
	Health Public Expenditure Review		June 2015
	Inclusive Growth Memorandum		April 2015
	Youth Transfer Cash Study		March 2015
	Social Protection Policy Dialogue		November 2014
	Integrated Information System for Citizen Security and Urban Planning		March 2015
	Indigenous Peoples in SS Facility for Quality Enhancement & Innovation		December 2015
	Ex-Combatants & Youth Economic Empowerment		Pipeline
	Private sector and Job Creation		November 2014
	Investment Climate Assessment		August 2015
	Fostering Competitiveness and Growth		December 2014
	Road Sector Strategy Note		January 2015

Title	Products	Timing of Missions	Target Board Date
Fund work program in next 12 months	**Policy Advice**		
	1. Article IV consultation	October 2014	December 2014
	Capacity Development		
	1. Oil Revenue Management	December 2014- December 2015	N/A
	2. Foreign Reserves Management	April 2015	N/A
	3. Balance of Payments Statistics	April and September 2015	N/A
	4. National Accounts Statistics	February and June 2015	N/A
	5. Anti-Money Laundering	March and September 2015	N/A
	6. Tax and Customs Administration	December 2014, January and March2015	N/A
			N/A
	7. Fiscal Statistics/GFSM 2001	February and August 2015	N/A
	8. Macroeconomic framework, monetary and financial statistics; central bank organization; monetary and foreign exchange operations, foreign reserves management, oil revenue management, banking supervision; and central bank accounting and auditing.	Long-term advisors	
B. Sharing of Work Program Inputs			
From Bank to Fund staff	Memos for Bank missions and back to office debriefs, draft internal assessments of fragility, business climate, CPIA, public expenditure review, civil service reform, and other relevant structural reforms.		
From Fund to Bank staff	Macroeconomic framework, briefing memoranda, policy notes, back-to-office reports, and staff reports.		

WORLD BANK OPERATIONS

Date of Latest Interim Strategy Note (ISN): February 28, 2013 (Joint IDA and IFC ISN, covering the period FY13-FY14). An update to the World Bank Board was provided in March 2014.

The Bank's Interim Strategy for South Sudan supports the Government development agenda to help the country head out of fragility to stability. The Bank's program of activities pursue two complementary objectives of: (i) improving economic management and governance for effective local service delivery; and (ii) expanding productive employment opportunities. The recent political and security crises, which erupted in Juba on December 15, 2013 and later engulfed six of the ten states in South Sudan, prompted the Bank, together with South Sudan's other Development Partners, to evaluate on how best to respond. As a result, the World Bank Group formulated the following principles for engagement – which were discussed at the Bank's Board in March 2014: (i) protecting core functions of government; (ii) protecting the vulnerable by supporting livelihoods and ensuring the delivery of basic services: (iii) investing in knowledge; and (iv) protecting development gains.

A systematic Country Diagnostic is under preparation and the Country Partnership Framework is scheduled for discussion in FY16.

Ongoing Operations (as of October 31, 2014)

The current World Bank-approved projects comprise:

(i) Three investment projects funded from the South Sudan Transitional Trust Fund which attempt to strike a balance between delivery of quick impact and building institutional capability. The *South Sudan Rural Roads Project (US$38 million)* is focusing on labor-based upgrading and maintenance of rural roads and building state and national capacity for rural infrastructure management; the *South Sudan Health Rapid Results Project (US$28 million)* supports GRSS finance performance-based contracts for delivery of high impact primary health services in two remote states, while building the institutional capability of the Ministry of Health with coordination of services, monitoring, and evaluation; and the *Private Sector Development Project (US$9 million)* entails grants to micro-finance providers and promotes entrepreneurship while strengthening the regularly framework and South Sudan's Business Forum.

(ii) The *Emergency Food Crisis Response Project (US$ 12.7 million),* funded from the Global Food Crisis Response Fund, provides assistance to South Sudan in mitigating the impacts of the continuing food crisis;

(iii) Five IDA supported projects including the *Local Governance and Service Delivery Project (US$50 million)* which builds the capacity of local governments and communities on planning, implementing and monitoring development activities; the *Social Safety Net and Skills Development Project (US$21 million),* which has the objective of providing access to income opportunities and temporary employment to vulnerable households as well as establishing a sustainable social protection systems in South Sudan; the *Statistical Capacity Building Project(US$ 9 million)* which helps the government carry out poverty surveys, produce reliable GDP estimates, monitor progress on the millennium development goals (MDGs), and build the foundation for an evidence-based decision making culture in South Sudan; as well as two Additional Financings: the *Health Rapid Results(US$35 million)*, and the *Emergency Food Crisis Response Project(US$ 9 million)*.

(iv) *The South Sudan Eastern Africa Regional intervention project (US$80 million* in *its first phase*) will contribute to the construction and maintenance of a core highway from the Kenya border to Juba that could serve as a gateway to the central and north-western parts of South Sudan. The project leverages regional IDA resources and potential financing partners, including China, the African Development Bank, and possibly others. The operation will also provide support for the ICT Sector.

(v) The two IDF grant projects: *Procurement Capacity Development Support (US$750,000K*) and *Strengthening the Capacity of the Audit Chamber (US$ 299,144K)* support capacity building in the indicated organizations.

(vi) The State-and Peace-Building Fund (SPF) grant aims to assist MoFEP with fiscal policy rules that recognize South Sudan's dependence on oil revenues and assist the national Legislative Assembly to carry out its oversight responsibilities as they pertain to oil revenues; it also helps improve the capacity and efficiency of the Ministry of Petroleum, Mining and Industry (MoPMI) to manage oil resources. The project has an initial allocation of US$3.03m.

Pipeline Operations FY 2014-2015

The Bank's remaining plan for FY 2015 includes five investment interventions:

(i) *the Institutional Development and Capacity-Building project (US$40 million)* will continue to deepen efforts and move toward a more medium to long-term approach to public sector strengthening; (ii) *the Energy Sector Technical Assistance Project (US$15 million)* will strengthen the capacity of the GRSS to facilitate the development of its energy sector planning capabilities, electrical distribution efficiency, and off-grid electrification programs; (iii) the *Agriculture Development Project (US$50 million)* will contribute to increasing crop production and productivity of participating households in selected project areas and laying the foundation of the recovery of the sector; iv) *additional financing to the South Sudan Rural Roads Project (US$50 million)* will allow scaling up of project activities in selected rural roads; and (v) *the Regional Communications Infrastructure Program (US$ 30 million)* which is expected to be presented to the Bank's Board in FY16 will support efforts to lower prices for international capacity and extend the geographic reach of broadband networks.

An extensive analytical work and technical assistance is complementing the Bank's lending activities.

Indicative World Bank/IFC Program

INSTITUTION BUILDING	**CLUSTER I: Economic management and governance for effective local service delivery**			
	FOCUS AREAS	**Knowledge Activities**	**Lending Activities**	**Partnerships**
	Macro and budget management, poverty analysis	Macro-economic monitoring; Economic Briefs; Debt Management TA; PER, SPF grant on Oil Revenue Management; Poverty Assessment; Poverty Notes; High Frequency Household Survey TA	Institutional Development and Capacity-Building project (US$40ml) Statistical Capacity Development Project (US$9m).	IMF; AfDB; Norway
	PFM, anti-corruption	CIFA implementation; procurement TA; StAR Initiative	IDF grant on Procurement Capacity Development (US$750,000K) and Strengthening the Capacity of the Audit Chamber(US$ 299,144K)	IMF; USAID; UNDP; CIDA; DFID
	Capacity building and decentralized service delivery	Capacity Assessment and Building of MoFEP and MoPM; Governance Review	Local Governance and Service Delivery Project (US$50m); SPF grant	Danida; ODI, SIDA; BSI
	Oversight institutions and Good Governance	Media & Parliamentary Training; Policy Development Forum	SPF grant	WBI
	CLUSTER II: Support for Productive employment and livelihood opportunities			
	FOCUS AREAS	**Knowledge Activities**	**Lending Activities**	**Partnerships**
	Economic diversification & regional integration	Inclusive Growth CEM, Trade Report; IFC Investment Climate TA	IFC microfinance	WTO, AfDB
	Jobs & Livelihoods	Jobs & Livelihoods Report, Livelihoods and skills for ex-combatants	Social Safety Net and Skills Development Project (US$21m), IFC Pharmaceutical PPP	TDRP; KfW To be determined
	Roads, ICT	Strategic Prioritization of Transport Investments; Road Maintenance TA; ICT TA	AF South Sudan Rural Roads Project (US$ 50m), Juba-Kenya Highway, ICT (US$80m)	Government of Kenya, China; AfDB; (tbd)
	Gender –all lending and knowledge will be gender-sensitive	BNPP grant on Women's Access to rights an resources; LOGiCA TF on gender-based violence		

AFRICAN DEVELOPMENT BANK OPERATIONS

Introduction

The African Development Bank Group's first strategy for South Sudan is articulated in the Interim Country Strategy Paper (I-CSP) 2012-2014 approved by the Boards of Directors in October 2012. The I-CSP is aligned with the South Sudan Development Plan (SSDP) 2011-2013, which is now extended to 2016. The I-CSP is articulated around one main pillar: "State Building through Capacity Building and Infrastructural Development". The particular emphasis is on creating the conditions for promoting peace, stability and state building, through assisting the country in human and institutional capacity building in public financial management and aid coordination and in implementing infrastructural programs as well as quick-win infrastructure projects with rapid impact on peace, security, livelihood and the investment climate. The I-CSP will be expiring at the end of 2014, however, given the current political crisis in South Sudan, it became difficult to prepare a new Country Strategy Paper and the Bank decided to update and extend the existing I-CSP to 2016 (this work is ongoing).

Ongoing Operations

As at 31 October, 2014, the Bank Group's operations in South Sudan amounted to UA 29.01 million covering four operations. The Public Utility project is the largest in value terms with a commitment value of UA 16.96 million in an electricity project. The Transport sector project has a commitment value of UA 6.93 million, while the multi-sector project has a commitment value of 5.18 million, mainly focusing on human and institutional capacity development. The average project size is UA 6.5 million with an annual disbursement ratio in 2014 of 7 percent. As a result of the crisis, the new projects approved in the last quarter of 2013 have been delayed in terms of signing the grant agreements and the fulfilment of conditions prior to the first disbursement.

Pipeline Operations for FY 2015-2016.

For 2015-16, the Bank has allocated South Sudan UA 36.94 Million consisting of grants amounting to UA 29.44 million (ADF Performances Based Allocation UA 7.5 Million and UA 21.94 Million Transitional Support Facility) as well as of ADF loans amounting to UA 7.5 Million for four Projects. The Projects are: the urban water supply and sanitation project, the Juba Power Distribution System Rehabilitation and Expansion Phase II project, the Lobira-Kapoeta Road Project, and the Institutional Support Project. All the four operations are expected to be considered for Board approval before end ADF-13; i.e. by end-2016.

The plan for FY 2015 includes two projects, namely the Lobira-Kapoeta Road Project and the Institutional support project with a total commitment of UA 27.44 million. Two other projects will be considered in 2016 with the remaining commitments amounting to UA 9.5 million.

AfDB Funded Operations (as of October 31, 2014)

Project Name	Amount Approved (Million Unit of Account)	Description/purpose
Public Finance Management and Aid Coordination	4.8	The objectives of the project are to (i) build and enhance transparency and accountability in the use of public resources through training, skills transfer to (ii) improve aid coordination; and, (iii) enhance the operational effectiveness of beneficiary institutions by providing basic office equipment. The project has disbursed UA 1.93 million. Financing Source: Fragile States Facility (FSF)
University of Juba Capacity Enhancement	0.32	The project intends to enhance the capacity of the University of Juba to provide training in auditing, fiduciary management and resource mobilization with a view to enhancing functional capacities of public sector officials, in improving service delivery, and ultimately, professionalization of these key functions. The project has disbursed UA 0.14 million Financing Source: Governance Trust Fund
Technical Assistance for Transport sector	6.93	The objectives of the proposed project are to enhance institutional setup and capacity, improve human resource capacity, streamline the transport infrastructure development, provide information for policy makers with regard to economic diversification and strengthen project management and implementation capacity. The project was launched in October 2014 and has fulfilled all necessary condition to start disbursement. Financing Source: Fragile States Facility (FSF)
Juba Electricity Distribution System Rehabilitation and Expansion project	16.96	The Project aims at strengthening the power distribution networks in Juba in order to provide reliable electricity and increase access in the city. The supply will improve the quality of life of the residents; improve the performances of the service providers; and promote businesses, thus contributing to economic growth and poverty reduction in South Sudan. The project was signed in May 2014, and fulfilled all necessary condition to start disbursement. Financing Source: ADF- Performance Based Allocation

Indicative Pipeline Operations (2015-2016)

Project	Indicative Amount in UA (million)	Sources of Funding	Status	Approval
Juba Power Distribution System Rehabilitation and Expansion project Phase II	7.0	ADF- PBA	Identified	2016
Multinational: Djibouti Corridor – Lobira-Kapoeta Road Project	20.5	ADF-PBA & TSF	Preparation	2015
Institutional Support Project	6.94	TSF	To be identified	2015
Urban Water Supply and Sanitation	2.5	TSF	To be identified	2016

TSF: Transitional Support Facility

STATISTICAL ISSUES

The quality of economic data suffers from several shortcomings. With the exception of consumer prices, monetary, and exchange rate data, other macroeconomic data have serious weaknesses in terms of quality, periodicity, and timeliness. Some progress with data quality and compilation was made between 2011 and 2013, but it was partly reversed in 2014 owing to displacement of civilians, the exile of local statisticians, and the interruption of technical assistance.

Real sector

- Price indices. A monthly Consumer Price Index (CPI) covering Juba, Wau, and Malakal is compiled (data for Malakal is not available in 2014 because of the conflict), based on the 2009-10 Household Budget Survey. To ensure appropriate weights are used, a new household survey will need to be conducted when peace and security are established. Import price indices are not available and will require substantial investment in source data development (particularly at customs). Monthly CPI figures are available on the National Bureau of Statistics (NBS) website.

- GDP/GNP/National Income. The NBS compiles and publishes GDP at current and constant (2009) prices from the expenditure side. However, the figures are quite weak owing to the absence of source data on most variables. Preliminary estimates on income (mainly profits to direct investors in the oil sector) allows for the estimation of GNI. Work on source data and on the production-based GDP estimates is a priority which will require, inter-alia, an agriculture survey.

Fiscal sector

- Revenue, expenditure, balance and composition of financing. Cash revenue and expenditure data (using both an economic and functional classification) are available for the central government, but the data are aggregated, are not disseminated, and are not in line with GFSM 2011 classification standards. Data for local governments and states are virtually nonexistent.

Monetary sector

- Foreign reserves. Data on central bank holdings of foreign exchange are available from the central bank.

- Exchange rates. Data on the bid and ask exchange rates vis-à-vis the U.S. dollar applied by the central bank, and on the exchange rate prevailing in the parallel market, are available from the central bank.

- Monetary statistics for commercial banks. A consolidated balance sheet and a survey for commercial banks are compiled on a monthly basis by the central bank.

Monetary sector (continued)

- Monetary data. The balance sheet of the central bank, including reserve money and international reserve assets and liability of the monetary authorities is available on a monthly basis from the central bank. The BSS has reconciled most of its foreign currency accounts and manual records and has begun transmitting its monthly survey to the IMF. The BSS compiles and reports the Standardized Report Forms (SRFs) 1SR for central bank based on provisional data for BSS, 2SR for the other depository corporations, 5SR for monetary aggregates, 6SR for interest rate, and Form 01R for exchange rate to the IMF's Statistics Department.[3] As a result, a country page for South Sudan has been introduced in the November 2013 issue of the IMF's *International Financial Statistics*.

- Interest rates. Data on interest rates on deposits and lending are available from a few commercial banks.

External sector

- Balance of payments. Data on external sector statistics are scant. As the agency responsible for compiling external sector statistics, the BSS has begun collecting source data. For estimating GDP by expenditure, the NBS compiles components of the current account, but the quality of the data is very weak owing to limited capacity and lack of source data, notably on imports of goods and services. There are reliable estimates for oil exports based on volume and price data, as well as data on commercial banks' foreign assets and liabilities and on banks' reserve assets. Partial data from official sources on income and current transfers are occasionally available. Data on cross-border transactions through the banking system are collected by the BSS' international transactions reporting system, but cross-border transactions are also conducted through nonbank channels. International investment position statistics are not compiled, and data on direct investment flows and positions are virtually nonexistent.

- Gross external debt. At the time of its secession from Sudan, South Sudan had no official external debt. Some external public debt has been accumulated since end-2012 and information about terms and amounts has been shared with Fund staff. However, these data are not published and public or private debt statistics are not available.

Data Standards and Quality

- South Sudan does not yet subscribe to the General Data Dissemination System (GDDS).

[3] Standardized Report Forms (SRFs) for reporting monetary data to the IMF are numbered 1 through 6. See http://www.imf.org/external/pubs/ft/mfsmcg/a2.pdf

Republic of South Sudan: Table of Common Indicators Required for Surveillance

(As of end-October 2014)[1]

	Date of latest observation	Date received	Frequency of data	Frequency of reporting	Frequency of publication
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities [2]	September 2014	October 2014	M	M	N/A
Reserve/Base Money	September 2014	October 2014	M	M	M
Broad Money	September 2014	October 2014	M	M	M
Central Bank Balance Sheet	September 2014	October 2014	M	M	N/A
Consolidated Balance Sheet of the Banking System	September 2014	October 2014	M	M	M
Interest Rates	N/A	N/A	N/A	N/A	N/A
Consumer Price Index	September 2014	October 2014	M	M	M
Revenue, Expenditure, Balance and Composition of Financing–General Government[3]	June 2014	October 2014	M	Q	N/A
External Current Account	2013	October 2014	N/A	N/A	N/A
Exports and Imports of Goods and Services	2013	August 2014	N/A	N/A	N/A
GDP/GNP	2013	August 2013	A	A	A
Domestic government debt	June 2014	October 2014	Q	Q	N/A
Gross External Debt	June 2014	October 2014	N/A	N/A	N/A
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Daily (D); Monthly (M); Quarterly (Q); Annually (A); Not Available (N/A).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately.
[3] Data on composition of financing not yet available.

INTERNATIONAL MONETARY FUND

December 2, 2014

REPUBLIC OF SOUTH SUDAN

STAFF REPORT FOR 2014 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved by Roger Nord and Ranil Salgado (IMF) and John Panzer (IDA)

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

South Sudan is at moderate risk of external debt distress.[1] *Based on available data, the external debt stock at present is modest, and the baseline suggests a sustainable debt profile over the next 20 years. The evolution of public debt mirrors that of the public external debt as only a small amount of domestic borrowing is projected. At the same time, the high share of short term debt heightens rollover risks. Alternative scenarios also point to serious vulnerabilities linked to the risk of political and regional instability, protracted governance problems, lack of economic and other critical reforms, and shocks to oil production. If unresolved, these issues could result in rapid debt accumulation and a downgrade of the risk rating. These risks highlight the importance of peace, prudent policies, and a reform program focused on a clean and accountable government.*

[1] The risk rating is assessed using Debt Sustainability Framework for Low-Income Countries (LIC DSF). The DSA presented in this document is based on a unified 5 percent discount rate. South Sudan has a "weak" policy performance based on the 2013 CPIA rating (the CPIA score is 2.10). The thresholds, which apply to external public and publicly-guaranteed debt, are: 30 percent for the present value (PV) of external debt-to-GDP ratio, 100 percent for the PV of external debt-to-exports ratio, 200 percent for the PV of external debt-to-revenue ratio, 15 percent for the PV of external debt service-to-exports ratio, and 18 percent for the debt service-to-revenue ratio.

See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries"

BACKGROUND

1. **While South Sudan accumulated some debt since 2011, public debt ratios are still at very low levels.** When it emerged as an independent state in July 2011, the Republic of South Sudan had no domestic or foreign debt or arrears. However, a 15-month oil production shutdown between January 2012 and April 2013 and the civil conflict that erupted in December 2013 reduced fiscal revenues and depleted previously accumulated foreign exchange reserves, forcing the authorities to control spending and incur domestic and foreign debt. As a result, by June 2014, the authorities reported that the stock of public debt[2] amounted to about US$953 million or 6.4 percent of GDP; this amount includes short-term domestic debt equivalent to US$407 million (measured at the official exchange rate).[3,4]

2. **Most of the public external debt is of short-term nature and nonconcessional.** In 2012-13, the authorities indicated that they arranged for a US$1 billion short-term oil-guaranteed borrowing facility through the oil companies operating in South Sudan. As of June 2014, the outstanding amount of debt from this facility stood at US$328 million.[5] In addition, a small amount of short-term debt was contracted for purchases of arms (US$59 million in the first half of 2014). Of the remaining external debt, US$158 million was a long-term nonconcessional loan for the construction of the Juba airport.[6]

ASSUMPTIONS

3. **The baseline scenario assumes that the security situation improves gradually over the coming years and that oil production and the economy begin to recover.[7]** Over the medium term, it is assumed that fiscal and monetary policies will be prudent, that the exchange rate is unified at a sustainable level, and that inflation remains at single-digits. At the same time, the government is expected to embark on a well-prioritized reform program, focused on shifting the composition of spending towards social and infrastructure spending, implementing a disarmament, demobilization, and reintegration program, and fostering transparency and accountability in the management of public resources.[8] Public investment is

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[2] Public debt refers to debt of the central government.

[3] In 2012, the authorities sold SSP1 billion of short-term securities to domestic banks and borrowed SSP0.1 billion from another commercial bank. As this debt has been rolled over, the stock as of mid-2014 amounted to SSP1.2 billion.

[4] As a result of the oil shutdown and subsequent fiscal stress, cumulative borrowing from the central bank amounted to SSP4 billion (8.8 percent of GDP). Such borrowing was undertaken on an exceptional basis as it is not permitted under the central bank law. In addition, as the central bank was not adequately capitalized following independence, the government issued bonds to the central bank of which the outstanding amount as of June 30 was SSP2 billion. This debt is not counted as part of the public debt because it consists of intra-public sector obligations.

[5] The authorities plan for additional borrowing of up to US$1 billion in the fiscal year that began in July 2014.

[6] The long-term loan carries an interest rate of 2 percent, has a maturity of 20 years, and a grace period of 5 years.

[7] Estimates and projections for the DSA are based on calendar year calculations. The figures are compatible with the fiscal-year data presented in the staff report on the 2014 Article IV consultation.

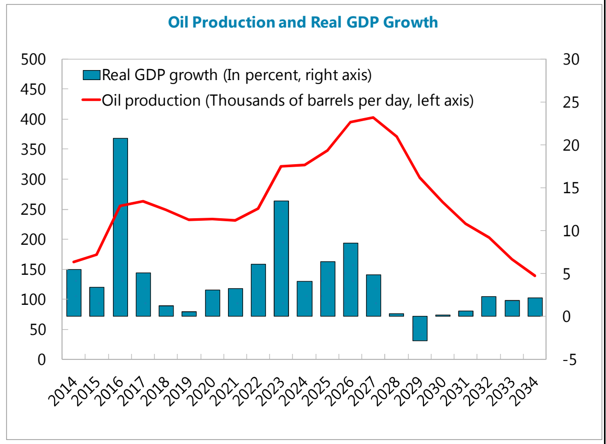
[8] Under the baseline, the authorities are expected to proceed with plans to strengthen public financial management (including oil revenue management), primarily through improving budget execution and preventing domestic arrears,

(continued)

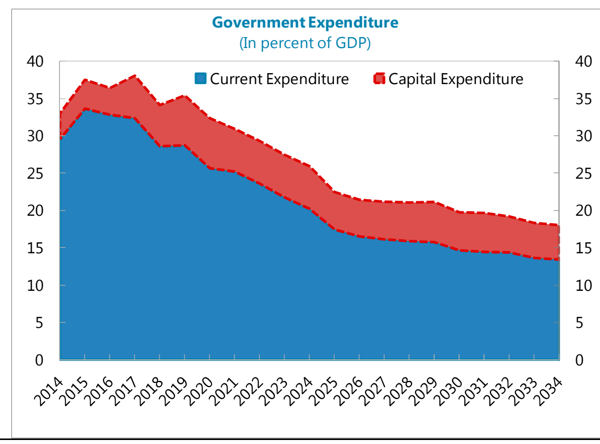
assumed to be moderately scaled up over time, with initial focus on transport and energy infrastructure and the infrastructure damaged by the conflict.[9] This, together with the projected resumption of trade with Sudan and, over time, the expansion of agriculture and mining activities, is expected to support average real GDP growth of about 7 percent per year during the next 10 years (Box 1). The projections of public and publicly guaranteed debt (PPG) are derived from these assumptions.

Box 1. Macroeconomic Assumptions: 2014-2034

Real sector: During the next 10 years, annual average real GDP growth is projected to be about 7 percent based on the expected recovery of oil production and non-oil real GDP is assumed to grow at about 5 percent per year. Oil output is projected to increase gradually to about 260 thousand barrels per day by 2017, but decline for 3-5 years after that as production rates fall in aging oil fields. It is also assumed that investment in enhanced oil recovery and new fields after 2020 pushes up production to nearly 400 thousand barrels per day by 2026. Thereafter, oil output is projected to fall to 140 thousand barrels per day by 2034. Real non-oil GDP growth is assumed to recover slowly from its current low base and reach an average of about 7 percent in the 2020s, primarily as a the result of increased activity in agriculture, other mining, and services. Average inflation is projected at about 5 percent during the forecast period, and a gradual real appreciation of the South Sudanese pound is envisaged based on gradual productivity increases and the expansion of the non-oil economy.



Fiscal sector: Driven by the projected path for oil production, total revenue including grants is projected to first rise from 25 percent of GDP to 40 percent of GDP by 2016, then fall between then and 2023, then increase again as oil production picks up, and ultimately converge downwards towards 21 percent of GDP by the 2030s. Non-oil revenues are expected to increase gradually from their current low base of 2 percent of GDP to about 10 percent of GDP by the 2020s and then towards 16.



establishing a single treasury account, reorienting public spending towards development, and implementing the forthcoming Public Procurement Act and the Petroleum Revenue Management Act.

[9] If properly managed, a scaling up of public investment could lead to a meaningful improvement in real incomes in the next two decades. The impact of the scaling up will depend on key structural conditions, such as absorptive capacity, the prudent management of mineral revenue, and the extent of improvements in the business environment. In any case, the process should be timed appropriately and the projects chosen according to their viability and expected return. This, in turn, will require the use of cost-benefit analysis techniques and a well implemented public investment program.

Box 1. Macroeconomic Assumptions: 2014-2034 (concluded)

percent of GPD in the 2030s. About one quarter of oil revenue is expected to be saved for oil stabilization and for future investments, primarily in years in which oil revenues outpace projected spending. Expenditure as a share of GDP is projected to rise somewhat in the medium term and later decline towards 20 percent of GDP in the long run. The profile for expenditure in the next decade mimics a scaling up of public investment that raises the share of public spending to GDP, together with a demobilization and civil service reform program that begins to push the share down by the early 2020s. Capital expenditures are projected to increase from 3 percent of GDP at present to about 7 percent of GDP by 2020 before declining toward 5 percent of GDP in the outer years of the projection period. Based on these trends, the overall fiscal balance (including grants) records a small deficit over the medium term (except in a few years when there is a surplus), before converging to a small surplus by the late 2020s.

External sector: Exports of goods and services as a share of GDP are projected to increase in the medium term, supported by growth in both the oil and the non-oil sectors, and later decline as oil production begins to fade in the late 2020s. The share of imports of goods and services to GDP follows an inverted U-shape profile. It is expected to increase in the medium term because of the scaling up of public (and later private) investment but decrease after the mid-2020s as the non-oil economy develops and import substitution begins to take hold. Grants are projected to remain at around 6 percent of GDP in the next few years and decline towards 3 percent by the end of the forecast period.

4. Medium to long-term external borrowing assumptions include a mix of concessional and nonconcessional loans. Given the projected fiscal situation and large infrastructure needs, the authorities are likely to contract some external debt in the medium-term.[10] A large part of this debt will likely be nonconcessional (especially in the next 3 years), although the authorities would like to approach multilateral and bilateral partners for concessional resources at some point. These and the above macroeconomic assumptions are modeled in the baseline, yielding external public sector borrowing requirements of about US$5 billion in the next 10 years. In the long term, higher oil and non-oil revenues are expected to bring external borrowing down to near zero.[11, 12]

[10] The authorities are discussing with China loans for infrastructure projects to be implemented during the next 10 years. An initial framework agreement comprising oil-guaranteed loans of US$1 billion is being finalized; the bulk of this funding will be for a road project. In addition, the authorities, together with the Kenyan authorities, plan to embark on a US$1.3 billion project for a highway between Juba and Eldoret in Kenya, an extension of fiber optics connection to Juba, and trade facilitation. The highway will allow speedier connection between South Sudan and the Mombasa port in Kenya. Of the US$1.3 billion, about US$530 million is estimated to correspond to the portion of the highway that will go through Kenya. The project is expected to be financed by the World Bank, China's EXIM bank, the African Development Bank, and, possibly, other lenders and is expected to extend until 2025. The projected amounts of borrowing for these projects are implicitly embedded within the baseline assumptions of the DSA.

[11] Similar to recent borrowing for infrastructure, we assume that the bulk of the borrowing for building the basic infrastructure between 2015 and 2022 would be at a 4.5 percent interest rate, 15 year maturity, and 5 year grace period, implying that the grant element could fall substantially in the medium term (Figure 1). As oil production increases over time and the fiscal position improves, borrowing requirements, especially at nonconcessional rates is

(continued)

5. While the baseline scenario is plausible, recent instability and the risks ahead could lead to worse outcomes. These risks involve lack of political inclusiveness, failure to embark on economic reforms, unresolved territorial issues with Sudan and the expiration of the oil sharing agreement in 2016, and protracted rent seeking behavior and corruption (see alternative scenarios below for a simulation of some extreme risks). These risks, which would prolong fragility, underscore the importance of a commitment to internal peace, economic reforms, good relations with Sudan, and close cooperation with the international community.[13]

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

6. Under the baseline, external debt dynamics appear to be favorable given the country's abundant oil and mining resources. All baseline debt indicators are below their threshold values. Debt ratios change only slightly over the medium term reflecting the repayment of short term loans and some borrowing projected for infrastructure projects. The debt-to-GDP ratio is projected to peak at around 20 percent in 2021 and decline thereafter. The present value (PV) of external debt-to-exports is projected to reach about 50 percent by 2022 and then decline to about 7 percent. Lastly, the PV of the debt-to-revenue ratio is also manageable and expected to fall below 4 percent by 2034.[14]

7. However, a disruption to oil production and/or severe political instability, insecurity, and insufficient reforms, could quickly destabilize debt ratios. The DSA simulates two alternative customized scenarios to illustrate these risks. The scenarios are extreme in that their likelihood is rather lower than other, more moderate scenarios of recurrent political turmoil and mild reforms or a short interruption of oil production; thus the simulations are intended to just illustrate some extreme, yet still possible risks. They also highlight the need to prevent conflict and foster political inclusion and equitable development.

8. The first scenario illustrates the effects of a shock to oil production similar to the shutdown experienced in 2012. The simulation shows that, under this scenario, the PV of debt-to-GDP ratio would exceed the 30 percent threshold for a few years (see Figure 1) before returning to normal later in the decade, while other debt ratios will also breach their respective thresholds.[15]

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assumed to fall to negligible levels from 2023 (to about US$30 million a year). The lower nonconcessional borrowing needs raises the average grant element for new borrowing in the long run.

[12] This DSA excludes remittances given their insignificance in the country's economy (net remittances were 1 percent of GDP in 2011).

[13] See "Republic of South Sudan: Staff Report for 2014 Article IV Consultations".

[14] The path of external debt residuals follows that of the non-interest current account balance and net FDI inflows which in turn are driven mostly by oil projections. Because oil exports and FDI flows in the DSA template do not reflect net debt creating flows in the BOP, the external debt residuals are higher than normal in the medium to long-term.

[15] Both scenarios assume that the authorities are able to borrow to cover their fiscal and balance of payments gaps. We assume that the additional borrowing under the alternative scenarios is at 4.5 percent interest, 15 years maturity with grace period of 5 years. However, it must be noted that heightened levels of country risk may lead to a situation whereby most sources of financing may become unavailable. Such an extreme scenario would lead to much more severe economic disruptions.

9. Another extreme scenario in which political instability and insecurity continues unabated for several years combined with sluggish reforms could lead to a progressive decline in real GDP per capita and destabilize debt ratios. Under such scenario, the investments needed to prevent a decline in oil production (and to start production in new fields) are assumed to be postponed until the late 2020s.[16] The results are summarized in Figure 1, which shows that all the debt ratios (PV of debt-to-GDP, PV debt-to-exports, PV debt-to-revenue, debt service-to-exports and debt service-to-revenue) breach their respective thresholds within a few years. Even as the situation is assumed to improve gradually by the early 2020s, debt ratios remain elevated through the end of the projection period because of pressing fiscal and infrastructure needs.

10. Lack of resolution in Sudan's debt could potentially lead to discussions with Sudan on the allocation of its foreign debt. Under a cooperation agreement signed with Sudan in September 2012, Sudan committed to assume all external debt of former Sudan subject to securing a "firm commitment" of international creditors for debt relief (i.e. Sudan's reaching the HIPC decision point) no later than two years from the date of agreement (this was termed the "zero option"). Absent such commitment, the agreement states that the two countries may discuss how to apportion the debt. Upon expiration of the two-year window, the two countries agreed in November 2014 to interpret the zero option in a "flexible" manner and extended the timing for debt relief until October 2016. In the meantime, the authorities indicated that South Sudan remains committed to support Sudan's efforts to obtain debt relief. Even if discussions were to be held in the future on how to apportion Sudan's debt, it is not possible to speculate at this point on what the allocation could be. Given the above, this risk has not been quantified in the DSA.

PUBLIC SECTOR DEBT SUSTAINABILITY ANALYSIS

The evolution of public debt indicators mirrors that of the external debt. The DSA assumes that a small portion of domestic public debt is generated in the long run as the result of the development of a domestic treasury bill market, leading to a stock of public debt that is marginally larger than that of external debt. In the medium-term, the increase in debt ratios in the DSA reflects the projected amount of borrowing that will be needed to gradually scale up public investment and the asymmetry between such profile and that of oil receipts which in turn leads to a moderate amount of external borrowing in the baseline (Table 3 and Figure 2). As a result, under the baseline, the PV of public debt remains below the 30 percent benchmark implying that the public sector debt would also be sustainable.

CONCLUSION

11. While the baseline scenario points to a sustainable path for South Sudan's debt, uncertainties about the path of oil revenue and the country's fragility put the country at a moderate risk of debt distress. Under the baseline scenario, debt trajectories are below their respective thresholds, as

[16] The projection implies that oil production could fall from the current level of 160 thousand barrels per day to about 100 thousand barrels per day by the mid-2020s. In this situation, public debt rises to about US$6.3 billion by 2018 (all debt thresholds are breached) and climbs further to US$14.6 billion by end-2024.

prudent policies and the implementation of key economic reforms would support a moderate amount of external borrowing to fund investment projects. However, risks abound, and alternative scenarios with protracted instability and/or disruptions in oil production can significantly increase the risk of debt distress. Other dimensions of the country's fragility include weak governance and institutions, which also elevate risks to debt sustainability.

12. The analysis highlights the preconditions for stability and debt sustainability in South Sudan. These are political inclusion and peace, good relations with Sudan, prudent economic policies, fiscal reforms, and a transparent and efficient management of public resources (especially oil and mining).

Table 1. Republic of South Sudan: External Debt Sustainability Framework, Baseline Scenario, 2011-2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical 6/ Average	Standard 6/ Deviation	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**...**	**1.4**	**4.8**			**5.6**	**12.4**	**11.6**	**14.1**	**16.9**	**18.8**		**12.9**	**1.2**	
of which: public and publicly guaranteed (PPG)	...	1.4	4.8			5.6	12.4	11.6	14.1	16.9	18.8		12.9	1.2	
Change in external debt	...	...	3.4			0.7	6.9	-0.8	2.5	2.7	1.9		-2.9	-0.4	
Identified net debt-creating flows	...	...	5.3			1.8	7.7	-3.8	-2.1	-5.5	-3.3		-2.1	-0.3	
Non-interest current account deficit	**-17.8**	**26.4**	**0.6**	**-0.4**	**16.5**	**-0.4**	**4.9**	**-2.9**	**-0.7**	**-3.7**	**0.0**		**-1.4**	**0.5**	0.1
Deficit in balance of goods and services	-40.8	31.9	-3.4			-6.8	-1.6	-13.3	-10.0	-5.6	-1.3		-5.6	-0.5	
Exports	70.2	9.9	35.5			42.1	35.0	52.0	47.8	42.8	39.0		31.5	10.3	
Imports	29.4	41.8	32.1			35.4	33.4	38.7	37.7	37.2	37.8		26.0	9.8	
Net current transfers (negative = inflow)	-4.4	-9.5	-7.0	-7.6	2.0	-4.1	-2.5	-1.2	2.2	-5.5	-5.5		-2.3	-0.6	-1.9
of which: official	-2.5	-2.7	-4.6			-4.0	-3.9	-3.8	-3.3	-2.9	-3.0		-1.2	-0.3	
Other current account flows (negative = net inflow)	27.4	3.9	11.0			10.4	8.9	11.6	7.2	7.4	6.8		6.5	1.6	
Net FDI (negative = inflow)	**0.3**	**0.5**	**4.9**	**0.8**	**2.4**	**2.0**	**2.5**	**1.3**	**-1.3**	**-2.2**	**-3.8**		**-0.4**	**-0.9**	-1.2
Endogenous debt dynamics 2/	**...**	**...**	**-0.1**			**0.2**	**0.3**	**-2.2**	**-0.1**	**0.4**	**0.5**		**-0.3**	**0.0**	
Contribution from nominal interest rate	...	...	0.0			0.4	0.5	0.4	0.4	0.5	0.6		0.5	0.0	
Contribution from real GDP growth	0.0	...	-0.3			-0.2	-0.2	-2.5	-0.5	-0.2	-0.1		-0.8	0.0	
Contribution from price and exchange rate changes	0.0	...	0.2			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**...**	**...**	**-1.9**			**-1.1**	**-0.8**	**3.0**	**4.6**	**8.3**	**5.2**		**-0.8**	**-0.1**	
of which: exceptional financing	...	...	-0.2			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
PV of external debt 4/	...	...	2.2			5.2	11.0	9.6	11.7	14.1	16.0		11.4	0.7	
In percent of exports	...	...	6.3			12.3	31.3	18.5	24.6	33.0	40.9		36.0	6.7	
PV of PPG external debt	**...**	**...**	**2.2**			**5.2**	**11.0**	**9.6**	**11.7**	**14.1**	**16.0**		**11.4**	**0.7**	
In percent of exports	**...**	**...**	**6.3**			**12.3**	**31.3**	**18.5**	**24.6**	**33.0**	**40.9**		**36.0**	**6.7**	
In percent of government revenues	**...**	**...**	**12.4**			**20.8**	**39.2**	**27.4**	**35.1**	**46.7**	**59.6**		**42.3**	**3.4**	
Debt service-to-exports ratio (in percent)	**0.0**	**0.0**	**0.0**			**3.8**	**12.6**	**8.5**	**0.9**	**1.2**	**1.7**		**3.7**	**3.5**	
PPG debt service-to-exports ratio (in percent)	**0.0**	**0.0**	**0.0**			**3.8**	**12.6**	**8.5**	**0.9**	**1.2**	**1.7**		**3.7**	**3.5**	
PPG debt service-to-revenue ratio (in percent)	**0.0**	**0.0**	**0.0**			**6.4**	**15.8**	**12.6**	**1.2**	**1.7**	**2.5**		**4.4**	**1.8**	
Total gross financing need (Billions of U.S. dollars)	-3.1	2.9	0.6			0.6	2.2	1.0	-0.3	-0.9	-0.6		-0.2	0.0	
Non-interest current account deficit that stabilizes debt ratio	...	...	-2.8			-1.2	-2.0	-2.1	-3.2	-6.5	-1.9		1.5	0.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-8.9	-46.8	24.2	-4.9	31.1	5.5	3.4	20.7	5.1	1.3	0.6	6.1	5.9	2.2	3.6
GDP deflator in US dollar terms (change in percent)	20.7	12.6	-10.5	9.6	13.8	5.0	5.6	-16.1	8.3	5.3	5.1	2.2	10.8	5.7	7.3
Effective interest rate (percent) 5/	...	...	0.0	0.0	...	10.3	10.2	2.9	4.1	3.9	3.8	5.9	3.7	2.6	3.5
Growth of exports of G&S (US dollar terms, in percent)	29.0	-91.6	299.3	67.0	165.2	31.4	-9.2	50.5	4.5	-4.4	-3.7	11.5	3.3	0.4	2.1
Growth of imports of G&S (US dollar terms, in percent)	23.5	-14.9	-14.7	0.2	18.6	21.9	3.3	17.2	11.1	5.1	7.4	11.0	0.1	0.0	1.6
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	52.9	17.0	13.1	16.7	15.7	8.0	20.6	29.6	29.6	25.2
Government revenues (excluding grants, in percent of GDP)	22.0	11.4	18.0			25.0	27.9	35.1	33.5	30.2	26.8		26.8	20.0	24.2
Aid flows (in Billions of US dollars) 7/	0.5	0.7	0.7			0.3	0.7	0.8	0.9	0.8	0.9		0.7	0.5	
of which: Grants	0.5	0.7	0.7			0.3	0.7	0.7	0.8	0.8	0.9		0.7	0.5	
of which: Concessional loans	0.0	0.0	0.0			0.0	0.0	0.1	0.1	0.1	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.2	5.6	5.9	5.5	4.9	4.9		2.0	0.6	1.7
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			98.0	60.0	52.9	62.6	61.8	65.0		97.1	96.0	90.0
Memorandum items:															
Nominal GDP (Billions of US dollars)	17.7	10.6	11.8			13.1	14.3	14.5	16.5	17.6	18.5		35.0	89.2	
Nominal dollar GDP growth	9.9	-40.1	11.1			10.7	9.2	1.3	13.8	6.6	5.6	7.9	17.3	8.0	11.2
PV of PPG external debt (in Billions of US dollars)			0.3			0.7	1.2	1.4	1.9	2.5	3.0		4.0	0.6	
(PVt-PVt-1)/GDPt-1 (in percent)						3.5	4.3	1.0	3.8	3.3	2.8	3.1	-0.6	-0.3	0.0
Gross workers' remittances (Billions of US dollars)	0.4	0.4	0.3			0.3	0.3	0.3	0.3	0.3	0.3		0.3	0.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	2.2			5.1	10.7	9.4	11.5	13.9	15.7		11.3	0.7	
PV of PPG external debt (in percent of exports + remittances)	...	...	5.8			11.6	29.4	17.7	23.6	31.6	39.2		35.1	6.5	
Debt service of PPG external debt (in percent of exports + remittanc	...	...	0.0			3.6	11.8	8.2	0.8	1.2	1.6		3.6	3.4	

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

1/ Includes both public and private sector external debt.

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

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

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

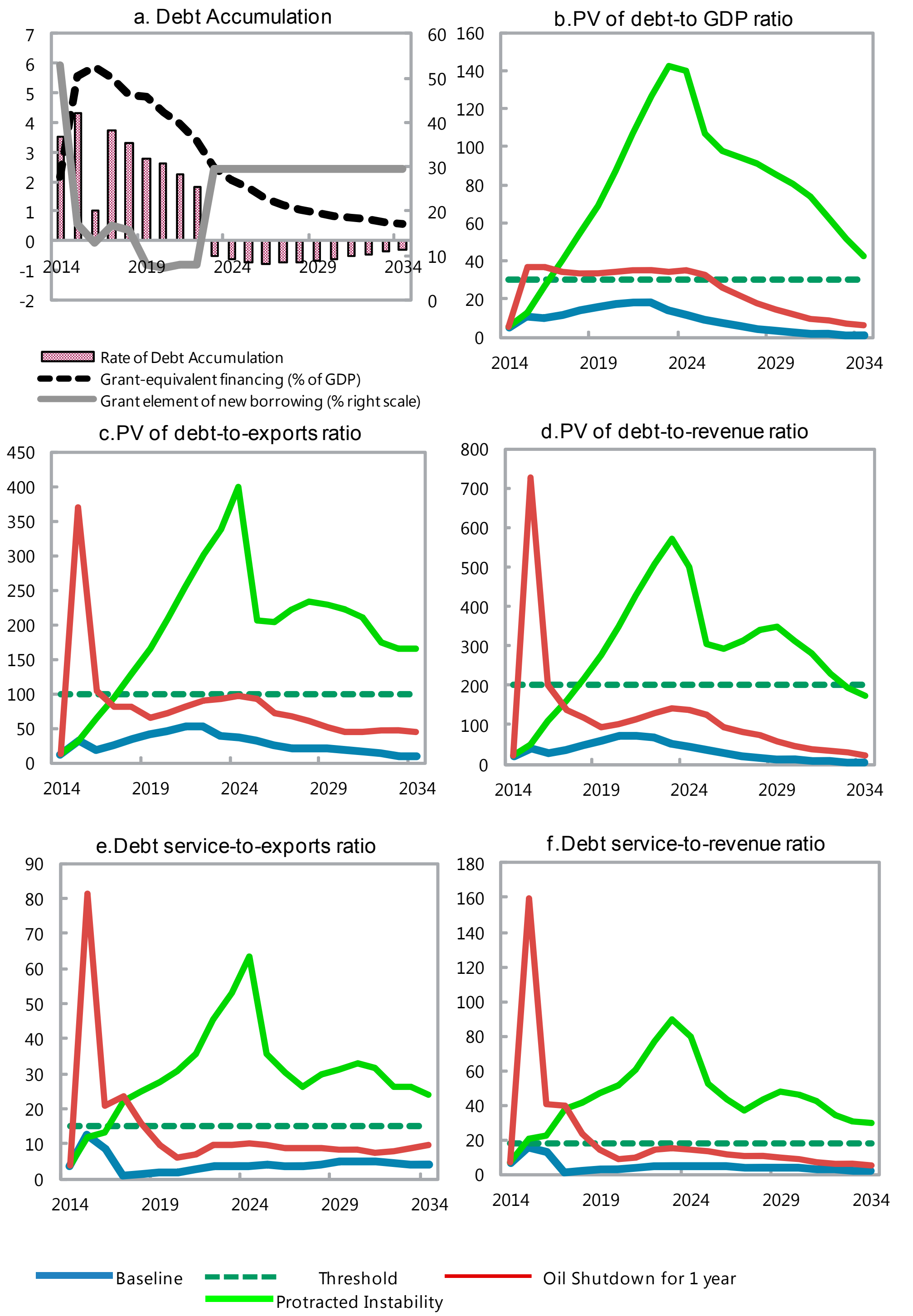
5/ Current-year interest payments divided by previous period debt stock.

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).

Figure 1. Republic of South Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-2034 1/



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

1/ In figures b through e, the most extreme test is that of an export shock. In figure f, it corresponds to a growth shock.

Table 2. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014-2034

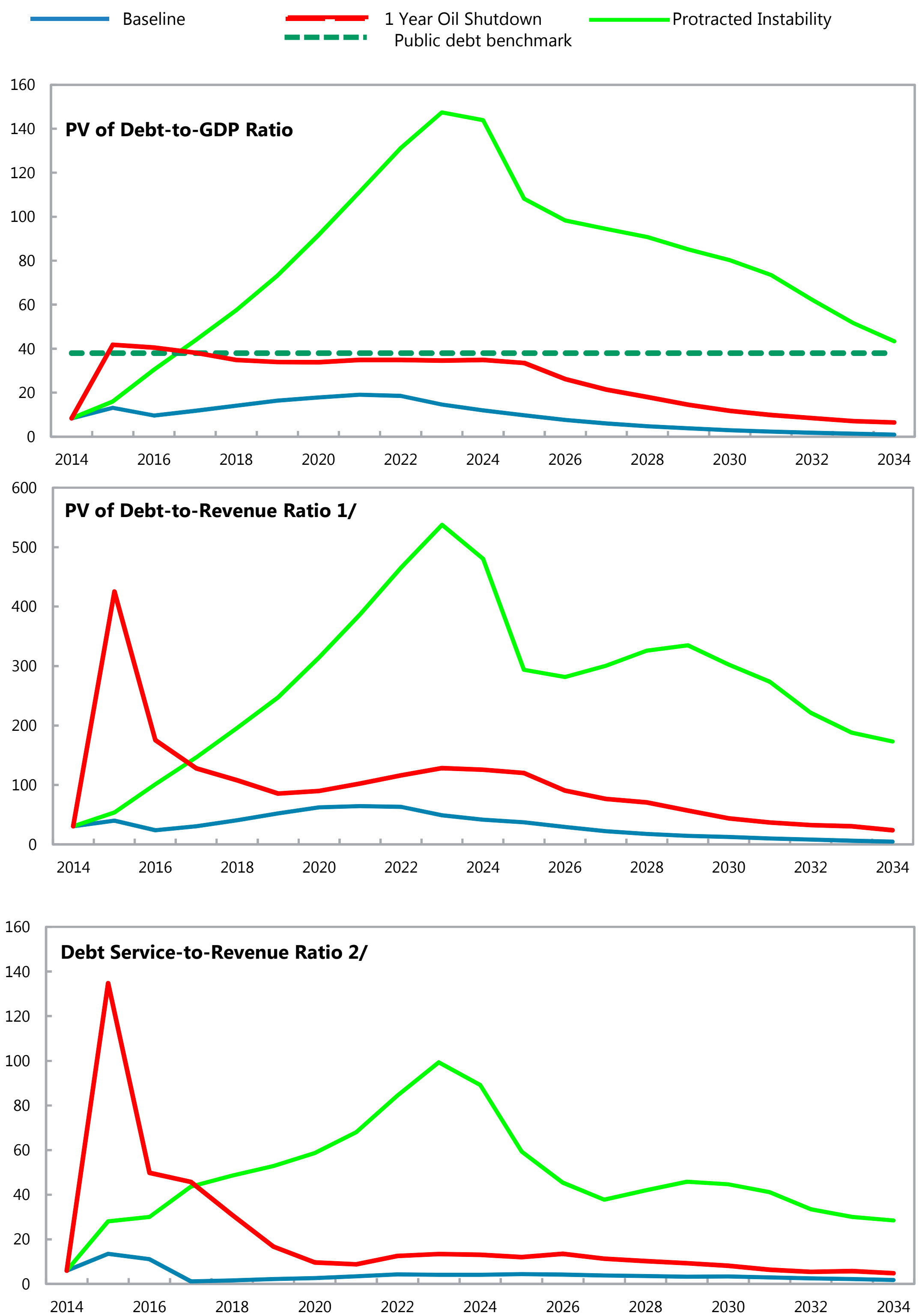
(In percent)

							Projections										
	2014	2015	2016	2017	2018	2019	**2024**	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034
PV of debt-to GDP ratio																	
Baseline	5	11	10	12	14	16	**11**	9	7	6	4	3	3	2	2	1	1
A1. Alternative Scenario: Protracted Instability	5	13	27	40	54	69	**139**	106	98	94	91	85	80	74	62	52	42
A2. Alternate Scenario: 1 Year Oil Shutdown	5	37	36	34	33	33	**35**	33	26	21	18	14	12	10	8	7	6
A3. New Public Borrowing on Less Favorable Terms[1]	5	10	12	14	18	20	**15**	13	10	8	7	6	5	4	4	3	3
PV of debt-to-exports ratio																	
Baseline	12	31	18	25	33	41	**36**	31	25	21	20	20	18	15	13	9	9
A1. Alternative Scenario: Protracted Instability	12	30	64	95	128	164	**398**	205	204	221	232	228	222	211	174	164	164
A2. Alternate Scenario: 1 Year Oil Shutdown	12	370	102	82	81	64	**96**	93	72	68	60	50	44	43	47	47	45
A3. New Public Borrowing on Less Favorable Terms[1]	12	27	22	30	41	51	**48**	42	35	32	31	34	34	34	34	31	30
PV of debt-to-revenue ratio																	
Baseline	21	39	27	35	47	60	**42**	38	29	22	17	14	12	9	7	5	5
A1. Alternative Scenario: Protracted Instability	21	51	108	161	215	277	**499**	303	291	312	338	348	312	281	227	193	172
A2. Alternate Scenario: 1 Year Oil Shutdown	21	728	202	138	119	94	**135**	124	94	80	74	59	45	38	34	31	22
A3. New Public Borrowing on Less Favorable Terms[1]	21	34	33	43	58	74	**56**	51	42	32	27	24	23	21	19	17	15
Debt service-to-exports ratio																	
Baseline	4	13	9	1	1	2	**4**	4	4	4	4	5	5	5	5	4	4
A1. Alternative Scenario: Protracted Instability	4	12	13	22	25	28	**63**	35	30	26	30	31	33	32	26	26	24
A2. Alternate Scenario: 1 Year Oil Shutdown	4	81	21	23	16	9	**10**	10	9	9	9	8	8	7	8	9	10
A3. New Public Borrowing on Less Favorable Terms[1]	4	13	8	1	2	2	**5**	5	5	5	5	6	7	7	8	6	6
Debt service-to-revenue ratio																	
Baseline	6	16	13	1	2	2	**4**	5	4	4	4	3	3	3	3	2	2
A1. Alternative Scenario: Protracted Instability	6	20	22	38	42	47	**79**	53	43	37	44	48	46	42	34	31	29
A2. Alternate Scenario: 1 Year Oil Shutdown	6	160	41	40	23	14	**14**	13	11	11	11	10	8	7	6	6	5
A3. New Public Borrowing on Less Favorable Terms[1]	6	16	13	2	2	3	**6**	7	6	5	5	4	5	4	4	3	3
Memorandum item:																	
Grant element assumed on residual financing (i.e., financing required above baseline)	5	5	5	5	5	5	**5**	5	5	5	5	5	5	5	5	5	5

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

1/ Assumes that the interest rate on new borrowing between 2014-2034 is 2 percentage points higher than the baseline while he grace and maturity are the same as baseline.

Figure 2. Republic of South Sudan: Indicators of Public Debt Under Alternative Scenarios, 2014-2034 1/



Sources: South Sudanese authorities; and staff estimates and projections.
1/ Revenues are defined inclusive of grants.

Table 3. Republic of South Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034

(In percent of GDP, unless otherwise indicated)

	Actual					Estimate	Projections								
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	0.0	4.9	8.1			8.7	14.5	11.6	14.1	16.9	19.2		13.5	1.4	
of which: foreign-currency denominated	0.0	1.4	4.8			5.6	12.4	11.6	14.1	16.9	18.8		12.9	1.2	
Change in public sector debt	0.0	4.9	3.2			0.6	5.9	-2.9	2.5	2.7	2.3		-3.0	-0.4	
Identified debt-creating flows	...	...	...			5.1	4.7	-6.9	0.2	-2.1	1.2		-2.4	-5.6	
Primary deficit	-4.5	15.7	6.7	2.2	9.2	5.5	4.3	-4.0	1.1	-1.8	1.4	1.1	-0.5	-5.5	-1.8
Revenue and grants	25.0	17.8	24.4			27.1	32.7	40.2	38.3	34.6	31.5		28.8	20.6	
of which: grants	2.9	6.4	6.3			2.1	4.8	5.1	4.9	4.4	4.6		2.0	0.6	
Primary (noninterest) expenditure	20.5	33.5	31.0			32.6	37.0	36.1	39.5	32.8	32.9		28.3	15.1	
Automatic debt dynamics	...	...	...			-0.3	0.5	-2.8	-1.0	-0.4	-0.3		-1.9	-0.1	
Contribution from interest rate/growth differential	...	...	...			-0.2	-0.7	-2.5	-0.3	0.1	0.2		-0.7	0.0	
of which: contribution from average real interest rate	...	...	...			0.2	-0.5	0.0	0.2	0.2	0.3		0.2	0.0	
of which: contribution from real GDP growth	0.0	0.0	-0.9			-0.4	-0.3	-2.5	-0.6	-0.2	-0.1		-0.9	0.0	
Contribution from real exchange rate depreciation	...	...	...			-0.2	1.2	-0.4	-0.7	-0.4	-0.5		...	...	
Other identified debt-creating flows	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		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	...	...	...			-4.6	1.1	4.0	2.4	4.9	1.2		-0.6	5.1	
Other Sustainability Indicators															
PV of public sector debt	...	...	5.5			8.3	13.1	9.6	11.7	14.1	16.4		11.9	0.9	
of which: foreign-currency denominated	...	...	2.2			5.2	11.0	9.6	11.7	14.1	16.0		11.4	0.7	
of which: external	...	...	2.2			5.2	11.0	9.6	11.7	14.1	16.0		11.4	0.7	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-4.5	...	6.7			11.2	14.7	6.2	1.6	-1.3	2.1		0.7	-5.1	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	22.6			30.7	39.9	24.0	30.6	40.8	52.2		41.4	4.4	
PV of public sector debt-to-revenue ratio (in percent)	...	...	30.6			33.2	46.8	27.4	35.1	46.7	61.2		44.5	4.6	
of which: external 3/	...	...	12.4			20.8	39.2	27.4	35.1	46.7	59.6		42.3	3.4	
Debt service-to-revenue and grants ratio (in percent) 4/	0.0	0.0	0.0			5.9	13.5	11.0	1.1	1.5	2.1		4.1	1.7	
Debt service-to-revenue ratio (in percent) 4/	0.0	0.0	0.0			6.4	15.8	12.6	1.2	1.7	2.5		4.4	1.8	
Primary deficit that stabilizes the debt-to-GDP ratio	-4.5	10.8	3.5			4.9	-1.6	-1.1	-1.4	-4.5	-0.9		2.5	-5.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-8.9	-46.8	24.2	-4.9	31.1	5.5	3.4	20.7	5.1	1.3	0.6	6.1	5.9	2.2	3.6
Average nominal interest rate on forex debt (in percent)	...	...	...	...	...	10.3	10.2	2.9	4.1	3.9	3.8	5.9	3.7	2.6	3.5
Average real interest rate on domestic debt (in percent)	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
Real exchange rate depreciation (in percent, + indicates depreciation)	-22.9	-7.9	13.4	-5.0	15.0	-3.2	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	57.3	10.5	-10.5	18.1	28.4	5.0	42.4	5.6	8.3	5.3	5.1	11.9	10.8	5.7	7.3
Growth of real primary spending (deflated by GDP deflator, in percent)	0.4	-12.9	15.0	0.7	11.4	10.6	17.4	17.9	14.8	-15.8	0.8	7.6	0.1	-19.3	-1.4
Grant element of new external borrowing (in percent)	...	...	...	...	...	52.9	17.0	13.1	16.7	15.7	8.0	20.6	29.6	29.6	...

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

1/ Refers to 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 4. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public Debt 2014-2034

		Projections						
	2014	2015	2016	2017	2018	2019	2024	2034
PV of Debt-to-GDP Ratio								
Baseline	8	13	10	12	14	16	12	1
A1. Alternative Scenario: Protracted Instability	8	16	30	44	58	73	144	43
A2. Alternate Scenario: 1 Year Oil Shutdown	8	42	41	38	35	34	35	6
PV of Debt-to-Revenue Ratio 1/								
Baseline	31	40	24	31	41	52	41	4
A1. Alternative Scenario: Protracted Instability	31	54	101	147	196	247	481	173
A2. Alternate Scenario: 1 Year Oil Shutdown	31	425	175	128	108	86	126	24
Debt Service-to-Revenue Ratio 1/								
Baseline	6	13	11	1	1	2	4	2
A1. Alternative Scenario: Protracted Instability	6	28	30	44	49	53	89	28
A2. Alternate Scenario: 1 Year Oil Shutdown	6	135	50	46	31	17	13	5

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

1/ Revenues are defined inclusive of grants.

Statement by the IMF Staff Representative on the Republic of South Sudan
December 15, 2014

This statement contains information that has become available since the staff report was circulated to the Executive Board. This information does not alter the thrust of the staff appraisal.

1. **Foreign exchange reserves remain critically low and the exchange rate in the parallel market has depreciated further.** At end-November 2014, the net foreign assets of the central bank amounted to US$340 million (less than 3-weeks of imports), compared to US$379 million at end-September. Reflecting the difficult macroeconomic situation, the exchange rate in the parallel market also depreciated, from SSP 5.3 per U.S. dollar in October to SSP 5.8 per U.S. dollar at end-November.

2. **Financing the fiscal deficit remains challenging in light of the ongoing conflict and low oil prices.** While production remains subdued, staff estimates that if the most recent oil prices persist for the remainder of the fiscal year, the average price for South Sudanese oil could be about 5 U.S. dollars lower compared to the baseline in the staff report, leading to a further worsening of the fiscal balance equivalent to 1.6 percentage points of GDP (US$235 million).

INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 14/580
FOR IMMEDIATE RELEASE
December, 17, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with South Sudan

On December, 15, 2014, the Executive Board of the International Monetary Fund concluded the Article IV consultation[1] with South Sudan.

South Sudan is a fragile state with acute challenges. Since it became an independent state in 2011, institution building and development have been hindered by volatile relations with Sudan, a 15-month shutdown of oil production, and more recently, a civil conflict. Although rich in natural resources, the economy is centered on oil production and subsistence agriculture, with almost all consumer goods being imported.

Economic performance has been mixed in recent years. Real Gross Domestic Product (GDP) growth has displayed high volatility, the result of changes in oil and agricultural production. Inflation rose in an initial period of economic instability in 2011-12 but was contained in 2013-14 thanks to fiscal and monetary restraint and lower food prices. However, serious challenges remain, including distortions in the foreign exchange market and in budget execution, lower international oil prices, and subdued oil production. As a result, financing the budget for 2014/15 is challenging and will likely require policy decisions given the otherwise potentially adverse impact on economic stability and inflation.

The medium-term outlook could be promising, but there are serious risks. Assuming peace, regional cooperation, and economic reforms, oil production could increase in coming years and the potential for other mining and non-oil activities (especially agriculture and forestry) could be unlocked, leading to strong GDP growth and allowing for investments in social sectors and the public infrastructure. However, there are several risks on the horizon, including unresolved political and security issues, continued governance problems, and insufficient progress on critical economic reforms.

[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.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. In welcoming the completion of the first Article IV consultation with South Sudan, Directors noted that the country faces formidable near-term challenges from the ongoing civil war, volatile relations with Sudan, large swings in oil production and prices, and weak institutions and governance. Against this background, Directors underscored the urgent need for measures to address fiscal imbalances, including exchange rate unification, and stressed the importance of peace and political inclusion to set the basis for growth and development.

Directors agreed that reduced oil revenues and lack of room for public expenditure cuts call for policy actions on a variety of fronts to close the financing gap in the fiscal accounts and restore macroeconomic stability. They supported the authorities' intentions to mobilize non-oil revenue, and emphasized the importance of improving expenditure management and preventing domestic arrears, primarily through the enforcement of monthly budget allocations, a strict control of extra-budgetary expenditures, and steps to set up a single treasury account. Directors cautioned against increased central-bank financing of the fiscal deficit, which would fuel inflation and further weaken the local currency.

Directors underscored the need to unify the exchange rate and adopt a market-based system for allocating foreign exchange. Exchange rate unification would significantly reduce the fiscal imbalance, remove incentives for corruption, and improve price signals to favor private investment and non-oil economic activities. An adjustment in the exchange rate peg to a realistic level would also help stem foreign reserve losses. Directors urged the authorities to remove the multiple currency practices and exchange restrictions as soon as possible.

Directors stressed the urgency of improving transparency and accountability in the management of mineral resources, government expenditures, and central bank operations. They encouraged the authorities to enact the Petroleum Revenue Management Act, and called for the implementation of recommendations from the 2012 audit of the central bank and the wide dissemination of oil, fiscal, and financial data.

Directors emphasized that strong and concerted policy efforts will be needed over the medium term to foster economic development and build institutions. Priorities include restoring depleted reserve buffers, reorienting public spending toward social sectors and infrastructure, implementing public financial management legislation, and addressing the legacy of war. These tasks will require strong leadership and cooperation from the international community, including continued technical assistance.

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[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.

Republic of South Sudan: Selected Economic Indicators[1]

Population (millions; 2012/13):	10.6	Per capita GDP (US$) (2012/13):	1116
IMF Quota (current; millions SDR; % total):	123; 0.05%	Literacy rate (%) (2009):	27
Main exports:	Oil	Poverty rate (%) (2009):	51
Key export markets:	China, Malaysia, Japan	Paved road density:	0.02km/100km[2]

	2011/12 Act.	2012/13 Act.	2013/14 Prel.	2014/15 Proj.
Output and Prices				
Real GDP growth (%)	-25.1	-26.7	30.7	-7.5
Oil production (millions of barrels per year)	70.5	18.3	66.2	58.5
Inflation, average (%)	59.2	22.7	-5.6	11.2
South Sudan's oil price (US dollars per barrel)	96.4	97.6	97.8	81.7
Central government finances				
Revenue and grants (% GDP)	27.7	11.6	25.9	28.6
Of which: grants (% of GDP)	3.6	7.1	2.2	4.8
Of which: oil revenues (% of GDP)	23.0	1.7	21.6	20.0
Expenditure (% GDP)	27.9	26.4	28.9	35.4
Current	22.7	22.5	24.9	32.3
Of which: Payments to Sudan (% of GDP)		0.0	5.9	6.0
Capital	5.3	3.8	3.9	3.0
Fiscal balance (% GDP)2	-0.2	-14.9	-3.0	-6.7
Public debt (% GDP)	0.0	9.5	6.4	10.3
Money and Credit				
Broad money (% change)	…	-15.3	20.0	21.1
Reserve money (% change)	…	-36.1	37.0	21.4
Credit to private sector (% change)	…	84.5	7.2	24.2
Balance of payments				
Current account (% GDP)	9.5	-18.0	7.7	-4.9
Net foreign assets of the central bank (in months of imports, end of period)	4.8	0.9	0.5	0.5
External debt (% GDP)	…	6.4	3.6	9.0
Exchange rate				
Official rate (SSP per dollar; period average)	3.0	3.0	3.0	…
Parallel market rate (SSP per dollar; period average)	4.0	4.4	4.3	…

Source: South Sudanese authorities; and IMF staff estimates and projections.
[1] The data corresponds to fiscal year (July to June).
[2] Includes statistical discrepancy and payment of domestic arrears.