INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/324

SUDAN

October 2016

2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SUDAN

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 2016 Article IV consultation with Sudan, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its September 7, 2016 consideration of the staff report that concluded the Article IV consultation with Sudan.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on September 7, 2016, following discussions that ended on June 2, 2016 with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on July 25, 2016.
- An **Informational Annex** prepared by the IMF staff.
- A **Debt Sustainability Analysis** prepared by the staffs of the IMF and the International Development Association (IDA)
- A **Statement by the Executive Director** for Sudan.

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

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October 04, 2016

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IMF Executive Board Concludes 2016 Article IV Consultation with Sudan

On September 7, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Sudan.

Sudan is a low-income fragile country facing significant domestic and international constraints and large macroeconomic imbalances despite efforts made toward macroeconomic stability and growth. Following the shock of the secession of South Sudan five years ago, policy adjustments helped to contain the fiscal deficit, slow money growth, reduce inflation, and support economic recovery. Institutional reforms strengthened tax collections and public financial management, and social spending increased. Despite these efforts, however, large macroeconomic imbalances—triggered by the loss of three-quarters of oil exports—continue to constrain growth prospects, along with weak policies, internal conflicts, and U.S. sanctions. Domestic and international efforts to end internal conflicts have yet to bear fruit, and the humanitarian situation remains difficult. Sanctions and the withdrawal of correspondent bank relations weigh on trade, investment, and growth. Absence of progress toward debt relief limits access to official external financing.

While good harvests boosted growth to close to 5 percent in 2015, external imbalances widened due to low commodity export prices, expansionary policies, and insufficient exchange rate adjustment. The terms-of-trade shock widened the current account deficit to 6 percent of GDP in 2015, while the already low foreign exchange reserves dropped to 1½ month of imports despite external financial support. The parallel exchange rate continued to depreciate and the premium soared to 165 percent as the official rate remained virtually fixed. The budget deficit widened to 1.9 percent of GDP owing to shortfalls in oil revenue. Inflation, which had been contained to 12.6 percent at end-2015 (from 25.7 percent a year before), rose to 16.5 percent in July 2016.

[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.

The outlook is subject to significant downside risks. Low commodity export prices, absence of policy buffers, economic sanctions, the withdrawal of foreign correspondent banking relationships, and a weak business environment will continue to constrain economic activity. Consequently, growth is expected to remain modest at 3–3½ percent in 2016 and beyond. The fiscal framework faces risks due to low tax revenues and uncertain oil revenues. Large external financing gaps are likely to persist.

Sudan remains in debt distress and is eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Large external debt and arrears hinder access to external financing and weigh heavily on development prospects. Sudan's arrears to the Fund declined to about SDR 969 million at end-June 2016 following payments of $10 million each in 2014 and 2015, and $5 million in the first half of 2016. The authorities intend to continue to engage with international partners to secure support for debt relief and the lifting of sanctions, which would pave the way for foreign investment and financing for growth and poverty reduction. They are committed to strengthening cooperation with the IMF on policies and payments.

Executive Board Assessment[2]

Executive Directors welcomed the progress made toward macroeconomic stabilization and growth following South Sudan's secession in 2011 and against the backdrop of a challenging external environment. Directors regretted, however, that large macroeconomic imbalances, exacerbated by low commodity export prices, continue to constrain growth and development prospects. They encouraged the authorities to accelerate and sustain broad-based reforms to achieve macroeconomic stability, address vulnerabilities, and promote inclusive growth.

Directors stressed the importance of continued fiscal consolidation. They encouraged the authorities to contain spending on goods and services while protecting social spending, prioritizing capital spending, and accelerating ongoing revenue administration reforms. Directors considered that, given Sudan's low tax revenues, stronger domestic revenue mobilization is essential to generate fiscal space for investment and social spending in the medium term, and to achieve pro-growth fiscal consolidation.

Directors called for tightening monetary policy to keep inflation in check. They noted that this would require continued adherence to limits on central bank advances to the government, limiting quasi-fiscal activities to levels consistent with monetary targets, and developing liquidity management instruments. Directors also called on the central bank to strengthen its capacity to mitigate financial stability risks. They welcomed Sudan's removal from the Financial Action Task Force's "gray list," and called for continued strengthening of the AML/CFT framework.

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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.

Directors emphasized the need to adjust the exchange rate and move toward greater flexibility, with a view to improving competitiveness and significantly reducing the parallel market premium. They encouraged the authorities to prepare a timetable for the removal of foreign exchange restrictions and multiple currency practices as soon as possible.

Directors encouraged the authorities to advance structural policies to foster sustained and inclusive growth. They supported reforms to improve the business environment for the private sector, financial inclusion, and the quality of spending to support human capital. Directors called for expanding social safety nets and improving their targeting to reduce poverty, and welcomed initial preparations of a Poverty Reduction Strategy.

Directors recognized that garnering international support for debt relief is critical for Sudan's economic development. Continued engagement with international partners to secure comprehensive support for debt relief would pave the way for foreign investment and financing for growth and poverty reduction. Directors called for minimizing non-concessional borrowing and avoiding selective servicing of bilateral debt. They encouraged the extension of the "zero option" agreement with South Sudan before it expires in October 2016 and strengthening the joint outreach for debt relief by the two countries. Directors encouraged the authorities to continue to strengthen cooperation with the Fund on policies and payments. They advised the authorities to make regular payments to the Fund that are at least sufficient to cover Sudan's obligations falling due and increase them in line with improvement in Sudan's payment capacity.

Sudan: Selected Economic Indicators, 2012–17

	2012	2013	2014	2015	2016	2017
					Proj.	
Output and prices			(Annual change in percent)			
Real GDP (factor cost)	-2.2	5.3	1.6	4.9	3.0	3.5
Oil	-59.0	57.8	-13.2	-10.0	-7.6	0.4
Non-oil	4.6	2.8	2.7	5.8	3.6	3.6
Consumer prices (end of period)	44.4	41.9	25.7	12.6	16.5	13.7
Consumer prices (period average)	35.4	36.5	36.9	16.9	13.5	16.1
Central government finances			(In percent of GDP)			
Revenue and grants	9.9	11.0	12.0	11.0	9.8	9.6
Of which: Nonoil revenues	6.9	8.3	9.0	9.0	8.6	8.2
Of which: Oil revenues	2.6	2.0	2.4	1.7	0.8	1.1
Expenditure	13.3	13.3	13.4	12.9	11.9	11.7
Overall balance	-3.3	-2.3	-1.4	-1.9	-2.1	-2.2
Primary balance	-2.2	-1.8	-0.5	-1.1	-1.3	-1.5
Monetary sector			(Annual changes in percent)			
Broad money	40.3	13.0	17.0	19.8	25.5	22.8
Credit to the economy	34.1	23.2	17.6	20.8	23.2	18.7
Balance of payments			(In percent of GDP, unless otherwise indicated)			
Exports of goods (in US$, annual percent change)	-53.7	-4.4	-9.0	-28.8	13.5	9.8
Imports of goods (in US$, annual percent change)	2.6	2.3	-7.0	3.2	-2.8	7.5
Current account balance (cash basis)	-6.7	-6.2	-4.8	-5.9	-4.2	-3.6
External debt	68.9	68.7	65.8	61.4	55.9	49.5
External debt (in billions of US$)	43.2	45.0	46.8	50.0	52.6	55.6
Gross international reserves (in billions of US$)	1.7	1.6	1.5	1.0	0.8	0.9
In months of next year's imports of G&S	1.9	1.9	1.7	1.2	1.0	1.0
Exchange rate (official SDG/US$, period average)	3.6	4.8	5.7	6.0	…	…

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

INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION

July 25, 2016

KEY ISSUES

Context. Sudan is a low-income fragile country facing significant domestic and international constraints and large macroeconomic imbalances despite notable progress toward macroeconomic stability and growth. Following the shock of the secession of South Sudan five years ago, policy adjustments helped to contain the fiscal deficit, slow money growth, reduce inflation, and support economic recovery. Institutional reforms strengthened tax collections and public financial management, and social spending increased. Despite these efforts, however, large macroeconomic imbalances—triggered by the loss of three-quarters of oil exports—continue to constrain growth prospects, along with weak policies, internal conflicts, and U.S. sanctions. Domestic and international efforts to end internal conflicts have yet to bear fruit, and the humanitarian situation remains difficult. Sanctions and the withdrawal of correspondent bank relations weigh on trade, investment, and growth. Absence of progress toward debt relief limits access to official external financing.

Developments, outlook, and risks. Despite progress made toward macroeconomic stability and growth—and good harvests boosting growth to close to 5 percent last year—renewed efforts are needed. External imbalances widened in 2015–16 due to a negative terms-of-trade shock, increased monetization of government operations, and limited exchange rate flexibility. The already low foreign exchange reserves dropped to one-and-a-half month of imports despite external financial support, while the parallel exchange rate continued to depreciate and the premium soared as the official rate remained virtually fixed. The fiscal deficit widened and the budget faces risks due to low tax revenues and shortfalls in oil revenue. The outlook is subject to significant downside risks. Large external financing gaps are likely to persist, heightening risks of disorderly adjustment in case of shortfalls in external financing. As a result, macroeconomic stability and growth rest on early policy adjustment and external aid.

Policy recommendations. The authorities should accelerate policy consolidation and reforms to achieve macroeconomic stability, address vulnerabilities, and promote inclusive growth. Policies should include greater exchange rate flexibility; increasing fiscal revenue to create space for growth-enhancing public infrastructure and social spending, while reducing the fiscal deficit and tightening monetary policy; enhancing financial sector resilience; strengthening social safety nets; and improving the business environment for private investment and job creation.

Debt relief. Sudan remains in debt distress and is eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative. Large external debt and arrears hinder access to external financing and weigh heavily on development prospects. Sudan's arrears to the Fund declined to about SDR 969 million at end-June 2016 following payments of $10 million each in 2014 and 2015, and $5 million in the first half of 2016. The authorities should continue to engage with international partners to secure support for debt relief and the lifting of sanctions, which would pave the way for foreign investment and financing for growth and poverty reduction. Strengthening cooperation with the IMF on policies and payments should also continue.

Approved By
Daniela Gressani and Catherine Pattillo

Discussions were held in Khartoum during May 21–June 2, 2016. The team comprised Eric Mottu (head), Abdikarim Farah, Gabriel Presciuttini, Saad Quayyum (all MCD), Mariusz Sumlinski (FIN), Lodewyk Erasmus (Resident Representative), and Amin Yasin (local economist). Ms. Daniela Gressani (MCD) joined the conclusion of the mission. Ms. Chileshe Kapwepwe and Ms. Felicia Dlamini-Kunene (both OED) participated in the policy discussions. Chawoong Lee (FAD) supported from headquarters. The mission met with First Vice-President Bakri Hassan Salih, Finance Minister Badreldin Mahmoud Abbas, Central Bank Governor Abdelrahman Hassan Abdelrahman, other senior government officials, and members of the business and diplomatic communities.

CONTENTS

BACKGOUND AND CONTEXT 5

RECENT ECONOMIC DEVELOPMENTS 8

OUTLOOK AND RISKS 13

POLICY DISCUSSIONS 13

A. External Stability and the Exchange Rate 14
B. Fiscal Consolidation and Revenue Mobilization 15
C. Monetary Policy and Financial Stability 16
D. Inclusive Growth 17
E. External Debt 18
F. Statistical Issues 19

ARTICLE VIII 20

STAFF APPRAISAL 21

BOXES

1. Tax Revenue Mobilization 6
2. Response to the 2014 Article IV Consultation Key Recommendations 8
3. Withdrawal of Correspondent Bank Relations 12
4. Path to Debt Relief 19
5. Exchange Rate System 20

FIGURES

1. Selected Economic Indicators ____ 24
2. Fiscal Sector ____ 25
3. Monetary Sector ____ 26
4. External Sector ____ 27

TABLES

1. Risk Assessment Matrix ____ 28
2. Selected Economic Indicators, 2012–17 ____ 29
3. Medium-Term Macroeconomic Outlook, 2013–21 ____ 30
4a. Balance of Payments, 2013–21 (In millions of U.S. dollars) ____ 31
4b. Balance of Payments, 2013–21 (In percent of GDP) ____ 32
5a. Central Government Operations, 2013-21 ____ 33
5b. Central Government Operations, 2013–21 ____ 34
6. Monetary Survey, 2013–17 ____ 35
7. Summary Accounts of the Central Bank, 2013–17 ____ 36
8. Summary Accounts of the Commercial Banks, 2013–17 ____ 37
9. Financial Soundness Indicators for the Banking Sector, 2010–16 ____ 38

ANNEXES

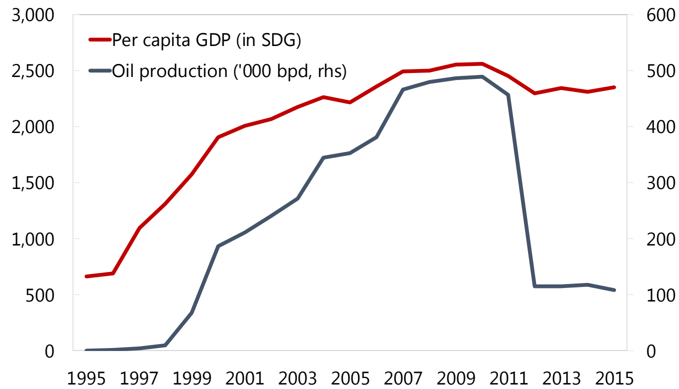
I. External Stability Assessment ____ 39
II. Challenges of Inclusive Growth and Policy Options ____ 43

BACKGOUND AND CONTEXT

1. **Sudan is a low-income fragile country facing significant domestic and international constraints and large macroeconomic imbalances.** Decades of internal conflicts and U.S. sanctions have undermined economic stability and growth. While the start of oil production in 1999 triggered rapid growth that tripled per capita income within a decade, Sudan lost the bulk of its oil exports and related budget revenues following the secession of South Sudan in 2011. Gradual policy adjustment supported by financial assistance from Gulf countries restored some degree of economic stability and helped prevent a drop in real incomes. Looking forward, strong policies, normalization of relations with creditor countries, the lifting of sanctions, and debt relief are needed to achieve macroeconomic stability and unleash Sudan's potential.

Real GDP Per Capita and Oil Production

(in SDG and barrels per day)

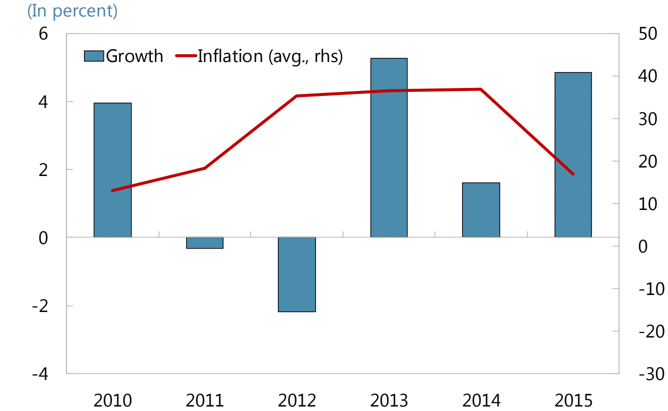


Sources: Sudanese authorities; and IMF staff calculations.

2. **Economic stabilization efforts have borne some fruit.** Since 2012, the authorities have launched reforms to adjust to the loss of oil revenues. Measures included exchange rate adjustments, subsidy reductions, fuel price hikes, and tax increases. Tax collections and public financial management were strengthened, and social spending was increased to mitigate the impact of the adjustment on the poor. The reforms, supported by a Staff-Monitored Program (SMP) in 2014, helped reduce the fiscal deficit, slow money growth, ease inflation, and support growth. The authorities' recent five-year reform plan for 2015–19 continues in the same direction.

Inflation and Growth

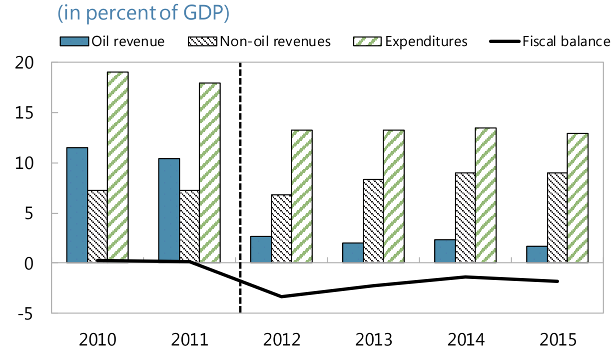
(In percent)



Source: Sudanese authorities; and IMF staff estimates.

Revenues, Expenditures and Fiscal Balance

(in percent of GDP)



Source: Sudanese authorities

3. **However, large imbalances persist and growth remains below potential.** Five years after the secession of South Sudan, adjustment to the loss of oil revenues is work in progress. Low tax revenues (Box 1) constrain growth-enhancing public infrastructure and social spending. Monetization of the budget deficit and large quasi-fiscal activities (QFAs) put sizable pressure on

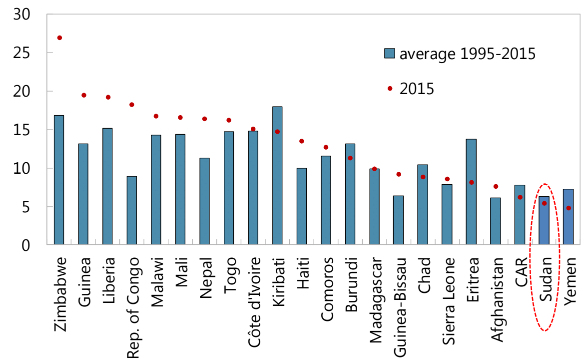
liquidity creation. The virtually fixed official exchange rate contributes to foreign exchange distortions and shortages, and low import tax collections. Actions against violations of U.S. sanctions since mid-2014 contributed to the withdrawal of correspondent bank relations (CBRs), which hampers foreign trade and investment and weighs heavily on growth. Absence of debt relief limits access to official external financing.

Box 1. Tax Revenue Mobilization

Sudan's tax revenues are among the lowest in low- and lower-middle income countries (LLMICs). Tax revenues represented only 6.3 percent of GDP compared to 12 percent of GDP on average in fragile LLMICs in 1995–2015 (figure). With little improvement over the period, this gap has been increasing.

Selected Countries. Tax Revenues

(In percent of GDP)



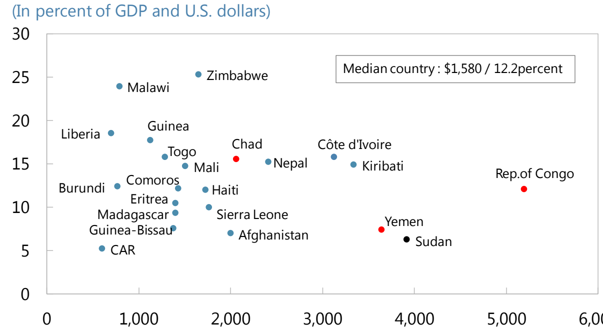
Source: WEO (IMF) and IMF staff calculations.

Tax collections have yet to adjust to the loss of oil revenues following the secession of South Sudan. Oil revenues, which averaged 8 percent of GDP in 1995–2011, financed the bulk of government expenditure and made it unnecessary to raise tax collections. After the secession, oil revenues (including transit fees and transfers from South Sudan) dropped to 2.2 percent of GDP in 2012–15, and are expected to drop further to less than 1 percent of GDP in 2016 on account of low global oil prices. At the same time, despite efforts to strengthen tax administration, tax revenues increased only marginally in percent of GDP in 2015 due to low imports and an overvalued official exchange rate. This limited the available fiscal space and constrained pro-growth investment and poverty-reducing social spending.

Sudan's tax revenue is lower than expected at its income level. In general, tax revenues are positively correlated with GDP per capita. In particular, a non-oil producing country with a median income per capita of $1,520 (at PPP exchange rates) should raise tax revenues equivalent to 12.2 percent of GDP on average. In contrast, Sudan with an income of $3,920 collected only 6.2 percent of GDP in 2015—comparable to much poorer countries such as Afghanistan and the Central African Republic.

Selected Countries. Tax Revenues and GDP per Capita 1/

(In percent of GDP and U.S. dollars)



1/ The GDP per capita at PPP (current U.S. dollars). Data for year 2015 or latest available. Red dots are oil-exporter countries.
Source: WEO (IMF) , WDI (WB).

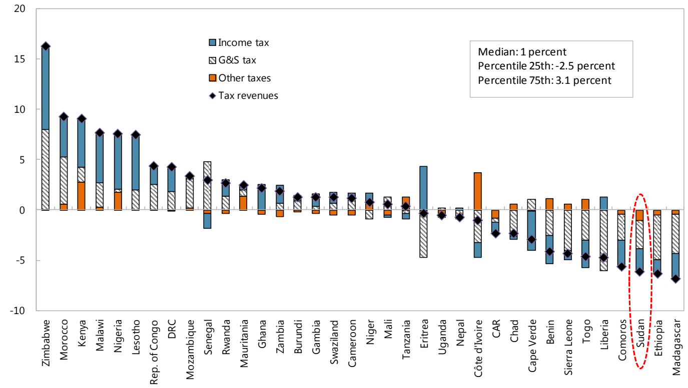
Sudan's tax collection efficiency is relatively low. VAT efficiency—measured by the revenue collected in percent of GDP divided by the standard tax rate—is only 0.19 per percentage point, placing Sudan below the 25th percentile of the distribution and well below the median of 0.37. While at 17 percent its VAT rate is similar to its peers (in the range of 15–18 percent), the low efficiency suggests large tax exemptions and/or weaknesses in tax administration.

Box 1. Tax Revenue Mobilization (concluded)

Furthermore, Sudan has one of the lowest direct tax revenues among LLMICs, collecting only 0.6 percent of GDP. This is explained by low personal and corporate income tax rates, high exemptions and tax holidays, and low compliance due to weak administration.

There is significant scope to raise tax revenues in Sudan. Out of 36 African LLMICs, Sudan ranked 34th in terms of tax effort, with a tax revenue gap of 6.1 percent of GDP (Torres, 2016).[1/] The study estimated the tax gap for 135 countries, controlling for country characteristics such as GNI per capita, imports, oil and gas exports, demographics, and political participation. The results suggest that Sudan should be able to increase its tax ratio by 6 percent of GDP, especially by raising tax collections on income and goods & services by 2.3 percent and 2.8 percent of GDP, respectively.

Selected African Countries. Tax gaps in LICs and LMICs
(in percent of GDP)



Source: Revenue and Expenditure Gaps: A Cross-Country Analysis. Torres (2015). IMF WP Forthcoming.

———————————

[1/] Torres, Jose, "Revenue and Expenditure Gaps: A Cross-Country Analysis," 2016 (Forthcoming), IMF.

4. **Domestic and international efforts to resolve internal conflicts and address the difficult humanitarian situation are underway**. The U.N. counts 3.1 million internally-displaced persons and about 360,000 refugees (many from South Sudan), and provides humanitarian support to some 5.4 million people (15 percent of the population). Armed conflicts have been endemic in some areas of Darfur, South Kordofan, and Blue Nile states, and a 21,000-strong UN-African Union (AU) peacekeeping force has been stationed in Darfur since 2007. The government launched a national dialogue in 2015, but the process was boycotted by key opposition parties and armed rebel groups. In early 2016, a roadmap for peace was launched under the auspices of the AU with support from the international community, but has yet to be agreed by all parties. In May, the government held a referendum on the permanent administrative status of Darfur and in June declared a unilateral cessation of hostilities in South Kordofan and Blue Nile.

5. **Implementation of the recommendations of the last Article IV has been mixed (Box 2).** Current spending was contained, including through initial steps to reduce fuel subsidies. However, the limited response thus far to ongoing tax administration reforms has delayed fiscal consolidation and constrained monetary control. Importantly, no progress was made towards greater exchange rate flexibility.

Box 2. Response to the 2014 Article IV Consultation Key Recommendations

Exchange rate: greater exchange rate flexibility

- No progress. The CBOS adjusted the official exchange rate by only 2 percent in July 2015 while the gap with the parallel market rate widened to 122 percent in mid-June 2016. International reserves declined.

Fiscal policy: fiscal consolidation through revenue mobilization and restrain of current spending, including a gradual phase-out of fuel subsidies

- Limited progress. While current spending was contained, the drop in oil revenues and slow progress in increasing non-oil revenues led to a widening deficit.

Monetary policy: tighter monetary policy

- Limited progress. Inflation declined from 25.7 percent at end-2014 to 14.3 percent in June 2016, partly on account of lower food prices. At the same time, reserve money growth was higher than expected due to central bank financing of the government and agriculture.

Structural policy: improve the business climate and invest in human and physical capital

- Limited progress. In the absence of relevant reforms, Sudan's ranking in the 2016 World Bank Doing Business Survey dropped one position to 159th among 189 countries. Low domestic revenues constrained social spending and public investment.

RECENT ECONOMIC DEVELOPMENTS

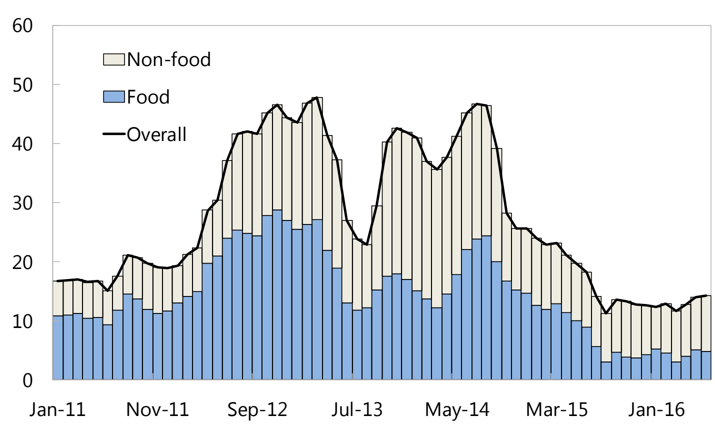
6. ***In 2015 and the first quarter of 2016, good harvests boosted economic growth and reduced inflation. However, weak commodity export prices and expansionary policies widened external imbalances, which remain an important stability risk.***

- **Non-oil real GDP grew by 5.8 percent in 2015** (up from 2.7 percent in 2014), driven by agriculture and services, while oil-GDP contracted by 10 percent.

- **The declining trend in inflation started to reverse in recent months.** Inflation slowed to 12.6 percent in December 2015 (from 26 percent at end-2014) owing largely to lower food prices, but picked up to 14.3 percent in June 2016 as nonfood inflation remained high at about 20 percent.

Consumer Price Index

(In percent, year over year)

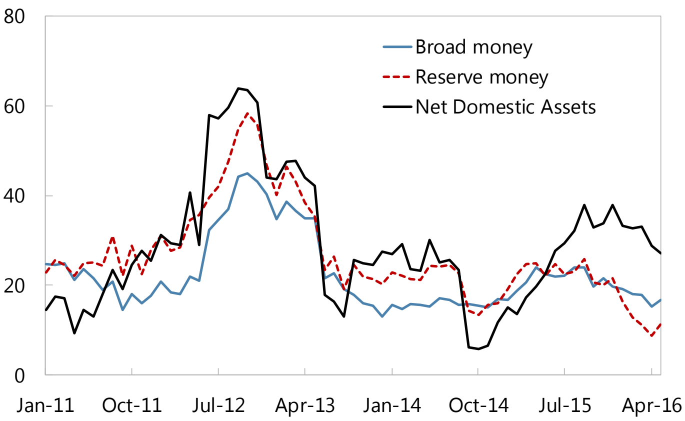


Source: Sudanese authorities

- **The fiscal deficit widened by 0.5 percent of GDP in 2015 to 1.9 percent**, as fuel subsidies remained high due to high import financing costs reflecting Sudan-specific risks, while oil revenues (including transfers from South Sudan) declined in line with international prices.[1] Ongoing tax administration reforms raised tax collections slightly. In 2016, in response to continued shortfalls in oil revenues, the authorities tightened expenditure, especially capital, to contain the first quarter deficit to 0.5 percent of GDP.

- **Net domestic assets of the Central Bank of Sudan (CBOS) expanded by 38 percent in 2015** largely owing to lending to the government (temporary advances and letters of guarantee) and quasi-fiscal activities (QFAs) related to losses on gold purchases and support to agriculture.[2] Total lending to government and QFAs reached 3.8 percent of GDP in 2015, up from 1.8 percent in 2014 (Box 3). However, the growth of net domestic assets slowed to 27 percent annually in May 2016 thanks to restrained government borrowing.

Monetary Aggregates
(In percent, year over year)



Source: Sudanese authorities

CBOS Financing of the Budget and QFAs
(in percent of GDP)

	2013	2014	2015	May 2016
Total CBOS financing	**2.8**	**1.8**	**3.8**	**0.5**
CBOS financing of the budget	**1.8**	**0.5**	**2.9**	**0.4**
Net claims on government	*1.2*	*-0.2*	*1.1*	*-0.1*
Deposits	0.0	-0.1	0.1	-0.3
Advances	0.8	-0.1	1.2	0.1
Government securities	0.5	0.0	-0.2	0.0
Other financing	*0.6*	*0.7*	*1.8*	*0.5*
Letters of guarantee	0.2	0.2	1.2	0.5
Wheat subsidies	0.4	0.5	0.5	0.1
QFAs and other	**1.0**	**1.3**	**0.9**	**0.1**
Losses on gold purchases	0.6	0.7	0.4	0.2
Loans to agricultural sector	0.3	0.4	0.4	-0.1
Unpaid returns on government securities	0.2	0.2	0.1	0.0
Memorandum item				
Budget deficit	2.3	1.4	1.9	...

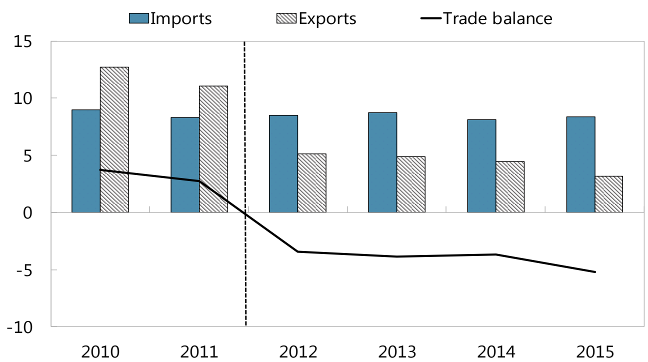
Sources: Sudanese authorities and IMF staff estimates.

[1] Transfers from South Sudan comprise transit fees for the use of Sudanese oil pipelines and payments under the Transitional Financial Arrangement to compensate Sudan for the loss of oil exports.

[2] Gold exports have become a significant source of foreign exchange for the official sector. Losses arise because the CBOS purchases gold from domestic producers in local currency at a price that reflects the parallel exchange rate, exports the gold, and sells the foreign exchange proceeds at the more appreciated official rate.

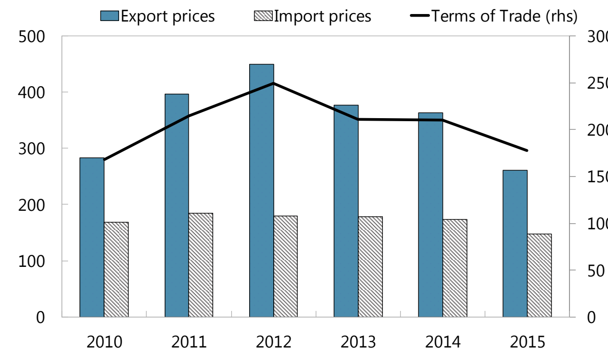
- **The external position—structurally weakened by the loss of oil revenues following South Sudan's secession—was hit by a negative terms-of-trade shock in 2015, compounded by expansionary policies.** The current account deficit (on a cash basis) widened to 5.9 percent of GDP (from 4.8 percent of GDP in 2014), largely owing to lower prices for Sudan's commodity-based exports (mainly livestock, gold, oil, and sesame) and high oil import-financing costs. Non-oil imports also increased significantly. In the first quarter of 2016, the trade deficit widened to 1.1 percent of GDP (from 0.7 percent in the same period of last year) on account of weak commodity exports.

Exports, Imports and the Trade Balance
(In billions of U.S. dollars)



Source: Sudanese authorities.

Terms of Trade, and Export and Import Prices (2000=100)

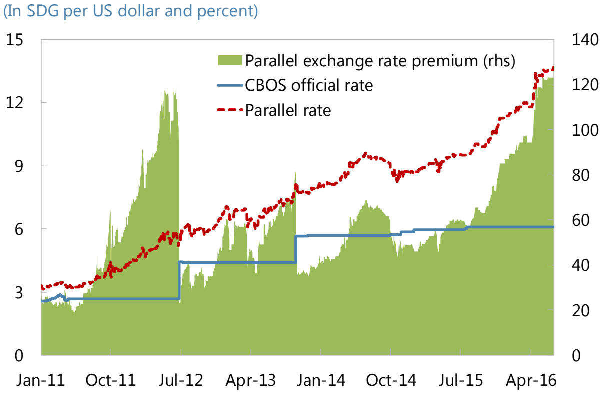


Sources: Sudanese authorities; and IMF staff estimates.

- **International reserves dropped by about $460 million in 2015 and remained low at $1.2 billion (1.4 months of imports) as of May 2016**. The CBOS intervened in the foreign exchange market and financed strategic imports such as fuel and wheat. These interventions were made possible by financial inflows from Gulf countries, estimated at $2.1 billion between May 2015 and January 2016.

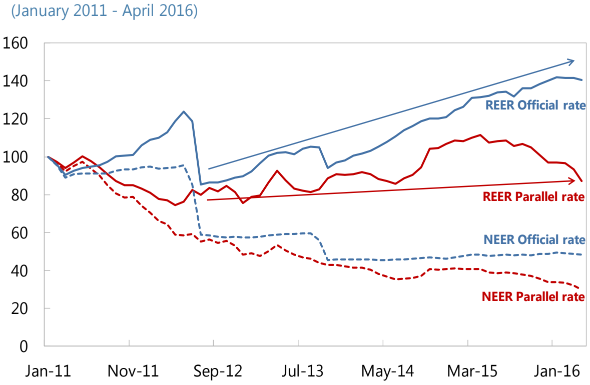
- **Following two large devaluations in 2012–13, the official exchange rate remained virtually unchanged over the past year and a half**. As a result, the official rate appreciated significantly

Exchange Rates
(In SDG per US dollar and percent)



Source: Central Bank of Sudan.

Nominal and Real Effective Exchange Rates
(January 2011 - April 2016)

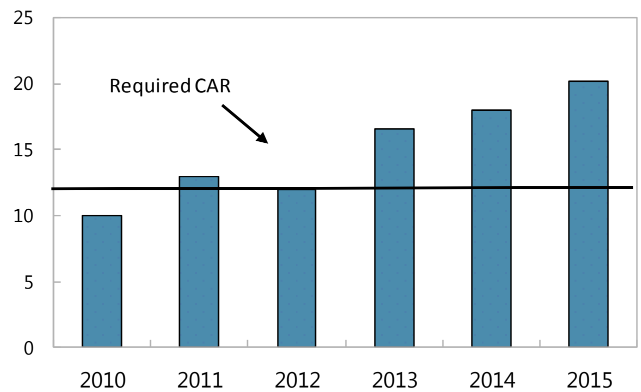


Source: INS (IMF), and IMF staff calculations.

in real terms due to high inflation differentials.[3] In contrast, the parallel exchange rate depreciated by 36 percent between end-2014 and end-June 2016, which increased the parallel market premium to 125 percent (from 46 percent).[4] Overall, staff estimates that the exchange rate is overvalued by about 50 percent in real terms (Annex I).

7. **The overall performance of the banking system, which operates under Islamic finance principles, has improved.** Financial stability indicators improved in the past few years with increasing capital adequacy ratios (CAR), declining nonperforming loans, and steady profits. The net open foreign-exchange position of the banking system, at -3 percent of capital, remained within regulatory limits, and the five largest banks had a positive net open position of 7 percent in March 2016. However, equity injections into weak banks have resulted in CBOS and government fully or partially owning 15 of the 37 banks, and their restructuring has been lagging. In October 2015, following significant strengthening of its framework for Anti-Money Laundering and Combatting the Financing of Terrorism (AML/CFT), Sudan was removed from the Financial Action Task Force's "gray list" of countries subject to monitoring.

Capital Adequacy Ratio
in percent



Source: Central Bank of Sudan.

8. **Enforcement actions against violations of U.S. sanctions contributed to the withdrawal of CBRs and complicated bank operations.** This resulted in high import financing costs and rising difficulties in international transactions, including remittances, which may result in greater reliance on cash transactions and associated AML/CFT risks (Box 3).

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[3] The CBOS sets two official exchange rates: an "indicative" rate and an "official" rate (within ±4 percent) which applies to public transactions and customs valuation. The difference between the two is currently less than 2 percent. Commercial banks and foreign exchange bureaus are required to set their rates within ±4 percent of the indicative rate, but in practice they trade at top end of the band. Thus, the official rate differs by more than 2 percent from the commercial banks' rate. Since January 2014, the CBOS devalued the official rate by only 7 percent, of which 2 percent in 2015.

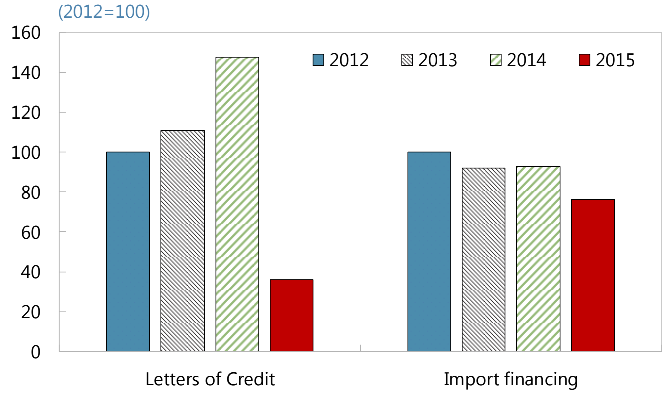
[4] Staff estimates that the parallel market covers about 50 percent of imports—up from 30 percent in 2013 due to changes in foreign exchange regulations in mid-2014 that allowed exporters to sell their proceeds directly to importers. Based on a weighted exchange rate between the official and the parallel markets, the effective premium is about 63 percent.

Box 3. Withdrawal of Correspondent Bank Relations

Enforcement actions against international banks in mid-2014 for violating U.S. sanctions contributed to a substantial withdrawal of foreign CBRs of Sudanese banks. In June 2014, BNP Paribas pleaded guilty to violating U.S. sanctions against Sudan and other countries, and was ordered to pay $8.9 billion in forfeitures and fines. In 2015, Commerzbank and Deutsche Bank also faced fines for violating U.S. sanctions. Among other factors, this contributed to a substantial withdrawal of CBRs of Sudanese banks. Foreign and local entities based in Sudan reported difficulties and delays in processing foreign exchange transfers to and from Sudan. The central bank and commercial banks reported a significant reduction in the number of foreign correspondents (one large bank reported having only 15 correspondent banks in 2016 compared to 55 a year ago) or an almost complete cut-off from international transactions. According to a recent report by the Committee on Payments and Market Infrastructure, Sudan lost almost half of its CBRs between 2012 and 2015, representing a 15 percent drop in volume. Banks had to pay higher fees and post full cash collateral; the CBOS authorized "nil value" imports financed offshore; and one bank reported plans to open branches abroad to carry out international transactions.

Available data suggest a slowdown in trade since the withdrawal of foreign CBRs. Import financing (e.g., through letters of credit) by both the CBOS and commercial banks slowed in 2015. Difficulties in repatriating export proceeds reportedly weakened exports. Transfer payments, including remittances were adversely affected. Embassies and international organizations reported being affected by correspondent banks' reluctance or outright refusal to process foreign exchange transactions, despite being exempt from sanctions. Payments to the IMF were also received with long delays. Banks and the authorities expressed concern that a shift to cash transactions would jeopardize hard-won progress on the implementation of the AML/CFT framework.

CBOS Letters of Credit and Commercial Banks' Import Financing
(2012=100)



Sources: Central Bank of Sudan.

A persistent breakdown of CBRs would weigh on economic and social outcomes. Constraints on financing imports and repatriating export proceeds may reduce trade and foreign investment. Shortage of imported goods, including foodstuffs and energy, would increase inflation and depress consumption. Difficulties in processing international transactions will lead to continued shortages of foreign exchange, which will put pressure on the exchange rate. Constraints on transferring remittances may impact the most vulnerable. These adverse developments would contribute to further dampening economic growth, and ultimately worsen social outcomes and poverty.

OUTLOOK AND RISKS

9. **Low commodity export prices, economic sanctions, and lack of policy buffers, will continue to jeopardize macroeconomic stability and constrain growth, requiring continued external assistance.**

- Staff expects growth to slow to about 3 percent in 2016 as crop production returns to normal levels after good harvests last year. Inflation could increase owing to the lagged effects of the parallel exchange rate depreciation and wearing out of the positive impact of good harvests on food prices. Despite a recovery of gold exports along with the improved outlook for world prices, the current account deficit is expected to remain high and international reserves low in the absence of progress towards greater exchange rate flexibility and sufficient fiscal and monetary policy adjustment, even if the external financial support anticipated by the authorities materializes.

- In 2017 and beyond, staff expects growth to remain at 3.5 percent and largely reliant on agriculture—with attendant spillovers to other sectors—as low domestic savings, sanctions, and limited access to external financing weigh on investment. The overvalued official exchange rate and foreign exchange restrictions will also weigh on trade and economic activity despite anticipated foreign direct investment (FDI) in agriculture. Inflation will likely remain elevated as insufficient fiscal consolidation continues to weaken monetary control. The external position will remain weak, with a financing gap of $1.3–1.9 billion per year that will need to be covered by foreign aid, allowing international reserves to hover around $1 billion (1 month of imports).

10. **The outlook is subject to significant downside risks**. The large and persistent external financing gaps over the medium term, if unfilled, could lead to disorderly adjustment, depressed economic activity, and rapid inflation. Mitigating these risks while maintaining the fixed exchange rate regime will require significant fiscal and monetary adjustment. Other downside risks include lower oil receipts from South Sudan; reduced FDI and remittances from the Gulf; and continued withdrawal of CBRs. Progress with the national dialogue and the roadmap for peace is an upside risk.

POLICY DISCUSSIONS

11. **Policy discussions focused on the urgent need to achieve macroeconomic stability, raise inclusive growth, and reduce poverty.** Staff emphasized that current policies—maintaining the fixed exchange regime without significant fiscal and monetary policy adjustment—are unsustainable and are raising the likelihood of disorderly adjustment. In this regard, staff called for decisive policy actions and reforms:

- Greater flexibility of the official exchange rate, with a view to liberalizing the foreign exchange market and reducing external imbalances.

- Continued fiscal consolidation focused on mobilizing domestic revenues, with a view to generating fiscal space for investment in infrastructure, education, and health, while reducing the budget deficit and its monetization.
- Tighter monetary policy, including by limiting quasi-fiscal activities of the central bank.
- Strengthened social safety nets to mitigate the cost of adjustment on vulnerable groups.
- Improved business environment to support private sector growth.
- Continued engagement with international partners to progress toward debt relief and the lifting of sanctions.

A. External Stability and the Exchange Rate

12. **Exchange rate flexibility would support fiscal and monetary policies to reduce external imbalances.** Macroeconomic stability will require tight fiscal and monetary policy, but will remain elusive without greater flexibility of the official exchange rate, with a view to significantly reducing the parallel market premium. Moreover, widening (or eliminating) the band for the commercial bank rate would help liberalize the foreign exchange market for banks. These reforms will help strengthen competitiveness, increase FDI, and promote inclusive growth. Efficient operation of a more flexible foreign exchange regime would require developing an interbank market and strengthening reserve management, including by establishing rule- and market-based interventions.

13. **Staff presented an illustrative scenario with adjustment of the official exchange rate accompanied by a tighter policy mix.** In this scenario, growth would likely be slower and inflation higher in the short term due to the impact of devaluation on imports, prices, and customs receipts. However, macroeconomic performance would improve over the medium term as the elimination of foreign exchange distortions would improve competitiveness and encourage FDI. In staff's view, the inflationary effects of official exchange rate devaluation would be manageable, as most prices already reflect the parallel rate. The revenue gains from the devaluation may be significant, as imports would be valued at a higher exchange rate, increasing the import tax base.

14. **Measures to mitigate the impact of exchange rate adjustments on the poor are critical for the success of reforms**. Staff proposed maintaining temporarily the subsidy regime for fuel and wheat to allay concerns over the social impact of greater exchange rate flexibility. The higher subsidy costs could be covered by the revenue gains from the devaluation. The CBOS should use all available instruments to forestall second-round effects of exchange rate adjustment on inflation.

Authorities' views

15. **The authorities shared staff's assessment regarding the need to reduce external imbalances, but prefer a more incremental approach than proposed by staff's illustrative scenario**. They considered large exchange rate adjustments destabilizing—both economically and

socially—and premature without sufficient foreign exchange reserves to prevent overshooting. In their view, a flexible exchange regime is a long-term objective. They expressed concern about the inflationary impact of exchange rate adjustment, its effectiveness given price-inelastic commodity-based exports, and the risk of the social unrest that followed the September 2013 devaluation. Their reform strategy, as per the Five-Year Program, is to gradually allow the private sector to use the parallel foreign exchange market to import key commodities, and to gradually adjust the official rate and diversify exports in the medium term. In the meantime, the authorities anticipated continued foreign aid from Gulf countries to cover financing gaps.

B. Fiscal Consolidation and Revenue Mobilization

16. **The 2016 budget poses risks despite ongoing efforts to strengthen tax administration and treasury management.** Given lower oil revenues and transfers from South Sudan, the targeted deficit of 1.7 percent of GDP will be difficult to achieve. Full spending of budget appropriations would bring it close to 3 percent of GDP, implying sizable recourse to CBOS financing.

17. **In the short term, fiscal consolidation is needed to curb monetization of the deficit and contribute to the external adjustment.** Limiting the 2016 deficit to 1.9 percent of GDP would be consistent with manageable domestic financing. This would require, like last year and in the first quarter of 2016, containing spending on current goods and services, and prioritizing capital spending. In response to exchange rate adjustment, current subsidies could be maintained in the short term to mitigate the impact on the most vulnerable, offset by the corresponding revenue gains. Mobilizing additional non-oil revenues—especially by expanding tax bases—will also be important. While current tax administration reforms will help, they would need to be accompanied by tax policy measures.

18. **In the medium term, domestic revenue mobilization will be critical to generate fiscal space for investment and social spending.** Despite recent improvements, tax revenues remain low by international standards. Measures to raise revenues would include further rationalizing exemptions, ceasing to grant new tax holidays and phasing out existing ones, introducing a presumptive tax for small businesses, reforming gold taxation, increasing personal and business income tax rates and their progressivity, and continuing to strengthen customs and tax administration. Adjusting the customs exchange rate in tandem with adjustments in the official rate would boost tax collections, while gradually phasing out fuel subsidies would create space for targeted pro-growth and pro-poor social spending. Over time, targeting a gradual reduction in the nonoil primary balance would lower dependence on uncertain oil revenues.

19. **Continued efforts are needed to strengthen public financial management.** Recent progress to introduce a treasury single account (TSA) should be sustained by (i) strengthening budget formulation and planning, with emphasis on revenue projections and the recently established macro-fiscal unit; (ii) improving the preparation of the medium-term fiscal framework and incorporating it into budget planning; (iii) expanding the coverage of the TSA; and (iv) deploying an integrated financial management system.

Authorities' Views

20. **The authorities acknowledged the challenges posed by low tax revenues for fiscal management.** In the short term, they plan to achieve their policy targets by cutting spending to offset revenue shortfalls. Faced with sizable development needs and insufficient external financing, the authorities will rely on domestic financing to cover deficits. To raise revenue, they increased last year the income tax rate (from 15 percent to 30 percent) on cigarette producers and recently introduced royalties on gold production. In line with their Five-Year Program, they plan to expand tax bases—including by reducing exemptions and introducing electronic collection of VAT and other taxes—rather than increase tax rates. They believe that increasing the effective tariff and VAT rates on imports by adjusting the official exchange rate would not increase customs revenues significantly because of high import-price elasticity.

21. **The authorities plan to improve the quality of spending and continue to enhance PFM**. They will continue to liberalize fuel prices to reduce subsidies. At the same time, they will provide more resources to social programs and productive sectors, including agriculture and infrastructure. Also, the authorities are strengthening the TSA and expanding it to include all government ministries and departments. They also introduced electronic payment systems for salaries and are strengthening internal and external audit.

C. Monetary Policy and Financial Stability

22. **Monetary policy should be tightened and instruments to manage liquidity be further developed.** Monetary policy is burdened by the government's large financing needs and by QFAs that lead to sizable liquidity injections. These, and a shortage of liquidity management instruments, undermine the central bank's ability to control reserve money. In response, the CBOS should continue to adhere to existing limits on advances to government, curtail QFAs by limiting gold purchases to levels consistent with reserve money and international reserve targets, discontinue financing of agriculture, and develop Sharia-compliant securities. To enhance transparency, the CBOS should report all lending to government (including payments of letters of guarantees and wheat subsidies) and QFAs as credit to government.

23. **Building on progress to date, the CBOS should continue to upgrade its capacity to supervise and mitigate financial stability risks.** Priority areas include: (i) modernizing the framework to deal with weak banks, including by limiting access to "lender of last resort" support to solvent banks, expanding the range of resolution regimes, and empowering CBOS to initiate resolution processes; (ii) divesting CBOS' equity in commercial banks; (iii) strengthening CBOS' capacity for financial stability analysis; and (iv) continuing to enforce limits on net foreign exchange positions to mitigate risks stemming from foreign currency mismatches. Moreover, the CBOS should continue to strengthen risk-based AML/CFT supervision.

Authorities' views

24. **The authorities remain committed to their monetary targets**. Reserve money growth slowed in the first quarter of 2016 on account of lower QFAs. Moreover, the monetary policy framework was strengthened by the launch of the Liquidity Management Fund in 2014, which reduced CBOS liquidity support for commercial banks. The CBOS will continue to buy gold as an important source of foreign exchange and to reduce smuggling.

25. **The authorities noted that despite the strains caused by sanctions and the withdrawal of CBRs, the health of the banking sector has improved**—banks are liquid, return on assets is high, and NPL ratios have declined. The banking sector's net open foreign exchange position is at manageable levels, in line with regulatory limits. The authorities were committed to strengthening the AML/CFT framework, but regretted that sanctions were undermining its effectiveness by encouraging a shift to cash-based and informal transactions.

D. Inclusive Growth

26. **Improving the business environment will be key to support the private sector and strengthen economic growth.** Sudan is at the bottom twentieth percentile of the 2016 Doing Business rankings. Weaknesses include access to credit, international trade, and investor protection. Addressing these issues by streamlining regulations and liberalizing trade and foreign exchange markets would, together with macroeconomic stability, encourage greater private sector investment and job creation. Furthermore, better public infrastructure (including water and electricity provision) and improved human capital would support private sector development, strengthen growth, and help address the persistently high unemployment rate—at 22 percent in 2015, with higher rates for the youth and women (see Annex II on challenges of inclusive growth and policy options).

27. **Staff welcomed plans to launch the preparation of the 2016–20 Poverty Reduction Strategy (PRS).** Social safety nets should be expanded and their targeting improved, especially the cash transfer program which currently supports about 500,000 households (20 percent of the poor). Furthermore, strengthening other social programs, including education and health services, is essential to improve social outcomes, expand opportunities, and raise productivity.

Authorities' views

28. **The authorities regretted that sanctions and the withdrawal of CBRs raised formidable obstacles for the business environment and poverty reduction efforts**. Despite these obstacles, the authorities' evaluation of the interim poverty reduction strategy (2012–14), completed recently with World Bank assistance, confirmed that pro-poor spending had increased. The authorities have also launched:

- Initiatives to improve the business environment, including the automation of tax collection to reduce transactions costs and information campaigns to seek inputs from investors on reforms to encourage investment. The authorities also established a high-level committee to review land laws and regulations to facilitate investment. They are encouraging the expansion of bank branches and the development of microfinance, and are strengthening the credit registry of the CBOS to improve access to credit.

- The preparation of a full PRS incorporating specific policy measures, through a consultative process involving domestic stakeholders and external partners. A household survey, to be completed this year, will document Sudan's poverty profile. In the meantime, the authorities expanded education and health services to the poor, and plan to expand the coverage of the cash transfer program to 600,000 households in 2017, while strengthening its management and targeting, with World Bank support.

E. External Debt

29. **The debt sustainability analysis (DSA) confirms that Sudan continues to be in debt distress.** Both public and external debt ratios remain high, and most of the external debt is in arrears. Debt ratios would be higher with GDP valued at the parallel exchange rate (Table 3). Consistent with the results of past DSAs, Sudan's external debt is assessed to be unsustainable. All external debt indicators breach their indicative thresholds under the baseline scenario, and many of them stay above the thresholds throughout the time horizon of the analysis. It is therefore critical for Sudan to follow sound economic policies, including a prudent borrowing strategy that minimizes non-concessional borrowing and relies instead on grants and concessional financing, and to continue garnering support for debt relief.

30. **Sudan is eligible for debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative, but has yet to meet all the requirements.** Debt relief hinges on normalizing relations with international creditors, including the Fund (Box 4). The authorities should continue to reach out to creditors to garner support for debt relief and avoid selective servicing of bilateral debt. Staff advised the authorities to extend, together with South Sudan, the "zero option" to avoid a complex and protracted apportionment of external debt.[5]

31. **Staff encouraged the authorities to continue to strengthen cooperation with the Fund on policies and payments.** Sudan's arrears to the Fund declined to about SDR 969 million at end-June 2016 following payments of $10 million each in 2014 and 2015, and $5 million in the first half of 2016. Staff encouraged the authorities to continue to make payments that are at least sufficient to cover Sudan's obligations falling due, make payments regularly, and increase them in line with improvement in Sudan's payment capacity.

[5] The so-called "zero option" is a 2012 agreement between Sudan and South Sudan whereby Sudan retained all the external liabilities after the secession, provided that the international community gave firm commitments to deliver debt relief within two years. In September 2014, both countries agreed to extend the agreement until October 2016, after which, in the absence of debt relief, Sudan could seek to apportion external debt between the two countries.

Authorities' views

32. **The authorities reiterated their commitment to reaching out to international creditors, making quarterly payments to the Fund totaling $10 million per year, and cooperating with the Fund on policies.** They were disappointed by lack of progress toward debt relief and noted that the absence of resolution complicated the extension of the "zero option," which they consider a sovereign decision.

Box 4. Path to Debt Relief

Sudan is eligible for debt relief under the HIPC initiative, but has not yet met all the qualifications. Importantly, it still needs to obtain assurances from bilateral official and commercial creditors that they are willing to consider providing debt relief. As of now, Sudan meets the following conditions for the HIPC initiative:

- Sudan faces an unsustainable debt burden that cannot be addressed through traditional debt relief mechanisms; and
- It has developed an Interim Poverty Reduction Strategy (I-PRSP) document. Sudan's I-PRSP was assessed by the staffs of the IMF and the World Bank and was discussed by both Boards in September 2013. Sudan is currently developing a full PRSP.

To reach the Decision Point, Sudan would still need to undertake the following:

- Obtain assurances of support for HIPC debt relief from a large majority of creditors representing at least 70 percent of HIPC-eligible debt;
- Establish with the IMF an adequate track record of strong policy performance in the period leading up to the Decision Point, under an SMP judged by the Executive Board to meet the policy standards associated with upper-credit tranche arrangements; and
- Clear its arrears with the IMF, and have a fully financed plan and a timetable to clear arrears with the World Bank and the African Development Bank to restore its eligibility to borrow from these sources.

The resources required for the IMF's participation in the HIPC Initiative have not yet been identified. As the costs to the IMF for providing debt relief to Sudan were not included in the original costing estimates for the HIPC initiative, additional financing will need to be secured when Sudan is ready to clear its arrears and embark on the HIPC initiative.

F. Statistical Issues

33. **Although data provision is broadly adequate for surveillance, there are major shortcomings due to capacity constraints, especially in national accounts and balance of payments statistics.** The last published national accounts date from 2010. Absence of FDI survey data impairs compilation of the balance of payments. More resources should be devoted to statistics and data collection.

Authorities' views

34. **The authorities agreed with the need to strengthen economic statistics.** They are working to upgrade national account statistics and are seeking support to conduct FDI surveys.

ARTICLE VIII

35. **Sudan continues to maintain exchange restrictions and multiple currency practices (MCPs) which are subject to Fund jurisdiction under Article VIII.** These measures include an exchange rate regime with multiple effective exchange rates and a policy of rationing foreign exchange and allocating it to certain sectors (Box 5). Staff urged the authorities, in line with previous recommendations, to eliminate the restrictions and MCPs. Although these measures were adopted, initially on a temporary basis, for balance of payments reasons and are non-discriminatory, they have persisted, are delaying the external adjustment, and hamper foreign investment.

Authorities' views

36. **The authorities indicated that they were unable to remove all exchange restrictions and MCPs because of continued pressures on the balance of payments** following the secession of South Sudan, external sanctions, and the need to finance strategic imports of food, fuel, and medicine. Nevertheless, while not committing to a timetable for their removal, they remain committed to gradually removing exchange restrictions and MCPs as conditions improve.

Box 5: Exchange Rate System

Sudan maintains the following exchange restrictions and multiple currency practices subject to Fund jurisdiction under Article VIII, Sections 2 and 3:

- An exchange restriction arising from the government's limitations on the availability of foreign exchange and the allocation of foreign exchange to certain priority items;
- A multiple currency practice and exchange restriction arising from the establishment of an official exchange rate (the CBOS rate) for use in all government exchange transactions which in practice differs by more than 2 percent from the rate used by commercial banks;
- A multiple currency practice and exchange restriction arising from large spreads between the CBOS rate and the parallel market exchange rate due to the CBOS' limitation on the availability of foreign exchange which channels current international transactions to the parallel market; and
- A multiple currency practice and exchange restriction arising from the imposition by the government of a cash margin requirement for most imports.

STAFF APPRAISAL

37. **Sudan has made notable progress toward macroeconomic stability and growth following the shock of South Sudan's secession five years ago.** Over the past years, policy measures—including exchange rate adjustments, subsidy reform, and improved social safety nets—helped to contain the fiscal deficit, slow money growth, reduce inflation, and support economic recovery. Institutional reforms strengthened tax collections and public financial management, and social spending increased. Last year, the authorities started implementing a five-year reform plan for growth and poverty reduction, and good harvests boosted growth to close to 5 percent.

38. **Despite these efforts, however, large macroeconomic imbalances continue to constrain growth prospects, along with internal conflicts and U.S. sanctions.** The external imbalances triggered by the loss of three-quarters of Sudan's oil exports have yet to be resolved. Domestic and international efforts to end internal conflicts have yet to bear fruit, and the humanitarian situation remains difficult. Sanctions and the withdrawal of CBRs weigh on trade, investment, and growth. Absence of progress toward debt relief limits access to official external financing.

39. **External imbalances widened in 2015–16 due to low commodity export prices, expansionary policies, and insufficient exchange rate adjustment.** The terms-of-trade shock widened the current account deficit to 6 percent of GDP in 2015, while the already low foreign exchange reserves dropped to 1½ month of imports despite external financial support. The parallel exchange rate continued to depreciate and the premium soared to 125 percent as the official rate remained virtually fixed. The budget deficit widened to 1.9 percent of GDP owing to shortfalls in oil revenue. Inflation, which had been contained last year, rose to 14.3 percent in June 2016.

40. **The outlook is subject to significant downside risks.** Low commodity export prices, absence of policy buffers, economic sanctions, the withdrawal of CBRs, and a weak business environment will continue to constrain economic activity. Consequently, growth is expected to remain modest in 2016 and beyond. The fiscal framework faces risks due to low tax revenues and uncertain oil revenues. Large external financing gaps are likely to persist, heightening risks of disorderly adjustment in case of shortfalls in external financing. Hence, macroeconomic stability and growth rest on determined and early policy adjustment and mobilization of external aid.

41. **Policy consolidation and reforms should be accelerated to achieve macroeconomic stability, address vulnerabilities, and promote inclusive growth.** Policies should include greater exchange rate flexibility to help reduce the external trade deficit; increasing fiscal revenue to create space for growth-enhancing public infrastructure and social spending, while reducing the fiscal deficit and tightening monetary policy to contribute to the adjustment and ensure low inflation; enhancing the resilience of the financial sector; strengthening social safety nets to protect the most vulnerable; and accelerating structural reforms to improve the business environment and encourage private investment and job creation.

42. **Exchange rate flexibility is needed to reduce external imbalances.** Macroeconomic stability will require tight fiscal and monetary policy, but will remain elusive without large upfront exchange rate adjustment, followed by greater flexibility with a view to significantly reducing the parallel market premium. Restoring exchange rate competitiveness and removing foreign exchange distortions will help ensure external stability, diversify the export base, and foster FDI.

43. **Fiscal consolidation in the short term would contribute to the external adjustment and help reduce inflation.** Containing spending on goods and services and prioritizing capital spending, while protecting social spending, will be needed. At the same, accelerating ongoing revenue administration reforms will help.

44. **Over the medium term, domestic revenue mobilization will be critical to generate fiscal space for investment and social spending, and achieve pro-growth fiscal consolidation**. Determined implementation of revenue-enhancing measures—such as reducing tax exemptions and increasing the relatively low personal and corporate tax rates—is needed to complement ongoing tax administration reforms and raise Sudan's low tax revenues, create fiscal space, and reduce the deficit. While fuel subsidies could be maintained in the short term to mitigate the impact of greater exchange rate flexibility, they should be phased out in the medium term to make space for targeted pro-poor spending. Continuing to strengthen PFM, in particular budget planning and the newly introduced treasury single account, would help rationalize policy formulation and execution.

45. **Monetary policy should be tightened to keep inflation in check.** This will require that the authorities continue to adhere to limits on central bank advances to government, limit QFAs and gold purchases to levels consistent with monetary targets, and develop Sharia-compliant liquidity management instruments. Greater transparency in reporting government financing and QFAs is also needed.

46. **The central bank should continue to strengthen its capacity to mitigate financial stability risks.** Priority areas include modernizing the framework to deal with weak banks, divesting CBOS' remaining interests in commercial banks, strengthening CBOS' capacity for financial stability analysis, and implementing corrective measures to mitigate risks stemming from foreign currency mismatches. Moreover, following the welcome removal of Sudan from the FATF's "gray list", strengthening the AML/CFT framework and its implementation should continue.

47. **Structural policies should focus on fostering sustained and inclusive growth**. Reforms to improve the business environment for the private sector, financial inclusion, and the quality of spending to support human capital will be key to raise growth prospects. Expanding social safety nets and improving their targeting will be critical to reduce poverty. In this context, the full Poverty Reduction Strategy under preparation should provide a coherent framework to tackle Sudan's development challenges. More resources should be devoted to statistics.

48. **Exchange restrictions and multiple currency practices should be removed**. These measures do not address the underlying external imbalances and hamper foreign investment. The authorities' commitment to remove restrictions over time as conditions improve is welcome, and

staff urges the authorities to articulate a firm timetable for their removal. The authorities are not requesting approval for the exchange restrictions and MCPs, and no approval is recommended.

49. **Sudan should continue to strengthen cooperation with the Fund on policies and payments.** Sudan's arrears to the Fund declined to about SDR 969 million at end-June 2016 following payments of $10 million each in 2014 and 2015, and $5 million in the first half of 2016. Staff welcomes the authorities' payments to the Fund and strongly encourages them to make payments that are at least sufficient to cover Sudan's obligations falling due, make payments regularly, and increase them in line with improvement in Sudan's payment capacity.

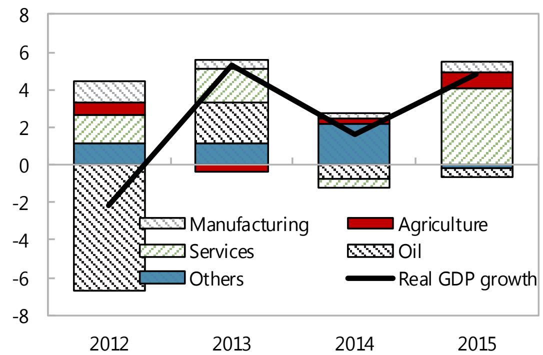
50. **Garnering international support for debt relief is critical for Sudan's economic development.** Sudan remains in debt distress and is eligible for debt relief under the HIPC Initiative. The large external debt and arrears hinder access to external financing and weigh heavily on development prospects. The authorities should continue to engage with international partners to secure comprehensive support for debt relief and the lifting of sanctions, which would pave the way for foreign investment and financing for growth and poverty reduction. They should minimize non-concessional borrowing and avoid selective servicing of bilateral debt, and rely instead on grants and concessional financing. Extending the "zero option" agreement with South Sudan before it expires in October 2016 would be advisable to avoid a complex and protracted apportionment of external debt between the two countries.

51. Staff proposes that the next Article IV consultation take place on the standard 12-month cycle.

Figure 1. Sudan: Selected Economic Indicators

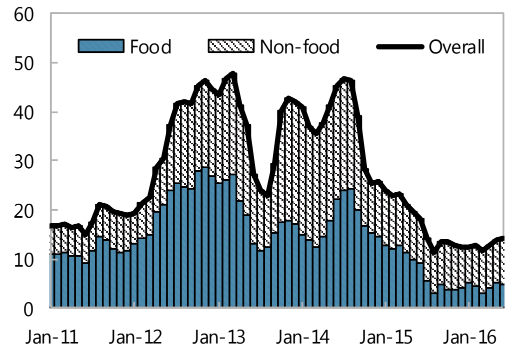
Real GDP rebounded in 2015 driven by agriculture and services…

Real GDP Growth
(in percent)



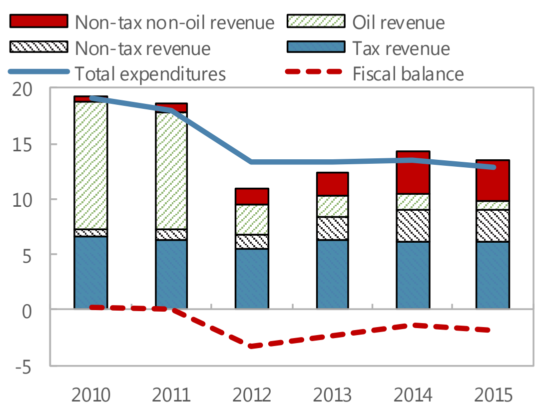
…while inflation eased thanks to low food prices.

Consumer Price Index
(In percent)



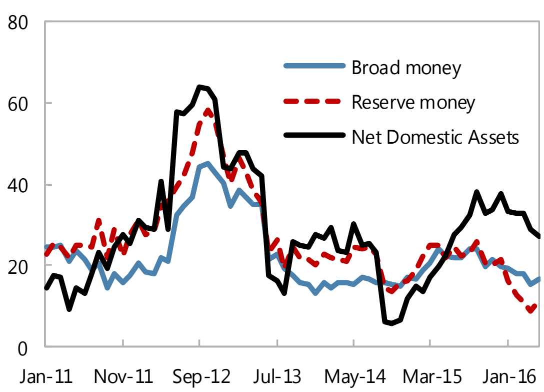
The fiscal deficit widened in 2015 as oil revenue declined…

Revenue, Expenditures and Fiscal Balance
(In percent of GDP)



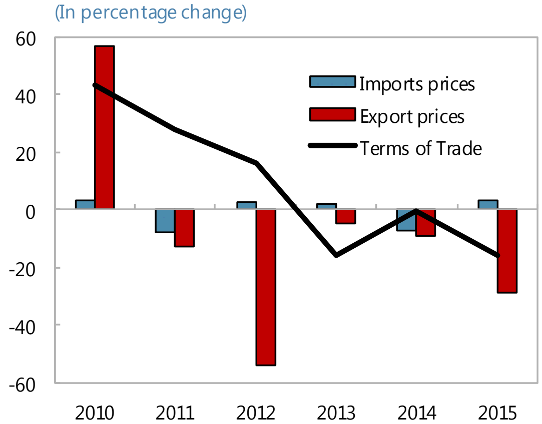
…along with faster growth of monetary aggregates.

Monetary Aggregates
(In percent, year over year)



This, and a negative terms of trade shock…

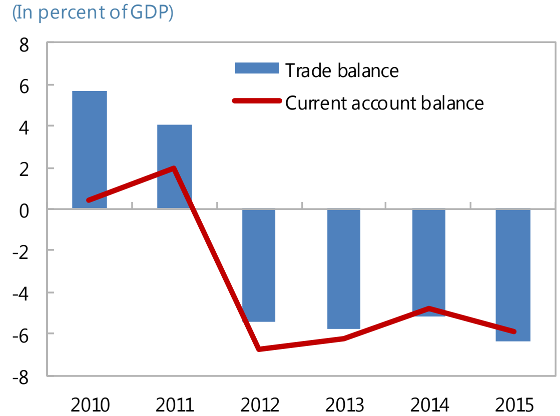
Terms of Trade
(In percentage change)



Source: Central Bank of Sudan

…widened the trade and current account deficits.

Current Account and Trade Balances
(In percent of GDP)

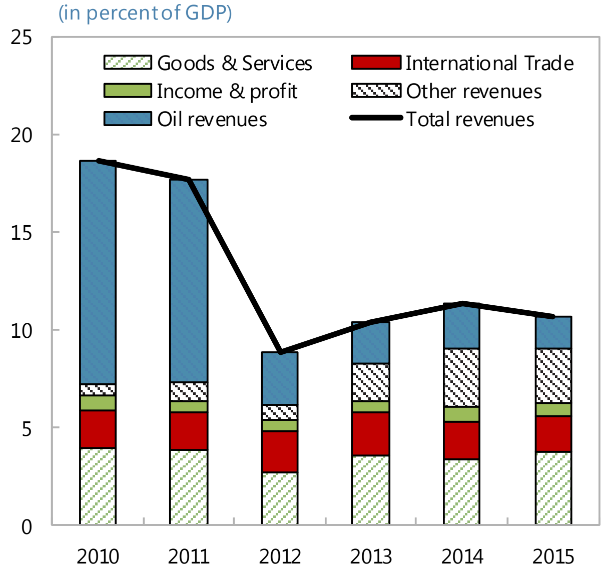


Source: Sudanese authorities; and IMF staff calculations.

Figure 2. Sudan: Fiscal Sector

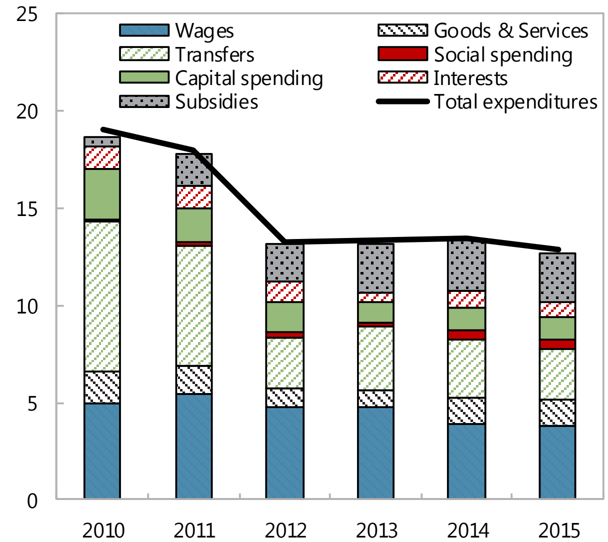
In response to oil revenue shortfalls...

Revenue
(in percent of GDP)



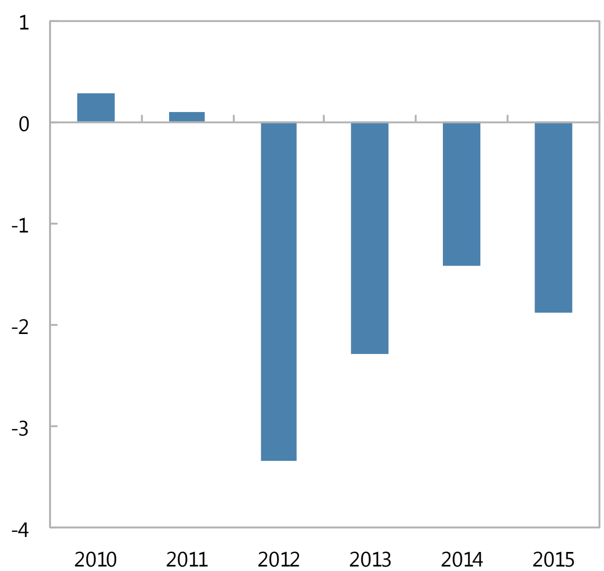
...expenditure was modestly reduced.

Expenditure
(in percent of GDP)



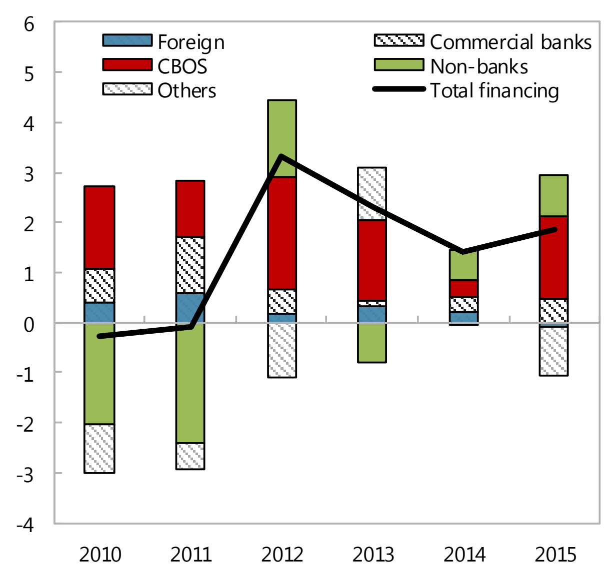
However, sustaining fiscal consolidation...

Overall Balance
(in percent of GDP)



...and containing monetization of deficits proved difficult.

Sources of Financing
(in percent of GDP)

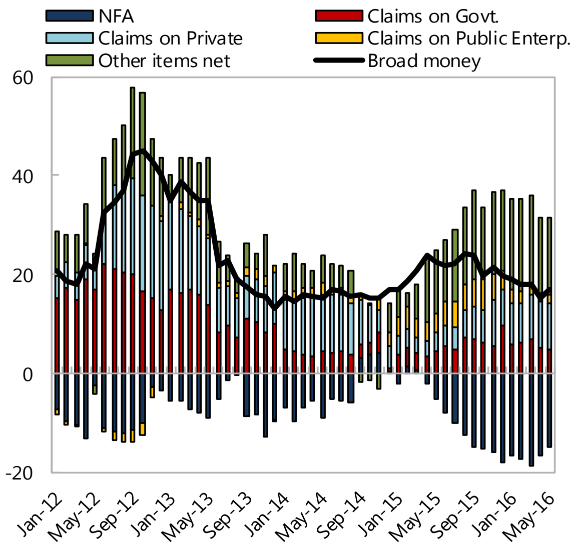


Source: Sudanese authorities, and IMF Staff estimates.

Figure 3. Sudan: Monetary Sector

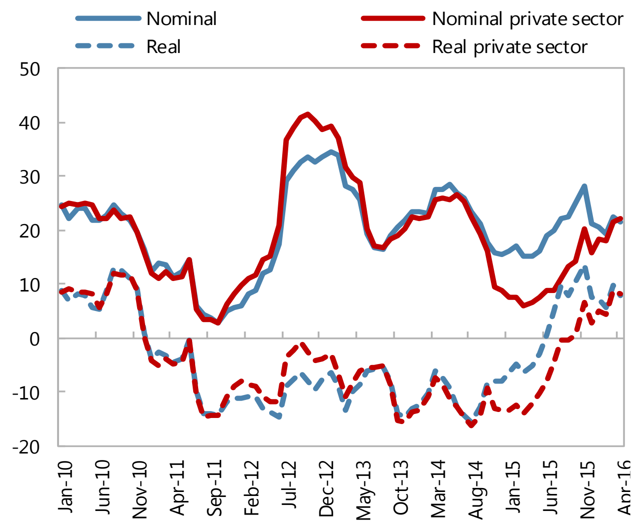
Broad money growth driven by lending to government and QFAs was only moderated by a decline in NFA.

Contributions to Broad Money Growth
(In percent, year over year)



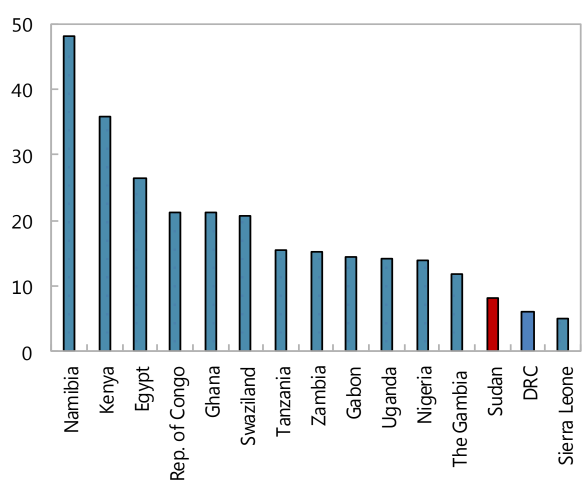
While private sector credit increased…

Credit Growth
(In percent, year over year)



…it remains low compared to middle and low-income countries.

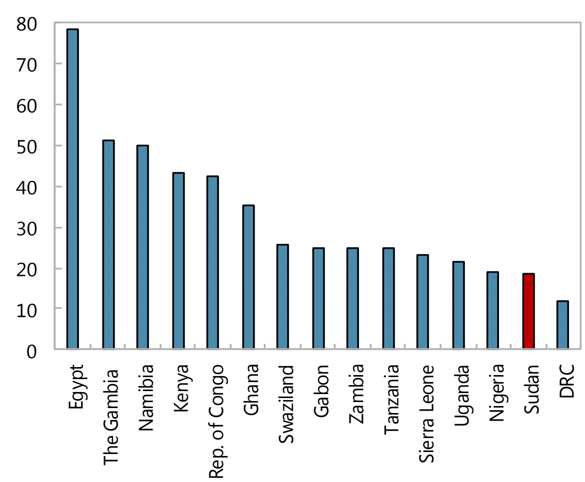
Selected countries-Credit to Private Sector 1/
(In percent of GDP)



1/ Year 2015 or latest available.

Monetization of the economy remains relatively low as well.

Selected Countries-Broad Money 1/
(In percent of GDP)



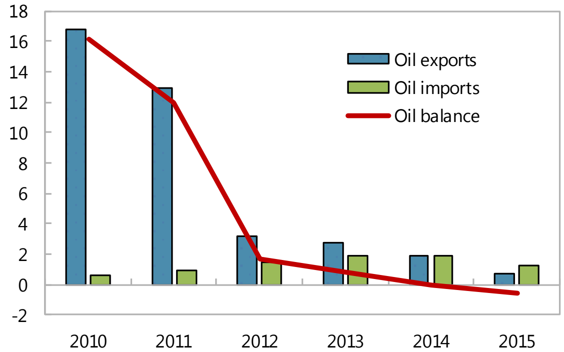
1/ Year 2015 or latest available.

Source: Central Bank of Sudan; International Financial Statistics (IMF); and IMF staff calculations.

Figure 4. Sudan: External Sector

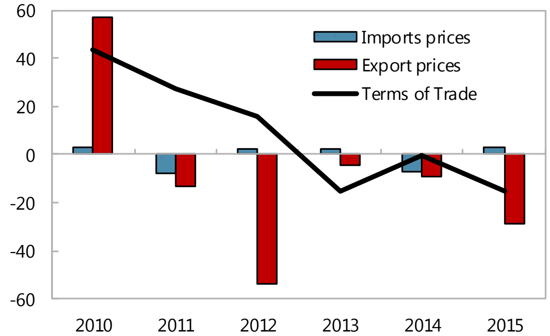
Loss of oil export receipts and lower world prices hit the oil balance.

Oil Exports, Imports and Balance
(In percent of GDP)



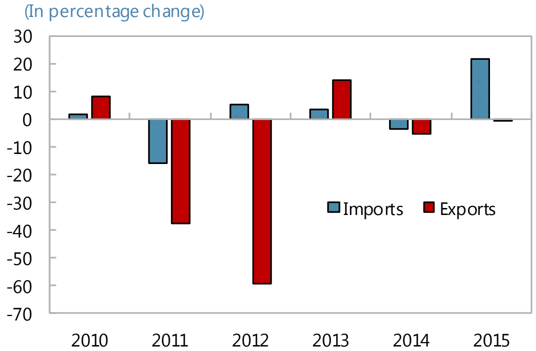
The lower oil prices and decline in nonoil export prices reduced the terms of trade.

Terms of Trade
(In percentage change)



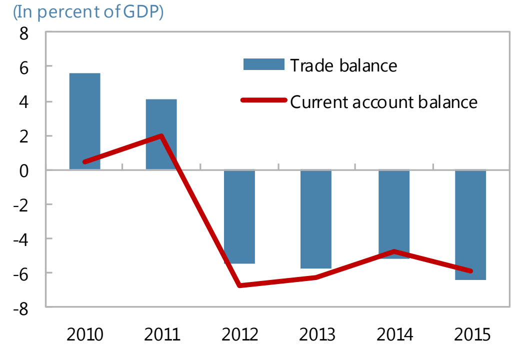
This, together with a large increase in import volumes…

Export and Import Volumes
(In percentage change)



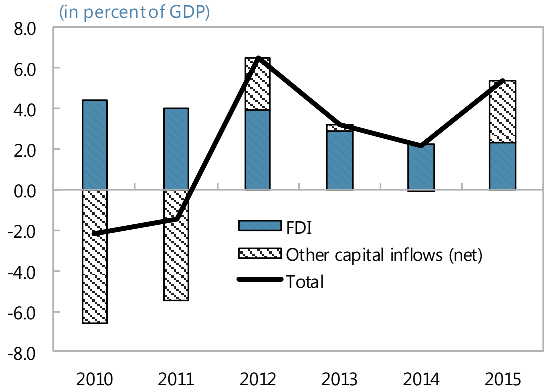
…widened the trade and current account deficits…

Current Account and Trade Balances
(In percent of GDP)



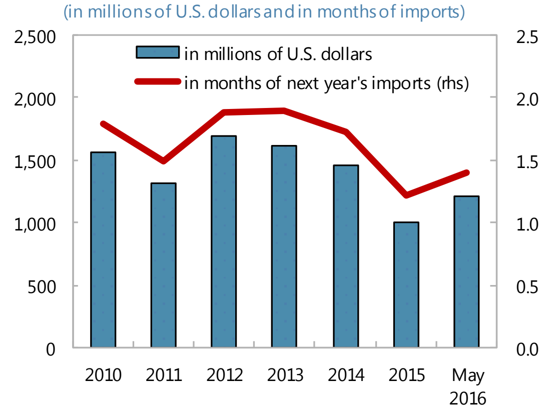
…which were financed by external support

Financial Account Flows-Selected Components
(in percent of GDP)



…and a rundown of reserves.

Gross International Reserves
(in millions of U.S. dollars and in months of imports)



Source: Central Bank of Sudan, and IMF Staff calculations.

Table 1. Sudan: Risk Assessment Matrix 1/
Potential Deviations from Baseline

Source of Risks	Relative Likelihood	Impact if Realized	Policy Responses
Global			
1. Sharper-than-expected global growth slowdown, including slowdown in China (low/medium likelihood), in other large emerging markets (medium), and structurally weak growth in key advanced (high) and emerging economies (medium)	***Low to High***	***Medium*** • Lower exports, FDI and deteriorating external balance. • Rising pressure on the exchange rate and reserves. • Lower growth.	• Greater exchange rate flexibility would help cushion the shock and prevent reserve losses. • Declining revenue and lack of fiscal space would likely require pro-cyclical spending cuts.
***2.* Heightened risk of fragmentation/ state failure in the Middle East,** leading to a sharp rise in migrant flows, with negative global spillovers	***High***	***Medium to High*** • Lower remittances and weaker external balance. • Lower growth and high inflation.	• Strengthen domestic revenue mobilization to increase social safety nets. • Mobilize international financing to support refugees.
3. Persistently lower energy prices, triggered by supply factors reversing only gradually	***High***	***Medium to High*** • Lower export receipts but also lower import bill. • Lower inflows from Gulf countries would put pressures on reserves. • Possible renegotiation of the agreement with South Sudan, lowering oil-related revenues.	• Remove fuel subsidies • Greater exchange rate flexibility to reduce external pressures and improve competitiveness. • Increase domestic revenue mobilization to reduce reliance on oil-related revenues.
Regional			
4. Oil production in South Sudan declines owing to civil conflicts	***High***	***High*** • Rising fiscal and internal imbalances and inflation.	• Greater exchange rate flexibility to encourage nonoil exports and reduce external imbalances. • Tight monetary policy would control inflation. • Rationalize spending and increase domestic revenue mobilization.
5. Heightened tensions between Sudan and South Sudan	***Low to Medium***	***Low to Medium*** • Rising military spending. • Higher budget deficit and its monetization. • Rising inflation.	• Advance economic and political cooperation with the South to lessen tensions • Provide assistance to South Sudan refugees and encourage international community to intermediate to reduce tensions. • Rationalize spending and tighten monetary policy.
Country Specific			
6. Failure of the ongoing national dialogue and efforts to address internal conflicts	***Medium***	***Medium to High*** • Low growth. • Low spending on social and public investment programs.	• Protect social safety nets by prioritizing spending while enhancing domestic revenue to create fiscal space. • Advance policies for inclusive growth.
7. Sustained breakdown in correspondent bank relations, and reduced financial services by global/regional banks	***High***	***High*** • Drop in exports and imports. • Lower supply and higher cost of imports fueling inflation. • Foreign exchange shortage. • Continued reliance on the informal sector.	• Outreach efforts to restore correspondent banking relationships. • Tighten monetary policy as needed to control inflation. • Enhanced exchange rate flexibility would reduce shortages. • Effective implementation of the AML/CFT framework
8. Sudden stop of financial support from Gulf countries	***Medium***	***High*** • Foreign exchange shortage. • Exchange rate depreciation. • Drop in imports.	• Greater exchange rate flexibility. • Tighten monetary and fiscal policies. • Implement structural reforms. • Improve social safety nets.

1/ The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Table 2. Sudan: Selected Economic Indicators, 2012–17

	2012	2013	2014	2015	2016	2017
					Proj.	
Output and prices			(Annual change in percent)			
Real GDP (factor cost)	-2.2	5.3	1.6	4.9	3.0	3.5
Oil	-59.0	57.8	-13.2	-10.0	-7.6	0.4
Non-oil	4.6	2.8	2.7	5.8	3.6	3.6
Real GDP (market prices)	-3.4	5.2	1.6	4.9	3.1	3.5
Consumer prices (end of period)	44.4	41.9	25.7	12.6	16.5	13.7
Consumer prices (period average)	35.4	36.5	36.9	16.9	13.5	16.1
Central government			(In percent of GDP)			
Revenue and grants	9.9	11.0	12.0	11.0	9.8	9.6
Of which: Nonoil revenues	6.9	8.3	9.0	9.0	8.6	8.2
Of which: Oil revenues	2.6	2.0	2.4	1.7	0.8	1.1
Expenditure	13.3	13.3	13.4	12.9	11.9	11.7
Current	11.7	12.2	12.3	11.7	10.7	10.5
Capital	1.6	1.1	1.1	1.2	1.2	1.2
Overall balance	-3.3	-2.3	-1.4	-1.9	-2.1	-2.2
Primary balance	-2.2	-1.8	-0.5	-1.1	-1.3	-1.5
Non-oil primary balance	-5.1	-4.0	-3.0	-2.8	-2.1	-2.7
Public debt	94.2	72.3	73.8	72.9	63.3	57.1
Monetary sector			(Annual changes in percent)			
Broad money	40.3	13.0	17.0	19.8	25.5	22.8
Reserve money	46.7	20.3	16.0	21.6	26.0	22.0
Credit to the economy	34.1	23.2	17.6	20.8	23.2	18.7
Balance of payments			(In percent of GDP, unless otherwise indicated)			
Exports of goods (in US$, annual percent change)	-53.7	-4.4	-9.0	-28.8	13.5	9.8
Imports of goods (in US$, annual percent change)	2.6	2.3	-7.0	3.2	-2.8	7.5
Merchandise trade balance	-5.4	-5.9	-5.2	-6.4	-4.8	-4.3
Current account balance	-9.3	-8.7	-7.0	-7.9	-5.9	-5.0
Current account balance (cash basis)	-6.7	-6.2	-4.8	-5.9	-4.2	-3.6
Overall balance (cash basis)	0.9	-0.5	0.0	-0.7	-0.7	-1.0
Financing gap (in billions of US$)	…	…	…	…	0.5	1.3
External debt	68.9	68.7	65.8	61.4	55.9	49.5
External debt (in billions of US$)	43.2	45.0	46.8	50.0	52.6	55.6
Gross international reserves (in billions of US$)	1.7	1.6	1.5	1.0	0.8	0.9
In months of next year's imports of G&S	1.9	1.9	1.7	1.2	1.0	1.0
Exchange rate (official SDG/US$, period average)	3.6	4.8	5.7	6.0	…	…

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

Table 3. Sudan: Medium-Term Macroeconomic Outlook, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
						Proj.			
Output and prices				(Annual change in percent)					
Real GDP (at factor cost)	5.3	1.6	4.9	3.0	3.5	3.5	3.5	3.5	3.5
Oil	57.8	-13.2	-10.0	-7.6	0.4	1.6	1.6	1.7	1.3
Non-oil	2.8	2.7	5.8	3.6	3.6	3.6	3.6	3.6	3.6
Consumer prices (end of period)	41.9	25.7	12.6	16.5	13.7	11.7	12.2	13.2	14.2
Consumer prices (period average)	36.5	36.9	16.9	13.5	16.1	12.7	11.9	12.7	13.7
GDP deflator	31.8	29.5	14.6	12.4	15.1	11.7	11.1	11.6	11.6
Investment and savings				(In percent of GDP)					
Gross national income	104.6	103.5	102.9	102.5	102.2	101.9	101.7	101.5	100.9
Gross domestic expenditure	106.5	105.3	105.9	104.3	103.6	103.4	103.1	102.9	103.3
Final consumption	86.9	88.3	88.8	87.7	87.4	87.5	87.1	86.8	85.8
Gross capital formation	19.6	17.0	17.1	16.6	16.2	15.9	16.0	16.1	16.3
Gross Savings	11.0	10.0	9.2	10.6	11.2	11.3	11.9	12.3	12.6
Central government operations									
Revenue and grants	11.0	12.0	11.0	9.8	9.6	9.4	9.0	8.7	8.3
Revenue	10.4	11.4	10.7	9.4	9.3	9.2	8.8	8.5	8.1
Nonoil revenues	8.3	9.0	9.0	8.6	8.2	8.0	7.7	7.5	7.2
Oil revenues 1/	2.0	2.4	1.7	0.8	1.1	1.2	1.1	1.0	0.9
Taxes	6.4	6.1	6.2	5.9	5.7	5.7	5.6	5.5	5.3
Expenditure	13.3	13.4	12.9	11.9	11.7	11.7	11.7	11.6	11.5
Current	12.2	12.3	11.7	10.7	10.5	10.5	10.5	10.4	10.3
Wages	4.8	3.9	3.8	3.9	3.9	4.0	4.0	4.0	4.1
Subsidies	2.5	2.6	2.5	1.5	1.3	1.2	1.2	1.1	1.0
Transfers	3.2	3.0	2.6	2.6	2.7	2.7	2.7	2.7	2.6
Capital	1.1	1.1	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Overall balance	-2.3	-1.4	-1.9	-2.1	-2.2	-2.3	-2.7	-3.0	-3.3
Primary balance	-1.8	-0.5	-1.1	-1.3	-1.5	-1.7	-2.0	-2.3	-2.6
Non-oil primary balance	-4.0	-3.0	-2.8	-2.1	-2.7	-2.9	-3.1	-3.3	-3.5
Public debt	72.3	73.8	72.9	63.3	57.1	53.1	49.9	46.9	44.6
Monetary sector				(Annual change in percent, unless otherwise indicated)					
Broad money	13.0	17.0	19.8	25.5	22.8	18.4	18.7	19.8	20.1
Reserve money	20.3	16.0	21.6	26.0	22.0	18.6	18.1	19.0	20.0
Credit to the economy	23.2	17.6	20.8	23.2	18.7	17.0	16.1	15.0	15.6
Broad money (percent of GDP)	21.3	18.3	19.0	20.4	21.0	21.5	22.2	23.0	24.1
Net claims on government (percent of GDP)	6.7	5.3	6.0	6.2	6.4	6.7	7.3	8.0	9.1
Credit to the economy (percent of GDP)	12.3	11.1	11.1	11.7	11.7	11.8	11.9	11.9	11.9
External sector				(In percent of GDP, unless otherwise indicated)					
Exports of goods (in US$, annual percent change)	-4.4	-9.0	-28.8	13.5	9.8	5.6	5.7	5.8	6.7
Imports of goods (in US$, annual percent change)	2.3	-7.0	3.2	-2.8	7.5	7.5	5.0	5.6	6.3
Merchandise trade balance	-5.9	-5.2	-6.4	-4.8	-4.3	-4.0	-3.7	-3.3	-3.1
Current account balance (cash basis)	-6.2	-4.8	-5.9	-4.2	-3.6	-3.4	-3.0	-2.9	-2.8
Financing gap	0.0	0.0	0.0	0.5	1.1	1.1	0.9	0.9	1.0
External debt service (in percent of exports of G&S)									
Commitment basis	43.0	43.4	51.2	46.6	41.8	39.8	38.2	37.3	37.4
Cash basis	2.7	2.0	6.0	3.1	3.3	3.7	3.8	4.0	4.4
External debt	68.7	65.8	61.4	55.9	49.5	45.2	41.4	37.8	34.8
External debt 2/	104.2	101.3	99.5	120.7	117.2	115.7	113.4	109.8	106.1
External debt (in billions of US$)	45.0	46.8	50.0	52.6	55.6	58.7	61.8	65.2	68.9
Gross international reserves (in billions of US$)	1.6	1.5	1.0	0.8	0.9	1.0	1.1	1.1	1.1
In months of next year's imports of G&S	1.9	1.7	1.2	1.0	1.0	1.0	1.0	1.0	0.9
Memorandum items:									
Nominal GDP (in billions of SDG)	311.6	407.8	491.3	573.6	683.8	790.9	909.7	1,050.3	1,207.2
Nominal GDP (in billions of US$)	65.5	71.1	81.4	94.1	112.2	129.8	149.3	172.4	198.2
Exchange rate (official SDG/US$, period average)	4.76	5.74	6.03	…	…	…	…	…	…
Exchange rate (parallel rate SDG/US$, period averag	7.21	8.83	9.78	…	…	…	…	…	…
NEER (2007=100, percent change, period average)	-26.7	-16.1	-3.8	…	…	…	…	…	…
REER (2007=100, percent change, period average)	-1.9	11.6	17.4	…	…	…	…	…	…

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Oil sales, oil transit fees, and Transitional Financial Arrangement.

2/ GDP estimated at the parallel exchange rate.

Table 4a. Sudan: Balance of Payments, 2013–21

(In millions of U.S. dollars)

	2013	2014	2015	2016		2017	2018	2019	2020	2021
				Q1	Proj.			Proj		
Current account balance	-5,668	-5,000	-6,413	-1,165	-5,589	-5,648	-5,980	-6,160	-6,549	-7,190
Current account balance (cash basis)	-4,083	-3,392	-4,823	-767	-3,998	-4,050	-4,375	-4,548	-4,929	-5,561
Trade balance	-3,832	-3,664	-5,207	-1,010	-4,541	-4,798	-5,231	-5,465	-5,760	-6,101
Oil	538	7	-420	-5	-254	-243	-244	-217	-156	-135
Non-oil	-4,370	-3,671	-4,787	-1,005	-4,288	-4,556	-4,987	-5,248	-5,604	-5,966
Exports, f.o.b.	4,894	4,452	3,169	669	3,597	3,950	4,169	4,407	4,663	4,975
Oil	1,821	1,358	627	108	502	585	637	695	756	843
Crude oil	1,719	1,194	574	96	460	535	583	636	692	771
Petroleum products	102	163	53	12	43	50	54	59	64	72
Non-oil	3,073	3,095	2,542	561	3,095	3,365	3,532	3,712	3,906	4,132
Of which: Gold	1,048	1,271	726	154	1,122	1,233	1,310	1,380	1,450	1,537
Imports, f.o.b.	-8,726	-8,116	-8,376	-1,679	-8,138	-8,748	-9,400	-9,872	-10,423	-11,075
Oil	-1,284	-1,350	-1,047	-113	-756	-827	-881	-913	-912	-977
Non-oil	-7,443	-6,766	-7,329	-1,566	-7,382	-7,921	-8,519	-8,959	-9,511	-10,098
Services (net)	-456	-69	421	175	502	787	875	892	779	440
Receipts	1,574	2,006	2,194	546	2,225	2,639	2,866	2,982	2,986	2,785
Of which: Oil transit fees	123	341	213	48	207	347	347	347	347	347
Of which: TFA transfers 1/	248	438	427	96	255	356	475	475	354	0
Payments	-2,030	-2,075	-1,774	-371	-1,724	-1,853	-1,991	-2,091	-2,207	-2,346
Income (net)	-2,876	-2,391	-2,287	-532	-2,303	-2,409	-2,423	-2,468	-2,516	-2,563
Receipts	9	38	41	0	20	-18	7	19	33	49
Non-oil payments	-2,636	-2,156	-2,196	-515	-2,219	-2,260	-2,305	-2,351	-2,403	-2,462
Public interest due	-1,672	-1,668	-1,670	-418	-1,678	-1,702	-1,730	-1,757	-1,790	-1,830
Of which: cash payments	-87	-60	-80	-20	-86	-104	-124	-145	-170	-201
Other payments	-964	-488	-525	-97	-541	-557	-575	-594	-613	-632
Oil-related payments	-249	-273	-132	-18	-104	-130	-124	-136	-146	-150
Current transfers (net)	1,495	1,124	660	203	753	772	798	881	948	1,033
Private	930	505	326	108	342	359	377	434	456	478
Official	565	619	334	95	411	413	421	447	492	555
Capital and financial account	2,122	1,517	4,365	1,267	3,122	2,660	2,814	3,013	3,228	3,437
Capital account	314	202	250	49	289	345	399	459	530	609
Financial account (net)	1,809	1,315	4,115	1,218	2,832	2,315	2,415	2,554	2,698	2,828
Disbursements	344	283	470	118	387	447	474	502	532	564
Amortization	-381	-406	-351	-88	-309	-328	-344	-338	-333	-343
Of which: Cash payments	-90	-68	-240	-23	-93	-115	-138	-135	-133	-137
Net foreign assets of banks (increase -)	228	-64	223	0	0	0	0	0	0	0
Investors' net income—cost oil	-515	-301	-136	-24	-323	-478	-489	-488	-488	-493
Foreign direct investment and portfolio (net)	1,917	1,561	1,870	363	2,130	2,204	2,282	2,361	2,444	2,530
Other capital flows (net)	215	242	2,039	849	947	469	493	517	543	570
Public 2/	58	29	1,589	447	500	0	0	0	0	0
Private	158	213	450	402	447	469	493	517	543	570
Errors and omissions	1,367	1,537	-223	-528	0	0	0	0	0	0
Overall balance	-2,180	-1,947	-2,270	-426	-2,468	-2,988	-3,166	-3,148	-3,322	-3,753
Overall balance (cash basis)	-304	-1	-570	37	-660	-1,177	-1,354	-1,332	-1,502	-1,918
Financing	2,180	1,947	2,270	426	1,963	1,710	1,764	1,760	1,754	1,835
Change in net international reserves (increase -)	306	1	570	-26	155	-101	-48	-56	-66	0
Gross reserves	78	150	458	-26	155	-101	-48	-56	-66	0
Short-term foreign liabilities (increase +)	228	-150	112	0	0	0	0	0	0	0
IMF (net)	-6	-10	-10	-3	-10	-10	-10	-10	-10	-10
Exceptional financing (change in arrears)	1,874	1,946	1,700	452	1,808	1,811	1,812	1,815	1,820	1,835
Financing gap	0	0	0	0	505	1,278	1,402	1,388	1,568	1,918
Memorandum items:										
Exports of goods (annual change in percent)	-4.4	-9.0	-28.8	0.0	13.5	9.8	5.6	5.7	5.8	6.7
Non-oil exports of goods (annual change in percent)	-1.2	0.7	-17.9	0.0	21.7	8.7	5.0	5.1	5.2	5.8
Imports of goods (annual change in percent)	2.3	-7.0	3.2	0.0	-2.8	7.5	7.5	5.0	5.6	6.3
Crude oil exports (in millions of barrels, annual)	15.8	13.7	12.4	3.2	11.6	11.6	12.2	12.8	13.5	14.9
Sudanese crude oil price (US$ per barrel)	94.6	87.3	46.2	29.6	39.6	46.1	47.8	49.7	51.4	51.8
Terms of trade (annual change, in percent)	-13.9	-6.7	-15.4	…	10.5	7.3	1.9	1.1	1.1	2.0
Import prices	-3.0	-4.3	-15.0	…	-3.6	2.6	1.0	1.3	1.2	0.8
Export prices	-16.5	-10.7	-28.1	…	6.5	10.2	2.9	2.4	2.4	2.8
External debt	45,022	46,781	49,970	49,065	52,620	55,587	58,690	61,820	65,173	68,904
External debt (percent of GDP)	65.5	65.8	61.4	58.0	55.9	49.5	45.2	41.4	37.8	34.8
Arrears to the IMF	1,509	1,423	1,349	1,369.5	1,341	1,335	1,330	1,327	1,321	1,312
Gross International reserves	1,612	1,461	1,003	1,191	848	949	997	1,053	1,118	1,118
In months of next year's imports of G&S	1.9	1.7	1.2	1.4	1.0	1.0	1.0	1.0	1.0	1.0
Nominal GDP	65,507	71,081	81,444	…	94,148	112,246	129,817	149,315	172,393	198,158

Sources: Central Bank of Sudan; and IMF staff estimates and projections.
1/ TFA: Transitional financial arrangement of September 2012 between Sudan and South Sudan.
2/ Includes deposits at the central bank.

Table 4b. Sudan: Balance of Payments, 2013–21

(In percent of GDP)

	2013	2014	2015	2016		2017	2018	2019	2020	2021
				Q1	Proj.			Proj		
Current account balance	-8.7	-7.0	-7.9	-1.2	-5.9	-5.0	-4.6	-4.1	-3.8	-3.6
Current account balance (cash basis)	-6.2	-4.8	-5.9	-0.8	-4.2	-3.6	-3.4	-3.0	-2.9	-2.8
Trade balance	-5.9	-5.2	-6.4	-1.1	-4.8	-4.3	-4.0	-3.7	-3.3	-3.1
Oil	0.8	0.0	-0.5	0.0	-0.3	-0.2	-0.2	-0.1	-0.1	-0.1
Non-oil	-6.7	-5.2	-5.9	-1.1	-4.6	-4.1	-3.8	-3.5	-3.3	-3.0
Exports, f.o.b.	7.5	6.3	3.9	0.7	3.8	3.5	3.2	3.0	2.7	2.5
Oil	2.8	1.9	0.8	0.1	0.5	0.5	0.5	0.5	0.4	0.4
Non-oil	4.7	4.4	3.1	0.6	3.3	3.0	2.7	2.5	2.3	2.1
Of which: Gold	1.6	1.8	0.9	0.2	1.2	1.1	1.0	0.9	0.8	0.8
Imports, f.o.b.	-13.3	-11.4	-10.3	-1.8	-8.6	-7.8	-7.2	-6.6	-6.0	-5.6
Oil	-2.0	-1.9	-1.3	-0.1	-0.8	-0.7	-0.7	-0.6	-0.5	-0.5
Non-oil	-11.4	-9.5	-9.0	-1.7	-7.8	-7.1	-6.6	-6.0	-5.5	-5.1
Services (net)	-0.7	-0.1	0.5	0.2	0.5	0.7	0.7	0.6	0.5	0.2
Of which: Oil transit	0.2	0.5	0.3	0.1	0.2	0.3	0.3	0.2	0.2	0.2
Of which: TFA transfers 1/	0.4	0.6	0.5	0.1	0.3	0.3	0.4	0.3	0.2	0.0
Income (net)	-4.4	-3.4	-2.8	-0.6	-2.4	-2.1	-1.9	-1.7	-1.5	-1.3
Non-oil payments	-4.0	-3.0	-2.7	-0.5	-2.4	-2.0	-1.8	-1.6	-1.4	-1.2
Oil-related payments	-0.4	-0.4	-0.2	0.0	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Current transfers (net)	2.3	1.6	0.8	0.2	0.8	0.7	0.6	0.6	0.5	0.5
Private	1.4	0.7	0.4	0.1	0.4	0.3	0.3	0.3	0.3	0.2
Official	0.9	0.9	0.4	0.1	0.4	0.4	0.3	0.3	0.3	0.3
Capital and financial account	3.2	2.1	5.4	1.3	3.3	2.4	2.2	2.0	1.9	1.7
Capital account	0.5	0.3	0.3	0.1	0.3	0.3	0.3	S	0.3	0.3
Disbursements (net)	-0.1	-0.2	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Net foreign assets of banks (increase -)	0.3	-0.1	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investors' net income—cost oil	-0.8	-0.4	-0.2	0.0	-0.3	-0.4	-0.4	-0.3	-0.3	-0.2
Foreign direct investment and portfolio (net)	2.9	2.2	2.3	0.4	2.3	2.0	1.8	1.6	1.4	1.3
Other capital flows (net)	0.3	0.3	2.5	0.9	1.0	0.4	0.4	0.3	0.3	0.3
Overall balance	-3.3	-2.7	-2.8	-0.5	-2.6	-2.7	-2.4	-2.1	-1.9	-1.9
Overall balance (cash basis)	-0.5	0.0	-0.7	0.0	-0.7	-1.0	-1.0	-0.9	-0.9	-1.0
Exceptional financing (change in arrears)	2.9	2.7	2.1	0.5	1.9	1.6	1.4	1.2	1.1	0.9
Financing gap	0.0	0.0	0.0	0.0	0.5	1.1	1.1	0.9	0.9	1.0

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

1/ TFA: Transitional financial arrangement of September 2012 between Sudan and South Sudan.

Table 5a. Sudan: Central Government Operations, 2013-21

(In billions of Sudanese pounds)

	2013	2014	2015		2016			2017	2018	2019	2020	2021
			Budget	Est.	Budget	Q1	Proj.			Proj.		
Revenue and grants	34.3	49.0	61.4	54.2	67.5	12.2	56.5	65.5	74.4	82.1	90.9	99.7
Revenue	32.3	46.5	59.1	52.5	65.0	11.7	54.0	63.8	72.6	80.2	88.8	97.3
Of which: Nonoil revenue	25.9	36.9	42.8	44.3	52.7	10.9	49.6	56.0	63.1	70.4	78.5	86.8
Taxes	19.9	24.9	28.9	30.5	35.6	7.5	33.8	39.2	45.1	50.9	57.5	64.1
Goods and services	11.2	13.9	16.6	18.5	21.6	4.6	21.3	25.1	29.2	33.4	38.1	42.9
International trade and transactions	6.8	7.9	9.2	8.7	10.4	2.0	8.8	9.9	11.0	12.0	13.3	14.3
Income, profits, property and others	1.8	3.1	3.2	3.3	3.6	0.9	3.7	4.2	4.8	5.5	6.1	6.9
Oil revenue	6.4	9.6	16.3	8.2	12.3	0.8	4.4	7.8	9.5	9.9	10.3	10.6
Oil sales	6.4	5.8	8.5	4.2	5.1	0.5	2.6	4.1	5.0	5.4	5.8	6.1
Transitional Financial Arrangement	0.0	2.5	4.1	2.5	4.1	0.2	1.2	2.2	2.9	2.9	2.9	2.9
Oil transit fees	0.0	1.3	3.8	1.5	3.1	0.1	0.7	1.6	1.6	1.6	1.6	1.6
Other revenue	6.1	12.0	13.9	13.8	17.1	3.4	15.8	16.8	18.1	19.4	21.0	22.7
Fuel stabilization fees	4.3	10.3	10.4	11.1	12.5	2.8	11.1	11.3	11.7	12.1	12.5	13.0
Property income	1.0	0.9	2.1	1.5	2.6	0.2	2.6	3.1	3.6	4.1	4.8	5.5
Administrative fees	0.7	0.8	1.4	1.1	2.0	0.3	2.0	2.4	2.8	3.2	3.7	4.2
Grants	2.0	2.6	2.2	1.7	2.5	0.5	2.5	1.8	1.8	1.9	2.1	2.4
Total expenditure	41.5	54.8	67.2	63.4	77.0	14.8	68.4	80.3	92.5	106.5	122.2	139.3
Expense (current expenditure)	38.1	50.1	59.8	57.4	66.9	13.4	61.4	72.0	82.9	95.4	109.3	124.6
Wages	14.9	15.8	18.7	18.5	22.4	5.0	22.4	27.0	31.3	36.1	41.9	49.1
Goods and services	2.8	5.7	6.9	6.9	8.7	1.8	7.9	9.5	11.0	12.7	14.6	16.8
Interest	1.5	3.5	3.8	3.6	4.2	0.9	4.2	4.4	5.1	6.5	7.3	8.4
Foreign	0.4	0.7	0.8	0.8	1.2	0.1	1.2	1.6	1.9	2.2	2.6	3.1
Domestic	1.1	2.8	3.0	2.8	3.0	0.8	3.0	2.8	3.2	4.3	4.7	5.3
Subsidies	7.9	10.5	10.2	12.4	9.2	1.6	8.4	8.8	9.7	10.5	11.1	11.7
Fuel	6.6	8.0	7.8	9.7	7.7	1.3	6.9	8.8	9.7	10.5	11.1	11.7
Wheat	1.3	2.6	2.4	2.7	1.5	0.3	1.5	0.0	0.0	0.0	0.0	0.0
Transfers	10.1	12.1	16.7	12.9	19.1	3.6	15.1	18.1	21.0	24.2	28.0	31.4
States (current)	7.1	7.6	8.7	8.8	10.1	2.5	10.1	12.2	14.2	16.3	18.9	20.9
States (capital)	2.7	4.4	7.8	3.9	8.8	1.1	4.8	5.7	6.6	7.6	8.8	10.1
Other transfers	0.2	0.1	0.2	0.1	0.2	0.0	0.2	0.2	0.3	0.3	0.4	0.4
Other current	0.9	2.4	3.5	3.1	3.4	0.5	3.4	4.1	4.7	5.4	6.3	7.2
Of which: Social spending	0.6	2.0	1.9	2.0	2.5	0.5	2.5	3.0	3.5	4.0	4.6	5.3
Net acquisition of nonfinancial assets (capital exp.)	3.3	4.6	7.4	6.0	10.1	1.4	7.0	8.4	9.7	11.1	12.9	14.8
Overall balance	-7.1	-5.8	-5.9	-9.2	-9.6	-2.6	-11.9	-14.8	-18.2	-24.4	-31.3	-39.6
Primary balance	-5.6	-2.2	-2.1	-5.6	-5.4	-1.8	-7.7	-10.4	-13.1	-17.9	-24.0	-31.3
Nonoil primary balance 1/	-12.0	-11.8	-18.4	-13.8	-17.7	-3.1	-12.2	-18.2	-22.5	-27.8	-34.3	-41.8
Financing	7.1	3.8	5.9	12.0	9.6	1.0	11.9	14.8	18.2	24.4	31.3	39.6
Foreign financing	1.1	0.9	0.5	-0.4	3.0	0.5	1.8	2.0	2.0	2.2	2.4	2.6
Disbursements	2.1	1.6	3.9	1.4	5.5	0.8	2.4	2.7	2.9	3.1	3.2	3.4
Principal repayments	-1.0	-0.7	-3.5	-1.8	-2.6	-0.3	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8
Domestic financing	6.1	3.0	5.4	12.5	8.7	0.5	10.1	12.8	16.1	22.2	28.9	37.0
CBOS 2/	4.9	1.4	…	8.0	…	-0.2	3.9	3.6	5.2	8.3	11.7	17.1
Of which: Wheat subsidies	1.3	2.0	…	2.7	…	0.3	0.0	-1.5	-1.5	-1.5	-1.5	-0.3
Commercial banks	0.3	1.2	…	2.4	…	0.2	2.2	3.1	3.0	3.3	3.9	0.3
Nonbanks	-2.5	2.5	…	4.0	…	0.6	5.1	6.1	8.0	10.6	13.3	19.6
Change in net domestic arrears	3.3	-2.1	-2.2	-2.0	-0.8	0.0	-1.2	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears	-0.5	-2.1	-2.2	-2.0	-0.8	0.0	-1.2	0.0	0.0	0.0	0.0	0.0
Discrepancy	0.0	1.9	0.0	-2.9	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Fiscal burden of fuel subsidies	9.0	2.7	-2.5	-1.2	-4.8	…	-4.2	-2.4	-2.0	-1.6	-1.4	-1.3
Budgetary net fuel subsidies 3/	2.4	-2.3	-2.6	-1.3	-4.8	…	-4.2	-2.4	-2.0	-1.6	-1.4	-1.3
Crude oil subsidies 4/	6.7	5.0	0.1	0.1	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	225.1	300.9	…	358.2	…	…	363.1	390.6	420.2	453.6	492.7	538.8
External	192.3	257.0	…	294.2	…	…	310.1	328.0	346.7	365.5	385.7	408.2
Domestic 5/	32.9	43.9	…	64.0	…	…	53.0	62.6	73.6	88.1	107.0	130.6

Sources: Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Primary balance minus oil revenue

2/ In the CBOS balance sheet, wheat subsidy obligations are classified as "other items net"; this explains the difference in net credit to government between the fiscal and monetary tables.

3/ Fuel subsidies minus fuel stabilization fees.

4/ Until 2015, crude oil subsidies, which were not included in the budget, arose from the government's sales of crude oil to state-owned refineries at a discounted price.

5/ Staff estimates and projections.

Table 5b. Sudan: Central Government Operations, 2013–21

(In percent of GDP)

	2013	2014	2015		2016			2017	2018	2019	2020	2021
			Budget	Est.	Budget	Q1	Proj.			Proj.		
Revenue and grants	11.0	12.0	12.5	11.0	11.8	2.1	9.8	9.6	9.4	9.0	8.7	8.3
Revenue	10.4	11.4	12.0	10.7	11.3	2.0	9.4	9.3	9.2	8.8	8.5	8.1
Of which: Nonoil revenue	8.3	9.0	8.7	9.0	9.2	1.9	8.6	8.2	8.0	7.7	7.5	7.2
Taxes	6.4	6.1	5.9	6.2	6.2	1.3	5.9	5.7	5.7	5.6	5.5	5.3
Goods and services	3.6	3.4	3.4	3.8	3.8	0.8	3.7	3.7	3.7	3.7	3.6	3.6
International trade and transactions	2.2	1.9	1.9	1.8	1.8	0.3	1.5	1.4	1.4	1.3	1.3	1.2
Income, profits, property and others	0.6	0.8	0.6	0.7	0.6	0.2	0.6	0.6	0.6	0.6	0.6	0.6
Oil revenue	2.0	2.4	3.3	1.7	2.1	0.1	0.8	1.1	1.2	1.1	1.0	0.9
Oil sales	2.0	1.4	1.7	0.8	0.9	0.1	0.4	0.6	0.6	0.6	0.6	0.5
Transitional Financial Arrangement	0.0	0.6	0.8	0.5	0.7	0.0	0.2	0.3	0.4	0.3	0.3	0.2
Oil transit fees	0.0	0.3	0.8	0.3	0.5	0.0	0.1	0.2	0.2	0.2	0.1	0.1
Other revenue	1.9	2.9	2.8	2.8	3.0	0.6	2.7	2.5	2.3	2.1	2.0	1.9
Fuel stabilization fees	1.4	2.5	2.1	2.3	2.2	0.5	1.9	1.7	1.5	1.3	1.2	1.1
Property income	0.3	0.2	0.4	0.3	0.5	0.0	0.5	0.5	0.5	0.5	0.5	0.5
Administrative fees	0.2	0.2	0.3	0.2	0.3	0.1	0.3	0.3	0.3	0.3	0.3	0.3
Grants	0.7	0.6	0.5	0.3	0.4	0.1	0.4	0.3	0.2	0.2	0.2	0.2
Total expenditure	13.3	13.4	13.7	12.9	13.4	2.6	11.9	11.7	11.7	11.7	11.6	11.5
Expense (current expenditure)	12.2	12.3	12.2	11.7	11.7	2.3	10.7	10.5	10.5	10.5	10.4	10.3
Wages	4.8	3.9	3.8	3.8	3.9	0.9	3.9	3.9	4.0	4.0	4.0	4.1
Goods and services	0.9	1.4	1.4	1.4	1.5	0.3	1.4	1.4	1.4	1.4	1.4	1.4
Interest	0.5	0.9	0.8	0.7	0.7	0.2	0.7	0.6	0.6	0.7	0.7	0.7
Foreign	0.1	0.2	0.2	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.3
Domestic	0.4	0.7	0.6	0.6	0.5	0.1	0.5	0.4	0.4	0.5	0.5	0.4
Subsidies	2.5	2.6	2.1	2.5	1.6	0.3	1.5	1.3	1.2	1.2	1.1	1.0
Fuel	2.1	2.0	1.6	2.0	1.3	0.2	1.2	1.3	1.2	1.2	1.1	1.0
Wheat	0.4	0.6	0.5	0.5	0.3	0.0	0.3	0.0	0.0	0.0	0.0	0.0
Transfers	3.2	3.0	3.4	2.6	3.3	0.6	2.6	2.7	2.7	2.7	2.7	2.6
States (current)	2.3	1.9	1.8	1.8	1.8	0.4	1.8	1.8	1.8	1.8	1.8	1.7
States (capital)	0.9	1.1	1.6	0.8	1.5	0.2	0.8	0.8	0.8	0.8	0.8	0.8
Other transfers	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other current	0.3	0.6	0.7	0.6	0.6	0.1	0.6	0.6	0.6	0.6	0.6	0.6
Of which: Social spending	0.2	0.5	0.4	0.4	0.4	0.1	0.4	0.4	0.4	0.4	0.4	0.4
Net acquisition of nonfinancial assets (capital exp.)	1.1	1.1	1.5	1.2	1.8	0.3	1.2	1.2	1.2	1.2	1.2	1.2
Overall balance	-2.3	-1.4	-1.2	-1.9	-1.7	-0.5	-2.1	-2.2	-2.3	-2.7	-3.0	-3.3
Primary balance	-1.8	-0.5	-0.4	-1.1	-0.9	-0.3	-1.3	-1.5	-1.7	-2.0	-2.3	-2.6
Nonoil primary balance 1/	-4.0	-3.0	-3.8	-2.8	-3.1	-0.5	-2.1	-2.7	-2.9	-3.1	-3.3	-3.5
Financing	2.3	0.9	1.2	2.5	1.7	0.2	2.1	2.2	2.3	2.7	3.0	3.3
Foreign financing	0.3	0.2	0.1	-0.1	0.5	0.1	0.3	0.3	0.3	0.2	0.2	0.2
Disbursements	0.7	0.4	0.8	0.3	1.0	0.1	0.4	0.4	0.4	0.3	0.3	0.3
Principal repayments	-0.3	-0.2	-0.7	-0.4	-0.4	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1	-0.1
Domestic financing	1.9	0.7	1.1	2.5	1.5	0.1	1.8	1.9	2.0	2.4	2.8	3.1
CBOS 2/	1.6	0.3	…	1.6	…	0.0	0.7	0.5	0.7	0.9	1.1	1.4
Of which: Wheat subsidies	0.4	0.5	…	0.5	…	0.0	0.0	-0.2	-0.2	-0.2	-0.1	0.0
Commercial banks	0.1	0.3	…	0.5	…	0.0	0.4	0.5	0.4	0.4	0.4	0.0
Nonbanks	-0.8	0.6	…	0.8	…	0.1	0.9	0.9	1.0	1.2	1.3	1.6
Change in net domestic arrears	1.1	-0.5	-0.4	-0.4	…	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	1.2	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears	-0.2	-0.5	-0.4	-0.4	…	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Discrepancy	0.0	0.5	0.0	-0.6	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:												
Fiscal burden of fuel subsidies	2.9	0.7	-0.5	-0.2	-0.8	…	-0.7	-0.4	-0.3	-0.2	-0.1	-0.1
Budgetary net fuel subsidies 3/	0.8	-0.6	-0.5	-0.3	-0.8	…	-0.7	-0.4	-0.3	-0.2	-0.1	-0.1
Crude oil subsidies 4/	2.1	1.2	0.0	0.0	0.0	…	0.0	0.0	0.0	0.0	0.0	0.0
Public debt	72.3	73.8	…	72.9	…	…	63.3	57.1	53.1	49.9	46.9	44.6
External	61.7	63.0	…	59.9	…	…	54.1	48.0	43.8	40.2	36.7	33.8
Domestic 5/	10.5	10.8	…	13.0	…	…	9.2	9.2	9.3	9.7	10.2	10.8

Sources: Ministry of Finance and Economic Planning; and IMF staff estimates and projections.

1/ Primary balance minus oil revenue.

2/ In the CBOS balance sheet, wheat subsidy obligations are classified as part of "other items net"; this explains the difference in net credit to government between the fiscal and monetary tables.

3/ Fuel subsidies minus fuel stabilization fees.

4/ Until 2015, crude oil subsidies, which were not included in the budget, arose from the government's sales of crude oil to state-owned refineries at a discounted price.

5/ Staff estimates and projections.

Table 6. Sudan: Monetary Survey, 2013–17

(In millions of Sudanese pounds)

	2013	2014	2015	2016 May	2016 Proj.	2017 Proj.
Net foreign assets	-12,719	-12,550	-26,600	-30,204	-32,910	-39,142
Central Bank of Sudan	-15,418	-15,702	-28,521	-32,408	-34,832	-41,063
Commercial banks	2,700	3,152	1,921	2,204	1,921	1,921
Net domestic assets	79,164	90,289	119,703	134,170	149,797	182,717
Net domestic credit	68,015	75,293	92,146	96,405	110,900	131,678
Net claims on general government (NCGG)	29,566	30,078	37,519	37,117	43,620	51,818
NCGG excluding IMF	20,967	21,630	29,304	28,764	35,427	43,630
Central Bank of Sudan	13,503	12,923	18,191	17,460	22,076	27,188
Commercial banks	7,464	8,707	11,113	11,304	13,351	16,443
Claims on nongovernment sectors	38,449	45,215	54,627	59,288	67,280	79,860
Public enterprises	4,004	6,008	9,071	9,384	11,793	13,562
Private sector	33,034	35,920	41,606	46,029	50,218	60,205
Other	1,411	3,286	3,949	3,874	5,269	6,094
Other items (net)	11,149	14,997	27,558	37,765	38,897	51,039
Broad money (M2)	66,446	77,739	93,103	103,965	116,886	143,575
Money	47,309	56,199	65,609	72,050	82,368	100,115
Currency in circulation	19,178	23,343	27,495	29,530	34,636	42,263
Demand deposits	28,130	32,855	38,113	42,521	47,732	57,852
Domestic currency	16,487	19,742	25,363	29,355	32,559	40,809
Foreign currency	11,643	13,114	12,750	13,166	15,174	17,043
Quasi-money	19,137	21,540	27,495	31,915	34,518	43,460
Domestic currency	15,394	19,038	24,497	29,173	31,131	39,527
Foreign currency	3,743	2,503	2,998	2,742	3,387	3,933
			(Change in percent, end of period)			
Broad money	13.0	17.0	19.8	33.7	25.5	22.8
Money	12.6	18.8	16.7	28.2	25.5	21.5
Currency in circulation	14.5	21.7	17.8	26.5	26.0	22.0
Demand deposits	11.4	16.8	16.0	29.4	25.2	21.2
Quasi-money	14.0	12.6	27.6	48.2	25.5	25.9
Deposits	12.4	15.1	21.8	36.8	18.7	23.5
Domestic currency	13.0	21.6	28.6	50.9	27.7	26.1
Foreign currency	11.3	1.5	0.8	1.9	17.9	13.0
Net foreign assets	-74.7	1.3	-111.9	-140.7	-23.7	-18.9
Net domestic assets	19.8	14.1	32.6	48.6	25.1	22.0
Net claims on government	24.8	1.7	24.7	-1.1	16.3	18.8
Credit to the economy	23.2	17.6	20.8	31.1	23.2	18.7
Public enterprises	26.3	50.0	51.0	56.2	30.0	15.0
Private sector	22.5	8.7	15.8	28.1	20.7	19.9
			(In percent)			
Broad money to GDP	21.3	18.3	19.0	20.0	20.4	21.0
Money to broad money	71.2	72.3	70.5	69.3	70.5	69.7
Currency in circulation to M2	28.9	30.0	29.5	28.4	29.6	29.4
Private sector deposits to M2	60.4	62.8	62.6	63.0	59.2	59.6
Net claims on government to GDP	6.7	5.3	6.0	5.5	6.2	6.4
Credit to the economy to GDP	12.3	11.1	11.1	11.3	11.7	11.7
Velocity (GDP/M2, eop)	4.7	5.2	5.3	5.1	4.9	4.8
Foreign currency deposits to M2	23.2	20.1	16.9	15.3	15.9	14.6
Money multiplier (M2/reserve money, eop)	1.8	1.8	1.8	1.9	1.8	1.8

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 7. Sudan: Summary Accounts of the Central Bank, 2013–17

(In millions of Sudanese pounds)

	2013	2014	2015	2016		2017
				May	Proj.	Proj.
Net foreign assets	-15,418	-15,702	-28,521	-32,408	-34,832	-41,063
Foreign assets	9,495	9,030	6,401	7,666	5,412	6,057
Of which : Gross international reserve	9,179	8,726	6,110	7,352	5,166	5,782
Of which: SDR holdings	1,098	1,063	1,084	1,079	1,084	1,084
Foreign liabilities	24,913	24,732	34,922	40,074	40,243	47,121
Of which : Short-term foreign liabilities	7,160	6,614	7,427	9,349	9,723	9,723
Of which: IMF-related liabilities	10,159	9,990	9,720	9,887	9,649	9,600
Net domestic assets	51,889	58,025	79,985	86,287	99,660	120,168
Net domestic credit	25,912	25,460	32,611	33,130	39,252	46,859
Net claims on general government (NCGG)	22,103	21,371	26,406	25,813	30,269	35,375
NCGG excluding IMF	13,503	12,923	18,191	17,460	22,076	27,188
Claims	23,109	22,798	27,380	28,343	31,358	36,519
Of which: IMF on-lent	8,599	8,448	8,215	8,353	8,193	8,188
Deposits	1,006	1,426	974	2,530	1,089	1,143
Claims on public enterprises	792	894	1,170	1,237	1,438	1,938
Claims on banks	2,831	3,195	5,035	6,080	7,545	9,545
Money market instruments	187	0	0	0	0	0
Other items (net)	25,977	32,565	47,374	53,157	60,408	73,309
Reserve money	36,471	42,323	51,464	53,879	64,829	79,105
Currency outside banks	19,178	23,343	27,495	29,530	34,636	42,263
Reserves of commercial banks	13,897	17,806	20,988	20,865	26,626	32,707
Required reserves	3,975	4,509	5,244	5,287	6,606	8,060
Excess reserves	9,922	13,297	15,744	15,578	20,020	24,646
Cash in vault	1,234	1,717	1,845	2,586	2,324	2,836
Excess reserves on deposits	8,687	11,580	13,899	12,992	17,696	21,810
Deposits at CBOS included in broad money	3,395	1,175	2,981	3,484	3,567	4,135
	(Change in percent, end of period)					
Net foreign assets	7.3	-1.8	-81.6	-13.6	-22.1	-17.9
Foreign assets	24.9	-4.9	-29.1	19.8	-15.5	11.9
Gross international reserve	25.9	-4.9	-30.0	20.3	-15.5	11.9
Foreign liabilities	2.8	-0.7	41.2	14.8	15.2	17.1
Net domestic assets	0.2	11.8	37.8	7.9	24.6	20.6
Net domestic credit	2.9	-1.7	28.1	1.6	20.4	19.4
Net claims on general government	3.5	-3.3	23.6	-4.0	14.6	16.9
Other items (net)	-2.3	25.4	45.5	12.2	27.5	21.4
Reserve money	20.3	16.0	21.6	11.4	26.0	22.0
Memorandum items:						
Gross international reserves (in millions of US$)	1,612	1,461	1,003	1,207	848	949
Net international reserves (in millions of US$)	355	354	-216	-328	-371	-270

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

Table 8. Sudan: Summary Accounts of the Commercial Banks, 2013–17

(In millions of Sudanese pounds)

	2013	2014	2015	2016		2017
				May	Proj.	Proj.
Net foreign assets	2,700	3,152	1,921	2,204	1,921	1,921
Foreign assets	4,696	5,149	3,859	4,232	3,859	3,859
Foreign liabilities	1,996	1,997	1,937	2,028	1,937	1,937
Net domestic assets	42,717	53,552	66,046	72,879	80,338	99,261
Reserves	14,440	19,523	22,833	22,181	28,950	35,543
Cash in vaults	1,234	1,717	1,845	2,586	2,324	2,836
Required reserves	4,029	4,573	5,316	5,351	6,741	8,276
Other reserves	9,098	12,600	14,656	14,242	19,885	24,431
Net claims on central government	7,464	8,707	11,113	11,304	13,351	16,443
Claims on state & local government	966	1,923	2,046	2,145	2,149	2,256
Claims on non-government sectors	36,691	42,398	51,410	55,905	65,842	77,922
Private sector	33,034	35,920	41,606	46,029	53,286	63,062
Non-financial public enterprises	3,213	5,114	7,901	8,147	10,119	11,976
Non-bank financial institutions	444	1,364	1,903	1,729	2,437	2,884
Other items, net	-16,844	-18,998	-21,357	-18,656	-29,953	-32,903
Deposits	43,872	53,221	62,627	70,949	78,683	97,177
Demand deposits	27,537	32,498	37,198	40,729	46,734	57,719
Domestic currency	15,893	19,384	24,448	27,563	30,716	37,935
Foreign currency	11,643	13,114	12,750	13,166	16,019	19,784
Quasi-money deposits (time & saving)	16,335	20,723	25,430	30,223	31,949	39,458
Domestic currency	15,394	19,036	24,484	29,173	30,761	37,991
Foreign currency	942	1,687	946	1,050	1,188	1,467
Liabilities to CBOS 1/	1,544	2,851	3,193	4,131	3,576	4,005
Memorandum items:						
Deposits with commercial banks	43,998	53,288	62,706	71,021	78,770	97,272
Central government	126	67	79	72	87	95
Other sectors	43,872	53,221	62,627	70,949	78,683	97,177
State and local government deposits	1,744	2,057	2,424	2,772	3,014	3,722
Public enterprises deposits	2,011	2,375	2,544	2,676	3,162	3,906
Private sector deposits	40,117	48,790	58,328	65,501	72,507	89,549
			(In percent)			
Credit to deposits	85.8	83.3	85.4	81.8	86.4	82.5
Reserves to deposits	31.6	33.4	33.5	29.4	33.8	33.7
Required reserves to deposits	9.0	8.5	8.4	7.4	8.4	8.3
Excess reserves to deposits	22.6	25.0	25.1	21.9	25.4	25.4
Cash to deposits	2.8	3.2	2.9	3.6	3.0	2.9
Claims on government to reserves	54.6	49.3	53.3	54.5	50.5	50.6

Sources: Central Bank of Sudan; and IMF staff estimates and projections.

1/ The difference between commercial banks' liabilities to CBOS and CBOS's claims on banks (Table 6) is due to misclassification of government guarantees.

Table 9. Sudan: Financial Soundness Indicators for the Banking Sector, 2010-16

	2010	2011	2012	2013	2014	2015	2016Q1
(In percent, unless otherwise indicated)							
Capital Adequacy							
Regulatory capital to risk-weighted assets	10.0	13.0	12.0	16.6	18.0	20.2	21.0
Regulatory Tier I capital to risk-weighted assets	8.9	11.0	10.5	14.5	15.4	18.7	18.8
Asset composition and quality							
Gross nonperforming loans (NPLs) to gross loans	14.4	12.6	11.8	8.4	7.1	5.1	5.1
NPLs net of provisions to gross loans	10.4	7.6	7.5	3.8	2.7	0.5	0.7
NPLs net of provisions to capital	43.7	33.3	36.5	16.7	12.8	3.0	4.0
Loans provisions to NPLs	31.7	39.8	33.5	53.6	61.0	90.6	85.5
Foreign currency loans to total loans	13.7	9.0	15.7	11.8	8.7	6.0	5.6
Deposits and investment accounts to total assets	63.9	63.5	63.4	62.2	62.8	63.4	64.9
Foreign currency deposits to total deposits	22.0	18.7	27.0	31.9	25.7	21.4	19.8
Earnings and Profitability 1/							
Return on assets (before tax)	3.9	4.2	4.4	3.7	4.0	4.0	1.0
Return on equity (before tax)	26.5	27.8	36.4	29.6	33.7	37.1	8.7
Liquidity							
CBOS deposits to total assets	10.8	13.1	17.5	16.5	18.3	18.5	17.3
Required reserves to total assets	3.2	3.5	5.5	5.0	5.1	4.9	4.5
Required reserves to total reserves	25.5	23.9	28.6	27.8	24.8	24.1	23.9
Cash in vault to total assets	1.9	2.1	2.0	1.9	2.8	2.0	2.0
Liquid assets to total assets	35.3	36.3	41.7	39.5	39.1	37.4	35.8
Liquid assets to total short-term liabilities	98.2	93.8	102.5	99.5	99.3	98.5	90.8

Source: Central Bank of Sudan.

1/ Figures for 2016Q1 are not annualized.

Annex I. External Stability Assessment

Overall Assessment

1. **Sudan's external position continues to be weak and vulnerable to shocks.** Exchange rate misalignment, U.S. sanctions, withdrawal of CBRs, and high costs of doing business have constrained Sudan's ability to adjust to the sharp decline in export proceeds following the secession of South Sudan in 2011. As a result, five years on, the external current account deficit remains large and international reserves precariously low. Sudan is also vulnerable to external shocks owing to its narrow and commodity-based exports. Applying the EBA-lite methodology, staff estimates that the real effective exchange rate is overvalued by about 50 percent relative to economic fundamentals. Greater exchange rate flexibility and structural reforms, supported by tighter fiscal and monetary policies, are needed to improve competitiveness and foster private sector investment in the tradable sector. The removal of sanctions, clearance of external arrears, and debt relief will be critical factors to improve durably the external position.

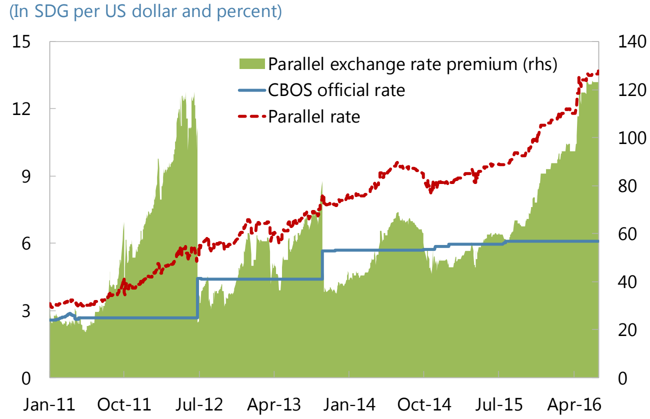
Recent Developments

2. **The external current account deficit (on a cash basis) widened to 5.9 percent of GDP in 2015.** Exports dropped by 29 percent while imports increased by 3.2 percent. The decline in exports was mainly due to sharp drops in prices of Sudan's main exports—oil, livestock, sesame seeds, and gold—which declined by 8–47 percent from a year ago.

3. **The official exchange rate remained virtually fixed in 2015–16.** The official rate was adjusted by only 2 percent, while the parallel market exchange rate depreciated by 36 percent since end-2014. As a result, the premium widened to 125 percent at end-June 2016 (from 46 percent at end-2014).

Exchange Rates

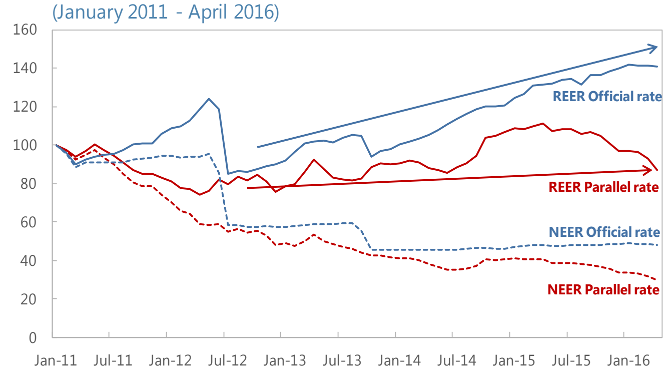
(In SDG per US dollar and percent)



Source: Central Bank of Sudan.

Nominal and Real Effective Exchange Rates

(January 2011 - April 2016)



Source: IMF staff calculations.

Price Competitiveness

4. **Based on the official rate, the real effective exchange rate (REER) appreciated by 17 percent between December 2014 and April 2016.** The appreciation of the official REER reflected Sudan's high inflation relative to trading partners and the quasi-fixed official

exchange rate in 2015–16. It wiped out the real depreciation that followed the devaluations in June 2012 and September 2013. On the parallel market, the 18 percent REER depreciation between December 2014 and April 2016 still resulted in a cumulative appreciation of 15 percent since end-2012.

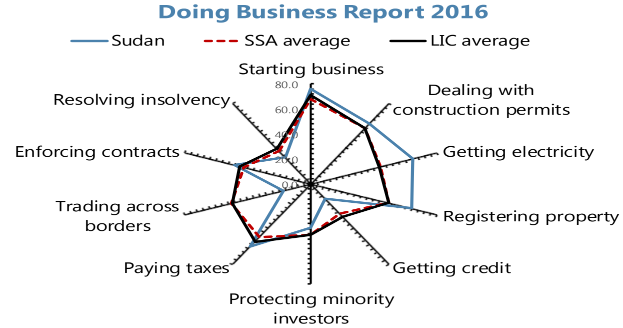
5. **The real effective exchange rate is overvalued.** A number of factors lead to this conclusion: (i) the large current account deficit; (ii) low international reserves; (iii) the widening gap between the official and the parallel market rates; (iv) appreciation of the REER in 2013–15; and (v) the weak external payment capacity as evidenced by the continued accumulation of external arrears.

6. **Estimates from the EBA-lite methodology suggest that the real exchange rate is overvalued by about 50 percent relative to economic fundamentals**. Based on the Fund's External Balance Assessment methodology (EBA-lite), the current account norm-the equilibrium current account balance determined by medium-term values of the fiscal balance, relative income level, demographic characteristics, and productivity differentials-is estimated at -2 percent of GDP. Compared to the actual current account balance of -5.9 percent in 2015,[1] this implies a current account gap of about 3.9 percent of GDP, which reflects an external position that is substantially weaker than implied by fundamentals. The current account gap together with a low long-term elasticity of the current account to the real exchange rate of -0.077,[2] suggests that the real exchange rate is overvalued by about 50 percent.[3] These model-based estimates, however, should be interpreted with caution given that Sudan faces a specific set of external constraints, such as U.S. sanctions on trade and financial transactions, which worsen the current account and are not captured by the model.

Non-Price Competitiveness

7. **Weak institutions and an unfavorable business environment undermine competitiveness.** Sudan ranks at a low 159th among 189 countries in 2016 World Bank Doing Business survey[4]. Trading across borders, access to credit, and investor protection are

Doing Business Report 2016



Source: WB Doing Business Report 2016 and IMF staff calculations.

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[1] Excluding unpaid interest and penalties on external debt arrears, which are not actual cash flows.

[2] Trade elasticities, estimated by Tokarick (2010), "A method for calculating export supply and import demand elasticities" (IMF Working Paper WP/10/180), were applied: the export supply elasticity is 0.57 and the import demand elasticity is 1.23. The exchange rate gap is calculated as the ratio between the current account gap and the elasticity of the current account to the REER.

[3] This compares with a 41 percent overvaluation in the 2014 Article IV consultation (IMF Country Report No. 14/364).

[4] Doing Business provides an aggregate ranking on the ease of doing business based on indicator sets that measure and benchmark regulations applying to domestic small to medium-size businesses through their life cycle. Economies are ranked from 1 to 189 by the ease-of-doing-business ranking.

rated lowest. In addition to domestic constraints on the business climate, U.S. sanctions and withdrawal of CBRs impose high costs on international trade and finance. The World Bank's Country Policy and Institutional Assessment 2015 report[5] classifies Sudan as a weak performer with an overall score of 2.4, compared to 3.2 for Sub-Saharan African countries. In particular, Sudan scores poorly in public sector management and institutions

Country and Policy Institutional Assessment 2014 1/

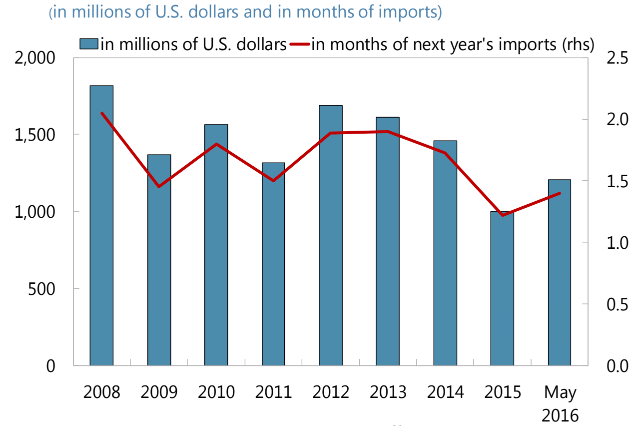
Concept	Sudan	Sub-Saharan Africa countries
Economic Management	**2.3**	**3.3**
Monetary & Exchange Rate Policy	3.0	3.5
Fiscal Policy	2.5	3.2
Debt Policy	1.5	3.3
Structural Policies	**2.7**	**3.2**
CPIA trade rating	2.5	3.7
Financial Sector	2.5	2.9
Business Regulatory Environment	3.0	3.1
Policies for Social Inclusion and Equity	**2.5**	**3.2**
Gender Equality	2.5	3.2
Equity of Public Resource Use	2.5	3.3
Building Human Resources	3.0	3.5
social protection and labor rating	2.5	2.9
Policies & Institutions for Environment	2.0	3.2
Public Sector Management and Institutions	**2.2**	**3.0**
Policies & Institutions for Environment	2.0	2.7
Quality of Budgetary & Financial Management	2.5	3.1
Efficiency of Revenue Mobilization	3.0	3.4
Quality of Public Administration	2.0	2.9
Transparency, Accountability & Corruption in	1.5	2.7
Overall CPIA Score	**2.4**	**3.2**

Source: CPIA (June 2015). World Bank.
1/ Scale: 1=low to 6=high

Reserve Adequacy

8. **Gross international reserves have remained low over the past several years, leaving Sudan vulnerable to external shocks.** In May 2016, reserves stood at only $1.2 billion (1.4 months of imports) despite an estimated $2.1 billion in foreign deposits at the central bank over the previous 12 months. Given the sizable external imbalances and constraints, there are little prospects of reserves increasing over the medium term under current policies. Hence, reserves are projected to remain at about 1 month of imports, far below the traditionally recommended minimum of 3 months of imports and the 6–8 months suggested by the IMF's reserve adequacy metric.[6]

Gross International Reserves
(in millions of U.S. dollars and in months of imports)



Source: Sudanese authorities; and IMF staff estimates.

[5] The Country Policy and Institutional Assessment (CPIA) rates countries against a set of 16 criteria grouped in four clusters: (a) economic management; (b) structural policies; (c) policies for social inclusion and equity; and (d) public sector management and institutions. The CPIA measures the extent to which a country's policy and institutional framework supports sustainable growth and poverty reduction, and consequently the effective use of development assistance. The outcome of the exercise yields both an overall score and specific scores for all sixteen criteria. For each criterion, countries are classified from 1 (very weak performance) to 6 (very strong performance). See: http://go.worldbank.org/7NMQ1P0W10

[6] International Monetary Fund, 2013, "Assessing Reserve Adequacy—Further Considerations," IMF Policy Paper, November (Washington: International Monetary Fund). The optimal reserve level is assessed based on the cost of balance of payments crises, the opportunity cost of holding reserves, and the return on reserve assets.

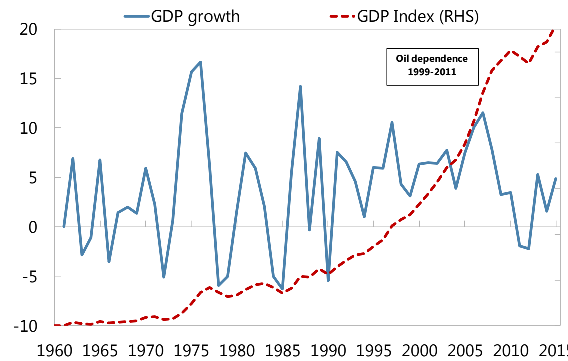
Conclusions

9. **Sudan's external position continues to be weak and vulnerable to shocks.** To reduce external imbalances and enhance resilience, the authorities need to: (i) reduce overvaluation and close the gap between the official and parallel market exchange rates through a combination of exchange rate adjustment, gradual removal of restrictions on access to foreign exchange, and fiscal and monetary policies supportive of external adjustment; and (ii) improve the business environment and implement wide-ranging structural reforms and infrastructure investments to improve competitiveness and increase human and physical capital. Continued outreach to garner international support for debt relief under the Heavily Indebted Poor Country Initiative is also critical.

Annex II. Challenges of Inclusive Growth and Policy Options

1. **Despite GDP expanding more than seven times since 1960, Sudan's economic growth has not been inclusive.** While growth has averaged 3.9 percent per year since 1960, it has been volatile with a standard deviation of 140 percent. It has also depended mainly on natural resources-agriculture until 1999, oil until 2011, and gold, oil, and agriculture since 2011. While a big leap in real income occurred in the 1990s and 2000s when oil production and prices were rising and some degree of macroeconomic stability was restored—supported by several IMF Staff-Monitored Programs—Sudan entered the post-oil, post-secession period still in a precarious situation. It remains a country with fragile institutions coping with six internal conflicts (according to Polity[1]), tenuous macroeconomic stability, continued resource dependence, arrears to the foreign lenders despite several Paris Club debt restructurings in the 1970s and 80s, and human development outcomes not much higher than two decades ago. In sum, the growth of income—while an undeniable achievement—has not been inclusive.

GDP Growth and GDP Index
(market prices; in percent)



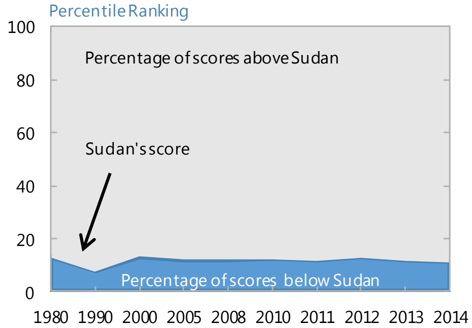
Source: Sudanese authorities; and World Development Indicators (WB)

2. **Several indicators point to Sudan's quality of growth being low.** A new composite measure of the quality of growth ranks Sudan 63rd out of 93 countries in 1990–94 and 86th out of 93 in 2005–11.[2] The UN's Human Development Index (HDI) places Sudan in 167th position among 188 countries rated in 2014. And poverty outcomes have been weak as well: the latest poverty survey in 2009 counted 44 percent of the population as poor, with 20 percent surviving on less than $1.25 a day.

[1] See: "Polity IV Project: Political Regime Characteristics and Transitions, 1800-2013" available at http://www.systemicpeace.org/polity/polity4.htm.

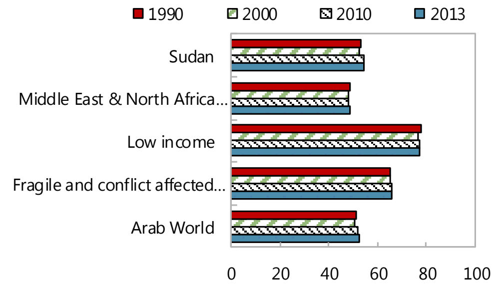
[2] Mlachila, Tapsoba, and Tapsoba, 2014, "A Quality of Growth Index for Developing Countries"; IMF Working Paper WP/14/172. The index encompasses both the intrinsic nature and social dimensions of growth, and is computed for over 90 countries for the period 1990–2011. It combines measures of growth performance, variability, and diversification with the main features of human capital: longevity/health and education. In this approach, good quality growth is seen as high, durable, and socially-friendly growth.

Human Development Index
Percentile Ranking



Source: Human Development Index 2015

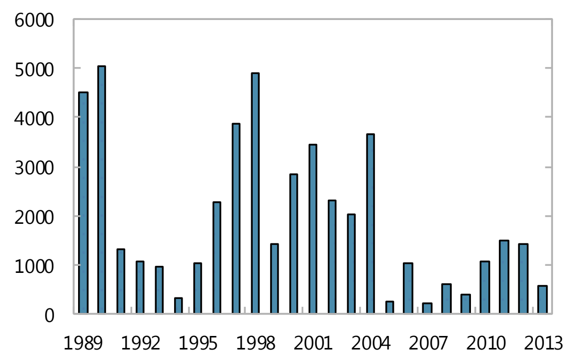
Labor Force Participation Rate, Total
(% of population ages 15-64; ILO estimate)



Source: World Development Indicators (WB).

3. **Internal conflicts, international isolation, and weak institutions and governance weigh on growth and inclusiveness in Sudan.** The UN estimates that there were 3.1 million internally displaced people in Sudan in 2015—the most in Africa—owing to internal conflicts. As a result, the UN maintains a 21,000-strong peacekeeping force since 2007, and provides humanitarian support to 5.4 million people, or 15 percent of the population.[3] Continued conflicts have been an important factor in the absence of resolution of Sudan's external debt and arrears. Moreover, weak institutions have a low capacity to implement complex pro-growth and pro-poor policies—Sudan's structural policies were assessed at only 2.7 out of 6 points by the World Bank Country Policy and Institutional Assessment (CPIA) in 2014 (2.5 in 2011).[4]

Battle Related Deaths
(number of people)



Source: World Development Indicators (WB).

4. **Limited fiscal resources, poor budget priorities, and macroeconomic imbalances also hamper inclusive growth.** Government revenue is low (particularly tax revenue at 6.2 percent of GDP in 2015), thereby limiting resources for social spending and investment in infrastructure critical for private sector growth. And macroeconomic imbalances are high-inflation has averaged 35 percent in the past four years. International reserves are low at about 1–1½ month of imports, and the central bank directs foreign exchange to imports of a limited set of priority goods.

[3] See Rother and others (forthcoming) "The Economic Impact of Conflicts in the Middle East and North Africa Region: Macroeconomic Effects, Policy Implications, and the Role of the IMF."

[4] The World Banks's CPIA rates countries against a set of 16 criteria grouped in four clusters: economic management, structural policies, policies for social inclusion and equity, and public sector management and institutions. The ratings are available at http://data.worldbank.org/data-catalog/CPIA.

5. **Sudan ranks low in the ease of doing business and good governance.** Sudan ranked 159th out of 189 countries in ease of doing business by the World Bank's 2016 Doing Business survey.[5] Trading across borders (184/189), protecting investors (166/198), getting credit (162/198), and resolving insolvency (154/189) are the lowest ranked areas of doing business. The highest ranks are registering property (89/189) and getting electricity (102/189). Governance indicators are poor as well.[6] Ranking of government effectiveness has dropped since 1996; the rule of law indicator has improved but still remains around the bottom of the rankings. Corruption is perceived as high: Transparency International ranked Sudan 2nd most corrupt country in 2014.

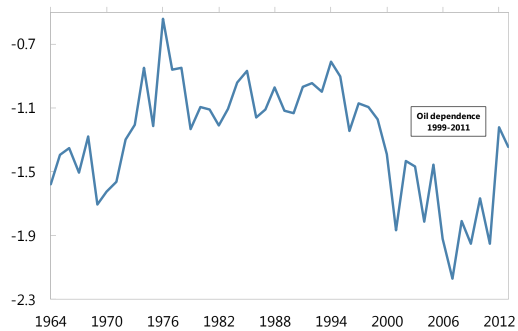
Governance Indicators 1996-2014

	1996		2000		2010		2013		2014	
	Value	Rank 1/	Value	Rank 1/	Value	Rank 1/	Value	Rank 1/	Value	Rank 1/
Voice & Accountability	-1.88	2	-1.74	3	-1.72	4	-1.78	3	-1.73	4
Political Stability No-Violence	-2.51	2	-2.28	1	-2.66	1	-2.20	3	-2.36	4
Government Effectiveness	-1.12	12	-1.19	9	-1.37	7	-1.51	4	-1.61	4
Regulatory Quality	-1.36	8	-1.43	8	-1.33	7	-1.47	6	-1.39	7
Rule of Law	-1.63	5	-1.50	3	-1.30	7	-1.25	9	-1.15	10
Control of Corruption	-1.28	5	-0.80	24	-1.26	6	-1.49	1	-1.45	4

1/ Rank=Percentile rank among all countries (ranges from 0 (lowest) to 100 (highest) rank)
Source: Worldwide Governance Indicators.

6. **Sudan is a resource-based economy making products of low complexity and sophistication, which constrains growth prospects.**[7] Complexity is defined here as the diversity and sophistication of productive capabilities embedded in a country's exports. Cross-country evidence suggests that gains in complexity are strongly associated with higher growth and lower income inequality, i.e. countries with higher complexity products are richer and have better

Economic Complexity Index
(Higher=better)



Source: The Atlas of Economic Complexity (Harvard University).

[5] Doing Business indicators are available at: http://www.doingbusiness.org/.

[6] The Worldwide Governance Indicators (WGI) project reports aggregate and individual governance indicators for 215 economies over the period 1996–2014, for six dimensions of governance: Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption. Results are available at: http://info.worldbank.org/governance/wgi/index.aspx#home.

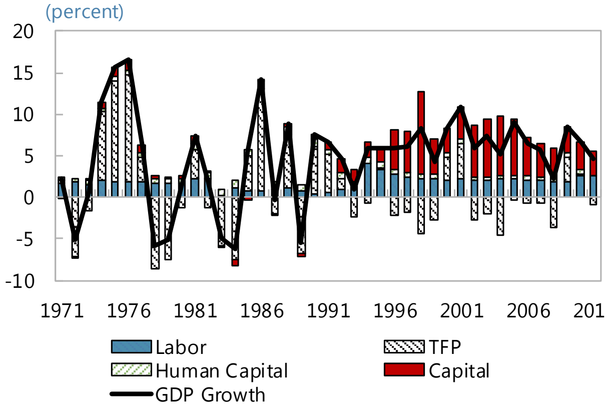
[7] See: Hidalgo and Hausmann, 2009, "The Building Blocks of Economic Complexity," Harvard University; and http://atlas.cid.harvard.edu/ for on-line resources on complexity. Economic complexity is a "measure of the knowledge in a society that gets translated into the products it makes. The most complex products are sophisticated chemicals and machinery, whereas the world's least complex products are raw materials or simple agricultural products. The economic complexity of a country is dependent on the complexity of the products it exports. A country is considered 'complex' if it exports not only highly complex products, but also a large number of different products."

development prospects. As a natural resource producer, Sudan's complexity has always been low, and was ranked 113th out of 124 countries in 2013.

7. **Productivity has been low and volatile.** Total factor productivity (TFP) was a major source of growth in the pre-oil period. During the oil boom, however, capital dominated as a source of growth, and productivity has been largely negative in the early 1990s.[8] Data gaps do not allow for estimation of recent productivity trends, as data on the capital stock post-secession are missing.

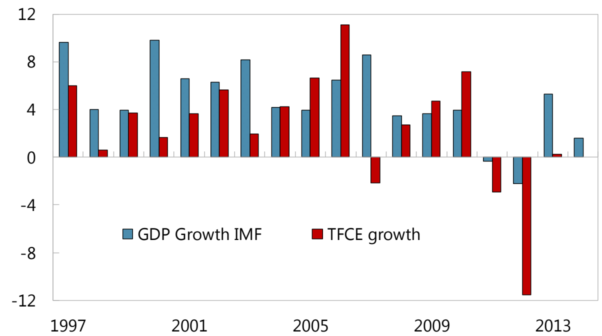
Decomposition of Real GDP Growth

(percent)



Growth of GDP and of Total Final Consumption of Energy

(In percent)

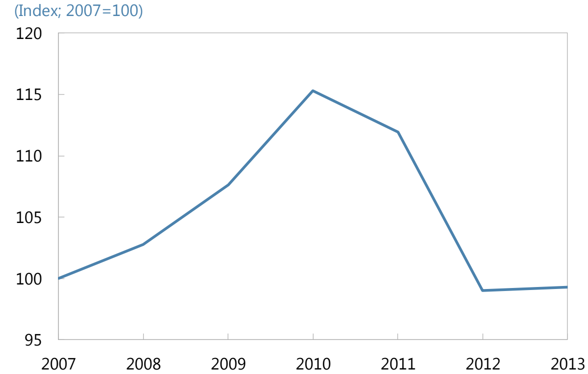


Sources: IMF, OECD.

8. **Infrastructure and energy production are limited, and access to electricity, water, and sanitation is subpar.** Energy consumption dropped in 2013 (the last year of available data) to the 2006–07 levels, which constrained GDP growth. Investment in electricity production would be needed to support economic growth. Access to electricity lags behind regional comparators and other fragile states, and access to improved water sources has not risen significantly over the past twenty years.

Total Final Energy Consumption

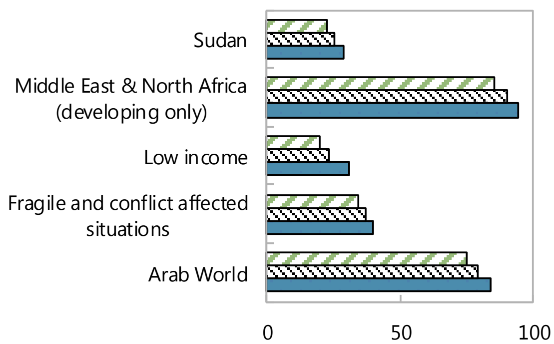
(Index; 2007=100)



Source: International Energy Agency; World Energy Balances

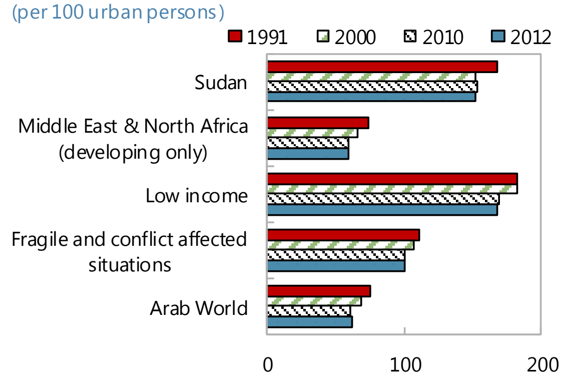
[8] See: Dabla-Norris, Ho, Kochhar, Kyobe, and Tchaidze, 2013, "Anchoring Growth: The Importance of Productivity-Enhancing Reforms in Emerging Market and Developing Economies;" IMF Staff Discussion Note SDN 13/08.

Access to Electricity
(percent of population)



Source: World Development Indicators (WB).

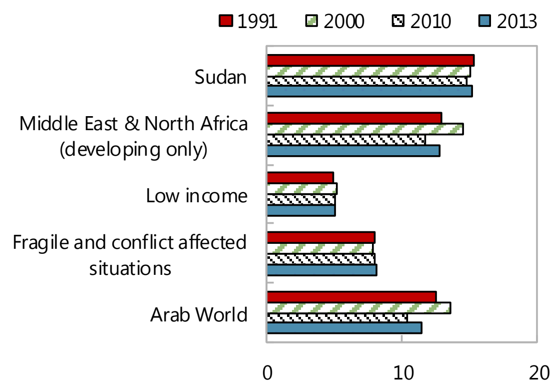
Rural to Urban Access to Improved Water Source
(per 100 urban persons)



Source: World Development Indicators (WB).

9. **Sudan's unemployment rate is persistently high.** In 2013 the unemployment rate was estimated by the World Bank at 15.2 percent of the labor force—virtually unchanged from 1991. In 2015, the government reported an unemployment rate of 22 percent, suggesting a significant worsening following the secession of South Sudan.[9] Unemployment among women (19.8 percent) was higher than for men (12.7 percent) in 2013. The persistence of high levels of unemployment may be the legacy of an oil-based economy where growth and employment depended on government spending.

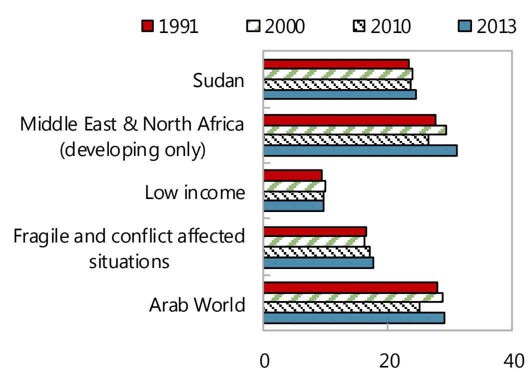
Unemployment, Total
(% of total labor force; ILO estimate)



Source: World Development Indicators (WB).

10. **Youth unemployment is also high and persistent.** In 2013, youth unemployment was estimated by the World Bank at 24.5 percent-unchanged since 1991. Unemployment among young women was higher (26.5 percent) than for young men (22.1 percent).

Unemployment, Youth
(% of labor force ages 15-24; ILO estimate)

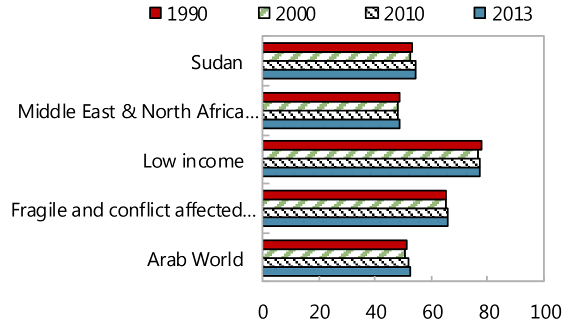


Source: World Development Indicators (WB).

[9] Alternatively, previous calculations may have underestimated unemployment.

11. **High unemployment is mirrored by low labor participation rates.** In 2013, the World Bank estimated the labor participation rate at only 54.5 percent, broadly in line with other Arab countries but lower than the average in LICs (with 76.4 percent for men and less than half for women at 32.6 percent).

Labor Force Participation Rate, Total
(% of population ages 15-64; ILO estimate)



Source: World Development Indicators (WB).

12. **Education achievements have been uneven.** Literacy rates in Sudan are high—exceeding 70 percent for adults—and above the average for countries with medium HDI; however, enrollment rates are only on par with low HDI countries. The lack of resources constrains the amounts allocated to education, which are lower than average for low HDI countries.

13. **Looking forward, supporting inclusive growth will require a multi-pronged package of macroeconomic and structural reforms to tackle these various issues.**[10] Reforms should focus on empowering the private sector and unlocking entrepreneurship to complement public investment in infrastructure and public services.

- **Macroeconomic and political stability.** Macroeconomic and political stability are critical to generate confidence and facilitate long-term planning for private sector saving and investment.

- **Enabling a business friendly environment**. Reforms should focus on addressing the weaknesses identified in the Doing Business surveys, to enable domestic entrepreneurs to invest and to attract external interests. The main areas of concern include trading across borders, protecting investors, getting credit, and resolving insolvency. Excessive regulations and corruption, which favor informality and weigh on inclusive growth, should be tackled forcefully.[11] Continued outreach to progress towards debt relief and arrears clearance would help the business environment.

- **Increasing female participation in the labor force.** Providing opportunities for women to develop their full potential could significantly boost economic growth through increased labor supply.[12] Policies should support equal access to education, support working parents, reduce the gender wage gap, and increase mobility and equal opportunity.

[10] See Finger and Gressani, 2012, "Toward New Horizons: Arab Economic Transformation Amid Political Transitions," IMF and International Monetary Fund, 2014, "Regional Economic Outlook: Middle East and Central Asia," IMF, October, Annex IV.

[11] See International Monetary Fund, 2016, "Corruption: Costs and Mitigating Strategies;" IMF Staff Discussion Note No. 16/05.

[12] See Elborgh-Woytek, Newiak, Kochhar et al., 2013, "Women, Work, and the Economy: Macroeconomic Gains from Gender Equity," IMF Staff Discussion Note SDN 13/10.

- **Developing infrastructure.** Development of electricity production and networks, roads, railways, and strengthening regional connectivity to facilitate the flow of factors of production and goods are needed to lower production and transportation costs and improve productivity and market access. Infrastructure expansion would also aid inclusive growth by supporting the largest sector—agriculture—which depends almost wholly on rain water. Expansion and improvement in agricultural irrigation would improve the efficiency and productivity of agriculture and would insulate it from the vagaries of weather.

- **Improving access to finance.** Reforms to improve access to finance are urgently needed, as getting credit remains one of the lowest rated Doing Business indicators in Sudan. The authorities are implementing a number of them including expanding microfinance, increasing banking coverage in the countryside, developing agent banking, and strengthening the credit registry to lower costs of credit.

- **Regional integration.** Developing and implementing already developed plans to improve the connectivity of the rail and road networks with neighboring countries would improve growth prospects, as Sudan could potentially serve as a gateway to international markets for its landlocked neighbors.

- **Reach out to the diaspora.** Encouraging investment by the diaspora would involve reforming the foreign exchange market (to facilitate transfers via official channels) and improving the business environment.

- **Investing in human capital through education** would improve growth prospects and the competitiveness of the labor force

INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

July 25, 2016

Prepared By	Middle East and Central Asia Department (In consultation with other departments and the World Bank)

CONTENTS

RELATIONS WITH THE FUND ____ 2

BANK-FUND COLLABORATION ____ 5

STATISTICAL ISSUES ____ 6

RELATIONS WITH THE FUND

(As of June 30, 2016)

Membership Status

Joined September 5, 1957; Article VIII.

General Resources Account

	SDR Million	Percent Quota
Quota	169.70	100.00
Fund holdings of currency (Holdings Rate)	329.33	194.07
Reserve Tranche Position	0.01	0.01

SDR Department

	SDR Million	Percent Quota
Net cumulative allocation	177.99	100.00
Holdings	125.19	70.33

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-by Arrangements	109.24	64.37
Trust Fund	59.23	34.90
Extended Arrangements	50.37	29.68

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	6/25/1984	6/24/1985	90.00	20.00
Stand-By	2/23/1983	3/9/1984	170.00	170.00
Stand-By	2/22/1982	2/21/1983	198.00	70.00

Overdue Obligations and Projected Payments to Fund

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

The projection of charges and interest assumes that overdue principal as of June 30, 2016 will remain outstanding, but forthcoming obligations will be settled on time.

	Overdue	Forthcoming				
	June 30, 2016	2016	2017	2018	2019	2020
Principal	218.84					
Charges/Interest	750.05	1.01	2.00	2.00	2.00	2.01
Total	**968.89**	**1.01**	**2.00**	**2.00**	**2.00**	**2.01**

Exchange Rate Arrangement

The legal tender is the Sudanese guinea, which replaced the Sudanese dinar in proportion SDG 1=SDD 100 in mid-2007. Sudan has a de jure "managed float" exchange rate arrangement. Its de facto arrangement was reclassified from "other managed" to a "stabilized arrangement," effective January 1, 2015. The Central Bank of Sudan (CBOS) sets two official exchange rates: an "indicative" rate and an "official" rate (within ±4 percent) which applies to public transactions and customs valuation. The difference between the two is currently less than 2 percent. Commercial banks and foreign exchange bureaus are required to set their rates within ±4 percent of the indicative rate, but in practice they trade at top end of the band. Thus, the official rate differs by more than 2 percent from the commercial banks' rate. Since January 2014, the CBOS devalued the official rate by only 7 percent, of which 2 percent in 2015.

Sudan maintains the following measures subject to Fund jurisdiction under Article VIII, Sections 2 (a) and 3: (i) An exchange restriction arising from the government's limitations on the availability of foreign exchange and the allocation of foreign exchange to certain priority items; (ii) A multiple currency practice and exchange restriction arising from the establishment of an official exchange rate (the CBOS rate) for use in all government exchange transactions which in practice differs by more than 2 percent from the rate used by commercial banks; (iii) A multiple currency practice and exchange restriction arising from large spreads between the CBOS rate and the parallel market exchange rate due to the CBOS' limitation on the availability of foreign exchange which channels current international transactions to the parallel market; and (iv) An exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports.

Sudan is on a 12-month consultation cycle. The last Article IV consultation was concluded by the Executive Board on December 3, 2014.

FSAP Participation

The Financial Sector Assessment Program (FSAP) mission took place in December 2004. The Financial System Stability Assessment report was discussed by the Executive Board on April 29, 2005.

Resident Representative

The Fund's Resident Representative in Khartoum is Mr. Lodewyk Erasmus since October 2013.

Technical Assistance

The following table provides a summary of the technical assistance provided since January 2015, both from headquarters and from the IMF's Middle East Technical Assistance Center (METAC).

Technical Assistance from the Fund, 2015–16

Subject	Timing	Counterpart
Fiscal Affairs Department		
International Public Sector Accounting Standards (METAC)	January 2015	MOF
Customs Strategic Development and WTO Valuation System (METAC)	May 2015	MOF
Public Financial Management: Treasury Single Account, Cash Flow Forecasting, Budget Preparation, and Fiscal Reporting (joint HQ and METAC)	July 2015	MOF
Medium-Term Fiscal Framework (METAC)	August 2015	MOF
Taxation of Mining Sector	January 2016	MOF
Customs: Risk Management Pilot (METAC)	April 2016	MOF
Monetary and Capital Markets Department		
Currency Issuance Operations	February 2015	Central Bank of Sudan (CBOS)
Credit Registry (METAC)	January, April, and June 2015, February 2016	CBOS
Financial Stability Analysis, Reporting, Crisis Management, and Bank Resolution	June 2015	CBOS
Financial Stability Analysis and Reporting	February 2016	CBOS
Stress Testing (METAC)	February 2015 and March 2016	CBOS
Statistics Department		
Balance of Payments Statistics (METAC)	April 2015	Central Bureau of Statistics (CBS)
National accounts (METAC)	November 2015	CBS
Legal Department		
AML/CFT Framework	January, March, August, and November 2015, and January 2016	CBOS
Banking Business Act (desk review)	September 2015	CBOS

BANK-FUND COLLABORATION

Joint Management Action Plan, July 2016–June 2017 (As of June 30, 2016)			
Title	**Products**	**Provisional schedule of missions**	**Expected delivery**
	A. Mutual Information on Relevant Work Program		
Bank work program for the next 12 months	**Economic policy analysis and advice**		
	• Poverty profiles	N/A	Dec 2016
	• Poverty assessment	N/A	May 2017
	• Economic Update	Oct 2016	May 2017
	• Systematic Country Diagnostics	Nov 2016	June 2017
	• Agriculture Sector Public Expenditure Review	Sep 2016	June 2017
	Technical assistance		
	• Macro modelling	Aug 2016	Dec 2017
	• Statistical capacity building	Dec 2016	Jun 2017
	• GDP rebasing	Jan 2016 to Jan 2017	Jun 2018
	• Strengthening Sub-National Fiscal Policy Management (Trust Fund Project)	Ongoing	Jun 2017
	• Budgeting Capacity Strengthening Project (Trust Fund Project)	Ongoing	Jun 2017
Fund work program for the next 12 months	**Macroeconomic policy analysis and advice**		
	• Article IV consultation	May/Jun 2017	Sep 2017
	Technical assistance		
	• Public financial management: budget preparation and reporting, treasury single account, and cash management	Q3 2016	
	• Financial stability	Q3 2016	
	• Statistics	Q4 2016	
	• Tax policy	Q4 2016	
	• Revenue administration	Q4 2016/Q1 2017	
	B. Requests for Work Program Inputs		
Fund requests to Bank	• Periodic update on activities • Reports, macroeconomic and financial data to be shared regularly • Fund staff to participate in review of key analytical work	Ongoing	
Bank requests to Fund	• Periodic update on technical assistance activities • Macroeconomic and financial data to be shared regularly	Ongoing	
	C. Agreement on Joint Products and Missions		
Joint products in the next 12 months	• Debt sustainability analysis	May/June 2017	Sep 2017

STATISTICAL ISSUES

(As of June 30, 2016)

Assessment of Data Adequacy for Surveillance
General: Sudan's current statistical data base appears broadly adequate for surveillance, but needs further improvements, including upgrading the base year, coverage, periodicity and timeliness of national accounts data; improving labor market and direct investment data; and more detailed and comprehensive fiscal accounting. Enhancing the status of the Central Bureau of Statistics (CBS) with the authority and resources to compile and disseminate official statistics and coordinate the national statistical work program is important for further statistical improvements, and should be addressed within the context of the ongoing work in developing a five-year National Strategy for the Development of Statistics (2012-16). Retooling the CBS' computing infrastructure should also be accorded high priority.
National accounts: The CBS lacks a comprehensive data collection program, and relies largely on administrative reporting. Economic surveys were last conducted in the 1970s and 1980s, and the benchmarks derived from these surveys inform current estimates of value added. Informal activities are not covered, and are likely to be significant in areas such as retail trade and construction. Sudan's national accounts data are based on the System of National Accounts 1968 (SNA 1968), and the base year of the existing GDP constant price series (by activity and by expenditure) is very old, 1981. National accounts statistics are compiled with a lag exceeding three years; and there are no national accounts or industrial production data at sub annual frequencies. On the expenditure side, data are lacking on final consumption by households, investment, and changes in stocks. Improving annual source data, both administrative and survey sources, is essential and the development work on regional GDP needs to be incorporated into the ongoing annual estimates. The adoption of updated statistical guidelines (SNA 2008), rebasing of the national accounts, and developing procedures to improve the timeliness of GDP estimates should be among core objectives. There is also an urgent need to increase funding to the CBS and to rebuild its capacity for conducting household, agricultural, and enterprise surveys.
Price statistics: The Consumer Price Index (CPI) is compiled using weights based on a household expenditure survey conducted over four months during 2007. Ideally, weights should be based on an annual household survey and should not be more than five years old so as to ensure that the index remains representative of current expenditure patterns. In 2014, the CBS published a Producer Price Index (PPI) for the manufacturing sector covering 2009-13, but this index seems to have been discontinued. An economic census would be needed to develop the PPI.

Government finance statistics: Data reported to MCD are broadly adequate, with the main revenue, expenditure, and financing items reported monthly using an economic classification with a lag of about one-and-a-half month. The data are for the central government only. While the allocation of resources by the finance ministry to the various ministries is reported, their actual expenditures are not. GFS data are compiled and disseminated by the chamber of accounts within the finance ministry. There is no comprehensive data reconciliation of government claims on and liabilities to the banking system. There has been some progress in implementing GFS classifications at the level of state governments. The compilation of consolidated GFS for the general government with the objective of producing a statement of government operations should be a priority.
Monetary and financial statistics (MFS): Sudan has received significant technical assistance to improve the collection, compilation, and dissemination of monetary and financial statistics, and all major recommendations have been implemented. The coverage of Sudan's monetary statistics includes the central bank and all commercial banks.
Financial sector statistics: The authorities compile financial soundness indicators (FSIs) on a monthly basis and provide them to MCD staff. They are encouraged to report those FSI data and metadata to STA for dissemination by the IMF.
External sector statistics: Data quality has improved as a result of intense technical assistance, but there are several areas for improvement in the external accounts, particularly with regard to direct investment (DI) and estimation of informal trade. The implementation of a DI survey has been delayed due to the lack of financing. Compilation of the data template on international reserves and foreign currency liquidity should be initiated.
Data Standards and Quality Sudan participates in the Enhanced General Data Dissemination System (e-GDDS) since August 2003. GDDS metadata and plans for improvement need to be updated. No data ROSC is available.
Reporting to STA Annual data reported for the *Government Finance Statistics Yearbook* cover only budgetary central government up to 1999. No monthly and quarterly fiscal data are reported for the *International Financial Statistics (IFS)*. The reporting of external trade statistics for inclusion in the *Direction of Trade Statistics (DOTS)* database is done with significant lags. National accounts data are not provided for publication in the *IFS*. The CBOS compiles and reports monetary statistics regularly to STA for publication in the *IFS*. The CBOS also reports to STA quarterly balance of payments and annual IIP data on the basis of the sixth edition of the *Balance of Payments and International Investment Position Manual* (*BPM6*). The authorities should submit updated e-GDDS metadata for dissemination on the Dissemination Standards Bulletin Board.

Table of Common Indicators Required for Surveillance
(As of June 30, 2016)

	Date of Latest Observation	Date Received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of Publication[7]
Exchange Rates	June 2016	July 2016	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	May 2016	June 2016	M	M	M
Reserve/Base Money	May 2016	June 2016	M	W	M/W
Broad Money	May 2016	June 2016	M	W	M/W
Central Bank Balance Sheet	May 2016	June 2016	M	M	M
Consolidated Balance Sheet of the Banking System	May 2016	June 2016	M	M	M
Interest Rates[2]	Dec. 2005	Jan. 2006	W	M	M/W
Consumer Price Index	June 2016	July 2016	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	April 2016	May 2016	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2015	May 2016	A	A	A
External Current Account Balance	2016:Q1	May 2016	Q	Q	Q
Exports and Imports of Goods and Services	2016:Q1	May 2016	M	M	M
GDP/GNP	2015	May 2016	A	A	A
Gross External Debt	2015:Q4	May 2016	I	A	A
International Investment Position [6]	2015	April 2016	A	A	A

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

INTERNATIONAL MONETARY FUND

SUDAN

July 25, 2016

STAFF REPORT FOR THE 2016 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITY ANALYSIS

Approved By
Daniela Gressani and Catherine Pattillo (IMF) and John Panzer (IDA)

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

This debt sustainability analysis (DSA) confirms that Sudan continues to be in debt distress.[1] *Both public and external debt ratios remain high, and most of the external debt is in arrears. Consistent with the results of past DSAs, Sudan's external debt is assessed to be unsustainable. All external debt indicators breach their indicative thresholds under the baseline scenario, and many of them stay above the thresholds throughout the time horizon of the analysis. It is therefore critical for Sudan to follow sound economic policies, including a prudent borrowing strategy that minimizes non-concessional borrowing and relies instead on grants and concessional financing, and to continue garnering support for debt relief.*

[1] This DSA was prepared jointly by IMF and World Bank staff under the joint Fund-Bank Low-Income Country (LIC) Debt Sustainability Framework (DSF). Sudan's Country Policy and Institutional Assessment (CPIA) Rating averaged 2.37 for 2013-14 and falls under the weak performer category. Sudan's fiscal year runs from January 1 to December 31.

BACKGROUND AND RECENT DEVELOPMENTS

1. **The economy of Sudan has yet to adjust fully to the secession of South Sudan in 2011, which took away the bulk of its oil exports and fiscal revenues.** In addition, a heavy debt burden, U.S. sanctions, and volatile domestic and regional political environments continue to weigh on economic performance. Although a series of stabilization and reform measures helped the economic adjustment, large imbalances persist.

2. **Economic performance in 2015 was mixed**. Good harvests boosted economic growth to close to 5 percent, and inflation dropped from 26 percent in December 2014 to 13 percent in December 2015. However, limited progress with raising domestic revenue to replace shortfalls in oil-related revenues weakened public finances. The external current account deficit widened and international reserves remained low. As the official exchange rate was kept virtually unchanged, the parallel exchange rate premium soared above 80 percent in December 2015 and to 125 percent at end-June 2016. The outlook is mixed with risks to the downside.

3. **Prospects for debt relief.** Debt relief prospects are predicated on obtaining assurances of support from creditors, normalizing relations with international financial institutions, and establishing a track record of cooperation with the IMF on policies and payments. In 2014, the Sudanese authorities agreed with South Sudan to extend the deadline for the "zero-option" until October 2016.[2] They also agreed to continue to reach out to creditors to garner support for debt relief.

STRUCTURE OF DEBT

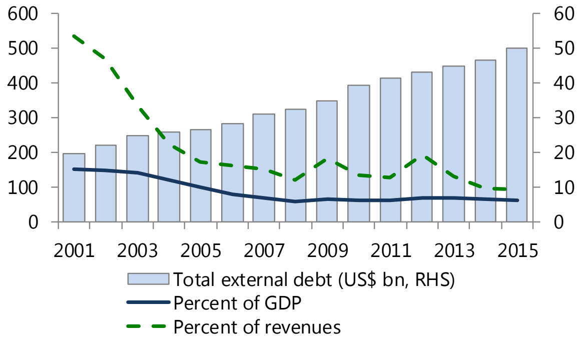
4. **Sudan's external debt remained high as of end-2015.**[3] In nominal terms, it amounted to about $50 billion (61 percent of GDP) including an estimated $1.6 billion deposited in the Central Bank of Sudan by official creditors in 2015.[4] About 84 percent of the external debt was in arrears in 2015. The structure of external debt has not changed over the last decade. The bulk is public and publicly guaranteed (PPG) debt ($48.2 billion, of which 86 percent in arrears), mainly owed to bilateral creditors and roughly equally divided between Paris Club and non-Paris Club creditors (Figures 1 and 2). Only a small fraction is private debt owed to suppliers ($1.7 billion).

[2] The so-called "zero-option" is a 2012 agreement between Sudan and South Sudan whereby Sudan retains all the external liabilities after the secession of South Sudan, provided that the international community gives firm commitments of delivery of debt relief within two years. Absent such commitment, Sudan's external debt would be apportioned with South Sudan based on a formula to be determined. This deadline lapsed in September 2014, but the parties agreed to extend it for two years.

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

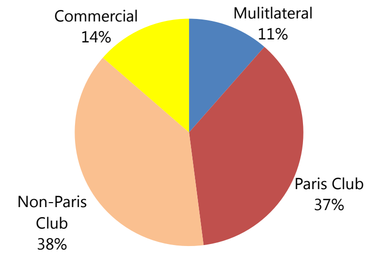
[4] The drop in debt-to-GDP ratios in 2014–15 was partly due to high inflation and nominal GDP growth while the official exchange rate remained stable. With GDP converted at the parallel rate, the debt-to-GDP ratio would reach 99.5 percent in 2015.

Figure 1. Stock of External Debt, 2001–15



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

Figure 2. Structure of 2015 PPG External Debt



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

Stock of External Debt

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Total external debt (US$ million)	19,810	22,137	24,918	25,861	26,612	28,216	31,052	32,561	34,866	39,486	41,450	43,191	45,022	46,781	49,970
Percent of GDP	150	150	141	121	100	79	68	60	66	60	62	69	69	66	61
Percent of exports	1,320	1,070	952	679	523	413	309	248	411	305	350	688	696	724	932
Percent of revenues	535	470	336	225	174	162	153	119	184	135	128	194	131	95	92

Sources: Sudanese authorities; and IMF staff estimates.

Structure of Public and Publicly Guaranteed Debt

	2010		2015	
	(In US$ million)	(In percent)	(In US$ million)	(In percent)
Total PPG	**37,927**	**100.0**	**48,285**	**100.0**
Mulitlateral	**5,200**	**13.7**	**5,528**	**11.4**
Bilateral	**27,754**	**73.2**	**36,193**	**75.0**
Paris Club	13,964	36.8	17,633	36.5
Non-Paris Club	13,790	36.4	18,560	38.4
Commercial	**4,974**	**13.1**	**6,564**	**13.6**

Sources: Sudanese authorities; and IMF staff estimates.

5. **External public borrowing has been limited in recent years.** Sudan has been largely cut off from access to external financing due to its arrears with the creditors. It has been only able to contract new

debt—below 1 percent of GDP per year in 2012–15—with a limited number of multilateral and non-Paris Club bilateral creditors. The newly contracted debt has been mainly used to finance projects in the agriculture, services and energy sectors. In 2015, $262 million of new debt (0.3 percent of GDP) was contracted, including $166 million from a multilateral creditor and $96 million from bilateral creditors. There has not been any new private external debt in decades. In addition, official creditors deposited an estimated $1.6 billion in the Central Bank of Sudan in 2015 and $0.5 billion in the first quarter of 2016 (these amounts were added to outstanding debt). So far in 2016, only one bilateral loan was contracted to finance projects in water harvesting.

New External Debt Contracted (2012-16)

	2012	2013	2014	2015	2016Q1
Total new debt (in US$ million)	**431**	**618**	**152**	**262**	**120**
In percent of GDP	**0.7**	**0.9**	**0.2**	**0.3**	**0.1**
Of which:					
Concessional	134	16	5	6	-
Nonconcessional	296	602	147	256	120
By creditor (in percent)					
Multilateral	79	48	65	63	-
Non-Paris Club bilateral	21	52	35	37	100
Average grant element (in percent)	**30**	**28**	**27**	**22**	**27**
By sector (in percent)	**100**	**100**	**100**	**100**	**100**
Agriculture	32	38	-	2	-
Energy	7	47	33	-	-
Services	61	-	36	34	100
Industrial Development	-	6	31	-	-
Other	-	10	-	63	-

Sources: Sudanese authorities; and IMF staff calculations.

6. **Sudan's total public debt reached 72.9 percent of GDP by end-2015**. The bulk of the public debt is external debt. Domestic debt reached 13 percent of GDP by end-2015. Domestic debt has been on the rise due to increased domestic financing of the budget, albeit to a still relatively low level.

DEBT SUSTAINABILITY ANALYSIS

A. Underlying Assumptions

7. **The macroeconomic assumptions underlying this DSA have been updated based on developments in 2014–15.** The differences compared to the 2014 DSA are driven by higher growth and lower inflation outturns in 2014–15 relative to previous projections, and by the revised policy and international environment outlook detailed in Box 1. As in previous DSAs, this update does not include

arrears clearance, possible external debt relief, or debt apportionment between Sudan and South Sudan in its baseline or alternative scenarios.

Box 1. Sudan: Macroeconomic Assumptions 2016–36

Natural resources. The outlook is informed by discussions with the Sudanese authorities. Oil production is projected at 101 thousand barrels/day in 2016, somewhat below 2015 production level. Ageing oil fields and a low international oil price outlook combine for only moderate expansion of further exploration and production to 108 thousand barrels/day in 2021. Meanwhile, non-oil GDP is projected to grow by about 3.6 percent per year by 2021 and remain stable afterwards. Price projections are guided by the IMF's latest World Economic Outlook (WEO). The price of Sudan's crude oil is projected to average US$47/barrel in the medium term.

Real sector. The real GDP growth rate is expected to stabilize at 3.5 percent through 2021 and remain unchanged over 2022–36. Medium-term real GDP growth mainly reflects strengthening of non-oil sectors (mainly agriculture and mining), macroeconomic stabilization, and reforms of the business environment.[1] Inflation, as measured by the GDP deflator, is projected to be moderate in the near to long term averaging 12.6 percent in 2016–36.

Fiscal sector. The fiscal deficit is projected to stabilize over the medium term, reflecting a combination of gradual improvements in tax revenue collection, stable oil revenues, and containment of current spending, including a gradual phasing out of fuel subsidies and recent unification of the wheat exchange rate with the official exchange rate which lowered wheat subsidies. Over the long run, the fiscal accounts are expected to continue to improve owing to (i) gradual increases in tax revenues, against the backdrop of stable oil revenues and (ii) moderate increases in capital spending. Under those assumptions, the domestic debt-to-GDP ratio is projected to be sustainable.

External sector. The current account deficit is expected to improve slightly over the medium term, to below 4 percent of GDP by end-2021, reflecting a stabilizing fiscal deficit as well as slight growth in oil and strengthening non-oil exports. In the long run, it is projected to decline to about 2 percent of GDP as oil exports stabilize while non-oil exports continue to gain ground. The deficit will be financed by foreign direct investment and continued accumulation of external debt arrears. Sizable financing gap are assumed to be covered by external debt throughout the projection period.

External debt. Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans are expected to be limited, at about 0.3 percent of GDP during 2016-36. In line with the recent portfolio of new contracted debt, the share of new concessional loans is assumed at around one-third. It is assumed that Sudan will continue not to service obligations arising from the stock of arrears, but will service in full in 2022 obligations associated with the deposits at the central bank referred to in paragraph 5. In addition, the projected financing gaps are added to the external debt stock.

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1/ For more information on sources of growth in Sudan, see IMF Country Report No. 14/364, Annex II.

B. External Debt Sustainability

8. **Sudan's external debt stock remains unsustainable under the baseline scenario** (Figure 1 and Table 1). All PPG external debt level ratios continue to breach their indicative thresholds throughout the

20-year projection period. The present value (PV) of PPG external debt is at about 93 percent of GDP at end-2015—three times of the 30 percent threshold for weak policy performers—and is projected to stay above the threshold through the projection period.[5] Similarly, in 2015, the PV of debt-to-exports is above 1400 percent and the PV of debt-to-revenue ratio is about 872 percent, well above their respective thresholds. Although these ratios are projected to improve based on the macroeconomic assumptions and limited external borrowing over the medium to long run, such improvements are insufficient to bring debt to sustainable levels.

9. **In addition, Sudan's debt outlook is vulnerable to a range of shocks** (Figure 1 and Table 2). The PV of debt-to-GDP, debt-to-revenue and debt service-to-revenue ratios are most vulnerable to a one-time depreciation shock, whereas the PV of debt-to-exports and debt service-to-exports ratios are most vulnerable to an export shock. A standard one-time 30 percent depreciation shock in 2017 would increase the PV-of-debt to 96 percent of GDP in that year and then bring it below its 2017 baseline value only in 2020.[6]

C. Public Debt Sustainability

10. **Public DSA results mirror those of the external DSA** (Figure 2 and Table 3). The debt ratios, albeit declining remain at relatively high levels in the long term. The PV of public debt-to-GDP ratio is projected to stay above the indicative benchmark throughout the projection period. Similar to the external DSA, the public DSA bound tests show that public debt path is most vulnerable to a one-time 30 percent real depreciation (Table A4).

CONCLUSIONS

11. **Sudan remains in debt distress.** The results of this DSA are broadly unchanged from those in previous DSAs, as no debt relief was granted to Sudan in the meantime. External debt remains unsustainable. In addition, the debt burden increases over time as the amounts needed to close projected financing gaps are added to the outstanding debt stocks. In nominal terms, in 2026 the debt stock is 2.5 times the amount in 2015. In the long term, all public and public-guaranteed external debt burden ratios remain well above their respective indicative thresholds. Public debt is also unsustainable, driven mostly by external debt dynamics.

12. **Debt relief—along with sound policies—is necessary to bring debt back on a sustainable path and regain access to external financing.** Sudan needs to: (i) step up outreach efforts to its creditors to garner broad support for debt relief; (ii) continue to cooperate with the IMF on economic policies and payments with a view to establishing a track record of sound macro policies; and (iii) minimize new borrowing on non-concessional terms, since it further increases the future debt burden, and instead secure

[5] Ratios in terms of GDP are calculated using the official exchange rate, which is overvalued in real and nominal terms. The parallel exchange rate premium was about 125 percent as of end-June 2016. If the parallel rate was used to calculate GDP, debt-to-GDP ratios would be correspondingly higher than the ones reported.

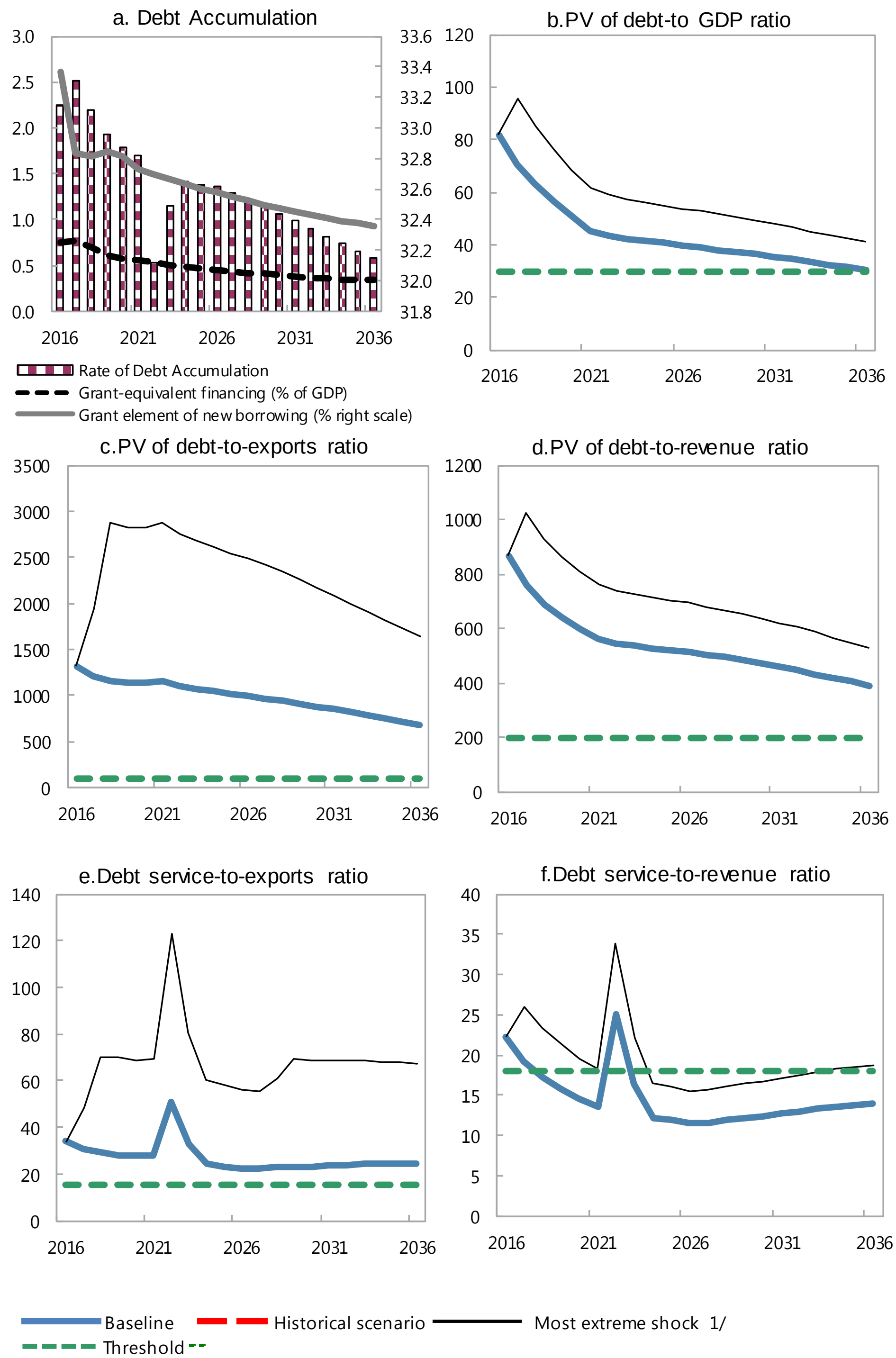
[6] The peaks in debt service in 2022 in Figure 1 are due to estimated bullet repayments of central bank deposits.

foreign support on highly concessional terms to finance necessary development and infrastructure expenditures.

13. **The authorities generally agree with the results and assessments of the DSA**. They agree that external debt is at unsustainable levels, debt service burdens are beyond Sudan's debt servicing capacity, and as a result Sudan continues to accumulate external debt arrears. They agree that non-concessional borrowing is costly and therefore should be minimized. They reiterate that debt relief is urgently needed for economic development, and remain hopeful that the international community will provide debt relief in the near future. In this regard, the authorities are committed to continue reaching out to creditors.

14. **The authorities are developing a national debt strategy.** In February 2016, they held a donor-sponsored workshop to formulate a national debt policy. The workshop included a high-level seminar exploring the experience of Ethiopia in receiving HIPC and MDRI debt relief and was followed by a trip to Addis Ababa. The resulting national debt strategy is awaiting approval by the government. Given uncertain prospects for debt relief, the strategy focuses on domestic debt markets to finance development projects. The authorities consider that technical assistance on external debt management, external debt statistics, macroeconomic policies, and financial programming would be helpful to advance their debt strategy.

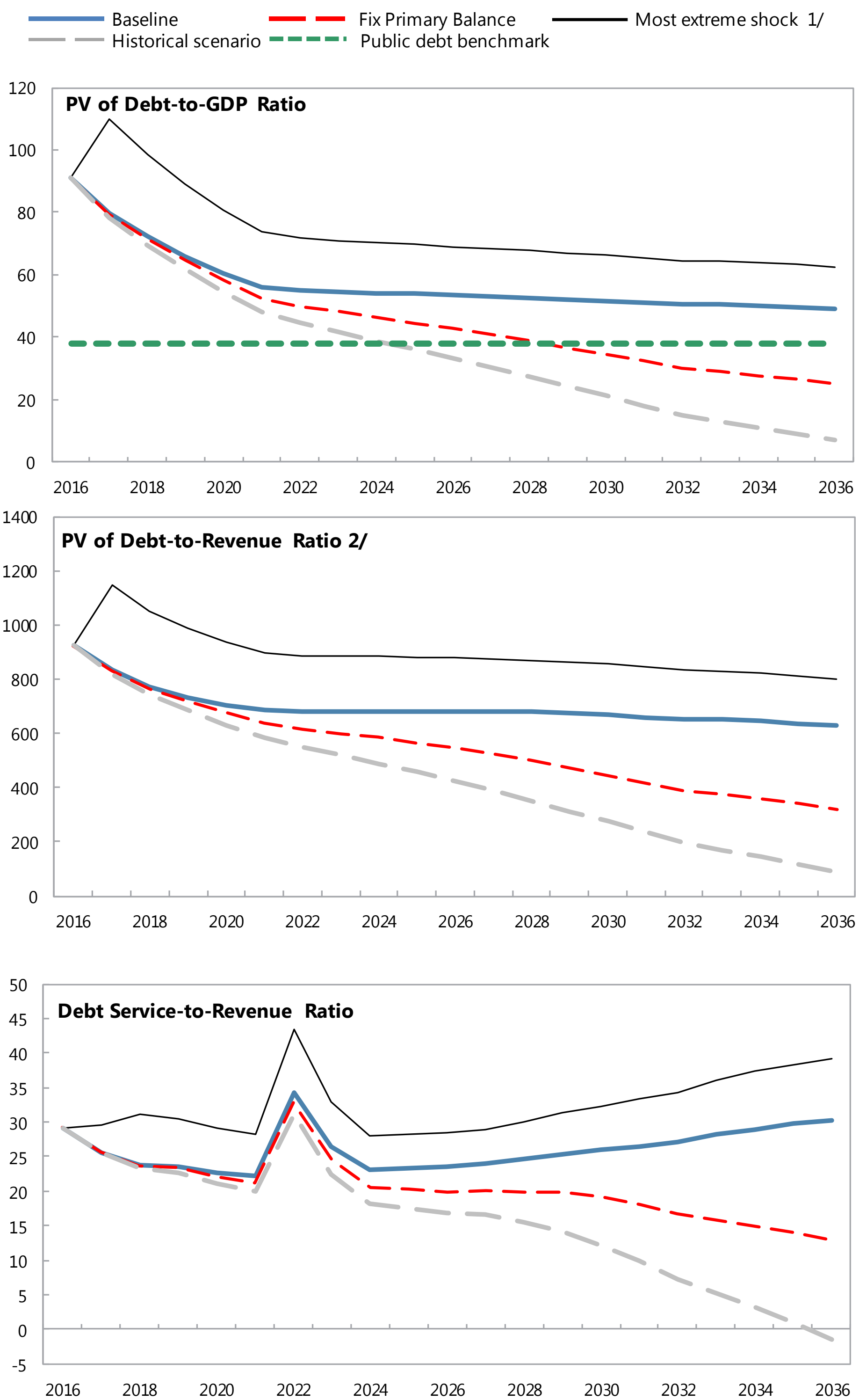
Figure 1. Sudan: Indicators of Public and Publicly Guaranteed External Debt Under Alternatives Scenarios, 2016–36 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure 2. Sudan: Indicators of Public Debt Under Alternative Scenarios, 2016–36[1/]



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2026.

2/ Revenues are defined inclusive of grants.

Table 1. Sudan: External Debt Sustainability Framework, Baseline Scenario, 2013–36[1/]

(In percent of GDP, unless otherwise indicated)

	Actual			Historical [6/] Average	Standard [6/] Deviation	Projections									
	2013	2014	2015			2016	2017	2018	2019	2020	2021	2016-2021 Average	2026	2036	2022-2036 Average
External debt (nominal) 1/	**81.8**	**68.4**	**61.9**			**55.4**	**49.1**	**44.8**	**41.1**	**37.5**	**34.5**		**33.3**	**28.7**	
of which: public and publicly guaranteed (PPG)	79.3	66.1	59.9			53.5	47.5	43.4	39.8	36.4	33.5		32.5	28.0	
Change in external debt	-2.9	-13.4	-6.5			-6.6	-6.3	-4.3	-3.8	-3.6	-3.0		-0.1	-0.7	
Identified net debt-creating flows	2.6	-1.1	-3.0			2.1	1.4	1.4	1.2	1.1	1.2		0.4	-1.3	
Non-interest current account deficit	**6.1**	**4.7**	**5.8**	**3.3**	**3.4**	**4.1**	**3.5**	**3.3**	**2.9**	**2.7**	**2.7**		**2.0**	**0.6**	1.6
Deficit in balance of goods and services	6.5	5.3	5.9			4.3	3.6	3.4	3.1	2.9	2.9		2.1	0.6	
Exports	9.9	9.1	6.6			6.2	5.9	5.4	4.9	4.4	3.9		4.0	4.4	
Imports	16.4	14.3	12.5			10.5	9.4	8.8	8.0	7.3	6.8		6.1	5.1	
Net current transfers (negative = inflow)	-2.3	-1.6	-0.8	-2.0	1.2	-0.8	-0.7	-0.6	-0.6	-0.5	-0.5		-0.4	-0.3	-0.4
of which: official	-0.9	-0.9	-0.4			-0.4	-0.4	-0.3	-0.3	-0.3	-0.3		-0.2	-0.1	
Other current account flows (negative = net inflow)	1.8	1.0	0.7			0.6	0.6	0.5	0.5	0.4	0.4		0.3	0.3	
Net FDI (negative = inflow)	**-2.9**	**-2.2**	**-2.3**	**-4.6**	**2.3**	**-2.3**	**-2.0**	**-1.8**	**-1.6**	**-1.4**	**-1.3**		**-1.3**	**-1.5**	-1.4
Endogenous debt dynamics 2/	**-0.5**	**-3.6**	**-6.5**			**0.2**	**-0.1**	**-0.1**	**-0.2**	**-0.2**	**-0.2**		**-0.3**	**-0.4**	
Contribution from nominal interest rate	3.2	2.8	2.2			1.8	1.5	1.3	1.2	1.1	0.9		0.8	0.6	
Contribution from real GDP growth	-4.3	-1.2	-2.9			-1.6	-1.6	-1.5	-1.4	-1.2	-1.1		-1.1	-1.0	
Contribution from price and exchange rate changes	0.6	-5.2	-5.8			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**-5.5**	**-12.3**	**-3.4**			**-8.6**	**-7.7**	**-5.6**	**-4.9**	**-4.7**	**-4.2**		**-0.5**	**0.6**	
of which: exceptional financing	-2.9	-2.7	-2.1			-1.9	-1.6	-1.4	-1.2	-1.1	-0.9		-0.7	-0.4	
PV of external debt 4/	...	...	95.2			83.6	72.2	64.4	57.7	51.5	46.3		40.6	31.1	
In percent of exports	...	...	1445.9			1351.3	1230.5	1188.1	1165.6	1161.6	1183.4		1016.3	699.4	
PV of PPG external debt	**...**	**...**	**93.2**			**81.7**	**70.7**	**63.0**	**56.5**	**50.5**	**45.4**		**39.7**	**30.4**	
In percent of exports	**...**	**...**	**1414.5**			**1321.8**	**1204.0**	**1162.8**	**1141.0**	**1137.2**	**1158.8**		**995.3**	**683.6**	
In percent of government revenues	**...**	**...**	**871.9**			**868.2**	**757.9**	**686.7**	**640.2**	**597.1**	**562.8**		**511.6**	**389.9**	
Debt service-to-exports ratio (in percent)	**32.1**	**32.5**	**38.2**			**34.5**	**31.1**	**29.7**	**28.7**	**28.0**	**28.3**		**22.9**	**24.9**	
PPG debt service-to-exports ratio (in percent)	**31.7**	**32.1**	**37.7**			**34.0**	**30.6**	**29.2**	**28.1**	**27.5**	**27.7**		**22.4**	**24.3**	
PPG debt service-to-revenue ratio (in percent)	**30.3**	**25.6**	**23.2**			**22.3**	**19.2**	**17.3**	**15.8**	**14.4**	**13.5**		**11.5**	**13.9**	
Total gross financing need (Billions of U.S. dollars)	4.1	3.8	4.9			3.8	3.8	4.0	4.1	4.4	5.0		4.2	1.0	
Non-interest current account deficit that stabilizes debt ratio	8.9	18.0	12.3			10.7	9.8	7.5	6.7	6.3	5.7		2.1	1.3	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.3	1.6	4.9	3.5	3.2	3.0	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.5	3.5
GDP deflator in US dollar terms (change in percent)	-0.7	6.8	9.3	8.6	10.9	12.2	15.2	11.7	11.1	11.6	11.1	12.1	2.0	1.8	1.9
Effective interest rate (percent) 5/	3.9	3.8	3.6	4.6	0.7	3.4	3.3	3.2	3.1	3.0	2.9	3.1	2.5	2.1	2.5
Growth of exports of G&S (US dollar terms, in percent)	3.0	-0.2	-16.9	6.0	34.3	8.6	13.2	6.8	5.0	3.5	1.5	6.4	6.1	7.0	6.3
Growth of imports of G&S (US dollar terms, in percent)	1.8	-5.3	-0.4	3.4	9.5	-2.8	7.5	7.5	5.0	5.6	6.3	4.8	3.4	3.5	3.5
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	33.4	32.8	32.8	32.9	32.8	32.7	32.9	32.6	32.4	32.5
Government revenues (excluding grants, in percent of GDP)	10.4	11.4	10.7			9.4	9.3	9.2	8.8	8.5	8.1		7.8	7.8	7.8
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.3			0.5	0.4	0.4	0.4	0.4	0.5		0.4	0.3	
of which: Grants	0.4	0.4	0.3			0.4	0.3	0.3	0.3	0.3	0.3		0.2	0.2	
of which: Concessional loans	0.0	0.0	0.0			0.1	0.1	0.1	0.2	0.2	0.2		0.2	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.8	0.8	0.7	0.6	0.6	0.6		0.5	0.3	0.4
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			54.3	42.5	41.8	41.8	40.9	39.7		37.4	35.0	36.6
Memorandum items:															
Nominal GDP (Billions of US dollars)	65.5	71.1	81.4			94.1	112.2	129.8	149.3	172.4	198.2		259.2	439.2	
Nominal dollar GDP growth	4.6	8.5	14.6			15.6	19.2	15.7	15.0	15.5	14.9	16.0	5.5	5.3	5.5
PV of PPG external debt (in Billions of US dollars)			75.1			77.0	79.3	81.8	84.3	87.0	89.9		103.1	133.3	
(PVt-PVt-1)/GDPt-1 (in percent)						2.3	2.5	2.2	1.9	1.8	1.7	2.1	1.4	0.6	1.0
Gross workers' remittances (Billions of US dollars)	1.4	0.9	0.7			0.7	0.7	0.8	0.8	0.9	0.9		1.0	1.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	92.4			81.2	70.2	62.7	56.2	50.2	45.2		39.6	30.3	
PV of PPG external debt (in percent of exports + remittances)	...	...	1261.2			1182.8	1085.6	1050.1	1025.7	1020.9	1036.6		906.6	642.8	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	33.6			30.4	27.6	26.4	25.3	24.7	24.8		20.4	22.9	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

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

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

Table 2. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36

	Projections							
	2016	2017	2018	2019	2020	2021	**2026**	2036
PV of debt-to GDP ratio								
Baseline	82	71	63	56	50	45	**40**	30
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	82	73	65	58	51	45	**22**	6
A2. New public sector loans on less favorable terms in 2016-2036 2	82	71	64	57	51	47	**42**	35
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	82	73	67	60	54	48	**42**	32
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	82	72	66	60	53	48	**42**	31
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	82	83	85	76	68	61	**54**	41
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	82	70	62	56	50	45	**39**	30
B5. Combination of B1-B4 using one-half standard deviation shocks	82	80	79	70	63	57	**50**	38
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	82	96	85	76	68	61	**54**	41
PV of debt-to-exports ratio								
Baseline	1322	1204	1163	1141	1137	1159	**995**	684
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	1322	1243	1199	1165	1149	1147	**545**	129
A2. New public sector loans on less favorable terms in 2016-2036 2	1322	1210	1174	1158	1161	1190	**1057**	778
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	1322	1204	1163	1141	1137	1159	**997**	683
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	1322	1940	2883	2831	2823	2878	**2485**	1638
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	1322	1204	1163	1141	1137	1159	**997**	683
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	1322	1199	1149	1127	1123	1144	**984**	680
B5. Combination of B1-B4 using one-half standard deviation shocks	1322	1529	1781	1748	1742	1775	**1527**	1047
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	1322	1204	1163	1141	1137	1159	**997**	683
PV of debt-to-revenue ratio								
Baseline	868	758	687	640	597	563	**512**	390
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	868	783	708	654	603	557	**280**	74
A2. New public sector loans on less favorable terms in 2016-2036 2	868	762	694	650	609	578	**543**	444
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	868	782	730	681	635	598	**545**	414
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	868	774	724	675	630	594	**543**	397
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	868	894	927	864	806	760	**692**	526
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	868	755	678	632	590	556	**506**	388
B5. Combination of B1-B4 using one-half standard deviation shocks	868	856	857	799	745	702	**639**	486
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	868	1025	929	866	807	761	**693**	527

Table 2. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2016–36 (concluded)

				Projections				
	2016	2017	2018	2019	2020	2021	**2026**	2036
Debt service-to-exports ratio								
Baseline	34	31	29	28	28	28	**22**	24
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	34	32	31	29	29	28	**12**	-3
A2. New public sector loans on less favorable terms in 2016-2036 2	34	31	29	29	28	29	**26**	33
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	34	31	29	28	28	28	**22**	24
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	34	48	70	70	69	69	**56**	67
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	34	31	29	28	28	28	**22**	24
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	34	31	29	28	27	27	**22**	23
B5. Combination of B1-B4 using one-half standard deviation shocks	34	39	45	43	42	42	**34**	37
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	34	31	29	28	28	28	**22**	24
Debt service-to-revenue ratio								
Baseline	22	19	17	16	14	13	**11**	14
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2016-2036 1/	22	20	18	17	15	14	**6**	-2
A2. New public sector loans on less favorable terms in 2016-2036 2	22	19	17	16	15	14	**14**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2017-2018	22	20	18	17	15	14	**12**	15
B2. Export value growth at historical average minus one standard deviation in 2017-2018 3/	22	19	18	17	15	14	**12**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2017-2018	22	23	23	21	20	18	**16**	19
B4. Net non-debt creating flows at historical average minus one standard deviation in 2017-2018 4/	22	19	17	16	14	13	**11**	13
B5. Combination of B1-B4 using one-half standard deviation shocks	22	22	21	20	18	17	**14**	17
B6. One-time 30 percent nominal depreciation relative to the baseline in 2017 5/	22	26	23	21	20	18	**16**	19
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	32	32	32	32	32	32	**32**	32

Sources: Country authorities; and staff estimates and projections.

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

Table 3. Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2013–36

	Actual					Estimate			Projections						
	2013	2014	2015	Average 5/	Standard Deviation 5/	2016	2017	2018	2019	2020	2021	2016-21 Average	2026	2036	2022-36 Average
Public sector debt 1/	89.9	76.8	72.9			62.8	56.7	52.8	49.5	46.6	44.4		46.3	46.8	
of which: foreign-currency denominated	79.3	66.1	59.9			53.5	47.5	43.4	39.8	36.4	33.5		32.5	28.0	
Change in public sector debt	-4.4	-13.0	-3.9			-10.1	-6.1	-3.9	-3.2	-2.9	-2.2		0.4	-0.2	
Identified debt-creating flows	-6.7	-16.7	-10.1			-8.4	-8.0	-5.7	-4.2	-3.6	-2.7		-0.1	-1.0	
Primary deficit	-0.6	-1.6	-0.8	-1.8	1.9	-0.2	0.2	0.3	1.1	1.5	2.0	0.8	2.2	1.7	2.1
Revenue and grants	11.0	12.0	11.0			9.8	9.6	9.4	9.0	8.6	8.2		7.8	7.8	
of which: grants	0.7	0.6	0.3			0.4	0.3	0.2	0.2	0.2	0.1		0.1	0.0	
Primary (noninterest) expenditure	10.4	10.4	10.3			9.6	9.8	9.7	10.1	10.2	10.2		10.1	9.5	
Automatic debt dynamics	-6.1	-15.1	-9.3			-8.2	-8.2	-5.9	-5.3	-5.2	-4.7		-2.3	-2.6	
Contribution from interest rate/growth differential	-23.9	-18.2	-10.5			-8.2	-8.2	-5.9	-5.3	-5.2	-4.7		-5.4	-5.2	
of which: contribution from average real interest rate	-19.1	-16.8	-6.9			-6.0	-6.1	-4.0	-3.5	-3.5	-3.1		-3.9	-3.7	
of which: contribution from real GDP growth	-4.7	-1.4	-3.6			-2.2	-2.1	-1.9	-1.8	-1.7	-1.6		-1.5	-1.6	
Contribution from real exchange rate depreciation	17.7	3.1	1.1			0.0	0.0	0.0	0.0	0.0	0.0		...	...	
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	2.3	3.7	6.1			-1.7	1.9	1.8	1.0	0.7	0.5		0.5	0.8	
Other Sustainability Indicators															
PV of public sector debt	...	...	106.2			91.0	79.8	72.3	66.1	60.6	56.2		53.6	49.2	
of which: foreign-currency denominated	...	...	93.2			81.7	70.7	63.0	56.5	50.5	45.4		39.7	30.4	
of which: external	...	...	93.2			81.7	70.7	63.0	56.5	50.5	45.4		39.7	30.4	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	5.3	4.8	4.1			3.8	3.5	3.3	4.0	4.3	4.7		5.2	5.6	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	963.1			923.7	833.1	769.4	733.9	703.7	684.6		682.4	628.9	
PV of public sector debt-to-revenue ratio (in percent)	...	...	993.9			966.3	856.1	788.1	750.0	717.6	696.9		690.0	632.0	
of which: external 3/	...	...	871.9			868.2	757.9	686.7	640.2	597.1	562.8		511.6	389.9	
Debt service-to-revenue and grants ratio (in percent) 4/	46.0	47.0	36.2			29.2	25.6	23.8	23.6	22.6	22.1		23.4	30.3	
Debt service-to-revenue ratio (in percent) 4/	48.9	49.6	37.4			30.5	26.3	24.4	24.1	23.0	22.5		23.7	30.4	
Primary deficit that stabilizes the debt-to-GDP ratio	3.8	11.4	3.2			9.9	6.4	4.2	4.3	4.5	4.2		1.8	1.8	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.3	1.6	4.9	3.5	3.2	3.0	3.5	3.5	3.5	3.5	3.5	3.4	3.4	3.5	3.5
Average nominal interest rate on forex debt (in percent)	4.0	3.8	3.7	4.7	0.7	3.5	3.3	3.2	3.1	3.0	2.9	3.2	2.5	2.1	2.5
Average real interest rate on domestic debt (in percent)	-21.3	-15.8	-7.4	-4.3	10.5	-7.6	-8.6	-6.0	-4.8	-5.5	-5.5	-6.3	-7.2	-6.5	-7.0
Real exchange rate depreciation (in percent, + indicates depreciation)	28.9	4.8	2.0	12.0	22.2	0.0	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	32.2	28.8	14.9	18.7	9.0	13.3	15.2	11.7	11.1	11.6	11.1	12.3	13.2	12.2	12.9
Growth of real primary spending (deflated by GDP deflator, in percent)	14.2	1.7	3.5	1.9	4.5	-3.5	5.7	1.7	7.9	4.3	3.8	3.3	3.7	3.5	3.0
Grant element of new external borrowing (in percent)	...	...	...	...	...	33.4	32.8	32.8	32.9	32.8	32.7	32.9	32.6	32.4	...

Sources: Country authorities; and staff estimates and projections.

1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]

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. Sudan: Sensitivity Analysis for Key Indicators of Public Debt 2016-36

	Projections							
	2016	2017	2018	2019	2020	2021	2026	2036
PV of Debt-to-GDP Ratio								
Baseline	91	80	72	66	61	56	54	49
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	91	78	70	62	54	48	33	7
A2. Primary balance is unchanged from 2016	91	80	72	65	58	52	43	25
A3. Permanently lower GDP growth 1/	91	80	73	68	63	59	59	64
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	91	83	77	71	66	61	60	58
B2. Primary balance is at historical average minus one standard deviations in 2017-201	91	80	72	66	60	56	53	49
B3. Combination of B1-B2 using one half standard deviation shocks	91	80	73	67	62	57	55	53
B4. One-time 30 percent real depreciation in 2017	91	110	99	89	81	74	69	63
B5. 10 percent of GDP increase in other debt-creating flows in 2017	91	87	78	72	66	61	58	52
PV of Debt-to-Revenue Ratio 2/								
Baseline	924	833	769	734	704	685	682	629
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	924	818	741	685	631	584	423	89
A2. Primary balance is unchanged from 2016	924	830	763	718	675	639	545	320
A3. Permanently lower GDP growth 1/	924	839	781	751	727	714	754	814
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	924	860	823	789	761	744	763	740
B2. Primary balance is at historical average minus one standard deviations in 2017-201	924	832	767	731	701	682	680	627
B3. Combination of B1-B2 using one half standard deviation shocks	924	837	777	743	715	698	706	672
B4. One-time 30 percent real depreciation in 2017	924	1147	1048	989	936	899	879	800
B5. 10 percent of GDP increase in other debt-creating flows in 2017	924	904	835	795	762	740	736	666
Debt Service-to-Revenue Ratio 2/								
Baseline	29	26	24	24	23	22	23	30
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	29	26	23	23	21	20	17	-1
A2. Primary balance is unchanged from 2016	29	26	24	23	22	21	20	13
A3. Permanently lower GDP growth 1/	29	26	24	24	23	23	26	39
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2017-20	29	26	25	25	24	24	26	37
B2. Primary balance is at historical average minus one standard deviations in 2017-201	29	26	24	23	23	22	23	30
B3. Combination of B1-B2 using one half standard deviation shocks	29	26	24	24	23	23	24	32
B4. One-time 30 percent real depreciation in 2017	29	30	31	30	29	28	28	39
B5. 10 percent of GDP increase in other debt-creating flows in 2017	29	26	26	26	24	24	25	35

Sources: Country authorities; and staff estimates and projections.

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

2/ Revenues are defined inclusive of grants.

Statement by Chileshe Mpundu Kapwepwe, Executive Director for Sudan and Felicia Dlamini-Kunene Advisor to the Executive Director
September 7, 2016

The Sudanese authorities appreciate the continued engagement with the Fund and thank Staff for the constructive discussions during the Article IV mission in Khartoum. They broadly concur with the analysis of the challenges facing Sudan and agree with the assessment and conclusions of the Staff report.

Background and context

Despite underlying challenges, the authorities are making concerted efforts to manage the Sudanese economy and unlock its great potential. Being one of the largest countries in Africa, in both population and surface area, the country is well-endowed with natural resources, including minerals, water and arable land. Benefitting from the successful implementation of the 2012-2014 three-year Program for Economic Stabilization, Sudan has maintained reasonable GDP growth rates, exceeding 3 percent post secession of South Sudan. That said, the country continues to face challenges. The structural weaknesses and limited market penetration compounded by US imposed economic sanctions, internal conflicts and debt overhang have limited economic growth and constrained the country from attaining its full potential. The situation was exacerbated by the country's separation from the South which, created huge financing needs and led to both internal and external imbalances.

Notwithstanding the authorities' stabilization efforts, the loss of significant oil reserves has necessitated concerted effort to transform the economy. Within this context, the authorities have prioritized addressing the structural rigidities to encourage export diversification. They have adopted a successor five-year (2015-2019) Program for Economic Reform. The successor program seeks to consolidate progress made under the three-year stabilization program in order to further enhance economic stability, promote inclusive growth and achieve sustainable development. To complement the economic reform agenda, the authorities have also prepared the 2016-2020 Poverty Reduction Strategy (PRS).

At the same time, the sanctions, by preventing trade between the US and Sudan, and limiting access to the international financial system, lowers Sudan's capacity to attract foreign direct investment. In addition, foreign banks have been slowly withdrawing their correspondent banking relations, especially following the recent enforcement actions against international banks for violating US sanctions. This has also had unintended consequences on private sector activity and ordinary citizens, including the most vulnerable, in particular through remittances, export receipts, and import financing. Transaction costs have increased significantly, as well as cash transactions. At the regulatory level, recent developments are undermining efforts to strengthen the AML/CMT framework.

On the political front, the authorities have made notable progress toward resolving internal conflicts. They successfully and peacefully concluded the administrative referendum in Darfur held in April 2016. At the same time, the National Dialogue is still ongoing and a comprehensive road map for peace was signed by the leading opposition parties and armed rebels on August 8, 2016 in Addis Ababa. These positive developments have laid the foundation for restoring peace and security in Darfur and the country as a whole. They will encourage reprioritization of resources from war to development spending. The authorities have also endeavored to normalize relations with the international community and creditors and to mobilize support for removal of sanctions and debt relief.

Recent economic developments and outlook

Economic growth slowed to 3.5 percent in 2014 before rebounding to 4.9 percent in 2015. The recovery was supported by better than expected performance in agriculture. The authorities' stabilization policies curbed inflationary pressures and helped reduce inflation from 36.9 percent in 2014 to 17. 3 percent in 2015. Further central bank efforts to contain growth in reserve money have dampened inflationary pressures and inflation is expected to average 13 percent in 2016, remaining within the authorities' target.

The slump in oil and commodity prices led to the deterioration of the current account as commodity other export earnings declined significantly. This coupled with higher import transactions costs contributed to widening of the current account. However, external support from Gulf States helped cushion erosion of international reserves which contracted to 1.4 months of import cover. Even though the budget targeted a primary deficit of 1.6 percent of GDP, the deficit is expected to reach 1.9 percent of GDP for 2016 due to implementation of the Darfur referendum.

The economic outlook remains positive, although the low commodity prices, sanctions and the recent floods are expected present downside risks to growth prospects in 2016.

Fiscal policy

The authorities have endeavored to maintain fiscal restraint while preserving social spending. However, financing needs remain large, in part, due to the significant fall in oil prices and also on account of the considerable revenue gaps created by the secession of South Sudan. Given the limited access to external budgetary and balance of payments support, the authorities will continue to implement fiscal consolidation with the view to reduce the deficit to 0.4 percent by 2019. The consolidation plan will combine expenditure restraint, revenue mobilization and enhanced public finance management.

On the revenue side, the authorities have made significant efforts to increase domestic revenues. Since tax revenue performance is still relatively low by comparison, they continue to focus on strengthening revenue mobilization by enforcing compliance, reducing tax exemptions, reviewing the taxation and royalties on extractive industries and, reviewing direct taxes including income and corporate taxes. The program for economic reform also focuses on reviewing and harmonizing the tax codes. On the expenditure front, the authorities will continue to rationalize subsidies and strengthen the social safety net. In this regard, they are implementing gradual liberalization of wheat, hydrocarbons and electricity.

The authorities will continue to strengthen public finance management. Benefiting from Fund technical assistance, they have introduced an integrated financial management system and the Treasury Single Account (TSA).

External Debt and the Zero Option

Sudan remains in debt distress and despite significant progress made in meeting the technical prerequisites under the Fund SMPs, the country has not received positive response from the international community on debt relief and prospects have not improved significantly. In addition, the two-year 'Zero Option Agreement' which was seen by the authorities as a means to strengthen efforts through joint outreach between Sudan and South Sudan towards seeking debt relief expired in 2014. The extension, in turn, is due to expire in October 2016 without any favorable prospects. Hence the authorities face a dilemma, the lack of progress has dampened the political appetite for a further extension while without the zero option the debt has to be apportioned and this too will be politically challenging. That said, the authorities are cognizant of the developments in South Sudan characterized by rising conflicts and instability. In this regard, they may be open to considering further extension of the 'Zero Option' which expires in October 2016 with the anticipation of a positive outcome on debt relief.

Monetary policy

The authorities agree on the need to adopt tighter fiscal and monetary policy to anchor macroeconomic stability and reduce financing gaps in light of the uncertain and short-term nature of financing. In this context, monetary policy will continue to focus on containing reserve money growth and are in the process of developing instruments for effective liquidity management. The authorities' consolidation efforts will also focus on reducing the government deficit and minimizing the central bank's quasi fiscal activities. They have also made efforts to strengthen the AML/CFT framework. Successful implementation of the key recommendations of the MENAFAFT led to Sudan's removed from the 'gray list' of countries requiring regular follow-up to biennial updates.

Exchange rate policy

Large external imbalances compounded by the loss of correspondent banking relations created instability in the exchange rate and led to foreign exchange shortages which have exerted significant pressures on the exchange rate. As a result, the differential between the official and parallel rates has widened significantly. The authorities recognize that distortions in the foreign exchange market are weakening the credibility of the exchange rate policy thereby underlining the need to reform the foreign exchange regime. Though the rationale for harmonizing the exchange rate and introducing greater exchange rate flexibility is acknowledged by the authorities, they remain cautious and emphasize the need for a gradual approach to minimize destabilizing the financial sector and the impact on the vulnerable population.

Structural reforms

The authorities acknowledge that concerted efforts are required for Sudan's economic potential to materialize and are focusing on addressing key structural impediments in the economy to encourage private sector activity and attract FDI. Although removal of sanctions would benefit the economy significantly the authorities are taking important measures aimed at improving the business environment. In this regard, the investment law is currently under review and should be issued end 2016. The new law focuses on removing legal and administrative obstacles to private sector investment and growth. In addition, they will continue investing in infrastructure, particularly roads, ports and electricity. Further, the authorities are strengthening their efforts to improve human capital development by designing programs that will remove disparities and strengthen provision of education and health services.

Conclusion

The authorities will continue to strengthen their efforts to attaining peace and stability by enhancing progress toward resolving internal conflicts. They remain committed to cooperating with the Fund on policies and have made progress in strengthening economic policies and institutions benefiting from Fund support. The authorities will continue their efforts to normalize relations with the US, which has been an impediment to progress on debt relief, as well as with creditors in particular to garner support for removal of sanctions and possibly debt relief.