

# The IMF and Sudan



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# **The International Monetary Fund**

## **What is the IMF?**

- The International Monetary Fund (IMF) is a financial institution established in 1945 after WWII
- The headquarters of the IMF is in Washington DC, USA
- The IMF currently has a membership of 188 countries; South Sudan became the newest member in April 2012

## **What are the Objectives of the IMF?**

- Foster global monetary cooperation through stable exchange rates.
- Promote and facilitate international trade among member countries.
- Develop and promote an effective and stable international financial system.

# The IMF (cont)

## How does the IMF achieve these objectives?

- Monitors economic and financial policies of its members.
- Lends to member countries with balance of payments problems (i.e., who have problems in making international payments).
- Provides the governments and the central banks of the member countries with the necessary technical assistance and training .

# Sudan's relationship with the IMF

- Sudan joined the IMF in September 1958.
- During the seventies Sudan maintained normal relations with the Fund and borrowed from the Fund to support macroeconomic policies.
- Relationship deteriorated in early 1980s when Sudan was unable to make timely payments.
- IMF applied following measures to encourage Sudan to find solution for its arrears:
  - 1986 Ineligible to use Fund resources.
  - 1990 Declaration of non-co-operation.
  - 1993 Suspension of voting rights.

## **Sudan's relationship with the IMF (cont.)**

- 1994 Complaint against Sudan by the MD (compulsory withdrawal).
- As of 30 September 2014 Sudan's obligations to the IMF is about USD 1.5 billion.
- Following sharp deterioration in the economy because of unsustainable economic policies, as well as to restore cooperation with the IMF, Sudan agreed with the Fund towards the end of 1996 on an economic adjustment program to be monitored by the Fund staff.

# **Sudan's experience with the SMPs**

- Sudan implemented a series of SMPs during the period 1997 – 2010.
- An SMP is an informal agreement between the authorities and the IMF staff to monitor implementation of an economic program designed by the authorities.
- In the course of implementing these programs, the Fund provides only technical assistance; no financing.
- To monitor progress with implementing the authorities' policies, under the SMP, IMF staff reaches agreement on a number of quantitative targets that have to be met, as well as a number of reforms that have to be undertaken:

## **Sudan's experience with the SMPs (cont.)**

- **Quantitative targets:** These targets are monitored on a quarterly basis, and are based on the authorities' fiscal and monetary policies; variables to be monitored include the overall budget balance; tax revenue; poverty reducing expenditures; credit extension to the economy; and the country's foreign reserves.
- **Qualitative targets:** These are reforms to be undertaken by the authorities to support economic growth; these reforms are quite broad and could include policies to improve the business climate; reduce the size of the government; improve budget implementation and transparency, banking sector reforms to improve access to financing; etc.

# Fruits of the SMPs: Improvement in the economy

- By late-1996, Sudan's economy was in crisis.
- A large fiscal deficit and its financing by the Central Bank of Sudan had resulted:
  - In inflation of over 150 percent per year; an
  - Increase in the current account deficit to almost 12 percent of GDP; and a
  - A shortage of foreign exchange and the emergence of a parallel market for foreign exchange
    - By end-1996, the premium between the parallel market and official exchange rates was 23%.



## **Fruits of the SMP (cont.)**

- To avert further deterioration in the economy the government adopted an ambitious economic program and requested the IMF staff to monitor progress with its implementation.
- Government policy was anchored on reducing budget deficit and slowing money growth.
- These policies quickly reduced inflation — which from 2000 onwards remained in single-digits— reduced the deficit in the current account and nearly eliminated the black market.
- As a result over the next ten years real non-oil GDP growth averaged about 5½ percent.

# Fruits of the SMPs: Improvement in Relations

- Strong implementation of government economic policies also and improved Sudan's relations with the Fund.
- Reflecting improved relations, IMF Executive Board decided to remove some measures that had been applied:
  - 1999 Lifting of the non-cooperation declaration.
  - 2000 Restoration of the voting rights.
- Removal the last remaining measure (ineligibility to borrow) will be completed when Sudan clears its arrears to the Fund

# The 2014 SMP

- Sudan suffered a significant shock in mid-2011 owing to the secession of South Sudan.
- As result inflation increased to almost 50 percent by late 2012, the current account deficit significantly widened, and the parallel market for foreign exchange re-emerged—almost the same situation as in late-1996
- To address challenges posed by South Sudan secession and to re-establish macroeconomic stability (i.e. low inflation; stable exchange rate), IMF requested to monitor government economic program for 2014.

## 2014 SMP (cont.)

- SMP quantitative targets aim to reduce budget deficit; limit Central Bank direct budget financing, rebuild foreign exchange reserves, and limit nonconcessional external borrowing.
- Key policy reforms to be implemented include unification of exchange rates; strengthening government revenues; and strengthening framework for budget planning and preparation
- IMF has conducted 2 reviews of performance, and found performance broadly satisfactory:
  - Budget deficit fell to 0.4% of GDP up to June compared with 1.2% in same period of 2013

## 2014 SMP (concl.)

- Central bank credit to government declined
- Current account deficit narrowed as imports declined 15% up to end-June
- Inflation has started falling (from about 47% in July to 36% in September)
- Parallel market exchange rate has been stable since July, strengthening in last 2 months
- Continuing cooperation with the IMF is also important for securing international support for debt relief for Sudan.