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Sudan—Recent Economic Developments

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SUDAN

Recent Economic Developments

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Sudan: Basic Data

I. Social and Demographic Indicators (1992) 1/

<u>Area</u>	<u>Population</u>	<u>Density</u>
2,506 thousand sq. km	26.8 million (1993 estimate)	10 per sq. km
	Rate of growth: 2.7 percent	
<u>Health</u>	<u>1992</u>	<u>Education</u>
Life expectancy at birth (years)	51	Adult illiteracy (percent)
Infant mortality (per 1,000 live births)	101	School enrollment
Population per physician	11,290	(Percent of relevant age group)
Access to safe water		Primary
(percent of rural population)	45	Secondary
		1992
		73
		49
		20

II. Economic Indicators

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
<u>(Annual changes in percent)</u>					
National income and prices					
Real GDP (at factor cost)	-1.7	1.2	11.3	7.6	5.6
GDP deflator	62.1	86.9	90.0	90.0	92.1
Consumer prices (period average)	52.7	111.6	109.5	103.3	119.4
Real effective exchange rate (period average: depreciation -)	30.3	92.5	-34.4	-75.6	31.7
Central government operations					
Revenue	32.1	86.5	120.9	130.0	67.1
Expenditure	33.2	52.6	217.9	130.7	43.3
Expenditure (excluding interest arrears)	38.0	60.3	157.8	88.9	30.0
<u>(In percent of GDP)</u>					
Saving and investment					
National saving	-15.2	-28.8	-16.8	-9.6	-8.9
Foreign saving	28.3	42.5	31.1	24.6	24.4
Gross saving = Investment	13.1	13.7	14.3	15.0	15.5
Central government operations					
Revenue	8.2	8.1	8.4	9.4	7.8
Total expenditure	22.5	18.3	29.1	30.5	22.1
Overall deficit (accrual basis)	-14.3	-10.2	-20.7	-21.5	-14.3
Overall deficit (cash basis)	-11.1	-8.4	-13.4	-9.6	-4.3
Balance of payments and external debt					
Current account deficit	28.3	42.5	31.1	24.6	24.4
Exports, f.o.b.	10.3	7.5	6.7	6.1	8.0
Imports, c.i.f.	24.0	33.9	24.8	18.5	19.5
External debt	31.3	32.5	30.3	29.1	28.3
External interest due	17.8	17.7	16.1	14.6	13.8
External interest paid	0.8	0.6	0.7	0.4	0.3

Sudan: Basic Data (concluded)

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
<u>(Changes as percent of beginning stock of broad money)</u>					
Money and credit					
Domestic credit	49.3	49.7	95.8	52.1	49.2
Claims on Central Government (net)	42.5	35.1	76.1	31.1	31.8
Claims on nongovernment sectors	6.8	14.6	19.7	21.0	17.5
Money and quasi-money	55.0	58.3	128.3	75.9	89.1
<u>(In billions of Sudanese pounds)</u>					
Central government operations					
Revenue	8.3	15.4	34.0	78.2	130.8
Total expenditure	22.8	34.8	118.4	260.1	369.3
Overall deficit (accrual basis)	-14.5	-19.4	-84.4	-181.9	-238.5
Overall deficit (cash); financed by	-12.8	-15.9	-52.5	-79.2	-71.1
External	3.0	6.6	20.8	41.6	25.0
Domestic bank financing	7.2	9.2	31.7	29.6	53.2
Exceptional domestic borrowing	--	--	2.0	8.0	-7.0
<u>(In millions of U.S. dollars)</u>					
Balance of payments and external debt					
Current account 2/	-1,218	-1,927	-1,622	-1,422	-1,545
Merchandise exports	443	342	349	351	503
Merchandise imports, c.i.f.	-1,035	-1,535	-1,290	-1,068	-1,226
Services balance	-813	-813	-850	-874	-877
Private transfers	188	79	169	169	55
Official transfers	342	205	269	124	88
Official medium- and long-term capital	-308	-65	-276	-279	-426
Errors and omissions and unregistered private capital flows	-159	373	328	284	521
Overall balance	-1,344	-1,414	-1,301	-1,293	-1,362
Gross official reserves (end of period)	9	14	21	52	41
External debt stock (end of period)	13,490	14,740	15,780	16,820	17,750
<u>(As percent of current receipts)</u>					
External debt service					
Commitment basis	181	315	261	238	208
Actual payments	13	19	26	7	4
<u>(In Sudanese pounds per U.S. dollar)</u>					
Exchange rates					
Official rate (end of period)	5	5	98	145	216
Commercial bank rate (end of period)	12	12	...	...	312

Sources: Staff estimates and projections based on information provided by the Sudanese authorities.

1/ Based on *Social Indicators of Development*, 1993, The World Bank.

2/ Interest on an accrual basis.

I. Introduction and Summary

Sudan, the largest country in Africa, has considerable natural resources, particularly fertile land. Since the early 1980s, however, Sudan has been plagued by inadequate growth, high inflation, and severe balance of payments pressures. A large proportion of the population lives in poverty, and literacy levels are low. Fiscal policy has been weak, while monetary policy has been geared toward accommodating budgetary imbalances. The exchange rate has been overvalued and protected through restrictions. As a result, the economy has turned increasingly inward, with the share of exports in GDP now one of the lowest among developing countries. At the same time, Sudan's foreign debt obligations have far outstripped its ability to pay. External payment arrears, including substantial amounts owed to the Fund, have mounted with the result that relations with the majority of external creditors have been severely impaired.

Several factors accounted for the decline in economic performance. Agricultural production, the mainstay of the economy, was stifled by government intervention in production and marketing. In pursuit of food self-sufficiency, the Government diverted arable land from more profitable cash crops, such as cotton, to the cultivation of grains. An uneven pattern of rainfall produced large swings in output, including a contraction in 1989/90 (fiscal year beginning in July), followed by a major upswing in 1991/92. On the fiscal front, the inadequate revenue base, coupled with weak expenditure controls resulted in large fiscal deficits that were financed by credit from the banking system. As a result, the rate of inflation accelerated from about 53 percent in 1989/90 to over 100 percent in the next two years. The prolonged conflict in the south of the country has been a drain on the economy. The poor export performance and increased demand for imports resulted in a widening of the external current account deficit to over 30 percent of GDP in 1991/92; external debt service obligations have been financed almost entirely by a further accumulation of arrears.

In an effort to arrest the rapidly deteriorating economic situation, from 1991 onward the Government decided to move away from a long tradition of interventionist policies and to assign a greater role to the private sector and the market mechanism. Marketing arrangements in agriculture were liberalized and state enterprises were privatized. This redirection of policies took place at a time when the economy was buffeted by adverse terms of trade movements and a decline in foreign assistance. Because of an attempt to protect consumption levels, the structural reform measures at first were not accompanied by adequate supporting policies in the fiscal, monetary, and exchange rate areas, with the result that the rate of inflation remained well over 100 percent during this period.

Mindful that a partial approach to economic reform was not yielding the desired results, in 1993 and 1994 the authorities decided to redress the economic imbalances by adopting a more comprehensive approach aimed at substantially lowering the rate of inflation through tighter fiscal and

monetary restraint along with a more flexible exchange rate policy. Government expenditure was contained more tightly, particularly through cuts in investment outlays: the primary deficit and government recourse to domestic bank financing fell significantly in 1993/94. However, the fiscal and monetary policies put in place failed to lower inflation below 100 percent in 1992/93 and 1993/94. Steps were taken to liberalize the exchange system and bring the exchange rate closer to market levels, but these reforms were not sustained under pressure of ongoing high levels of inflation.

The redirection of economic policies, in conjunction with the favorable impact of generally good rainfall, has begun to show results. Sudan's economic growth record has improved significantly: the rate of growth is estimated broadly at about 8 percent on average over the three-year period that began in July 1991. Exports also have turned around with a sharp increase registered in 1993/94. Inflation, however, continued above 100 percent a year through October 1994.

The authorities' adjustment and reform strategy was reinforced in 1994 in an effort to adopt a comprehensive and coherent approach toward strengthening the balance of payments and bringing down inflation. Fiscal policy was tightened: government recourse to bank borrowing is expected to be almost eliminated for 1994/95. Efforts at achieving a unified market-determined exchange rate also resumed and were intensified. Cooperation with the Fund improved, including through increased payments. However, financial assistance from foreign donors and creditors has not resumed on any significant scale.

This paper provides the background information to the staff report for the 1994 Article IV consultation (EBS/94/245, 12/20/94). Developments in the real sector are discussed in Chapter II, followed by fiscal, monetary, and external developments in Chapters III, IV, and V, respectively. The appendices contain a description and assessment of the present tax system, banking practices, and the exchange and trade system, as well as the statistical tables.

II. Developments in the Real Sector

1. Overview

Although Sudan is the largest country in Africa, with an area covering 2.5 million square kilometers, it is also one of the poorest with a per capita income of about US\$210 a year. ^{1/} Population is estimated at about 27 million and is growing at a rate of approximately 2.7 percent a year. The economy is based largely on agriculture, which accounts for about one

^{1/} Based on estimated GDP for 1993/94, converted at year-average commercial bank exchange rates.

third of the country's output. Agricultural production is concentrated in the central savannah zone. The northern third of Sudan is arid desert, but the areas in the south and southeast consist of tropical rain forests with large untapped potential and swampland. The country is traversed by the Blue and White Nile rivers, which provide ample water to a vast region; some 4 million feddans are under irrigation. 1/ Cropped areas, including those in the irrigated and rainfed sectors, amount to only 20 million feddans (3 percent of total area) out of a total potential arable land area of 80 million (12 percent of total area).

The growth of the economy over the past five years has been greatly influenced by variations in weather, which have had direct consequences for agricultural output and indirect effects on the manufacturing and services sectors (Chart 1). For example, the 11 percent recovery of output in 1991/92 (fiscal year beginning July 1) was precipitated by abundant rainfall, after the persistent drought that resulted in negative or little growth in the previous two years. The slowdown in economic growth in 1992/93 and 1993/94 was partly attributed to poor rainfall, but other important factors that contributed to this slowdown included, inter alia, pest infestation, plant diseases, shortages of essential inputs, and delays in credit availability at crucial stages of planting and harvesting. Recently, however, these adverse developments have been offset by the benefits derived from a redirection of economic policies toward privatization and improved pricing structure, which has raised the level of efficiency and production incentives.

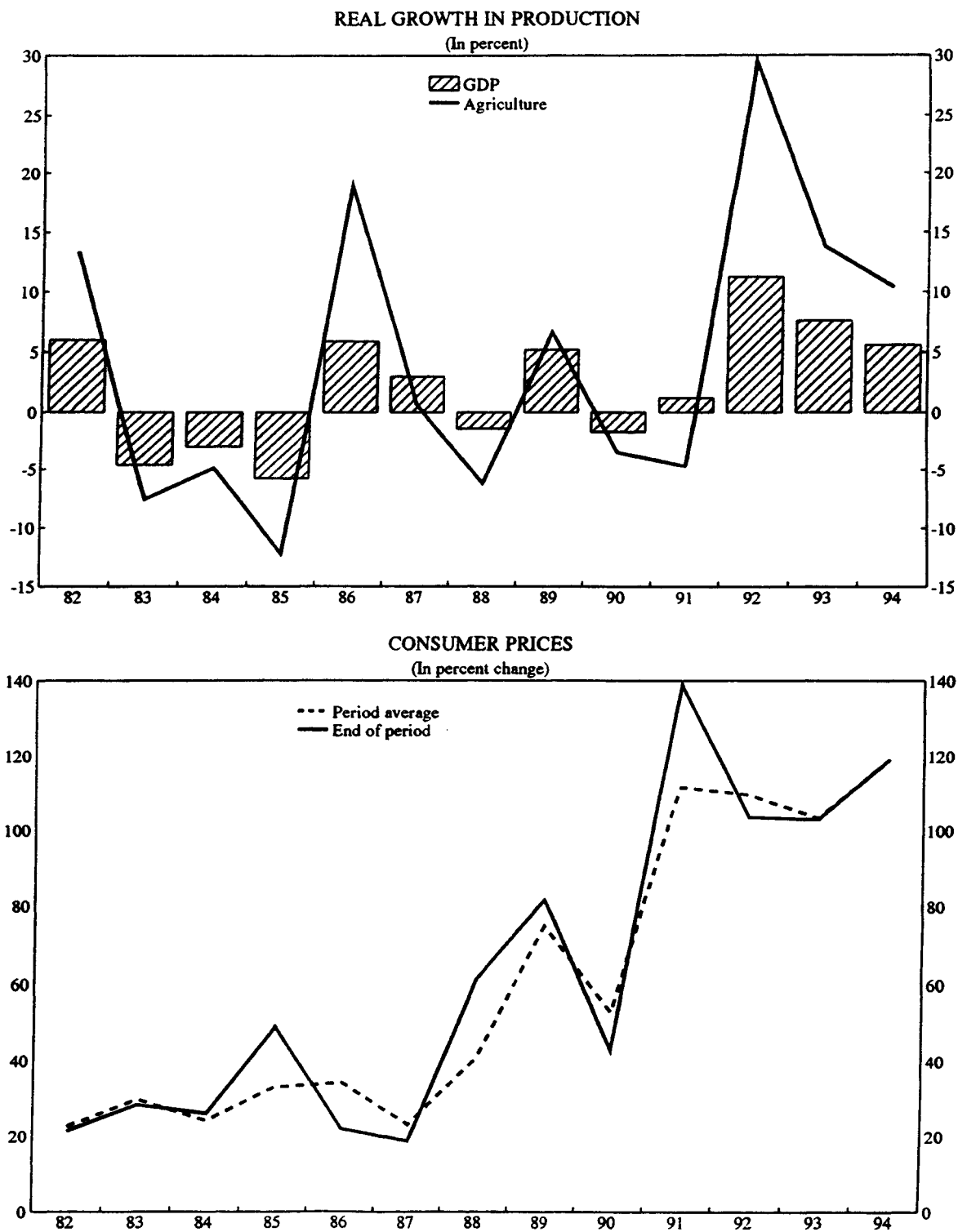
After rising by 7.6 percent in 1992/93, real GDP continued to grow by 5.6 percent in 1993/94, largely on the strength of advances in agriculture and the services sectors (Table 1). During this period the industrial sector registered only marginal gains, reflecting the shortages of foreign exchange and essential inputs for manufacturing. A summary of the noteworthy developments in each of the major sectors follows.

2. Agriculture

Agriculture accounted for 37 percent of total output in 1993/94, over four fifths of exports, and about two thirds of employment. Following a 14 percent increase in the previous year, agricultural output rose by 10 percent in 1993/94. This outcome stemmed mainly from a 23 percent increase in livestock production by way of increases in the number and quality of herds and expanded processing of meat. By contrast, output from crops fell moderately, reflecting the adverse factors discussed above. Forestry continued to show a substantial gain of about 20 percent from the extraction of gum arabic.

1/ One feddan is equal to 1.04 acres.

CHART 1
SUDAN
REAL SECTOR INDICATORS, 1981 - 94
(Fiscal Years Ending in June)



Sources: Staff estimates based on information provided by the Sudanese authorities.

Table 1. Sudan: Origin of Gross Domestic Product, 1989/90-1993/94

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
<u>(In millions of Sudanese pounds at 1981/82 prices)</u>					
GDP at constant factor cost	6,613	6,691	7,446	8,014	8,461
Agriculture	2,002	1,918	2,521	2,869	3,142
Crops	1,030	911	1,489	1,579	1,563
Irrigated crops	677	686	939	861	991
Rainfed mechanized crops	148	100	361	389	206
Rainfed traditional crops	205	125	189	329	366
Livestock	771	799	822	1,060	1,304
Forestry	201	208	210	230	275
Industry	1,017	1,170	1,269	1,467	1,480
Mining and quarrying	6	6	6	12	12
Manufacturing	589	627	716	851	794
Electricity and water	149	152	155	192	209
Construction	273	385	392	412	465
Services	3,594	3,603	3,656	3,678	3,839
Government services	811	782	770	656	704
Other services	2,783	2,821	2,886	3,022	3,135
GDP deflator (1981/82 = 100)	1,468	2,746	5,217	9,913	19,032
GDP at current factor cost	97,105	183,729	388,475	794,406	1,610,296
Indirect taxes less subsidies	4,187	6,520	18,800	35,350	58,300
GDP at current market prices	101,292	190,249	407,275	829,756	1,668,596
<u>(Annual percentage change)</u>					
GDP at constant factor cost	-1.7	1.2	11.3	7.6	5.6
Agriculture	-3.6	-4.4	31.4	13.8	9.5
Crops	-9.0	-11.6	63.4	6.0	-1.0
Livestock	3.4	3.6	2.8	29.0	23.0
Forestry	11.5	3.5	1.0	9.5	19.1
Industry, of which:	-5.9	15.0	8.5	15.6	0.9
Manufacturing	5.0	6.5	14.2	18.9	-7.2
Construction	-28.2	41.0	1.8	5.1	12.9
Services	0.6	0.3	1.5	0.6	4.3
<u>(As percent of total GDP)</u>					
GDP	100.0	100.0	100.0	100.0	100.0
Agriculture	30.2	28.7	33.9	35.8	37.1
Crops	15.6	13.6	20.0	19.7	18.5
Livestock	11.6	12.0	11.0	13.2	15.4
Forestry	3.0	3.1	2.9	2.9	3.2
Industry	15.4	17.5	17.0	18.3	17.5
Services	54.4	53.8	49.1	45.9	45.4
<u>(Sources of real GDP growth, in percentage points)</u>					
GDP	-1.7	1.2	11.3	7.6	5.6
Agriculture	-1.1	-1.3	9.0	4.7	3.4
Crops	-1.5	-1.8	8.6	1.2	-0.2
Livestock	0.4	0.4	0.3	3.2	3.0
Forestry	--	0.1	0.1	0.3	0.6
Industry	-0.9	2.3	1.5	2.6	0.2
Services	0.3	-0.2	0.8	0.3	2.0

Sources: Ministry of Economics, Planning, and Investment; and Fund staff estimates.

a. Crop production

Sudan's crop production is broadly divided into the irrigated and rainfed sectors; the latter is further split into a mechanized and a traditional subsector. Roughly two thirds of Sudan's crop output comes from areas under irrigation, which produce mainly sorghum and wheat, followed by groundnuts, millet, fruits, and vegetables. The more important crops in the rainfed mechanized subsector are sorghum, millet, and sesame; those in the traditional rainfed subsector include sorghum, millet, groundnuts, sesame, fruits, and vegetables.

(1) Irrigated sector

Irrigated agricultural schemes cover approximately one fifth of the total area under cultivation. Overall performance of this sector turned from a decline during 1992/93 to an increase of 15 percent in 1993/94, resulting from larger than average yields (in particular, groundnuts), better farm maintenance and ground preparation, intensified spraying against pest infestation, and the application of superior varieties of seeds (Table 1). In the case of wheat, a larger area under cultivation accounted for significant gains in output, reflecting continued government emphasis on achieving greater self-sufficiency in foodgrains.

Cotton still remains the major cash crop. Cotton output fell by 13 percent in 1993/94, extending the long declining trend to less than one third of the production in the mid-1980s (Table 2). Similarly, planted areas declined to only 292,000 feddans in 1993/94, or less than half the acreage devoted to cotton in the mid-1980s. ^{1/} More recently, in 1993/94 the decline in harvested areas by almost one fifth was mainly because of a drop in export prices. The effects of this fall in output were also manifested in a proportionate drop in the volume of ginned cotton lint, both in 1993/94 and over the previous five years (Statistical Appendix Tables 12 and 13).

The quality of Sudanese cotton has deteriorated in recent years due to high levels of whitefly damage, which makes the cotton difficult to process. The Acala and Barakat varieties, which are produced in more than two thirds of the cultivated areas for cotton, have been the hardest hit. Until 1992/93, there had been a marked shift toward planting the less valuable Shambat "B" variety, which appeared to have a natural resistance to the traditional diseases. However, difficulties in international marketing of this variety have forced a reduction in cultivation of Shambat "B" from 89,000 bales in 1992/93 to only 37,000 bales in 1993/94.

^{1/} The total harvested area includes a small amount (14,000 feddans) produced in the rainfed sector.

Table 2. Sudan: Selected Agricultural Crops, Average 1983/84–1987/88; 1992/93–1993/94 ^{1/}

(Area in thousands of feddans; production in thousands of metric tons; and yield in kilograms per feddan)

	Irrigated			Rainfed						Total		
	Area	Production	Yield	Area	Production	Yield	Area	Production	Yield	Area	Production	Yield
Cotton												
Average ^{2/}	711	438	616	80	15	188	--	--	--	791	453	573
1992/93	321	166	517	35	4	114	--	--	--	356	170	477
1993/94	278	144	518	14	4	260	--	--	--	292	148	507
Dura (Sorghum) ^{2/}												
Average	834	450	540	6,218	1,493	240	2,823	357	126	9,875	2,300	233
1992/93	1,221	769	630	10,041	2,687	268	3,500	586	167	14,762	4,042	274
1993/94	904	602	666	7,896	1,473	187	2,352	311	132	11,152	2,386	214
Groundnuts ^{2/}												
Average	251	188	749	--	--	--	1,303	283	217	1,554	471	303
1992/93	298	235	798	--	--	--	1,000	145	145	1,298	380	292
1993/94	293	254	867	--	--	--	1,565	174	111	1,858	428	230
Wheat ^{2/}												
Average	290	158	545	--	--	--	--	--	--	290	158	545
1992/93	777	445	573	--	--	--	--	--	--	777	445	573
1993/94	851	475	558	--	--	--	--	--	--	851	475	558
Millet ^{2/}												
Average	18	8	444	45	6	133	3,406	250	73	3,469	264	76
1992/93	11	4	360	189	47	249	3,510	398	113	3,710	449	121
1993/94	2	1	300	162	27	166	2,381	193	81	2,545	221	87
Total ^{1/ 2/}												
Average	2,104	1,242	590	6,343	1,514	239	7,532	890	118	15,979	3,646	228
1992/93	2,628	1,619	616	10,265	2,738	267	8,010	1,129	141	20,903	5,486	262
1993/94	2,328	1,476	634	8,072	1,504	186	6,298	678	108	16,698	3,658	219

Source: Ministry of Agriculture.

^{1/} Excludes fruits and vegetables that account for a large portion of agricultural output. For a better indication of total output by subsectors, see Table 1.^{2/} Annual average for period 1983/84–1987/88.

With respect to noncotton crops in the irrigated sector, groundnut production rose by 8 percent to 254,000 tons in 1993/94, entirely because of improvements in yield (Statistical Appendix Table 14). Output of groundnuts was also affected by the shift in cultivation to the more profitable varieties of grains. In view of the high free market prices, areas devoted to wheat rose by 10 percent in 1993/94, with a concomitant rise in output to 475,000 tons in 1993/94. The high profitability of wheat was also reflected in the threefold increase in procurement prices to LSd 38,500 per ton (Statistical Appendix 16). Meanwhile, planted areas of sorghum in the irrigated schemes fell by one quarter in 1993/94; however, this drop in acreage for sorghum was partly compensated by increases in yields, stemming from the introduction of hybrid seeds.

(2) Rainfed sectors

Output trends in the rainfed crop sector have moved according to the weather patterns in the different areas of Sudan. After increasing by some 30 percent in 1992/93, the combined output of the rainfed sectors declined by about one fifth in 1993/94 because of the delays in the rains during the planting season (Table 1 and Statistical Appendix Table 14).

Farms in the rainfed mechanized subsector are owned and managed exclusively by private entities. The average farm size is about 1,000 feddans, but some individual tracts extend to as much as 200,000-300,000 feddans. Production is heavily dominated by sorghum, which accounted for most of the decline in output last year. In 1993/94 sorghum output was cut by half due to a reduction in planted areas (from 10 million feddans to 8 million) and a combination of other adverse developments. First, rainfall was far from adequate and did not arrive in time for the start of the planting season. Second, harvesting and threshing were delayed due to shortages in fuel and other essential inputs. Finally, acreage devoted to sorghum was cut back substantially because the depressed market prices, which barely covered the higher costs of harvesting, transporting, and marketing this crop.

In contrast to the sharp decline in the mechanized subsector, the traditional rainfed subsector fared better in 1993/94, as output increased by 11 percent. Production of cereals such as sorghum and millet fell as a result of the poor rainfall and shortages of essential inputs. On the other hand, despite the reduction in yields associated with inadequate rainfall and shortages of inputs, groundnut production rose by some 20 percent due to the sharp increase in cultivated areas by over 50 percent.

b. Livestock

Livestock production, which accounted for over 40 percent of agriculture and roughly one fifth of total exports, rose by 23 percent in 1993/94 and accounted for 3.4 percentage points of the 5.6 percent growth in GDP last year. Marked gains were registered in processed meat and milk from cattle and sheep owing to better efficiency and increased private sector incentives. The underlying reasons for this favorable outcome include the

following: (a) livestock husbandry was integrated into the irrigated and mechanized farming schemes; (b) rotational grazing was adopted; (c) more accessible credit facilities were provided by the Agricultural Bank of Sudan; (d) high international market prices afforded higher quality feed and veterinary care; (e) as regards herds, higher birth and lower mortality rates, and a greater percentage of breeding females markedly increased their quality and size; and (f) high market prices of processed meat encouraged traditional Sudanese herdsmen to shift their wealth from the live herd to financial assets through the sale of processed meat, which is evidenced by the increase in slaughter rates from about 8 percent before 1992/93 to 11 percent in 1993/94.

c. Forestry

Forestry, which accounts for less than 10 percent of agricultural output, rose by nearly 20 percent in 1993/94 owing to the accelerated extraction of gum arabic from the acacia (Hishab and Talha) trees in the western regions of Darfur and Kordofan. Gum arabic is one of Sudan's more important cash crops, accounting for an average of roughly 15 percent of total exports. Apart from Sudan, only a few other countries in the "gum belt," such as Senegal, Mali, Chad, and Nigeria produce gum arabic, which explains the continued high level of international prices for this product. Moreover, competition from other countries producing chemical substitutes for gum arabic have not fared well in international markets because of the natural aversion to synthetics in favor of natural derivatives.

The increased production of gum arabic in 1993/94, was due mainly to adequate rainfall in the key producing regions and a virtual doubling of international prices. Part of the increase last year was also attributed to the decentralization of marketing schemes for the sale of gum arabic. Whereas previously sales were concentrated only in the central part of Sudan, in 1993/94 the Gum Arabic Company started a new policy of dispatching agents to hold regular auctions at the major producing areas throughout the country.

Excluding gum arabic, forestry products comprise mainly charcoal, fuel wood, as well as some lesser products such as sawn timber, bamboo, and railroad ties. Because of the continued hostilities in the south where most of the tropical rain forests are located, not much expansion in logging and lumber processing has taken place. The marginal increases in output of this sector reflect mainly the shift by the general public to charcoal and wood to meet energy needs in the wake of recent upward adjustments of electricity tariffs.

3. Industrial and services sectors

Sudan's industrial sector, which accounts on average for about 17 percent of GDP, is divided into four main categories. Manufacturing is the most important, accounting for over one half of industry; its activities include processing of foodstuffs, beverages, consumer goods (textiles, cigarettes, shoes, and tires), and intermediate goods (cement and petroleum

products). Another 30 percent comes from construction of public buildings and private dwellings. Electricity and water account for less than 15 percent; mining and quarrying represent only a negligible proportion of industrial activity.

Following a 15 percent rise in 1992/93, output of the industrial sector stagnated in 1993/94, as the large decline in activity of the manufacturing sector was offset by the increases in construction. The growth of construction doubled to 13 percent in 1993/94, owing to recent efforts at privatization of state-controlled enterprises and the subsequent upgrading of their facilities. In effect, the sale of many state enterprises was accompanied by stipulations that investors, mainly foreigners from within the region, provide fresh capital for the rehabilitation of these newly acquired entities. Also, the decentralization in 1993/94 gave impetus to increased construction activity, such as installation of new wells and public buildings, in the recently expanded number of provinces.

Manufacturing activity weakened sharply, registering a decline of 7 percent in 1993/94. This outcome was due to low capacity utilization of factories related to shortages of foreign exchange and spare parts for the processing of intermediate goods, inadequate supply of water and electricity, and deficiencies in the road transportation network. The decline was most evident in processed foodstuffs, particularly flour, sugar, and vegetable oils, but some modest gains were registered in the production of cigarettes, textiles, shoes, and cement (Statistical Appendix Table 19). Output of the mining and quarrying subsectors, which accounts for only a small portion of the industrial sector activity, showed virtually no change in 1993/94.

The services sector comprises government and other services, which include transport and communications, commerce and hotels, finance and real estate, and personal services. Output of the services sector, which accounts for roughly one half of GDP, rose by almost 5 percent and contributed 2 percent of the value added in 1993/94. Most of the increase derived from commerce and transport, which rose in line with the increases in agricultural and manufacturing output.

4. Petroleum

Petroleum reserves that are estimated at 250-300 million barrels (equivalent to roughly 17 years of consumption at current levels) had been discovered by the Chevron Corporation in the southeastern part of the country, but development and further exploration activity was interrupted after 1984 because of the continuing conflict in the south. More recently, however, a Canadian entity (the Arakis Energy Corporation) has resumed exploration activity and has located some 54 oil wells in the southwest area of the country. Thus far, the drilling of 5 new oil wells has yielded a combined output of 15,300 barrels per day (bpd), and an additional 10 wells are expected to be in operation by 1995/96. By that time, it is estimated that the combined yield from these fields will reach 65,000 bpd in the initial stages, which should partly alleviate the severe domestic shortages

of fuel and raise capacity utilization at the national refinery. 1/ The Arakis Corporation is also taking the lead in preparing the construction of a 1,500 km pipeline from these oil fields to Port Sudan on the Red Sea coast. Construction of the pipeline, which is expected to be undertaken by international contractors from Canada, Europe, and the Far East, should take approximately 12-15 months at an estimated cost of about US\$300 million.

At present, Sudan's only refining facility with a capacity of over 20,000 bpd is located in Port Sudan. However, the refinery has been operating at less than 20,000 bpd, which satisfies only about one fifth of Sudan's energy needs. 2/ Consumption of petroleum, which averages roughly 1.5-2.0 million tons a year, varies widely depending on the availability of foreign exchange and the willingness of suppliers to provide credit. Most of the demand is met through imports of crude oil and refined petroleum products, given the limited capacity of the Port Sudan refinery. In 1993/94, imports of crude oil and petroleum products (gasoline, gasoil, diesel, aviation gas, LPG) amounted to 1 million tons, and almost 500,000 tons, respectively.

5. Prices, employment, and wages 3/

The year-average rate of inflation, as measured by the "medium income" consumer price index (CPI), accelerated from 103 percent in 1992/93 to 119 percent in 1993/94 (Table 3). The recent privatization of many state enterprises and the associated liberalization of their previously controlled prices in conjunction with expansionary fiscal and monetary policies in 1992/93, had the initial effect of raising the 12-month rate of inflation to a peak of 143 percent in May 1994. However, data through October 1994 indicated that this rate slowed to about 108 percent, mainly as a result of the tight fiscal program and the restrained monetary and credit policies.

1/ At this operating level, local production could satisfy all of current domestic consumption of petroleum products, assuming that all of the crude oil could be refined locally. However, given the limited refining capacity in Sudan, most of the expected crude oil production will probably be exported and refined abroad.

2/ The remaining four fifths of energy needs are satisfied by hydroelectric power and biomass fuels (wood burning, charcoal, agricultural wastes). Installed public electric power capacity is about 530 megawatts (mw), of which 240 mw comes from hydropower from the Roseires and Sennar dams. The balance comes from thermal sources.

3/ The official price indices cover only the greater Khartoum area and may not provide an adequate measure of overall price developments in Sudan. See Appendix IV of the accompanying Staff Report (EBS/94/245, 12/20/94).

Table 3. Sudan: Consumer Price Index, 1989/90–October 1994 ^{1/}

(Index, 1990 = 100)

	Index ^{2/}	12–Month Percentage Change	Monthly Percentage Change
1989/90	102	53	...
1990/91	216	112	...
1991/92	452	110	...
1992/93	918	103	...
1993/94	2,015	119	...
1992/93			
July	707	111	11.2
August	725	109	2.6
September	742	117	2.3
October	762	125	2.7
November	819	140	7.5
December	863	150	5.4
January	906	105	5.0
February	965	88	6.4
March	1,015	82	5.2
April	1,106	82	8.9
May	1,119	83	1.1
June	1,291	103	15.4
1993/94			
July	1,349	91	4.5
August	1,513	109	12.2
September	1,590	114	5.1
October	1,573	106	–1.1
November	1,772	116	12.6
December	1,888	119	6.5
January	2,132	135	12.9
February	2,050	113	–3.8
March	2,298	126	12.1
April	2,482	125	8.0
May	2,720	143	9.6
June	2,815	118	3.5
1994/95			
July	3,083	129	9.5
August	3,247	115	5.3
September	3,383	113	4.2
October	3,275	108	–3.2

Sources: Statistics Department of the Ministry of Finance; and Statistical Appendix Table 20.

^{1/} Middle income index covering greater Khartoum area.

^{2/} For 1989/90–1994/95, the annual data shown are period averages.

Other factors that contributed to the recent decline were the healthy growth of output, particularly foodstuffs, which constitute a large component of the CPI. 1/

The acceleration of the inflation rate in 1993/94 reflected the initial impact of the liberalization of price controls on consumer goods. In 1992/93 prices of essential commodities were suppressed through the actions of unofficial but government-sanctioned price watch committees; prices were also kept artificially low through the overvalued exchange rate. Following broad liberalization measures in 1993/94, price controls for most of the consumer goods have been liberalized, except bread and sugar, which continue to be viewed as strategic commodities and therefore remain government monopolies. In the case of bread, low-income families are issued subsidy or ration cards that entitle the bearer to purchase a specified amount of bread per month at the subsidized price of LSd 10 per loaf. Bread needs above the specified amount must be purchased at the free market price, which is almost double the subsidized price. The same principle applies to purchases of sugar, allowing lower-income families to buy specified amounts at subsidized prices. However, despite the subsidies, bread and sugar continue to be profitable and contribute net revenues to the budget. Prices for public utilities and for petroleum products have been raised periodically to reflect free market prices (see public finance chapter).

With respect to the system of procurement prices, many state-controlled agricultural enterprises were privatized in July 1993. In effect, majority ownership of most production and marketing corporations dealing with noncotton agricultural commodities have been transferred to private entities, except for the government sugar refining companies and the Gum Arabic Company. As a result, the procurement prices for these agricultural commodities essentially reflect those prevailing in the free market and are determined by periodic auctions held at regular intervals throughout the country. 2/

1/ Due to apparent seasonality factors, the second quarter of the fiscal year (October-December) usually demonstrates a deceleration in the rate of price increases, mainly because these months coincide with the harvest of crops and reflect ample supplies in the market. By contrast, the inflation rate tends to accelerate during the last quarter (April-June), as a large volume of credit is needed for the preparation of land for the planting season and for the purchase of essential inputs. Moreover, many foodstuffs are scarce during this period.

2/ In the case of cotton, producer prices are calculated as the f.o.b. export price less 15 percent (i.e., 1 percent commission for the Sudan Cotton Co., 0.5 percent "quay" marketing dues) and 10 percent for the exporter) is equivalent to the "ex-store" price, which is then converted to local currency at the prevailing exchange rate. The ex-store price less 4 percent (i.e., 2 percent each for the storage fees and for the Reserve Fund) equals the procurement price (Appendix Table 16).

There are no firm data on employment and wage developments. Employment estimates have varied widely, but the total labor force is placed at roughly seven million, including those migratory and unskilled laborers in the private sector. Of the estimated 650,000 in public or government service, about one third are employed by public enterprises. Regarding wages and salaries, there has been an erosion of real wages, given the sharp depreciations in the exchange rate and the absence of salary adjustments in the recent past. The salary scales in the civil service are broadly comparable to those in the public corporations, except that the latter provide additional compensation by way of special allowances such as for transportation and housing, bonuses, and overtime. Generally, wages of the private sector are about twice those prevailing in the public sector for comparable responsibilities.

6. Privatization

Since the ratification of the Privatization of State Corporations Act in August 1992, the Government has pursued an active policy of divestiture of public corporations. The Act envisaged the sale of 190 public corporations (about 80 percent of all state corporations, including individual enterprises within holding companies) to the general public. As of the end of 1993/94, 25 public corporations active in the sectors of industry, hotels and tourism, agriculture, banks, telecommunications, and energy had already been sold. Most notable was the sale in February 1994 of the Public Telecommunications Corporation. More recently, in October 1994, the Khartoum Tannery was purchased by a group of private investors from the region, while the Sudan Cotton Company was sold to the (privately owned) Farmers Bank. Another 18 corporations remain in the active pipeline for privatization, of which eight were in the process of being sold as of October 1994.

Under Sudan's current guidelines, privatization is deemed to be achieved when the ownership of more than 50 percent of the shares of an enterprise is transferred to entities other than the Government or parastatal bodies, and when the private sector owners are in a position to determine company policy. Thus far, virtually all privatizations have been effected through the sale of 100 percent of the assets of the enterprise to a single investor or group. The only three exceptions were a tannery, a hotel, and a weaving plant, where the sales were made possible by debt-equity swaps with a foreign conglomerate (Daewoo of South Korea).

The move to privatization of most state agricultural corporations has also had a profound impact on production, particularly in the irrigated and mechanized sectors. Until recently, most irrigated schemes covering cotton, sorghum, wheat, and groundnuts were managed entirely by the respective public corporations. These state entities determined cropping patterns, provided basic services (e.g., land preparation, spraying of insecticides, water, infrastructure maintenance) and inputs (machinery, seeds, fertilizer), and extended credit financing at various stages of production. The tenant farmer provided labor for cultivation and harvesting. The

harvested crops were sold to the agricultural corporations at preannounced procurement prices, which took account of the land and water charges to be paid to the Ministry of Irrigation (Statistical Appendix Table 15). 1/

However, since 1992/93 most of the public agricultural corporations governing the irrigated schemes have been privatized, essentially passing management and control to the tenant farmers. For example, the majority of the shares of the Cotton Marketing Corporation and the Oilseeds Corporation were sold to the farmers in July 1993; the decisions regarding cropping patterns and production were henceforth determined jointly by national committees composed of farmers as well as representatives of the Government. As regards crop financing, the Sudanese Commercial Bank--the public entity responsible for extending credit financing--was also privatized and renamed Farmers Bank. The previous system of predetermined producer prices was replaced by a new pricing system that reflected free market prices based on prevailing realized export prices less commissions. As a result, actual procurement prices for cotton rose sevenfold to about LSd 30-42,000 per kantar in 1993/94, compared with only LSd 4,000-6,000 per kantar in 1992/93 2/ (Statistical Appendix Table 16). The same pricing structure was adopted for the other major agricultural commodities, which are now determined at periodic auctions held at various intervals throughout the country. In the cases of gum arabic and wheat, procurement prices in 1993/94 rose by over sixfold and threefold, respectively, as a result of the liberalization of procurement prices.

III. Public Finance

1. Structure and institutional setting

The government sector in Sudan consists of the Central Government and local (state) governments at the provincial and regional levels. Comprehensive and reliable information concerning the financial operations of the regional or provincial governments is not available. However, in recent years the role of local authorities has expanded considerably to include a significant portion of total government expenditure in community and social services. The local authorities do not have access to bank borrowing; they depend on their own sources of revenue and on annual transfers from the central government budget.

The tax base of most state governments consists of a disparate collection of agricultural taxes (90 percent of tax revenue), trading licenses, and revenue from government investments. The budgeted transfers

1/ For a more detailed description of the previous structure of public irrigated schemes, see SM/92/120, 7/20/92.

2/ A kantar of seed cotton weighs about 315 pounds, and yields about 106 pounds of lint for long-staple cotton, 95 pounds for the Shambat "B" variety, and about 116 pounds for medium-staple cotton.

to regions more than doubled in the central government budget for 1994/95. This reflects mainly the establishment in early 1994 of 16 new regional governments (raising the total number of states to 26) with wider administrative and financial responsibilities.

The rest of the public sector consists of the nonfinancial public enterprises which play a major role in the economy despite recent efforts to privatize these entities. Although the net results of regional governments and public enterprises' operations are estimated on the basis of the transfers received from the Central Government and their borrowing from the banking system, respectively, their operations could not be consolidated with those of the Central Government due to the lack of detailed financial data. ^{1/}

2. Overview (1981/82-1991/92)

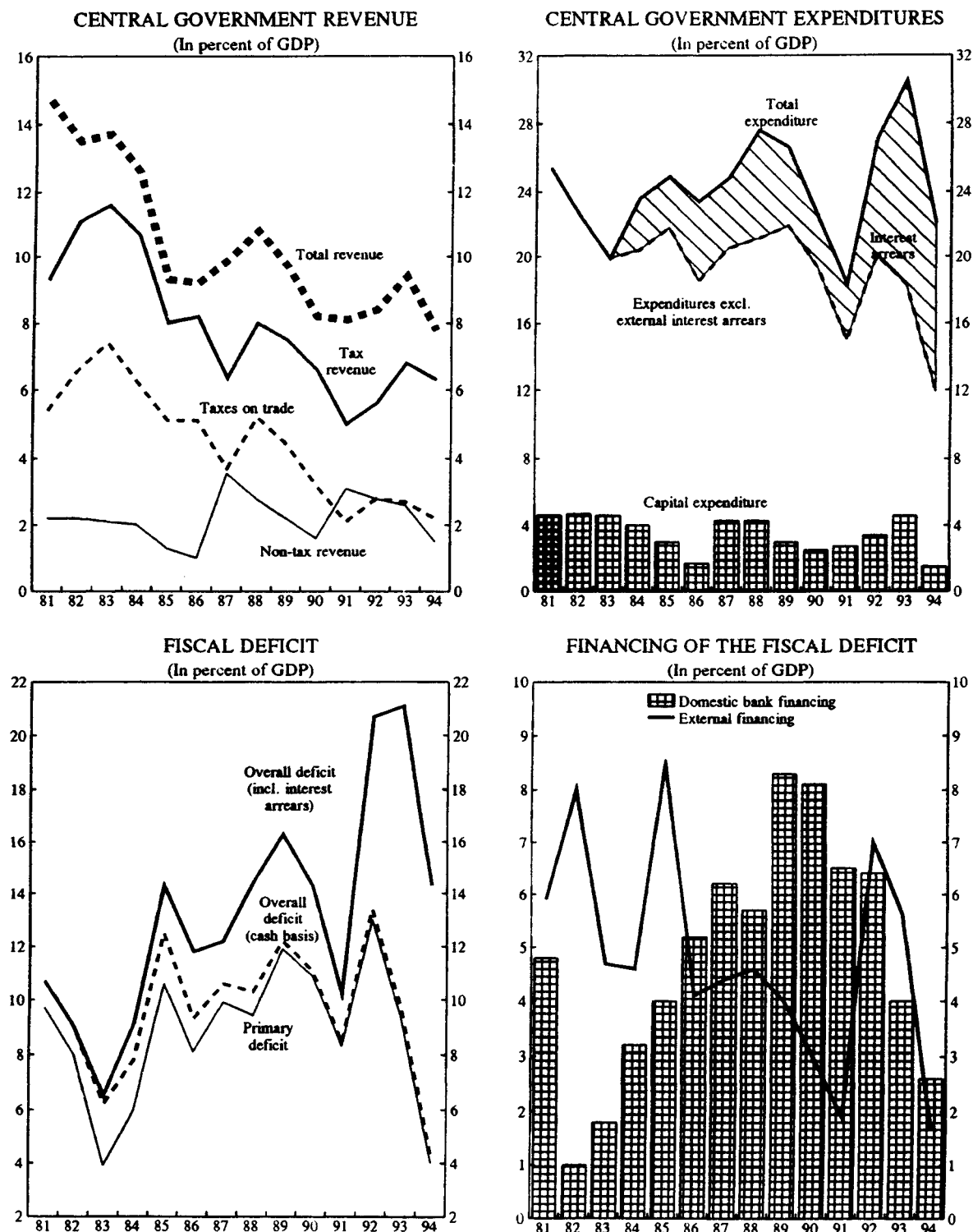
The operations of the Central Government have deteriorated sharply during the 1980s and early 1990s. This process continued through 1991/92 when the overall deficit on an accrual basis peaked at 21 percent of GDP (13 percent of GDP on a cash basis). In recent years, the primary deficit converged to the overall deficit on a cash basis as interest paid on external debt represented only a small fraction of external interest falling due (Chart 2).

Underlying this development was a steady drop in central government revenue. Revenues as a share of GDP averaged about 9 percent since 1984/85, as compared with 15 percent in 1981/82. The major reasons for the poor revenue performance were: (i) a narrowly-based tax structure; (ii) erosion of tax revenue through inflation; (iii) poor tax administration; and (iv) poor performance of the parastatal sector. The high inflation was associated with low buoyancy in the revenue system during this period, because adjustments in controlled prices were limited and delayed. Moreover, the overvalued exchange rate constrained the growth of trade-related taxes.

Total expenditure (excluding interest arrears) fluctuated between 12 percent and 18 percent of GDP. Although this level is not excessively high when compared to other Sub-Saharan countries, it has been maintained in the face of declining domestic revenues and mounting deficits (Chart 2).

^{1/} The analysis of central government operations is hampered by several statistical problems relating to recording, coverage, classification, and timing. It is not clear whether all military transactions are comprehensively and transparently recorded. There is also a need to reconcile data on the domestic bank financing shown by the Ministry of Finance with the information in the monetary accounts as reported by the Bank of Sudan, as well as information on foreign financing operations with the balance of payments data.

CHART 2
SUDAN
FISCAL INDICATORS, 1981 - 94
(Fiscal Years Ending in June)



Sources: Staff estimates based on information provided by the Sudanese authorities.

The fall in the revenue-to-GDP ratio was only partially offset by cuts in public investment (from 4.5 percent of GDP in 1982/83 to 2.5 percent in 1989/90, and to 1.5 percent in 1993/94). The Government has attempted to control expenditures in successive stages, but these efforts have been largely ineffective due to the emergence of large extra-budgetary expenditures and underlying weaknesses in the planning, budgeting, control, and monitoring systems.

The peak in budgetary deficits during this period also reflects the pattern of expenditures, which (on an accrual basis) rose from 10 percent of GDP in 1982/83 to 21 percent in 1991/92. The cash deficit moved in tandem with the deficit on an accrual basis, climbing to 13.4 percent of GDP in 1991/92. The unification of the exchange rate in February 1992 at LSd 90 per U.S. dollar (compared to the previous official rate of LSd 15 per U.S. dollar) increased sharply foreign exchange-denominated expenditures. This more than offset the measures that were introduced to reduce current and development expenditures. Extrabudgetary expenditures (including unidentified outlays) became increasingly prominent, and in 1991/92 were equivalent to 2 percent of GDP. The ratio of interest arrears to GDP fluctuated between 2 percent and 8 percent depending partly on movements in the official exchange rate.

Foreign financing (excluding financing associated with interest arrears) declined steadily from more than 85 percent of the overall deficit in 1982/83 to less than 45 percent in 1991/92. As a result there was a rapid increase in domestic bank credit to the Central Government to 77 percent of broad money stock in 1991/92, as compared to 5 percent in 1982/83.

A series of budgetary adjustments were introduced in 1991/92. The defense surcharge on imports and the sales tax were doubled to 20 percent and 10 percent, respectively, while taxes on cigarettes were also increased. A temporary export tax was imposed to capture the windfall gains from the exchange rate change. The establishment of a unified exchange rate and price liberalization ended the former system of implicit subsidies, thereby introducing greater transparency into budgetary policies.

3. Revenues

Revenues as a share of GDP have generally stabilized in the past five years at about 8 percent, after declining from levels twice as high a decade earlier. ^{1/} The buoyancy of the tax system as a whole, which measures the response of total tax revenue (including discretionary tax measures) to changes in GDP has been low, averaging about 0.65. The share of tax receipts in total revenues fluctuated over the period, averaging about 75 percent of total budgetary inflows.

^{1/} For details on the present tax system and performance over the 1982/83-1993/94 period, see Appendix I of this report.

Revenue from the personal income tax has declined continuously from 0.3 percent of GDP in 1989/90 to 0.1 percent in 1993/94. The acceleration of inflationary pressures during the period has adversely affected these receipts, due to the policy of collecting these taxes in the year after the income is earned. Moreover, in the absence of final accounts, initial determinations of tax liabilities are arbitrarily assessed by the Tax Department, leading to frequent appeals that often take years to settle in court, and further eroding the real value of these receipts. Taxpayers have no incentive to speed the process, since the penalty rate of 1 percent a month on overdue obligations is highly negative in real terms.

In contrast, business profit taxes have recently become an increasingly important source of revenue, reaching almost 30 percent of all taxes collected, and about 2 percent of GDP in 1993/94, or more than twice the ratio in 1989/90 (Statistical Appendix Table 7). This improvement is due largely to the tightening of tax brackets in real terms and efforts by the tax administration to improve compliance. However, the long lag (6-12 months) in the collection of business profits tax, in the face of high rates of inflation, has eroded the tax base. Furthermore, the present system of assessment of business taxes has continued to contribute to the buildup of tax arrears; as in case of personal taxes, business taxes are also assessed arbitrarily by the Tax Department in the absence of final accounts, and frequent appeals by taxpayers can take years to settle in court.

Collections from taxes on goods and services have fluctuated between 1 percent and 2 percent of GDP in the period under review. The low level of domestic manufacturing activity has been a major factor inhibiting the growth of these tax revenues, and receipts of ad valorem consumption taxes also have been sluggish because of wide ranging price and profit controls through 1991/92. Recently, greater price flexibility has substantially improved revenue collections.

Taxes on foreign trade declined steadily from a high of 5 percent of GDP in 1987/88 to 2 percent in 1993/94. This was mainly due to: (i) a widening in the spread between the exchange rate used for customs valuation purposes and market exchange rates; and (ii) the continuing shift in import composition toward necessities that bear low duties. Temporary expedients, such as the assignment of higher-than-invoiced values to imports to counter widespread under invoicing, had little effect in stemming this erosion. The import duty rates are ad valorem, with a standard 25 percent rate applicable to more than half of the items (Statistical Appendix Table 9).

Nontax receipts contributed on average about 25 percent of total revenues over the period, or more than 2 percent of GDP. Their contribution has generally followed the trend in commodity price differentials, which declined to nearly zero in 1989/90, before rebounding to more than 1 percent of GDP the next year, following sugar price increases. The contribution of fees and charges has been maintained in real terms by frequent adjustments in their rates, which are mainly specific. The collection of land and water charges has recently improved, but collection rates remain low and impede

further revenue growth in this area. The contribution of public enterprises, from both profit transfers and the sale of capital, remains small in relation to government investment; recently, efforts have focused on improving this performance.

4. Expenditures

Over the five years to 1993/94, total expenditure including interest arrears fluctuated between 18 percent and 31 percent of GDP. These movements were strongly influenced by exchange rate policy during this period, as about half of all government outlays are directly or indirectly denominated in foreign exchange. The foreign currency-denominated expenditures encompass interest payments on foreign debt, imports of food and petroleum and other goods and services, and the foreign component of development expenditure. Prior to February 1992, the increasingly overvalued official exchange rate resulted in a steady decline in the domestic valuation of foreign currency-denominated government transactions. In contrast, budgetary costs increased sharply after the February 1992 depreciation of the exchange rate. Interest falling due on foreign debt accounted for 41 percent of total expenditure in 1992/93, very little of which was actually paid but was instead financed through a further accumulation of arrears.

The structure of expenditure shows that the bulk of outlays during the last five years was current expenditure (averaging 65 percent of total expenditure excluding interest arrears), with development expenditure and net lending accounting for 24 percent, and extrabudgetary expenditures accounting for the balance (Statistical Appendix Table 22). However, in the absence of an economic classification of expenditures, it is difficult to provide a meaningful analysis of government outlays. A reliable estimate of the wage and salary share in total expenditures are not available, as these are dispersed under several other categories, including defense, transfers to regions, and national centralized obligations. Outlays for goods and services comprised about one third of all current budgetary expenditures until 1991/92, when their share is estimated to have declined by half as purchases of imported goods were tightly restrained to pursue overall budgetary expenditure control. Transfers have constituted about 25 percent of current expenditures over the last five years, with federal spending declining in relation to institutional expenditures. The latter comprise a wide range of activities, including unspecified services, pensions, contributions to international organizations and payments for overseas officials, cost of living salary increments, and social funds. Defense expenditure analysis is complicated by a lack of transparency in the account.

Development expenditure declined to less than 2 percent of GDP in 1990/91 before rebounding to an estimated 4 percent in 1991/92. Both local financing and project aid components of development expenditure registered similar declines, with the trends in project aid reflecting mainly valuation adjustments (discussed above), but also due partly to lower disbursements by several creditors. In recent years, the authorities have made efforts to

channel development spending into productive activities, so that the agriculture sector receives the largest allocation of funds (about one third), followed by energy and mining, transport, services, and industry.

5. Fiscal developments in 1992/93-1993/94

During 1992/93-1993/94, fiscal policy was significantly tighter than in previous years. The deficit on an accrual basis declined from 21 percent in 1991/92 to 14 percent in 1993/94, and on a cash basis from 13.4 percent to 4.3 percent (Table 4). This was achieved through substantial expenditure restraint, as spending (excluding foreign interest due) fell by close to 7 percentage points of GDP. This fall in the deficit resulted in a sharp drop in government recourse to the banking system.

a. Fiscal developments in 1992/93

The overall budget deficit on an accrual basis remained at about 21 percent of GDP, notwithstanding the 4 percentage point drop in the deficit on a cash basis. This outcome reflected the valuation of interest arrears at a more depreciated exchange rate. Despite significant gains, revenues were also slow to respond to the price liberalization that started in early 1992, and performance among the major revenue heads was mixed. Income tax collections benefited from increasing the withholding rate from 2 to 5 percent, and strengthening government control over disputed tax liabilities. In particular, taxes on international trade were slow to respond to the twentyfold increase in the valuation rate for customs duties, largely due to official policies limiting the pass-through of higher costs to consumers, but also because of delays in export proceeds that affected related tax receipts. Nontax revenues were sharply higher, as the Government realized over LSd 1 billion from the sale of public enterprises, and sugar emerged as a major revenue source (over 1 percent of GDP).

On the expenditure side, despite a rapid escalation in the domestic cost of imports (up sixfold since February 1992) and inflation exceeding 100 percent per annum, actual outlays were below original budget allocations in several areas. The subsidy situation shifted during the year, as prices were adjusted; initial petroleum surpluses resulted in large subsidies after unification of the exchange rate, but the subsidies were eliminated after the increase in gasoline prices. Extrabudgetary outlays continued to be large, although as part of the February 1992 budget reforms they were officially terminated and have subsequently diminished.

b. The 1993/94 budget and outcome

Estimated revenues in 1993/94 were at LSd 130 billion, about 17 percent lower than envisaged in the budget. This was due mainly to lower collections of direct taxes on business profits and a shortfall in receipts from import duties, both of which were adversely affected by the compression of imports associated with the chronic lack of foreign exchange. In terms of GDP, revenues amounted to about 7.8 percent: direct taxes 2.0 percent, taxes on goods and services 1.7 percent, taxes on international trade 2.2 percent, other taxes 0.5 percent, and nontax revenues 1.5 percent.

Table 4. Sudan: Summary Operations of the Central Government, 1989/90-1994/95

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94	Modified Budget 1/ 1994/95
(In billions of Sudanese pounds)						
Total Revenue	8.3	15.4	34.0	78.2	130.8	271.4
Tax revenue	6.7	9.6	22.7	56.6	105.6	193.8
Taxes on income and profits	1.4	2.4	5.7	20.7	37.9	74.0
Taxes on goods and services	1.9	3.0	4.8	12.3	28.5	37.0
Taxes on international trade	3.3	4.0	11.5	22.6	36.9	76.0
Other	0.1	0.2	0.7	1.0	2.4	6.7
Nontax revenue	1.6	5.8	11.3	21.6	25.2	77.6
Of which: petroleum products	--	--	--	--	--	24.0
Total expenditure	22.8	34.8	118.4	260.1	369.3	752.4
Current expenditure	15.6	23.9	89.2	195.1	321.9	644.0
Wages and salaries 2/	0.8	0.9	1.6	3.3	32.7	48.9
Goods and services 2/	5.1	8.4	14.3	29.2	65.5	96.5
Of which: defense	--	5.3	9.5	17.8	41.1	58.8
Transfers	6.2	8.9	30.1	38.2	30.9	75.2
Accrued interest	3.5	3.6	31.3	105.6	172.3	398.9
Other	--	2.0	11.9	18.8	20.5	24.4
Extrabudgetary	4.0	4.0	7.9	11.9	18.6	0.0
Capital expenditure and net lending	3.2	6.9	21.3	53.1	28.8	108.4
Of which: locally financed	1.2	1.6	3.6	12.6	7.4	55.8
Overall deficit (on an accrual basis)	-14.5	-19.4	-84.4	-181.9	-238.5	-481.0
Interest arrears	3.3	3.5	29.9	102.6	167.4	364.9
Overall deficit (on a cash basis)	-11.3	-15.9	-54.5	-79.2	-71.2	-116.1
Financing	11.3	15.9	54.5	79.2	71.2	116.1
External	2.8	6.6	20.8	41.6	25.0	50.8
Domestic bank borrowing (net) 3/	7.2	9.2	31.7	29.6	53.2	65.2
Exceptional domestic borrowing	--	--	2.0	8.0	-7.0	--
(As percent of GDP)						
Total revenue	8.1	8.1	8.4	9.4	7.8	9.0
Total expenditure	22.5	18.3	29.1	30.5	22.1	24.8
Overall deficit (on an accrual basis)	-14.3	-10.2	-20.7	-21.5	-14.3	-15.9
Overall deficit (on a cash basis)	-11.1	-8.4	-13.4	-9.6	-4.3	-3.8
Primary deficit	-10.9	-8.3	-13.0	-9.2	-4.0	-2.7
(As percent of money stock in beginning of period)						
Net domestic borrowing 4/	42.5	35.1	77.5	39.5	27.6	20.6

Source: Ministry of Finance; and Bank of Sudan.

1/ As approved by the National Assembly and adjusted for revised assumptions on exchange rate and interest payments.

2/ There is discontinuity in these series starting with 1993/94, due to a reclassification of the budget involving, inter alia, movement of the contingency reserve for wage adjustments from the Transfers category to Wages and Salaries category.

3/ As reported in the monetary survey by the Bank of Sudan.

4/ Includes exceptional domestic financing.

Total expenditures excluding interest arrears (LSd 197 billion) were 20 percent lower than envisaged in the budget. This was achieved mainly by a huge cut in development expenditures by 50 percent from their already low budgeted level of LSd 71 billion, in large part due to the revenue shortfalls and to the continued lack of external financing. The fall in development expenditure was offset in part by unforeseen extrabudgetary expenditures (LSd 19 billion).

Net domestic bank borrowing, including the financing of quasi-fiscal expenditures, amounted to LSd 46.2 billion in 1993/94, equivalent to 28 percent of broad money at the beginning of the fiscal year. This compares with a limit of LSd 36 billion in the budget, and actual levels of 40 percent and 78 percent of beginning money stock in the preceding two years.

The overall fiscal deficit amounted to 4.3 percent of GDP on a cash basis (compared with 10 percent and 13 percent in the preceding two years), and 14 percent on an accrual basis, down from 21 percent in the previous two years. Net government borrowing from the banking system, including financing of quasi-fiscal expenditures, amounted to LSd 46.2 billion (27.6 percent of beginning money stock), compared with a limit of LSd 36 billion in the budget, and actual levels of 40 and 78 percent, respectively, in the preceding two years.

6. The 1994/95 budget

The 1994/95 budget, as approved by the National Assembly, but updated for revised projections of the exchange rate and interest payments, was formulated in the context of the Government's stabilization program and called for limiting net borrowing from the banking system to LSd 65 billion, equivalent to 2.2 percent of GDP.

In nominal terms, total revenue was expected to more than double, to LSd 271 billion, against nominal GDP growth projected at 82 percent. ^{1/} Tax revenue was budgeted to increase slightly faster than nominal GDP. As a result, the ratio of fiscal revenue to GDP was projected to rise to 9 percent, from 7.8 percent in 1993/94. In addition to the increase in the tax base resulting from a more depreciated exchange rate and higher nominal income, the authorities relied on tighter enforcement efforts and incentive schemes for tax collection by provincial governments that would also boost central government receipts through revenue sharing. Nontax revenue was programmed to triple in nominal terms, reflecting price increases for sugar and petroleum products (now a major nontax revenue source) and higher fees and charges on public services.

^{1/} The budget envisages a reduction in the 12-month rate of inflation to 55 percent by June 1995, which implies an increase in the average price level of about 82 percent during 1994/95.

Total budgeted expenditure, excluding interest arrears, was expected to increase by 92 percent from 1993/94. Sharp increases were foreseen for development spending (from 1.5 percent to 3.6 percent of GDP) and foreign interest payments (from US\$23 million to US\$78 million). In contrast, increases in wages and salaries and in defense expenditure (both 57 percent) would be less than the expected rate of inflation, and no extra-budgetary expenditures were envisaged to take place. The budgeted allocation for "wages and salaries" continues to be a minor part of the wage bill, with a large component (LSd 15 billion) contained as a lump sum allocation under "National Centralized Obligations." Other significant components under the Centralized Obligations expenditure heading are allocations of LSd 20 billion for contingencies and LSd 14 billion for unspecified purposes. Subsidies for the generation of electricity are estimated at LSd 14.5 billion for 1994/95, since the current tariffs charged by the National Electricity Corporation cover about 70 percent of its cost. Over-recovery from the sale of gasoline more than offset by a large amount the under-recovery in heavy fuel oil, resulting in an overall net contribution of LSd 24 billion to the budget.

During July-November 1994, the Government revised its fiscal program following the implementation of several measures to raise additional revenues and cut expenditures. The measures could reduce the net domestic borrowing by the Government in 1994/95 to LSd 20 billion (6 percent of broad money at end-June 1994). On the revenue side, the principal measures comprise: (i) quarterly increases in the price of petroleum products and in the exchange rate used for customs duty valuation; (ii) increases in various tax rates; and (iii) higher import duty collection resulting from higher rates on selected items and lifting of the ban on imports of passenger cars. The combined impact of revenue measures is estimated at LSd 27 billion. On the expenditure side, current outlays have been reduced by LSd 5 billion and capital expenditure by LSd 13 billion. Despite this reduction, capital outlays are still expected to increase by more than 50 percent in real terms from last year's severely depressed level.

IV. Money and Credit

1. Banking structure and functions

The banking system in Sudan consists of the central bank (Bank of Sudan), 27 commercial banks, and several specialized banks. Two of the largest commercial banks, the Bank of Khartoum and El Nilein Bank, are government-owned; most of the rest are private, but with mixed ownership in a few cases. There are also a few foreign commercial banks, both in the form of joint ventures and operating as local branches. Among the specialized credit institutions are the Agricultural Bank of Sudan--by far the largest specialized bank--the Estates Bank, Savings Bank, and the Post Office Savings Bank.

a. Bank of Sudan

Sudan's central bank, created by the 1959 Banking Act, has responsibility for the country's monetary policy and foreign reserve management. The Bank of Sudan also supervises the country's depository institutions. Its powers in this area were greatly enhanced by the Banking Regulation Act of 1991. Traditionally, the central bank established guidelines for rates of return and charge, but in early 1992, the banks were given autonomy to set these rates in some areas.

The central bank is virtually the sole source of credit to the Central Government, and it has assumed responsibility for some government obligations over the years. It likewise accepts deposits from the central and local governments and has extended credit to a number of other public authorities. The Government does not pay any interest on its debts, in whatever form, to the central bank. For most of the 1980s, the Bank of Sudan was the principal source of credit for Sudan's parastatal enterprises. From September 1990, these activities were suspended, as efforts intensified to make the public enterprises self-sufficient. Under present government policy, the public enterprises are required to recover their operating costs in full and to obtain their credit needs from the commercial banks. As a result, the central bank's net claims on the public enterprises stabilized at about LSd 2.3 billion during 1992/93 and have changed little since then.

The Bank of Sudan has supervisory responsibility for the commercial banks. The basis for this authority was first codified in the 1991 Banking Regulation Act. Among other provisions, the Act: (i) requires commercial banks to obtain licenses from the Bank of Sudan; (ii) provides for revocation of licenses; (iii) requires prior approval in order for banks to establish or close branches; and (iv) gives the Bank of Sudan authority to set capital and reserve requirements. In addition, the Act puts mergers, profit margins, maintenance of liquid assets, and other aspects of banking activity under Bank of Sudan supervision; provides for monthly reports to, and inspections and/or audits by, the Bank of Sudan; and establishes penalties for breaches of regulations.

b. Commercial banks and Islamization of banking activities

The 27 commercial banks operating in Sudan accept deposits from and extend credit primarily to the private sector and also, to some extent, to local governments and public enterprises. 1/ Sudan adopted Islamic banking in September 1984 and has operated on these norms in subsequent years. Under Sharia principles, the charging of "interest" on financial transactions is prohibited (i.e., fixed ex ante rates of return

1/ A list of Sudan's commercial banks and their balance sheet sizes is found in Statistical Appendix Table 28.

are not permissible). Borrowing and lending operations are conducted under various purchase/sale or profit sharing arrangements; thus, rates of return are determined ex post. 1/

Several types of Islamic lending are employed in Sudan. For instance, under Musharaka, the most common, banks and their clients both take equity participation in projects and share in the returns. Typically, bank representatives manage the project and also charge a fee for this service. Net remaining profits and losses are shared in the agreed proportions. Murabaha is a form of "markup" finance in which the bank purchases goods or inputs, reselling them to the end user at a markup. A schedule of nominal, minimum Murabaha rates of return is promulgated by the Bank of Sudan for use by the commercial banks. 2/ Finally, Salam is a form frequently used for agricultural production. In this form, the lender takes the return in kind (i.e., takes ownership of the crop), based on agreement with the borrower about the expected price of the harvest. 3/

Beginning April 1989, the Bank of Sudan has from time to time issued circulars setting, and changing, nominal rates of return on Murabaha and Musharaka lending (Statistical Appendix Table 27). Under present rules, different Murabaha rates--ranging from 25 percent to 48 percent--are applicable for lending to various economic sectors. The lowest rates are for priority activities such as agriculture and exports, and the highest apply to local trade, which the authorities regard as unproductive. Musharaka lending is no longer subject to rate of return guidelines, and returns payable to depositors are at the banks' discretion.

Given recent high rates of inflation--a 100 percent or more--nominal Murabaha rates are significantly negative in real terms. However, lending practices of the banks generate effective rates (in the range of 60-80 percent) that are much higher than these nominal values. While even these returns may not be positive in real terms, the spread between banks' lending returns and borrowing costs is quite wide. Banks pay no returns on their current accounts (the largest part of their liabilities) and annualized returns to investment account holders have been about 30 percent during 1993 and 1994. In lending operations generally, the Bank of Sudan has granted the commercial banks more autonomy in recent years, in conjunction with other reforms. For instance, credit allocation guidelines (discussed below) have been relaxed and are not rigidly enforced.

1/ For a detailed description of Islamic banking, as practiced in Sudan, see Appendix II.

2/ Lending practices in Murabaha generally involve up-front discounts, advance payments, and sometimes instalment payments of the amount owed, so that effective rates of return can be twice or more the "nominal" rates.

3/ Rates of financial return on Salam seem to be lower than on Murabaha but they are reportedly enhanced by additional profits the bank--and its affiliates--can make on trading and exporting the products they acquire.

c. Specialized credit institutions

The largest specialized credit institution in Sudan is the government-owned Agricultural Bank of Sudan (ABS), which is an important supplier of credit to the agricultural sector. The scale of ABS operations has grown rapidly in the last few years to a total asset size of more than LSd 30 billion. The bank's lending is mainly directed toward meeting working capital and marketing and storage requirements for the large schemes and private farmers; loan charges depend on the maturity and purpose of the loan. The ABS has an extensive branch network and has moved extensively into commercial banking activities. In the past the bank's resources came mainly from government sources, but in recent years the Bank of Sudan has increasingly authorized the ABS to take deposits from the public.

The Sudan Estates Bank specializes in housing finance, but its importance and scope have remained limited. The Post Office Savings Bank and the Sudan Savings Bank, which have not grown much in recent years, accept deposits and extend personal credit on a small scale. Until recently the Industrial Bank of Sudan counted among the specialized banks, but it was merged into the El Nilein Bank group in 1993.

2. Monetary and credit developments

a. Financial deepening and savings mobilization

There has been little scope for deepening the role of Sudan's financial system in mobilizing and allocating savings more efficiently, as rates of return on financial assets and charges on loans have been kept below inflation rates for more than a decade. In addition, the allocation of credit to various sectors of the economy is largely directed by the Government. The Government itself has drawn the largest share of its own credit from the Bank of Sudan to finance its persistent large deficits. Under such a policy environment, Sudan's financial system has become of marginal importance in the productive economy, even though its nominal size has risen.

The ratio of broad money (M2) to GDP has steadily declined in Sudan from a high of 31 percent in June 1985 to 15 percent in June 1994. ^{1/} This increase in broad money velocity reflects disintermediation and an associated deterioration in the ability of the financial system to attract savings. One obvious reason for this decline is the prevalence of negative interest rates on financial assets under present conditions of high inflation. Furthermore, the composition of broad money has changed markedly, with the share of foreign currency-denominated deposits rising from 2 percent in June 1982 to 32 percent in June 1994, while the share of time deposits denominated in local currency declining from 30 percent to

^{1/} The M2/GDP ratio has been observed to rise with economic development, and is about 60-65 percent in a large sample of developed economies.

9 percent during the same period. Since banks do not lend these foreign currency resources locally, the shift has further reduced the capacity of the financial system to channel savings to local private investors.

b. Developments through 1991/92

Money and credit developments in 1989/90-1991/92 were characterized by accelerating increases in the domestic assets of the banking system and in the money supply. Since Sudan's overall external deficits in these years were roughly matched by an accumulation of external payments arrears, most of the growth of money mirrored the increase in net domestic assets. In 1991/92, net domestic credit rose by LSd 40 billion, representing a 96 percent expansion in terms of the beginning money stock (Table 5); this represented a virtual doubling in the rate of the previous two years. Most of the increase was on account of the rise in Bank of Sudan credit to the Government (change of LSd 31 billion, or 76 percent of the beginning money stock).

Broad money rose by 128 percent in 1991/92, compared with less than 60 percent in each of the two previous years. More than a third of the growth was attributable to the revaluation effects of banks' foreign currency liabilities to residents (e.g., "free accounts"), as reflected in the more than fivefold increase in quasi monetary liabilities.

As a result of the sharp depreciation in the official exchange rate in early 1992, the net foreign position of the banking system deteriorated considerably. Net foreign liabilities rose from LSd 12 billion in 1990/91 to LSd 235 billion in 1991/92. All of this deterioration was in the central bank's accounts, since commercial banks traditionally maintain net positive foreign asset positions. Net external liabilities of the Bank of Sudan expanded to LSd 266 billion in 1991/92, from only LSd 14 billion in the previous year, and amount which was virtually identical to the counterpart of valuation changes on the assets side of the banking system accounts.

c. Developments in 1992/93-1993/94

Efforts to slow the growth of money and credit during 1992/93-1993/94 were only partly successful. During the first half of 1992/93 the implementation of the authorities' financial program was monitored by the Fund staff on an informal basis. Net credit extended to the Central Government was somewhat below the agreed limit; however, the expansion of private credit was faster than programmed. On balance, the 52 percent expansion of domestic credit (as percent of initial broad money) that year was about half the pace set in 1991/92.

In 1992/93 the rate of growth of credit extended (by the Bank of Sudan) to the Government continued to exceed that for credit directed to private sector activities (Table 5). Net lending to the Government contributed a little less than half (31 percentage points) of the impulse to monetary growth, while commercial bank credit to the private sector and state enterprises expanded by 21 percent of the initial broad money stock.

Table 5. Sudan: Monetary Survey and Factors Affecting Liquidity, 1989/90–1993/94

	1989/90	1990/91	1991/92	1992/93	1993/94
<u>(In billions of Sudanese pounds, end – period)</u>					
Net foreign assets	–10.6	–12.1	–235.4	–356.2	–517.8
Bank of Sudan	–12.4	–14.6	–266.3	–386.1	–600.6
Commercial banks	1.9	2.5	30.9	29.8	82.8
Domestic credit	28.7	41.7	81.7	131.3	213.7
Net claims on Central Government	19.3	28.6	60.3	89.9	143.1
Claims on public enterprises	4.8	4.8	6.4	9.8	10.7
Claims on private sector ^{1/}	4.5	8.4	15.0	31.6	59.9
Other items (net)	–0.1	3.7	–9.7	17.9	32.4
Counterpart to valuation changes	8.4	8.4	258.6	374.6	588.5
Money and quasi– money	26.3	41.7	95.2	167.5	316.8
Currency	10.8	13.4	27.9	63.5	111.7
Demand deposits	11.5	22.3	33.8	56.6	77.1
Savings and investment deposits in LSd	3.5	3.4	8.7	17.5	27.8
Deposits in foreign currency	0.6	2.6	24.8	30.0	100.1
<u>(Change from year earlier, in billions of Sudanese pounds)</u>					
Domestic credit ^{2/}	8.4	13.1	40.0	49.6	82.5
Net credit to the Government ^{2/}	7.2	9.2	31.7	29.6	53.2
Credit to nongovernment sectors ^{3/}	1.2	3.9	8.2	20.0	29.3
Money and quasi– money	9.4	15.4	53.5	72.2	149.3
<u>(Change from year earlier, as percent of beginning broad money)</u>					
Net foreign assets	–0.8	–5.8	–535.3	–126.9	–96.5
Domestic credit ^{2/}	49.3	49.7	95.8	52.1	49.2
Net credit to the Government ^{2/}	42.5	35.1	76.1	31.1	31.8
Claims on public enterprises	0.5	0.1	3.8	3.6	0.6
Claims on private sector ^{1/}	6.3	14.5	15.9	17.4	16.9
Other items, net	5.1	14.5	–32.1	29.0	8.6
Valuation counterpart	1.4	–	599.9	121.7	127.7
Money and quasi– money	55.0	58.2	128.3	75.9	89.1
<u>(In millions of U.S. dollars, unless otherwise indicated)</u>					
Memorandum items:					
Net foreign assets of Bank of Sudan	–2,762	–2,759	–2,717	–2,663	–2,781
Foreign currency deposits	190	256	255	209	326
Velocity of money ^{4/}	4.4	5.3	5.8	6.3	6.7
Deposits in foreign currency as percent of broad money	2.3	6.3	26.0	17.9	31.6

Source: Bank of Sudan.

^{1/} Includes claims on nonbank financial institutions.

^{2/} Excluding exceptional domestic financing.

^{3/} Private sector and public nonfinancial enterprises.

^{4/} Nominal GDP divided by the average of the stock of money and quasi– money during the period.

One of the main factors which contributed to this expansion was the authorities' emphasis on agriculture growth and food self-sufficiency, particularly in view of the fall in foreign assistance. This factor overshadowed concerns about the inflationary consequences of rapid credit expansion.

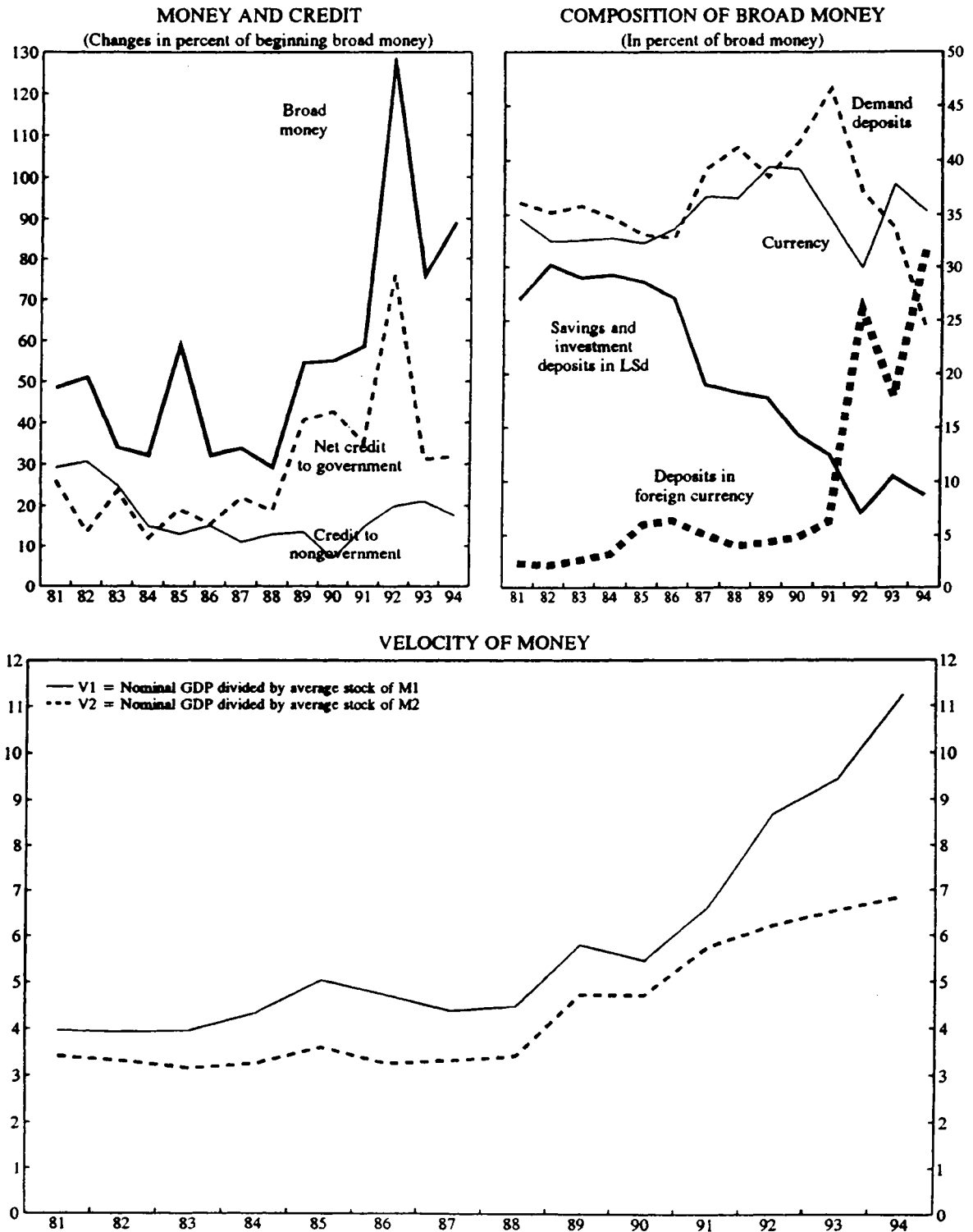
Monetary expansion in 1993/94 exceeded the amount envisaged by the authorities, notwithstanding steps taken to tighten policy. In the year through June 1994, bank credit to the private sector and state enterprises grew by 17 percent of the initial broad money stock. The growth of broad money accelerated from 76 percent in the previous year to 89 percent in 1993/94, with one third of the increase due to valuation gains on foreign currency-denominated deposits due to depreciation of the commercial bank exchange rate for the Sudanese pound. Reflecting this increased valuation and a shift out of local currency deposits, which do not yield returns that protect against inflation, the share of foreign currency deposits in broad money rose by 14 percentage points, to 32 percent (Chart 3). The rate of growth of domestic currency component of broad money continued to be significantly lower (57 percent).

The net foreign liabilities of the banking system changed little in dollar terms during 1993/94; in local currency terms they increased sharply. Commercial banks in Sudan typically have a small positive net foreign asset position (US\$265 million in June 1994), but this continued to be outweighed by the net liabilities of the Bank of Sudan (about US\$2.8 billion).

3. Credit controls and required reserves

The scope for an independent monetary policy in Sudan has been limited, as a principal role of the central bank has been to finance government deficits. To some extent, however, the authorities have endeavored to control and channel the liquidity resulting from credit extended to the private sector and public enterprises. Prior to June 1994 the Bank of Sudan imposed a variety of bank-specific credit ceilings and subceilings, and also minimum allocations of credit to certain activities, notably agriculture and exports. A typical configuration has been a system of ceilings on specific types of bank credit, with a minimum of 40 percent (at times, 50 percent) to be channeled to agricultural production and the balance available for industrial and trade lending. At times the authorities have also specified geographical criteria for credit extensions. For a number of years the authorities programmed credit allocations for the year as a whole. However, because of high inflation the ceiling sometimes turned out to be more restrictive than intended over the course of a year, and in 1992 the Bank of Sudan began to calculate ceilings on a quarterly basis, to stay more in line with evolving conditions.

CHART 3
SUDAN
MONETARY SECTOR INDICATORS, 1981 - 94
(Fiscal Years Ending in June)



Sources: Staff estimates based on information provided by the Sudanese authorities

In spite of these adjustments, evidence suggested that credit controls, which tended to be administered loosely, were not particularly effective. Contributing to this shortcoming was the fact that the commercial banks often were able to exceed their ceilings through overdrafts on their current accounts with the Bank of Sudan and through particular "excess" credit operations made in collaboration with the central bank itself. During 1993/94, therefore, the Bank of Sudan began to rely more heavily on indirect policy instruments, while enforcing its regulations more strictly.

The statutory reserve requirement was raised by 10 percentage points in November 1993 to 30 percent of demand and savings deposits denominated in domestic currency. 1/ Policy was further tightened in March-April 1994 as the Bank of Sudan moved to strictly enforce the reserve requirement and to monitor closely the use of overdrafts by commercial banks against free reserves. Oversight of banks' management of their holdings of central bank deposits was also tightened, in conjunction with other prudential and supervisory controls described below. Whereas the commercial banks previously had a "current" account with the central bank that held both their reserves and working balances, the Bank of Sudan has now segregated reserves into a separate account. It has also sharply tightened control over banks' overdrafts on their current (free reserve) accounts. In the early months of this new system the authorities levied penalties against a number of banks for overdrawing their balances. As a result, account management is now reported to have improved.

4. Prudential measures and oversights

Recently, the Bank of Sudan has taken steps to improve the prudential regulation of the country's banks. 2/ With regard to bank safety and soundness, in recent months a task force at the Bank of Sudan has worked out a set of guidelines that are generally consistent with the Basle standards for international bank supervision. These guidelines cover such diverse issues as capital adequacy, portfolio quality, loans and dealings with directors and insiders, disclosure, and a number of other areas. Although there is no indication that any significant Sudanese banks are presently in difficulty, the implementation of these guidelines could serve as additional assurance against future problems.

1/ Investment accounts and foreign currency accounts are not subject to reserve requirements. The reserve requirement is based on month-end balances, as shown on the monthly reports that go into the monetary survey. Reserves are held on a daily basis, over an interval that begins about two weeks after the reported month.

2/ The Bank of Sudan has also taken steps to improve data quality. Instructions to concerned departments and to commercial banks regarding valuation of foreign currency-denominated assets and liabilities have been reinforced to ensure the consistent use of end-of-month exchange rates. The Agricultural Bank of Sudan is being brought into the reporting system with a view to improving the quality and coverage of the monetary statistics.

V. External Sector Developments

1. Overview

Sudan's economy is relatively closed: in 1993/94, exports were equivalent to just 8 percent of GDP. 1/ Export items consist primarily of agricultural products--traditionally cotton, gum arabic, and sesame, but also, increasingly, livestock, notably sheep. Sudan is dependent on imports for most of its machinery, equipment, vehicles, spare parts, chemicals and other industrial materials, as well as a substantial share of its energy supplies. It also imports a large amount of foodstuffs, including humanitarian supplies independently managed by the UN World Food Program.

The contrast between Sudan's poorly developed export sector and its high import needs has been reflected in a persistently large trade deficit--averaging about 16 percent of GDP over the five years to 1993/94. This shortfall has been financed, historically, by official grants and loans, together with remittances from the large number of Sudanese working abroad. Sudan is currently able to meet only a small percentage of its debt obligations falling due, and arrears are rising rapidly. 2/

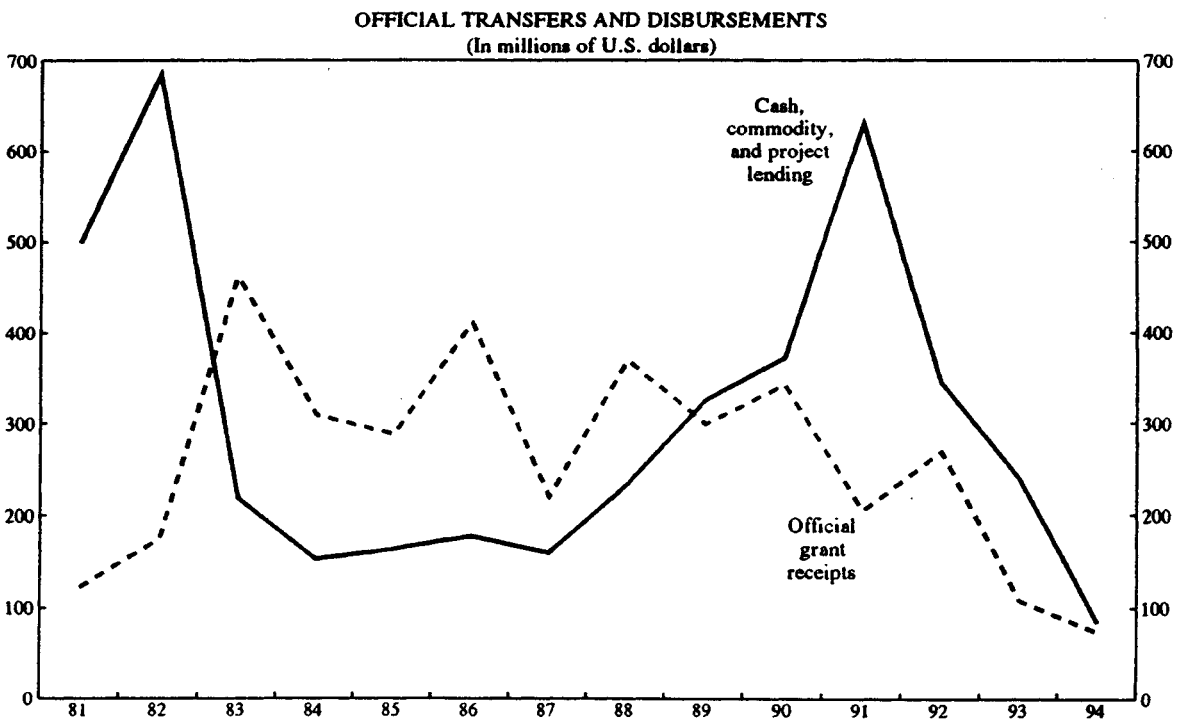
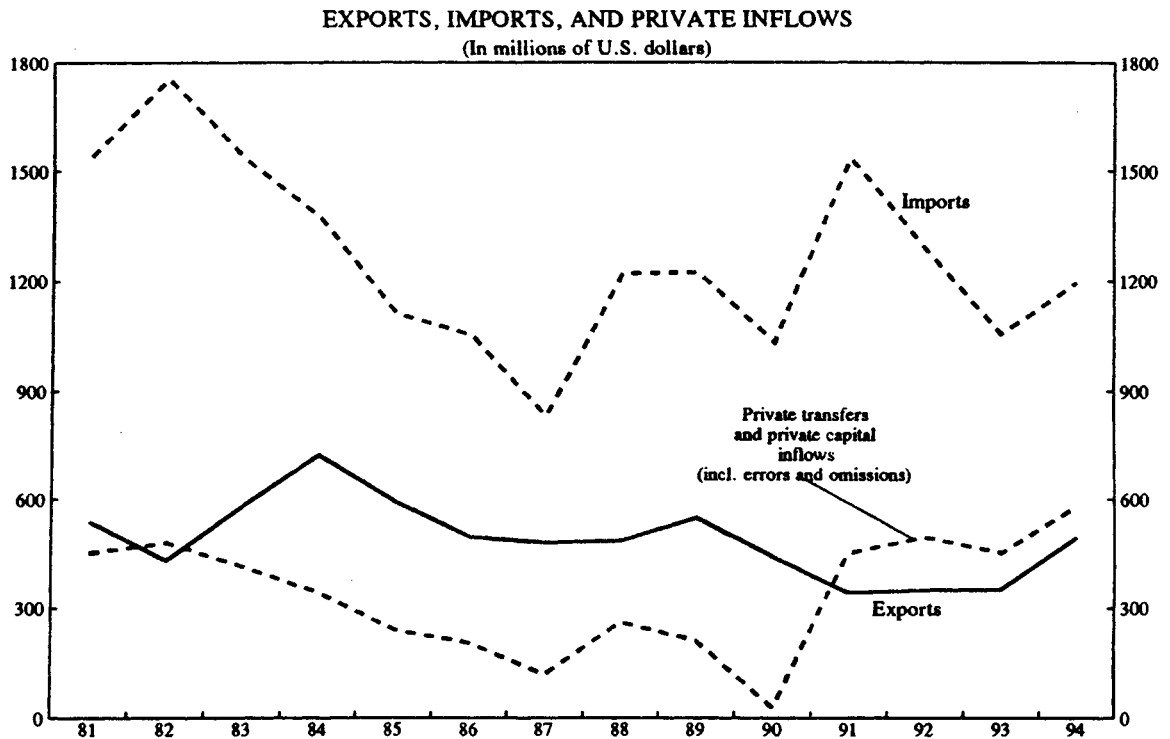
Sudan's external imbalances have been exacerbated in recent years by a significant decline in foreign exchange receipts. Export proceeds which had averaged about US\$450 million in the 1980s, fell to US\$340-350 million in the three-year period to 1992/93 (Chart 4). This downturn reflected the impact of drought conditions in 1989/90 and 1990/91, the sharp appreciation of the real exchange rate from 1988 to 1992, and public policies that placed low emphasis on exports (including through the policy of divesting irrigated land from cotton production to food crops with a lower export potential). In addition, official grant and loan receipts declined substantially after 1991/92, reflecting Sudan's poor debt service record and deteriorating relations with the international donor and creditor community. As a consequence, actual debt service payments declined further, and imports were severely compressed, notably in 1992/93.

In 1993/94, the situation eased somewhat: export proceeds and unrecorded inflows (mainly private remittances) increased. These developments partly reflected the more liberal economic policies adopted since early 1992, and partly the favorable impact on domestic production and export potential of the generally improved average rainfall levels in the three years to 1993/94.

1/ Data on Sudan's external transactions presented in this section are of uncertain reliability, reflecting severe weaknesses in the official balance of payments statistics, as discussed in the accompanying staff report (EBS/94/245, 12/20/94).

2/ Comprehensive, reliable data on Sudan's foreign debt obligations are not presently available. However, staff estimates suggest that debt in arrears may have risen by as much as US\$1.3 billion annually in recent years.

CHART 4
SUDAN
EXTERNAL SECTOR DEVELOPMENTS, 1981 - 94
(Fiscal Years Ending in June)



Sources: Staff estimates based on information provided by the Sudanese authorities.

This upturn in export proceeds and private remittances more than offset the continuing decline in official grant and loan disbursements; while actual debt service payments remained at low levels, Sudan was able to finance an increase in imports in 1993/94 for the first time in three years.

2. Merchandise trade

Sudan's merchandise trade deficit has been substantial and volatile in recent years; over the six years to 1993/94 the deficit averaged about 16 percent of GDP, varying from over 25 percent in 1990/91 to under 12 percent in the most recent year 1993/94. This volatility has been related, in part, to variations in rainfall conditions. Thus, the drought in 1990/91 and the associated need for food imports contributed to the extraordinary trade deficit in that year. In addition, however, the trade deficit has been affected by the relative availability of grants and capital inflows; for example, the receipt of substantial trade credits in 1990/91 made possible higher imports of petroleum and other nonfood commodities.

Abstracting from the volatility of trade flows, certain underlying trends are apparent. Exports as a percent of GDP declined steadily from 10 percent to 6 percent between 1989/90 and 1992/93, before recovering to 8 percent of GDP in 1993/94. Imports, while more volatile, mirrored the general trend in foreign exchange receipts, falling from 24 percent of GDP in 1989/90 to under 20 percent in the two most recent years (1992/93-1993/94). With the overall decline in imports exceeding that of exports--measured as a share of GDP--the trade deficit has fallen from an average of around 15 percent of GDP in the late 1980s, to 12 percent of GDP in the most recent two-year period.

a. Exports

In 1993/94 merchandise exports picked up considerably, to more than US\$500 million compared with US\$340-350 million annually in the preceding three-year period (Table 6). In 1993/94 exports were at their highest level in 4 years as a share of GDP, and at their highest in 8 years in U.S. dollar terms. This outturn reflected strong growth of export volumes, up 7 percent in 1993/94, following a 40 percent rise in 1992/93. This growth can be attributed to the generally improved weather conditions in Sudan (relative to the droughts of 1989/90 and 1990/91), together with initial impact of the 1992 exchange rate realignment and the economic liberalization of recent years. In addition, exports have benefitted, as discussed below, from higher world prices for several key Sudanese exports--cotton, gum arabic, and livestock (Statistical Appendix Table 29).

Crop selection in irrigated areas is the responsibility of joint committees of farmers and government officials. The latter have a significant role in determining a minimum acreage to be allocated to food production. Cotton continues to be Sudan's single most important export commodity. However, cotton production and exports have contracted in recent years as priority has been given to food crops (such as wheat) rather than cotton.

Table 6. Sudan: Balance of Payments, 1989/90 - 1993/94

(In millions of U.S. dollars)

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
Current account	-1,218	-1,927	-1,622	-1,422	-1,545
Exports, f.o.b.	443	342	349	351	503
Cotton	229	162	122	63	96
Gum arabic	44	61	39	20	81
Livestock	27	23	33	73	90
Other	143	96	155	195	236
Imports, c.i.f. 1/	-1,035	-1,535	-1,290	-1,068	-1,226
Petroleum	-244	-356	-225	-249	-230
Foodstuffs	-228	-344	-326	-165	-205
Other	-563	-835	-739	-654	-791
Services (net)	-813	-813	-850	-874	-877
Receipts	210	68	40	52	106
Noninterest payments	-256	-80	-54	-82	-115
Interest payments 2/	-767	-801	-836	-845	-868
Interest paid	-35	-28	-37	-24	-19
Private transfers	188	79	169	169	55
Official transfers	342	205	269	124	88
Cash and commodity aid	193	110	154	85	69
Project aid	149	95	115	40	19
Official medium- and long-term capital flows (net)	-308	-65	-276	-279	-426
Disbursements	372	639	344	239	84
Cash and commodity	210	472	193	101	25
Project	162	168	151	138	59
Amortization	-680	-704	-620	-518	-511
Of which: cash payments	-70	-65	-110	-16	-9
Errors and omissions and private capital	-159	373	328	284	521
Overall balance	-1,344	-1,414	-1,302	-1,293	-1,362
Change in reserves (- increase)	102	112	96	39	62
Of which:					
IMF (net)	97	110	103	70	51
Scheduled repurchases	-72	-38	-2	--	--
Change in arrears on repurchases	72	38	2	--	--
Change in arrears on charges	97	110	103	70	51
Other (net)	5	2	-7	-31	11
Net change in non-Fund arrears (+ increase)	1,242	1,302	1,206	1,254	1,300
Memorandum items:					
Exports as percent of GDP	10.3	7.5	6.7	6.1	8.0
Imports as percent of GDP	24.0	33.9	24.8	18.5	19.5

Sources: Information provided by the Sudanese authorities; and Fund staff estimates.

1/ Includes commodity aid imports, and emergency aid assistance for 1989/90 - 1991/92.

2/ Includes estimates of late interest accrued during the year and Fund special charges.

Accordingly, the acreage allocated to the 1993/94 irrigated cotton harvest was 13 percent lower than a year earlier and 62 percent lower than five years ago (Statistical Appendix Table 13). Thus, although cotton yields rose in 1993/94 due to better land preparation and maintenance of crops than in 1992/93, production fell by 13 percent compared to a year earlier. Accordingly, export volumes fell by 16 percent, notwithstanding efforts to sustain a high level of shipments through a drawdown of inventories. The impact of lower cotton shipments on dollar export proceeds was more than offset, however, by an 87 percent sharp increase in the international price of Sudanese cotton exports. This provided the basis for a 53 percent increase in the value of cotton export proceeds in 1993/94 to US\$96 million.

The share of cotton in total export proceeds was unchanged between 1992/93 and 1993/94, at 19 percent, which compares with 52 percent in 1989/90. Cotton production may have bottomed out, however, in 1993/94. In response to favorable world market conditions for cotton and the more attractive exchange rate since July 1994, farmers have increased the acreage allocated to cotton cultivation by an estimated 60 percent for the 1994/95 harvest (which started in November 1994).

Exports of gum arabic, which totaled US\$81 million in 1993/94, represented the second largest single source of export earnings in that year (Statistical Appendix Table 29). Export earnings from gum arabic in 1993/94 were the highest in seven years and over four times greater in U.S. dollar terms than a year earlier. This increase was, in part, due to sharply higher export volumes (up 88 percent on a year earlier), reflecting the impact on production of favorable rainfall in key producing areas and the increase in relative prices following the devaluation in 1992. Thus, farmers had intensified efforts to preserve and exploit the gum-producing acacia trees, and the Gum Arabic Company--which has a monopoly concession for exporting raw gum arabic--had enhanced its regional purchasing activities. Export proceeds were also boosted by a sharp rise in export prices of gum arabic (up 117 percent in 1993/94), as world market conditions strengthened after two years of price declines.

In 1993/94, exports of groundnuts and sesame also increased strongly, reflecting favorable harvest conditions. In addition, livestock exports rose for a third successive year, and sheep became the third largest source of export earnings. As noted in Section II, this trend reflects partly the progressive modernization and commercialization of what was previously a highly traditional activity, together with the impact of increased export prices for sheep--up 14 percent in 1993/94 compared to a year earlier (Statistical Appendix Table 29).

b. Imports

Merchandise imports continue to be constrained by Sudan's limited access to foreign exchange. As a result, imports tend to be determined by changes in export receipts, grants, remittances, and capital inflows. 1/ In 1993/94, official grant and loan receipts were US\$191 million lower than a year earlier (a decline of 53 percent). However, this decline was more than offset by the combined impact of higher export proceeds (up US\$152 million) and larger private sector remittances and capital inflows (up an estimated US\$127 million). The resultant net increase in access to foreign exchange provided for a 15 percent rise in the value of merchandise imports.

The value of non-oil imports rose even more strongly (by 22 percent), in contrast to Sudan's petroleum import costs which fell by 8 percent, reflecting lower world oil prices. Imports of industrial commodities, which had been compressed in recent years by shortages of foreign exchange, expanded sharply in 1993/94: imports of chemicals were up 98 percent over the previous year; manufactured goods, 47 percent; and machinery and equipment, 24 percent (Statistical Appendix Table 30). Thus, non-oil, nonfood imports were 21 percent higher than in 1992/93 and 6 percent higher than in 1991/92, notwithstanding an intervening decline in official grant and loan receipts.

3. Services and private transfers

Sudan faces a large deficit in services, in respect of both non-interest transactions and interest obligations (measured on an accrual basis). The precise magnitude of the deficit is unknown, owing to the absence of reliable information on certain non-interest transactions and interest accruals. 2/ On the basis of official statistics, net payments on non-interest transactions fell from about US\$24-30 million in 1991/92-1992/93 to US\$9 million in 1993/94. The narrowing of the imbalance in non-interest service transactions may reflect the increased scarcity of foreign exchange and resultant compression of demand for imported services. It is also possible, however, that service transactions that were formerly conducted through official channels are increasingly being diverted to the parallel market where they may not be captured by official statistics.

As regards Sudan's interest payments, staff estimates indicate that such contractual obligations have risen from about US\$840 million annually in 1991/92 and 1992/93 to almost US\$870 million in 1993/94, buoyed by the rapidly growing stock of external debt (resulting primarily from the

1/ The official import data include goods that have been financed by Sudanese workers abroad or by foreign exchange purchased in the parallel market. Such financing is generally reflected in the "errors and omissions" entry in the balance of payments.

2/ As discussed in Appendix IV of the accompanying Staff Report (EBS/94/245, 12/20/94), information on Sudan's external debt obligations is not available on a comprehensive, accurate, or timely basis.

capitalization of interest arrears). Interest accruals were equivalent to 145-150 percent of current account receipts in 1991/92 and 1992/93, but declined to 130 percent in 1993/94, reflecting the upturn in export proceeds.

Private remittances are an important source of foreign exchange for the Sudanese economy, made possible by the large number of Sudanese working abroad. Such remittances are inadequately reflected in the official statistics for banking sector transactions, since these inflows are commonly routed through the parallel market to obtain a more favorable rate of exchange. A better estimate of total private remittances may probably be made by combining the official estimates with the "errors and omissions" entry of the balance of payments, which is believed to largely comprise private capital inflows and remittances. ^{1/} On this basis, private sector remittances and capital inflows apparently rose to US\$580 million in 1993/94, up from an average of US\$450-500 million in the preceding three-year period (Chart 4).

4. Official transfers and capital flows

In 1993/94, official borrowing and grant receipts fell for the third successive year (Statistical Appendix Tables 31 and 32). At US\$172 million, such inflows were less than half the level of a year earlier, and under one quarter of the annual average during 1989/90-1991/92. Grant receipts totaled US\$88 million, largely comprising humanitarian food relief from the UN World Food Program, together with small amounts of bilateral and multilateral funding for technical assistance and infrastructure projects. Bilateral grants to finance commodity imports and development projects have fallen sharply. In 1990/91, six bilateral donors (Canada, France, Germany, Japan, Netherlands, and Pakistan) provided 2which tgrant financing totaling US\$70 million; by 1993/94, total grants from these donors were estimated to have dropped to less than US\$1 million. Over the same period, annual grant receipts from the UNDP declined by over 85 percent, from about US\$42 million to US\$6 million. Modest amounts of development grant assistance continue to be provided by Italy and Iran.

New official medium- and long-term borrowing totaled just US\$84 million in 1993/94, one third of the level of the preceding year. Official lending by international and regional agencies has fallen sharply. During 1990/91-1991/92, annual lending by international agencies averaged about US\$126 million, ^{2/} while annual lending by Arab regional agencies averaged about

^{1/} As noted above, the "errors and omissions" entry likely reflects an unrecorded financing of imports, either directly by Sudanese working abroad, or through purchases in the parallel market of remittances held in free foreign currency accounts.

^{2/} World Bank and IDA, African Development Bank and Fund, European Investment Bank, and International Fund for Agricultural Development (IFAD).

US\$37 million. 1/ By 1993/94, lending by international agencies had dropped to less than US\$45 million (primarily from the World Bank/IDA), while lending by Arab regional agencies had declined to less than US\$1 million. Trade and balance of payments financing from bilateral sources has also fallen sharply. In the early 1990s, Sudan obtained substantial trade financing from Libyan and Saudi creditors (US\$427 million in 1990/91, and US\$178 million in 1991/92). In addition, trade financing of US\$15-30 million a year was made available by a number of countries--primarily Italy, Indonesia, Nigeria, Pakistan, and the United States. However, following the accumulation of arrears on a number of these and subsequent trade-related loans, trade financing contracted to US\$25 million in 1993/94 (and arrears were incurred in the servicing of this debt). Official development loans are essentially limited to financing provided by China for a number of construction projects; unlike other financing sources, these credits have not been cut back in recent years and in 1993/94 were estimated at about US\$13 million.

5. Debt and debt service 2/

Sudan's external public debt service payments remained very small in recent years as compared to the obligations falling due. In 1993/94 debt service payments totaled an estimated US\$28 million, of which those to official creditors totaled US\$24 million. Of the latter, US\$9 million represented a single cash settlement financed out of a new US\$25 million loan by the same creditor (i.e., the repayment was comparable to a rescheduling exercise). Of the remaining US\$15 million of official debt service, one quarter comprised repayments to the Fund; in addition, one half represented payments to the World Bank and IFAD--designed to meet obligations falling due, thereby ensuring continued access to pipeline disbursements. Minor payments were also made to a number of other bilateral and multilateral creditors for similar purposes.

Reflecting the low level of debt service, the bulk of Sudan's interest and amortization obligations that accrued in 1993/94 accumulated as arrears. Reliable data on debt service accruals are not presently available; however, obligations falling due in 1993/94 are provisionally estimated at a little under US\$1.38 billion, equivalent to over 200 percent of current account receipts. On this basis, new accumulation of arrears during 1993/94 totaled about US\$1.35 billion, since only a very small portion of this amount (US\$28 million) was actually paid.

During 1993/94, Sudan fell into arrears with the World Bank (US\$27 million by end-November 1994), and the African Development Bank and Fund (US\$13 million by end-September 1994). In addition, arrears continued to

1/ Arab Monetary Fund, Islamic Development Bank, OPEC Fund, Arab Fund for Social and Economic Development, Kuwaiti Fund, and Saudi Fund.

2/ Information on the total outstanding external debt as of end-1993 is not available. Outstanding external debt (including arrears) as of December 1991 amounted to US\$15.3 billion (Statistical Appendix Table 34).

accumulate to a number of other multilateral and regional agencies, including the Arab Monetary Fund (US\$260 million at end-September 1994); the European Investment Bank (US\$28 million at end-1993); the Arab Fund for Social and Economic Development (US\$140 million at end-1993); the OPEC Fund (US\$14 million at end-1993); the Kuwaiti Fund; and the Saudi Fund. Sudan remains current with the Islamic Development Bank (IDB) and the International Fund for Agricultural Development (IFAD).

Discussions were initiated during 1993/94 with a number of creditors with a view to addressing Sudan's mounting payments problems. In particular, the authorities have discussed with the African Development Bank, African Development Fund, and OPEC Fund the possible elimination of arrears in exchange for more than offsetting amounts of new financing. In addition, although arrears to the Arab Monetary Fund and Arab Fund for Social and Economic Development are too large to be settled outright, partial payments may be initiated with a view to restoring cooperation with these agencies. Presently there are no contacts between the authorities and the Kuwaiti Fund and Saudi Fund.

VI. Exchange and Trade System

The paragraphs below document the exchange and trade system in Sudan prevailing at the time of the 1994 Article IV consultation discussions. Changes to the exchange and trade system since July 1, 1993 are summarized in Appendix III. Developments prior to mid-1993 were summarized in the staff report for the 1993 Article IV consultations. 1/

1. Exchange arrangements

a. Background and developments in 1992 and 1993

Sudan has introduced new exchange regimes in each of the last three years, a process marked by the successive unifications followed by segmentation of the official exchange market. In February 1992, as part of the Government's broader liberalization program, the dual-rate official regime in effect since 1988 was unified at a rate close to that in the parallel market (LSd 90 per U.S. dollar), thereby eliminating a major over-valuation of the currency that had emerged over the previous three-year period. However, the procedures adopted in the commercial banking market for determining the newly unified rate proved to be inflexible. 2/ As a result, the official rate appreciated in real terms once again, and a substantial margin re-emerged between rates in the official and parallel markets: by end-September 1993, this margin exceeded 70 percent. 3/

1/ See SM/93/222, 10/14/93, including Appendix V, "Exchange and Trade System."

2/ Responsibility for determining the official exchange rate was delegated by the Bank of Sudan to the Foreign Exchange Committee of the Union of Banks, which established a rate binding on all members.

3/ The parallel market and official exchange rates against the U.S. dollar were LSd 290 and LSd 170, respectively.

In response to the growing diversion of exchange transactions to the parallel market on October 16, 1993, the authorities reintroduced a dual rate regime. The central bank exchange rate--which applied to all exports and official receipts and payments--was fixed at LSd 216 per US\$1, representing a depreciation of 21 percent against the U.S. dollar. At the same time, the commercial bank exchange rate--to be applied for all other transactions--was depreciated by 44 percent against the U.S. dollar (to LSd 302 per US\$1), bringing this rate broadly in line with that in the parallel market (Chart 5).

However, responsibility for fixing the commercial bank exchange rate remained with the Bankers' Committee which, in setting the rate, continued to take into account not only demand and supply conditions in the banking exchange market but also broader economic considerations (including official efforts to limit exchange market volatility and "excessive" exchange rate depreciation). ^{1/} As a result the commercial bank exchange rate was not maintained at a market-clearing level. When the parallel market exchange rate depreciated to LSd 480 per US\$1 by April 1994, the Bankers' Committee responded by authorizing a move in the commercial bank rate to LSd 402 per US\$1. The parallel market exchange rate subsequently appreciated to LSd 400 per US\$1 in May, before reverting to around LSd 470 at end-June 1994; during this period, the Bankers' Committee approved an appreciation in the commercial bank rate to LSd 312 per US\$1 by end-June 1994.

As a result, during the nine-month period to end-June 1994, the commercial bank exchange rate appreciated by 46 percent in real terms (31 percent based on period average exchange rate). Thus, the impact of the October 1993 devaluation was fully negated by mid-1994. Over the same period, the official exchange rate--which remained fixed at LSd 216 per U.S. dollar--appreciated in real terms by an estimated 51 percent. At end-June 1994, the margin between the official exchange rate (applicable to exports) and that in the parallel market stood at over 115 percent, implying an even greater market segmentation than that prior to the October 1993 modification to Sudan's exchange regime.

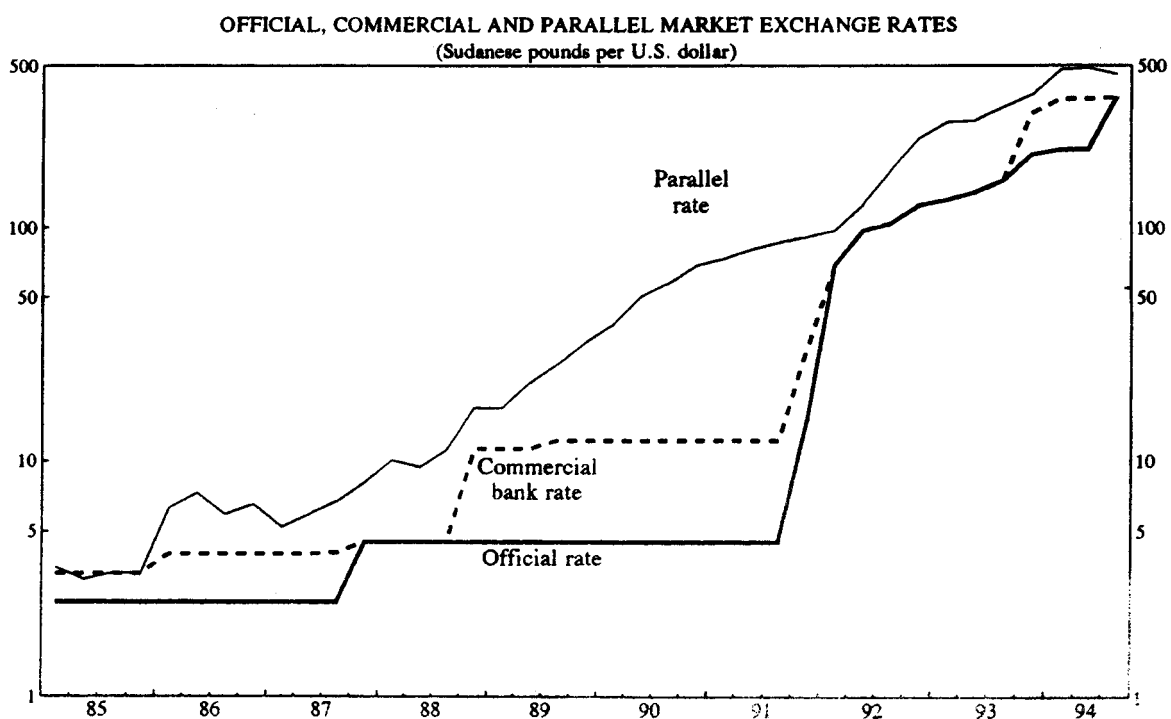
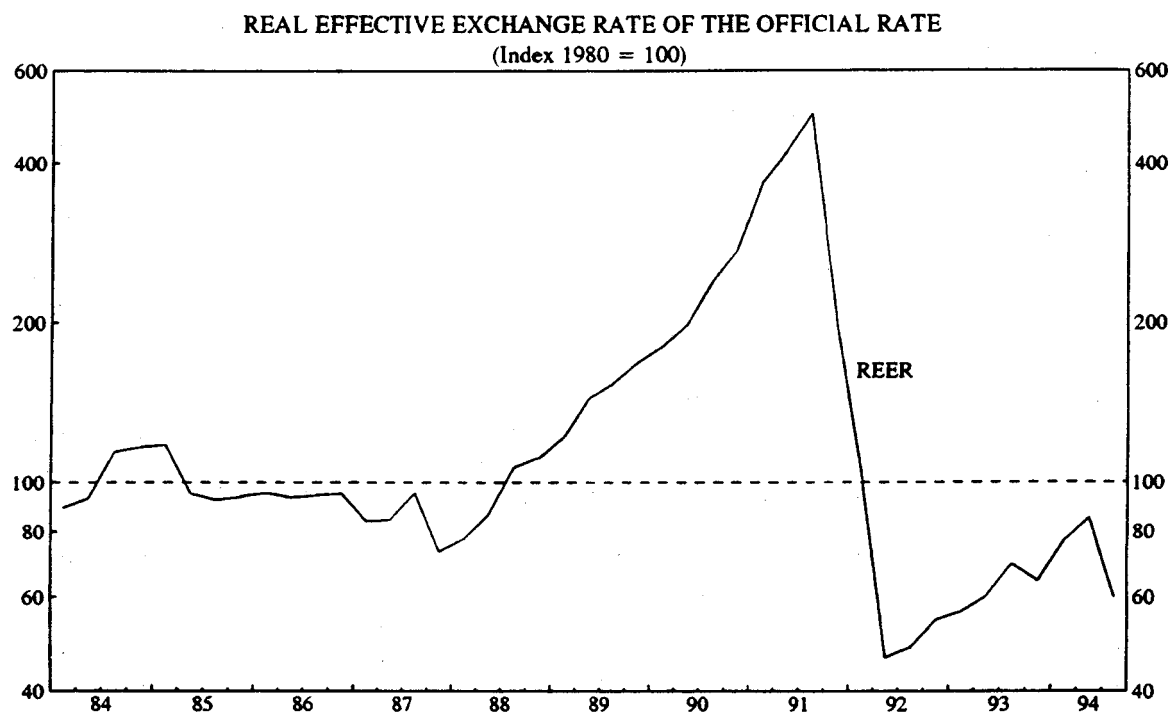
b. Exchange regime reforms adopted since July 1994

As a first step under their reform program for 1994/95, the authorities sought to address the accumulated distortions and segmentation of the exchange regime. Thus, on July 2, 1994 the Government abolished the official and commercial bank exchange rates, and reintroduced a unified official regime under which the rate of exchange would be freely determined in the interbank market by the independent actions of commercial banks. ^{2/}

^{1/} The Bankers' Committee also monitored the profitability of various export crops in light of different levels of the exchange rate.

^{2/} For the first time since 1985, foreign exchange dealers were authorized to set rates on an individual basis.

CHART 5
SUDAN
EXCHANGE RATE DEVELOPMENTS, 1984 - 94
(Quarterly Averages, Log Scale)



Under the new regime, the 27 commercial banks authorized as foreign exchange dealers were required to post buying and selling rates for foreign exchange on a daily basis (subject to a maximum spread of LSd 7 per U.S. dollar). 1/ Henceforth, all transactions in foreign exchange by commercial banks--except certain sales to the Bank of Sudan--would be conducted by banks at these posted rates.

For official transactions, the Bank of Sudan calculates daily official buying and selling exchange rates, based on the rates quoted in the interbank market. The official buying rate is calculated according to a weighted average of the individual buying rates established by commercial banks: due to reporting lags, the official rate is based on interbank rates in effect two business days earlier. The official selling exchange rate is calculated by applying a margin to the buying rate, which was in the range of LSd 3-5 during July-October 1994. The Bank of Sudan publishes the official buying and selling rates around noon of each business day, and these rates become effective from the start of the following business day. In effect, there is a three-business-day lag between the establishment of interbank rates by commercial banks and the application of the associated official buying and selling exchange rates by the Bank of Sudan.

Official foreign exchange requirements are met through the compulsory sale by commercial banks to the Bank of Sudan of a proportion (initially 80 percent) of their foreign exchange purchases. Foreign exchange not subject to compulsory sale may be used by banks for their own purposes. 2/ Two rates of exchange are applied by the Bank of Sudan in purchasing foreign exchange from banks: a portion (initially 30 percent) is purchased at each commercial bank's own selling rate; the remainder (i.e., 50 percent) is purchased at the Bank of Sudan's official buying rate (or the individual bank's selling rate, whichever is the lower).

The high proportion of commercial banks' foreign exchange purchases that are subject to compulsory sale to the Bank of Sudan at the official buying rate appears to have contributed to a degree of rigidity in banks' quotations in the interbank market. Specifically, banks have been reluctant to establish exchange rate quotations that are significantly more depreciated than the average for the market as a whole. This is because losses would be incurred when buying foreign exchange from exporters (or other customers) at this rate and subsequently selling one half of such foreign exchange to the Bank of Sudan at the official buying rate (which would be

1/ Rates are quoted before noon each business day and apply to transactions conducted during the following business day.

2/ Partial exemptions to the compulsory sale of foreign exchange were granted to selected banks that had accumulated unsound short positions in foreign exchange.

more appreciated, in line with quotations by other market participants). 1/ In addition, banks have seen few benefits from quoting a depreciated exchange rate, since foreign exchange market shares have been relatively insensitive to small variations in buying rates. Exporters tend to surrender their earnings to banks with which they have established links, possibly including preferential access to credit or foreign exchange. Meanwhile, other foreign currency inflows are conducted at the more attractive rates available through the parallel market and are unaffected by the rates quoted by banks.

As a result of these and other rigidities and distortions in the new regime, 2/ the exchange rate quoted in the commercial banking market continues to be set at a level that is not market-clearing; consequently, banks generally face a significant excess demand for foreign exchange. This demand is satisfied, in part, by parallel market transactions, commonly conducted through informal sales of foreign exchange by holders of "free" foreign currency accounts. Such accounts can be opened by all residents, and may be credited without restriction, other than the need for a customs declaration for cash deposits. Foreign exchange held in such accounts may be transferred without restriction to other "free" account holders, and may be withdrawn to finance all current and capital transactions. While formal intermediation between account holders is prohibited, an active informal market in foreign exchange between "free" account holders is officially tolerated.

The rate of exchange for transactions in the parallel market has been significantly more depreciated than that in the interbank market: as of end-October 1994, the parallel market rate for account transactions was about LSd 490-495 per US\$1, compared to quoted buying rates of about LSd 390-395 in the interbank market. As a result, Sudan's exchange regime remains segmented, with export proceeds, compulsory remittances by Sudanese working abroad, and official transfers conducted at the more appreciated interbank rate, and with a large part of the private sector's non-export-related transactions conducted at the depreciated rate in the parallel market. Although the degree of segmentation between the two markets diminished during the initial period of operation of the new exchange regime, the gap has not continued to narrow: the margin between the

1/ In practice, under the regime introduced in July 1994, banks could not establish a buying rate that was more than LSd 7 (the maximum permitted bid-offer margin) over the Bank of Sudan's official buying rate without incurring losses.

2/ The Bank of Sudan appears to have departed, at times, from the averaging formula when calculating the official buying rate, possibly with a view to influencing the evolution of rates set by banks (i.e., periodically encouraging or discouraging rate depreciation).

interbank and parallel market exchange rates was almost 50 percent during July 1994, declined to about 22 percent at end-August 1994, ^{1/} and remained at about 22-25 percent during September-November 1994.

2. Trade and payments system

a. Imports and import payments

The official exchange market in Sudan has generally been marked by a pervasive shortage of foreign exchange. The authorities have responded to such shortages by imposing quantitative restrictions on import activities, the range and severity of which have varied over time. ^{2/} Since February 1992, imports have no longer been subject to restrictive licensing procedures, but have been subject to a negative list, the coverage of which has been adjusted on a relatively frequent basis. This list has commonly included agricultural and manufactured items produced domestically (such as sugar, livestock, and textiles), together with high-cost consumer imports such as automobiles, and household and electronic items.

In July 1992, as part of the Government's broader liberalization program, the coverage of the negative list was reduced to six main product groups. ^{3/} This liberalized regime was maintained for about nine months. However, from mid-1993, the negative list was progressively expanded, with additional groups of items introduced in April, June, and November 1993. By end-1993, an extensive range of imports--comprising about 50 product groups--were prohibited.

The negative import list was narrowed slightly in February and April 1994, and more significantly in July 1994, as part of the Government's reform program for 1994/95. From July 9, 1994 the negative list covered only sugar and automobiles, in addition to imports prohibited for reasons of religion, health, and national security.

b. Payments for invisibles

In principle, formal restrictions on payments for invisibles only apply to the personal limit of US\$5,000 per year on purchases of foreign exchange to finance travel abroad. In practice, however, given the severe shortage of foreign exchange in the official market, commercial banks apply informal

^{1/} The margin of under 20 percent at end-August 1994 (reported on page 4 of EBS/94/182, 9/9/94) was based on the difference between the Bank of Sudan official buying rate (LSd 385 per US\$1) and the parallel market rate (LSd 455 per US\$1). Subsequently, estimates of the parallel market rate at end-August have been revised up to LSd 464 per US\$1, implying a margin of 22 percent relative to the average interbank rate (LSd 379 per US\$1).

^{2/} Import restrictions have also been applied to protect domestic producers from external competition.

^{3/} Textiles and apparel; livestock and meat; eggs; sugar; alcoholic beverages; and arms and ammunition.

rationing procedures that generally limit access to foreign exchange for invisible transactions. Notwithstanding this, foreign exchange can be obtained legally for travel and other invisible purposes--albeit at a more depreciated rate of exchange--through informal parallel market transactions. Such transactions--generally purchases of foreign exchange from holders of free foreign currency accounts--are free from restrictions, other than a personal limit of US\$5,000 on withdrawals of bank notes for foreign travel: there is no limit on the amount that can be withdrawn as traveler's checks or bank checks.

c. Exports and export proceeds

Exports are free from licensing requirements. However, exporters must comply with administrative procedures designed to ensure full repatriation and surrender of foreign exchange export proceeds. Export contracts are subject to approval by the Ministry of Commerce. To deter underinvoicing by exporters, the Ministry of Commerce enforces minimum export prices for certain commodities, which are updated on a periodic basis. In addition, the Ministry of Commerce would normally deny export permits for commodities subject to export prohibition, and to exporters not in compliance with repatriation and surrender requirements in earlier export activities.

Export proceeds are subject to compulsory repatriation and sale to the banking system within 45 days of the shipment of goods. At the time of shipment, export documentation is collected by the Customs and forwarded to the Bank of Sudan. After a 45-day period, the Bank of Sudan contacts the commercial bank identified by the exporter to confirm the receipt of export proceeds. In cases of noncompliance, follow-up investigations are conducted by a committee of Bank of Sudan officials.

At end-October 1994, exports subject to prohibition were limited to unprocessed hides and skins, for which local processing was being encouraged. However, as a temporary measure to deter certain illegal domestic activities, scrap aluminum and copper were subject to an export ban from May 1994 to July 1994. In addition, in response to domestic food shortages, sorghum was subject to a temporary export ban from July to October 1994.

d. Proceeds from invisibles

Sudanese nationals working abroad are required to remit annually to domestic residents a minimum amount of foreign exchange. 1/ Remittances must be channeled through the banking system at the commercial bank exchange rate (now the interbank rate). The following schedule of minimum remittances became effective from April 1, 1994: manual workers, soldiers, and medical assistants, US\$150; other general employees, US\$350; professionals, including university teaching assistants, US\$600; professors, doctors, and

1/ These remittances are in addition to a tax payable when obtaining a passport.

employees of international organizations, US\$800; and businessmen, US\$600-US\$5,000 (depending on the business activity). Exemptions are provided, however, for Sudanese nationals working in a number of countries, other than employees of international organizations.

Travelers entering Sudan must declare all holdings of foreign currency. Within a three-month period, this amount must be either deposited in a free foreign currency account, sold to an authorized foreign exchange dealer, or retransferred abroad.

The Tax System of Sudan

This appendix is organized in three main sections. The first section describes the operation and performance of the main taxes levied in Sudan between 1982/83 and 1993/94. It also highlights some of the important factors that have hindered the effective operation of certain specific taxes. The second section discusses the principal factors characterizing the tax system of Sudan that have lead to the decline in tax revenue in relation to GDP. It also provides estimates of the revenue losses generated by the existence of lags in the payment of taxes. The third section analyses and provides some estimates of seigniorage revenues, and of the "implicit tax" that is collected by the Government through an overvalued official exchange rate.

1. Operation and performance of taxes

a. Personal income tax

The personal income tax (PIT) is paid annually by residents on all income earned in Sudan or abroad, including wages, salaries, leave and sick pay, and all other remuneration for employment or services rendered. However, interest and domestic dividends, employers' contributions to retirement and medical schemes, and housing and transport allowances are excluded. Individual income taxes are "pay-as-you-earn" basis, and are deducted by employers who are obliged to submit collected monthly revenues by the 15th day of the following month. In the case of a refund, employees may file their returns after December 31.

As of July 1994, the applicable personal income tax rates are as follows:

First	LSd	90,000	exempted
next	LSd	5,000	5 percent
"	LSd	10,000	10 percent
"	LSd	10,000	15 percent
"	LSd	13,000	20 percent
"	LSd	18,000	25 percent
exceeding	LSd	146,000	30 percent

Effective July 1994, the minimum threshold was raised from LSd 54,000 to LSd 90,000, while the highest income bracket was increased from LSd 110,000 to LSd 146,000. These changes were accompanied by a lesser increase of the average monthly wages in the public sector, from about LSd 7,000 to about LSd 10,000.

Overall, less than 200,000 individuals are subject to the PIT, but only 50,000 tax declarations are normally submitted. This is due to the fact that most employers withhold the tax directly from the wages and salaries, and also because other additional sources of income are usually

insignificant. Between 1982/83 and 1993/94 the revenue from the personal income tax as a share of GDP has declined almost continuously (from 0.6 percent to 0.1 percent).

b. Business profit tax

The business profit tax, which was based on the Income Tax Act of 1986, is levied on net business profits of individual entrepreneurs, limited public and private companies, partnerships, trusts and associations, banks, and insurance companies. Profit taxes are calculated on the basis of profits earned over the year ended December 31 and companies must file their returns by March 31. The first installment is due by April 30, and the second by October 31.

The schedule of rates is currently as follows:

(1) Individual entrepreneurs

First	LSd	1,500	exempted
next	LSd	500	10 percent
"	LSd	1,000	15 percent
"	LSd	3,000	20 percent
"	LSd	9,000	25 percent
"	LSd	35,000	30 percent
"	LSd	50,000	45 percent
exceeding	LSd	100,000	45 percent

The Taxation Bureau of the Ministry of Finance and Economic Planning (TB) estimates that about 167,000 individual entrepreneurs are currently subject to this tax. Owing to the high rate of inflation and the lack of corresponding adjustments in the nominal tax brackets, about 95 percent of taxpayers currently fall in the highest bracket. Hence, the profit tax has become regressive, posing a relatively higher burden on smaller or medium level business incomes.

(2) Private companies except banks and insurance companies

First	LSd	5,000	25 percent
next	LSd	20,000	35 percent
"	LSd	75,000	45 percent
exceeding	LSd	100,000	45 percent

The TB estimates that there are about 4,500 registered enterprises which are subject to this tax.

(3) Banks and insurance companies

The rates are the same as in (2), with the exception that profits above LSd 100,000 per year are taxed at the rate of 50 percent. According to the TB, all 27 commercial banks are subject to this tax.

Between 1982/83 and 1993/94 the revenues from the profit tax showed two distinct trends. After declining until 1990/91, profit taxes became an increasingly important source of revenue reaching almost 30 percent of total tax revenue, and about 2 percent of GDP in the last two fiscal years (Appendix I, Table 7). This improvement owes largely to the tightening of the tax brackets in real terms, and to the efforts by the tax administration to raise compliance.

Revenue from the profit tax fell during the 1980s primarily because of two factors. First, the existence of generous exemptions and immunities led to a decline of revenue. A broad range of concessions and exemptions were granted in accordance with the 1989 Taxation Act and the 1991 Investment Encouragement Act. Over 60 companies and several banks currently benefit from these tax exemptions. ^{1/} The loss in revenues from these specific exemptions and immunities was large. Furthermore exemptions were extended also to cooperatives dealing with trade, transport, agriculture, and other activities, and 53 charity organizations which undertook commercial activities. Second, the decline in revenues was also caused by the large lags in tax payments. Currently, the average lag in the collection of the profit tax is about 6 months. However, anecdotal information indicates that delays may frequently exceed 1 year. The main factors behind these delays are the weak penalty system and the widespread utilization of the appeal system.

c. Tax on Sudanese working abroad

The current annual rates of taxation are as follows:

Rates as of November 1, 1994

(In U.S. dollars)

Laborers	150
Employees	350
Professionals	600
University educators	800
Businessmen	800-5,000

^{1/} For example, companies operating under the 1991 Investment Encouragement Act are granted a five to ten years tax holiday. This Act subjects tax concessions to the fulfillment of any of several conditions, among which are : (a) the contribution of the investment project to the increase of national income; (b) the removal of "any bottlenecks obstructing development;" (c) the "consolidation" of economic developments; and (d) an increase in employment. After an initial effective period of five years, the tax concession can be extended for additional five years in the case of large investments. Furthermore, the Act also exempts these investment schemes from customs duties and excises on equipments, machineries, and spare parts. Losses may be carried forward and deducted from profits for a period of five years.

The payments rates are enforced by requiring that citizens obtain an exit visa verifying tax payment before leaving Sudan and that passports be renewed every two years. About 200,000 expatriates have complied with this tax in recent years.

d. Agricultural tax

Detailed and reliable information on agricultural taxation are not available. However, it is known that farmers are subject to local taxation (by regional and provincial governments), central taxation (by the Central Government), and the zakat (a mandatory contribution that is not included in the budget). Most of these taxes are collected during the harvest period from November to April.

The estimated contribution of agricultural taxes to the central government budget is projected at 0.2 percent of GDP in 1993/94, as compared to 2.1 percent of GDP to the consolidated local government's budget. In light of the fact that agriculture currently accounts for about 40 percent of GDP and 75 percent of total employment in the economy, the fraction of total tax revenue generated from this sector appears to be very low.

The inability to generate revenue from taxing the agricultural sector is due to the low rates of agricultural taxes and poor tax compliance. The agricultural tax is levied on the value of sales of crops, and paid at the point of sale (transporters are obliged to show that they have paid the tax before goods are released). In fiscal year 1991/92, the agricultural tax at the central government level was initially set at 5 percent of gross income. In 1992/93 this rate was reduced to 4.2 percent, and in 1993/94 to 2.7 percent. The low and declining rates, together with the administrative difficulty of tracking every sale, resulted in a poor revenue performance.

e. Capital gains tax

This tax is charged at a rate of 10 percent for real estate and 5 percent for cars, and is levied on the difference between the sales and purchase price without adjustment for inflation.

f. Sales tax

All items manufactured in Sudan are subject to a sales tax of at least 10 percent, with the exception of medicine, food, and vegetable oils, which are exempt. Both the sales and excise taxes are collected at the factory. Inspectors located within the factory issue forms certifying that taxes have been paid before allowing goods to be shipped. This tax is not applicable to corresponding imports, which are subject to customs duty. The rates for the major items are listed in Appendix I, Table 8.

(1) Sales tax on services

The tax on services is charged at a rate of 20 percent for hotels, restaurants, and club services. An airport departure tax is levied on all international flights by the Civil Aviation Authority. In October 1994, this tax was raised to LSd 5,000 per passenger.

(2) Excise tax

The excise tax is also levied on several domestically manufactured products. Currently, there are 13 different excise rates applicable to about 20 goods.

g. Taxes on international trade

Sudan has relied considerably on taxes on international trade as a source of income; these include import and export duties, and the defense tax. Their contribution to total tax collection progressively declined from 65 percent in 1987/88, to 35 percent in 1993/94 when they accounted for only 2.2 percent of GDP. This decline was due to the valuation of imports below their true market price, and to the continued shift in import composition toward basic necessities subject to lower duties.

(1) Import duties

All import duties are ad valorem and are applied to a fair market c.i.f import price. The import duty rates range from 1 percent for motor oil and lubricants to 100 percent for cars (Appendix I, Table 9). Exemptions are limited to medicines only.

(2) Export duties

All export duty rates are ad valorem and are calculated on free along side (f.a.s) value. With the exception of cotton and gum arabic, export duties are applied at a rate of 5 percent. Export duties on cotton and gum arabic are charged at the rate of 10 percent.

(3) Defense tax

The defense tax rate is levied at a rate of 20 percent on a broad range of items. Items exempted from the defense tax include the following: rice, wheat flour, printed books and booklets, sacks and bags for packing, medical supplies and appliances, insecticides and pesticides, tractors, harvesters and parts, and motor oil and lubricants.

h. Other taxes

Other taxes include various levies and fees, such as stamp duties and car license fees. Their contribution to the budget has been insignificant. In Statistical Appendix Table 21, these revenues are combined with those from the agriculture tax, and have yielded no more than 0.5 percent of GDP

since the mid-1980s. The stamp duty is charged at various rates on more than 260 instruments of various kinds. The car license fees are levied at a range of LSd 400-10,000 per car.

2. Important factors behind the decline in tax revenue

The main factors behind the decline in tax revenue are: (a) the unequal treatment of tax payers; (b) the inadequacy of the tax administration; (c) the weakness of the penalty system and the tax appeal process; (d) the low elasticity of the tax system; and (e) the loss of revenue due to the existence of lags in tax payments.

a. The unequal treatment of taxpayers

In many respects, the tax system of Sudan does not provide an even treatment of taxpayers. In the last 3-4 years, as inflation rose to triple digit levels, the tax brackets of the business profit tax have become so narrow in real terms that the vast majority of those subject to this tax have been pushed into the highest bracket (at a marginal tax rate of 45 percent). Over the same period, the changes in the tax brackets of the personal income tax have effectively reduced the average rate and granted widespread exemptions. As a result, an employee who earns LSd 120,000 per year would pay about 3 percent in taxes per year, but an entrepreneur with the same yearly profit would pay over 10 times as much. Additional sources of unequal treatment of taxpayers are the low collections from farmers and the generous provisions for widespread tax exemptions and immunities.

b. The inadequacy of the tax administration

The direct tax administration, which employs about 3,000 inspectors (and 8,000 employees in total) is currently undersized in relation to the needs of a large and growing population. This problem is rendered more acute by the practice of maintaining a parallel bookkeeping system, which is continuously updated, for the main taxpayers. To perform this task, the tax administration has to collect detailed information concerning all their taxable activities. This close auditing of each individual taxpayer requires a large amount of time, and de facto precludes the tax administration from scrutinizing the returns of the entire population.

c. Weakness of the penalty system and the tax appeal process

Two main factors have contributed to a reduction in the real value of tax collections. The first is the ineffective penalty system, and the second is the long tax appeal process which further stretches these delays.

As regards the first factor, even when tax liabilities are discovered, the penalty rates are so low that they do not discourage taxpayers from filing late or evading taxes altogether. Delinquencies are currently charged a late fee of 1 percent per month. However, even if this charge was

applied (and there are indications that it is rarely enforced), the net benefit from delaying tax payments would be almost unchanged given the current high inflation rate (the Tanzi effect). Other administrative penalties, such as the seizures of properties of noncomplying taxpayers are no more than an idle threat.

With respect to the second factor, a large number of enterprises and individual entrepreneurs request a re-examination of the tax assessment. This process can take a long period of time, as taxpayers have the right to appeal each decision up to a maximum of three times. At the end of this appeal process, about 30 percent of the appeals result in a reduction of the tax assessment, 5 percent with an increase, and the rest are left unchanged. To begin the appeal process, the taxpayer is required to leave a deposit amounting to 50 percent of the tax assessment. However, there are indications that this deposit ratio is not enforced. Successive additional payments are due at the beginning of the subsequent stages of the appeal process, reaching 90 percent of the tax assessment at the last stage. The loss of revenue in real terms is therefore significant.

d. Low elasticity of the tax system

The elasticity of indirect taxes is still low. However the narrowing of the gap between the official and parallel exchange rates, and the recent removal of controls on prices and profit margins, would lead to an improvement in tax collection and the elasticity of indirect taxation.

e. Revenue loss due to the existence of lags

The revenue losses arising from the existence of lags in tax payments is calculated for the profit tax and the personal income tax in Appendix I, Table 10. The first lag is of 6 months and the second lag is of 12 months. The latter lag is believed to be closer to the real situation.

The revenue loss in the case of the profit tax is calculated using the following

$$(1) \quad T_t = \frac{T_0}{(1+\pi_t)^{\frac{n}{12}}}$$

where T_t is the current ratio of tax revenue to GDP, T_0 is the ratio of tax revenue to GDP in the absence of inflation, π_t is the current yearly inflation rate, and n denotes the length of the lags (i.e., $n=6$ or $n=12$). ^{1/}

Given that T_0 is not observable, expression (1) can be solved to yield the following expression for the loss of revenue,

$$(2) \quad T_0 - T_t = T_t \left((1 + \pi_t)^{\frac{n}{12}} - 1 \right)$$

The estimates of the loss of revenue due to the existence of lags for the business profit tax range from about 0.1 percent of GDP in 1986/87 to almost 0.9 percent in 1993/94 for the shorter lag, and twice as much for the longer lag (Appendix I, Table 10). Due to the lack of information concerning the potential collection from both taxes in the absence of inflation (i.e., the true T_0), all estimates are likely to underestimate the actual revenue loss.

3. Seigniorage revenues and implicit taxes

While, on the one hand, the high inflation rate in Sudan has had several adverse effects on total tax collection, the high inflation rates have also transferred substantial additional resources to the Government: (i) directly, through the high levels of seigniorage, and (ii) indirectly, through the overvalued official exchange rate.

a. Inflation tax

Seigniorage, which represents an inflation tax levied through the erosion of real money balances, constituted one of the most important source of government financing. In this analysis, seigniorage is measured as the ratio between the changes in reserve money and the nominal GDP during the fiscal year. ^{2/} Estimates of resources that it has provided to the government fluctuate from 4.0 percent of GDP in 1987/88 to 8.4 percent of GDP in 1985/86, and about 4 percent of GDP in 1993/94.

^{1/} See Tanzi, V., "The Impact of Macroeconomic Policies on the Level of Taxation in Developing Countries," Staff Paper, International Monetary Fund (Washington), Vol. 36, No. 3, (September 1989); and Tanzi, V., "Inflation, Lags in Collection, and the Real Value of Tax Revenue," DM/76/87, IMF (1976).

^{2/} Other estimates of seigniorage, such as the outstanding stock of base money times the inflation rate, would yield different--and generally higher--results.

b. Implicit taxation generated through an overvalued exchange rate

The high rates of inflation, associated with a reluctance to adjust the official exchange rate, have produced a wide and persistent gap between the official and the parallel exchange rate. The resulting system has had two opposite effects on the budget. On the one hand, the overvaluation of the official exchange rate has reduced the collection of import duties, and worsened the deficit. ^{1/} On the other hand, the Government has benefited because of its large expenditure denominated in foreign currency (such as interest payments, foreign representations, development expenditure) for which it obtains foreign exchange at the official exchange rate.

Due to the existence of the dual exchange rate system, the Government imposes an implicit tax on the exporters in the economy. This implicit tax (IT) on the economy is proportional to the exchange rate premium (ERP), where ERP is equivalent to the parallel exchange rate/official exchange rate, and can be expressed as:

$$(3) \quad IT = g - \frac{g}{ERP}$$

where g denotes foreign currency-denominated total government expenditure. For 1994/95, with g equal to an estimated US\$178 million and ERP equal to 1.2 (premium of 20 percent) the implicit tax will be about US\$30 million (or LSd 13 billion at an average exchange rate of LSd 435 per U.S. dollar). This implicit tax falls principally on exporters, who are required to exchange the proceeds at the official rate.

The implicit tax on exports and the corresponding subsidy on imports by the Government impedes the process of external adjustment.

^{1/} This loss of revenue oscillated widely in the 1980s owing to the large and changing gap between the official and the parallel exchange rate. It then peaked in 1990/91, before rapidly declining to about 1.5 percent of GDP in 1993/94. In this calculation, it is assumed that the parallel rate may be close to the market exchange rate.

Table 7. Sudan: Revenue Developments Between 1982/83 and 1993/94

	1982/83	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
(In millions of Sudanese pounds)												
Total revenue	1,266	1,467	1,458	2,001	2,722	3,977	6,248	8,255	15,398	34,018	78,243	130,753
Tax revenue:	1,074	1,239	1,257	1,786	1,746	2,939	4,834	6,685	9,573	22,734	56,615	105,561
Personal income tax	56	48	26	26	69	100	111	302	316	485	938	1,311
Business profit tax	123	178	227	263	262	344	560	1,030	1,731	4,391	16,445	30,188
Taxes on goods and services	191	258	161	281	330	462	1,234	1,938	2,973	4,771	12,300	28,459
Of which:												
Excise duties	...	...	...	...	277	414	1,163	1,830	1,937	2,816	9,859	17,700
Sales taxes	...	...	...	...	53	48	71	108	1,036	1,955	2,441	10,759
Taxes on international trade 1/	680	722	796	1,117	1,028	1,921	2,826	3,255	3,992	11,530	22,616	36,853
Of which:												
Import duties	...	...	...	1,083	967	1,631	2,291	2,656	2,842	5,490	13,397	16,901
Export duties	...	...	...	34	61	76	91	89	141	583	2,725	3,900
Other taxes 2/	24	32	48	99	57	112	103	161	561	1,557	4,316	8,752
Nontax revenue	192	228	200	215	976	1,038	1,414	1,570	5,825	11,284	21,628	25,192
(In percent of GDP)												
Total revenue	13.7	12.6	9.3	9.2	9.9	10.8	9.7	8.2	8.1	8.4	9.4	7.8
Tax revenue:	11.6	10.7	8.0	8.2	6.4	8.0	7.5	6.6	5.0	5.6	6.8	6.3
Personal income tax	0.6	0.4	0.2	0.1	0.3	0.3	0.2	0.3	0.2	0.1	0.1	0.1
Business profit tax	1.3	1.5	1.4	1.2	1.0	0.9	0.9	1.0	0.9	1.1	2.0	1.8
Taxes on goods and services	2.1	2.2	1.0	1.3	1.2	1.3	1.9	1.9	1.6	1.2	1.5	1.7
Taxes on international trade 1/	7.4	6.2	5.1	5.1	3.7	5.2	4.4	3.2	2.1	2.8	2.7	2.2
Other taxes 2/	0.3	0.3	0.3	0.5	0.2	0.3	0.2	0.2	0.3	0.4	0.5	0.5
Nontax revenue	2.1	2.0	1.3	1.0	3.6	2.8	2.2	1.5	3.1	2.8	2.6	1.5
(Percent of total tax revenue)												
Share of total tax revenue:												
Personal income tax	5.2	3.9	2.1	1.4	4.0	3.4	2.3	4.5	3.3	2.1	1.7	1.2
Business profit tax	11.4	14.4	18.0	14.7	15.0	11.7	11.6	15.4	18.1	19.3	29.0	28.6
Taxes on goods and services	17.8	20.8	12.8	15.7	18.9	15.7	25.5	29.0	31.1	21.0	21.7	27.0
Taxes on international trade 1/	63.3	58.3	63.3	62.5	58.9	65.4	58.5	48.7	41.7	50.7	39.9	34.9
Other taxes 2/	2.2	2.6	3.8	5.6	3.3	3.8	2.1	2.4	5.9	6.8	7.6	8.3
(In millions of Sudanese pounds)												
Memorandum item:												
Nominal GDP	9,223	11,609	15,708	21,856	27,474	36,805	64,448	101,292	190,249	407,275	829,756	1,668,596

Sources: Staff estimates based on information provided by the Sudanese authorities.

1/ Import and export duties, defense tax, and other taxes on international trade.

2/ Includes stamp duty, car licences, agricultural taxes, and airport departure tax.

Table 8. Sudan: Main Commodities Subject to Excise and Sales Tax, and Their Rates, 1994

Commodity	Excise Rate (In percent)	Sales Tax
Tobacco	150	LSd 1 per cigarette
Cement	75	LSd 1,500 per metric ton
Soft drinks	10	LSd 25 per bottle
Biscuits and Cakes	15	10 percent
Tomato paste	--	--
Flour	--	--
Edible oils	2	--
Ready made clothes	20	10 percent
Shoes	5	10 percent
Sweets	10	10 percent
Soap - toilette	25	10 percent
Soap - regular	--	10 percent
Perfumes/cosmetics	60	10 percent
Toothpaste	--	10 percent
Tires	10	10 percent
Tubes and pipes	35	10 percent
Batteries/electric	25	10 percent
/flashlights	30	10 percent
Household materials	40	10 percent
Paints and polishes	55	10 percent

Source: Data provided by the Sudanese authorities; Customs Department.

Table 9. Sudan: Commodities Subject to Import Tariffs and Defense Tax, 1994

(In percent unless otherwise stated)

Commodity description	Tariff Code 1/	Defense Tax	Tariff Rate	Total Rate
Motor oil and lubricants	27.16	--	1	1
Rice	10.06	--	5	5
Wheat flour	11.01A	--	5	5
Printed books and booklets	49.01	--	5	5
Sacks and bags for packing	62.03	--	5	5
Insecticides and pesticides	38.11	--	5	5
Tractors	87.01	--	5	5
Harvesters and parts	84.25A	--	5	5
Coffee	09.01	LSd 10/lb	5	--
Natural yeasts	21.06	20	--	20
Tea	09.02	LSd 10/lb	5	--
Vegetable oil	15.07	20	5	25
Additives for mineral oil	38.14	20	5	25
Margarine	15.13	20	5	25
Caustic soda	28.17	20	5	25
Zinc oxide and peroxide	28.19	20	5	25
Chemical products	38.19	20	5	25
Polymerization products	39.02	20	5	25
Synthetic rubber	40.06	20	5	25
Natural resins	39.05	20	5	25
Writing paper	48.01B	20	5	25
Newsprint paper	48.01A	20	5	25
Paper board boxes	48.16	20	5	25
Yarn of man-made fibers	51.03	20	5	25
Glass bottles, etc.	70.11	20	5	25
Iron and steel wire	73.14	20	5	25
Metal containers	73.22	20	5	25
Combustion engines	84.06	20	5	25
Pumps	84.10	20	5	25
Machinery, plant equipment	84.17	20	5	25
Excavating machineries	84.23	20	5	25
Machineries and accessories	84.34	20	5	25
Auxiliary machinery	84.38	20	5	25
Sewing machines	84.41	20	5	25
Tapes, valves, etc.	84.61	20	5	25
Compressors	84.11A	20	5	25
Ball bearings	84.62	20	5	25
Transformers and generators	84.01A	20	5	25
Other electric goods	85.01B	20	5	25
Electric fans	85.06A	20	5	25
Electric ignition	85.08B	20	5	25
Electric lighting for cars	85.09A	20	5	25
Electric apparatus	85.19	20	5	25
Parts for tractors	87.06A	20	5	25
Parts for motor vehicles	87.06B	20	5	25
Motor cycles	87.09	20	5	25
Cycles and parts	87.10	20	5	25
Lead pencils	98.05A	20	5	25
Trucks and lorries	87.02C	20	5	25
Mini-buses	87.02D	20	5	25
Buses	87.02D	20	5	25

Table 9 (concluded). Sudan: Commodities Subject to Import Tariffs and Defense Tax

(In percent unless otherwise stated)

Commodity descriptions	Tariff Code ^{1/}	Defense Tax	Tariff Rate	Total Rate
Paper	09.04	20	10	30
Cinnamon	09.06	20	10	30
Cloves	09.07	20	10	30
Cement	25.23	LSd 750/mt	10	--
Sliced wood	44.05	20	10	30
Cables	59.04	20	10	30
Polishing and crushing stones	68.04B	20	10	30
Sheets and plates of iron	73.13	20	10	30
Iron and steel products	73.11	20	10	30
Iron and steel bars and rods	73.10	20	10	30
Tubes and pipe fittings	73.20	20	10	30
Needles	73.33	20	10	30
Razors and blades	82.11	20	10	30
Locks and padlocks	83.01	20	10	30
Lamps and lighting fittings	83.07	20	10	30
Stoppers, corks, etc.	83.13	20	10	30
Electric parts	85.04B	20	10	30
Televisions	85.15.2	20	10	30
Pharmaceutical glassware	70.17	20	20	40
Refined sugar	17.01B	20	20	40
Other papers and paper boards	48.15	20	20	40
Tableware and other	69.11	20	20	40
Glassware	70.05	20	20	40
Nails, tacks, staples, etc.	73.31	20	20	40
Heavy duty pickups	87.02F	20	30	50
Sauces and seasonings	21.04	20	30	50
Soups and broths	21.05	20	30	50
Perfumes and cosmetics	33.06	20	50	70
Rubber tires	40.11	20	50	70
Cotton fabrics	55.09B3	20	50	70
Other cotton fabrics	55.09B2	20	50	70
Air coolers		20	50	70
Primary cells and batteries	85.03	20	100	120
Cars	87.02A	20	100	120
Pick-ups	87.02	20	100	120

Source: Data provided by the Sudanese Authorities; Customs Department.

^{1/} To be altered by the authorities in the coming months.

Table 10. Sudan: Estimates of Seigniorage and the Loss of Tax Revenue due to Inflation, 1983/84–1993/94 ^{1/}

(In percent of GDP unless otherwise indicated)

	1983/84	1984/85	1985/86	1986/87	1987/88	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94
Loss of tax revenue due to inflation ^{1/}											
Personal income tax (low)	0.05	0.04	0.02	0.03	0.05	0.05	0.07	0.07	0.06	0.05	0.04
Personal income tax (high)	0.09	0.07	0.04	0.05	0.10	0.11	0.15	0.15	0.12	0.10	0.08
Business profit tax (low)	0.17	0.30	0.19	0.10	0.17	0.27	0.25	0.41	0.52	0.85	0.87
Business profit tax (high)	0.35	0.61	0.37	0.19	0.34	0.55	0.51	0.82	1.05	1.70	1.74
Seigniorage ^{2/}	4.4	5.81	8.44	6.18	3.98	6.78	7.93	5.43	6.99	2.66	3.89
Memorandum items:											
Nominal GDP (in LSd millions)	11,609	15,708	21,856	27,474	36,805	64,448	101,292	190,249	407,275	829,756	1,668,596
Inflation (period average)	24	46	33	20	40	73	56	112	110	103	120
Official exchange rate, period average (LSd/US\$)	1.3	1.7	2.4	2.7	4.2	4.5	4.5	4.5	37	125	199
Parallel exchange, period average (LSd/US\$)	...	...	5.1	5.9	8.5	15	32	68	107	201	370

Sources: Staff estimates based on information provided by the Sudanese authorities.

^{1/} Based upon an estimate of the average delay in tax payments owing to the length of the tax appeal process and other delays linked to the weakness of the penalty system. Low estimate assumes an average delay of 6 months, while the high estimate assumes a delay of 12 months.

^{2/} Seigniorage is measured as the ratio between the change of reserve money and the nominal GDP during the fiscal year.

Islamic Banking in Sudan

Islamic banking, which prohibits the use of interest rates for mobilization and allocation of loanable funds, was introduced in Sudan in September 1984. Profit sharing and equity participation are the principles on which banks have to operate. 1/

1. Sources of funds

Besides own capital and equity, the main sources of funds for Islamic banks in Sudan are two forms of deposits:

a. Transaction deposits: Although a bank would guarantee the nominal value of the deposit, it would pay no return on this type of liability and hence these are similar to demand deposits that are meant for transactions and payments in conventional banking system.

b. Investment deposits: Investment deposits resemble shares in a firm, rather than time and savings deposits. The bank would not guarantee the nominal value of such deposits nor pay fixed rate of return. The depositor would instead be treated as a shareholder in the bank and therefore entitled to a share of the profit or losses made by the bank.

2. Lending operations

Three principal forms of Islamic lending are generally employed:

a. Mudaraba financing: Under the provisions of Mudaraba, surplus funds are made available by a single lender to the entrepreneur that invests in an enterprise at a predetermined share of profits. Financial losses are borne exclusively by the lender who does not have a role in the management of the enterprise. The borrower loses only the time and effort invested in the venture. This profit-sharing arrangement, therefore, effectively places human capital on par with financial capital.

b. Musharaka financing: In Musharaka, there is more than a single contributor of funds. All parties invest in varying proportions, have the right to participate in the management of the enterprise, and the profit (or losses) are shared strictly in relation to the respective capital contributions. This arrangement corresponds closely to an equity market in which shares in a firm can be acquired by the public, commercial banks, the central bank and even the government.

1/ For detailed description of the basic elements of the Islamic economic system, see (1) Zubair Iqbal and Abbas Mirakor, IMF Occasional Paper No. 49, March 1987, and (2) Mohsin Khan and Abbas Mirakor, Monetary Management in an Islamic Economy, Journal of Islamic Banking and Finance, 1992.

c. Other modes of financing: In transactions where profit sharing is not applicable other mode of financing can be employed; these include the following:

(1) Deferred payment sales/Bai Muajjal/Mark up/Murabaha. This mode allows the sale of products with deferred payment or a lump-sum payment. The bank would purchase the product and resell it to the ultimate buyer, including in its price a profit margin or mark up. This mark up has to be negotiated with the buyer (borrower) and cannot be set unilaterally by the bank. The price of the product is agreed on between the buyer and the seller at the time of the sale and cannot include charges for deferring payments. Because of its inherent simplicity, the mark up mode of Murabaha has become a frequent mode of financing in Sudan.

(2) Purchase with deferred delivery (Bai Salam/Bai Salaf). In this transaction the buyer pays the seller the full negotiated price of a product that the seller promises to deliver at a future date. This future delivery method is particularly suited for agricultural financing. Any financial losses incurred in the operation would have to be fully borne by the lending bank.

(3) Leasing (Ijara). A bank can purchase the product and lease it to the borrower for a specified sum and a specific time. The borrower can also negotiate for lease-purchase of the product, where the payments include a portion which can be applied toward the final purchase and transfer of ownership of the product.

(4) Service charge. Islamic Law allows a lender to recover the costs of operation above the principal amount from the borrower. Thus, banks are legally able to impose a service charge or commission on the loans they make, also when they serve as trustees but the amount of the service charge cannot be made proportional to the size of the loan to prevent it from becoming equivalent to interest.

3. Musharaka operations

For Musharaka the bank would evaluate the feasibility of the project presented by clients. Upon approval of the application, a Musharaka contract is signed between the bank and the client (who becomes partner). The contract specifies all the details relating to the contribution of each partner in capital, management and profits, as well as the controls regulating relations between the two partners. When the contract is signed, a joint account in the name of the partnership is opened, and withdrawal of the deposited amounts would be controlled by the pre-agreed plan of operations contained in the contract. Goods purchased from partnership funds are normally kept under dual custody of both partners, thus serving as a collateral. To ensure compliance with contract, the bank undertakes general supervision monitoring of the progress of operations. Musharaka contracts cover Musharaka in trade, in industrial investment, and in agricultural investment. Table 10 shows an example of a Musharaka operation in trade.

In cases of import trade, Sudanese banks sometimes enter into Musharaka for the clearance of commodities through customs only (i.e. Musharaka in services). In such instances, the partner would have provided the foreign exchange component, and the bank would contribute the local component to cover clearance, customs, etc. The cost of the service provided would be calculated as a proportion of capital. The procedures followed for the determination of the respective shares of the partners and the allocation of return for management are similar to the case presented in the Table 10.

The average rate of return to investment depositors in 1992/93 and 1993/94 has been in the range of 25 to 35 percent. However, the actual cost to the bank of its total liabilities does not exceed 3 percent, mainly because almost 90 percent of deposits are unremunerated. ^{1/} The average lending rate in 1992 and 1993 has been about 45 percent. Given the high rate of inflation (around 100 percent) these rates were significantly negative in real terms.

4. Monetary policy and central banking

Monetary policy of an Islamic state takes place in a framework in which all conventional tools normally available in a modern economy are at the disposal of the monetary authorities with the exception of the discount rate and other policy tools that involve an interest rate. All other tools, namely open market operations (where equity shares rather than bonds are traded) and credit policies can be as effective in an Islamic system as they are in the conventional Western system. Additionally, the authorities in an Islamic system can utilize reserve requirements and profit-sharing ratios to achieve changes in the stocks of money and credit, although there is still some dispute among Islamic scholars on the appropriateness of these measures.

The Bank of Sudan (BOS) uses the following monetary instruments: changes in reserve requirements, overall and selective controls on credit flows, and moral suasion. The BOS can affect deposit rates through its influence on the mark-up fixed by the Banks' Union. While the Islamic financial system in Sudan appears viable in theory, as well as to some extent in practice, significant problems remain. Some of these include the following:

(1) Serious difficulties have been encountered in introducing true profit-sharing arrangement on the lending side. So far it has not been possible to develop a system of contracts between borrowers and lenders that would keep the costs of monitoring at a reasonable level and the investor have asymmetric information on the profitability of the investment. As a

^{1/} The reason for the large size of current accounts is that companies and traders use this facility because of the need for liquidity. Moreover, banks actually discourage depositors other than companies or traders because the murabaha (markup) loan rates were low and banks could not find alternative profitable investment opportunities.

result, Islamic banks have relied primarily on mark-up and leasing operations, and most of the lending has been concentrated in short-term trade-related assets.

(2) The absence of suitable long-term assets available to Islamic banks is mirrored by a lack of very short-term financial instruments. At present, for example, there is no equivalent of a true interbank market in Sudan where banks could place overnight funds or borrow to satisfy temporary liquidity needs.

(3) There is also as yet no acceptable way for the Sudanese Government to finance its fiscal deficit other than through money creation, which in turn maybe at variance with the objective of macro-economic stability. While many suggestions have been made in this area, considerable controversy remains on how this problem can be resolved.

Table 11. Sudan: Musharaka in Trading Transaction for the Purchase and Sale of Sesame Seed ^{1/}

(In metric tons and Sudanese pounds)

Estimated period for liquidating transactions is four months		
Quantity: 1,000 metric tons sesame seed		
<u>Cost:</u>		<u>Sudanese pounds</u>
Purchase price LSd 1,602 per metric ton		
Total purchase price = 1,000 x 1,602		1,602,000
Other expenses = 1,000 x 333		333,000
Storage and dues		
Total capital		1,935,000
<u>Equity shares:</u>		
Bank's share 75 percent	1,451,250	
Client's share 25 percent	483,750	1,935,000
<u>Proceeds of sales:</u>		
1,000 tons x 2,337		2,337,000
Total costs		1,935,000
<u>Profits</u>		402,000
<u>Distribution of profits according to contract:</u>		
	<u>Client</u>	<u>Bank</u>
402,000 (25 percent for management)	100,500	
301,500 (75 percent for bank)		226,125
301,500 (25 percent for client)	75,375	
Equity	<u>483,750</u>	<u>1,451,250</u>
Total amount accruing to partners	659,625	1,677,375
Profit percentage	36 percent	16 percent
Annualized percentage	108 percent	48 percent

Source: The Sudanese Islamic Bank.

^{1/} See Appendix II of this report for a description of Islamic banking practices in Sudan.

Changes in the Exchange and Trade System, July 1993-October 1994

1. Exchange arrangement

October 16, 1993. The unified exchange system (adopted February 2, 1992) consisting of a single rate determined by a committee of bankers and quoted uniformly by all commercial banks was abolished and replaced by a dual rate system. By mid-October, 1993, the unified exchange rate had moved to LSd 170 per U.S. dollar. On October 16, 1993, the new central bank rate was set at LSd 215 per U.S. dollar, and the new commercial bank rate initially at LSd 303 per U.S. dollar. The central bank rate was applied to: export proceeds; compulsory remittances by Sudanese workers abroad; transfers to Sudan by diplomatic missions, international organizations, and relief and volunteer organizations; official grant, subsidy, loan and other receipts; imports of crude oil and petroleum products; and official import and other payment needs determined by the Bank of Sudan. All other foreign exchange transactions were henceforth to be conducted at the commercial bank rate of exchange, determined by a bankers' committee.

July 2, 1994. The central bank and commercial bank exchange rates were abolished and replaced by a unified official exchange rate determined in the interbank market. Commercial banks were authorized to quote on a daily basis buying and selling exchange rates--subject to a maximum spread of LSd 7--to be applied to all formal banking sector transactions other than certain compulsory sales of foreign exchange to the Bank of Sudan. All export proceeds and compulsory private sector remittances must be surrendered to the banking system. A fixed proportion of such sales (initially 80 percent) was subject to compulsory sale to the Bank of Sudan: 30 percent at each banks' quoted selling rate, and 50 percent at the Bank of Sudan's reference exchange rate (or the banks' selling rates, whichever is the lower). The Bank of Sudan reference rate was to be determined daily as a weighted average of the buying rates quoted by commercial banks. The Bank of Sudan's selling rate for official transactions was determined by applying a margin to the reference exchange rate (varying from LSd 3-5). At end-June 1994, the official exchange rate was LSd 216 per U.S. dollar, and the commercial bank exchange rate was LSd 312 per U.S. dollar. In early July, 1994, the buying rate set by commercial banks in the interbank market was around LSd 320 per U.S. dollar.

2. Administration and control

October 15, 1993. Possession of foreign currency without a valid customs declaration certificate was prohibited. Existing holders of foreign currency were required to sell such currency or deposit it in a free foreign exchange account. Travelers visiting Sudan were permitted to hold foreign currency for up to three months, but must then deposit the currency in a free currency account, sell, or re-export the remaining amount (after verification of legitimate local expenditures). Travelers abroad were henceforth permitted to carry with valid documentation foreign currency

notes of up to US\$5,000 and foreign currency instruments in larger amounts. The provision of services or sale of goods by domestic persons or corporations for foreign currency was also prohibited.

3. Imports and import payments

July 21, 1993. The requirement to surrender foreign exchange to the Bank of Sudan as a proportion of foreign exchange purchased by commercial banks to finance the import transactions of customers was reduced from 50 percent to 10 percent, except for the following products, the importation of which was exempted from any surrender requirement: yeast, tea, soap manufacturing inputs, vegetable oils, rice, wheat flour, school materials, and medication and pharmaceutical inputs.

July 22, 1993. The Duty-Free Corporation was authorized to import goods on the negative list.

November 21, 1993. The following products were added to the negative import list: leather and plastic products; wallets, purses and briefcases; watches and alarm clocks; cameras and photographic equipment; washer/dryers and water heaters; electric irons; gas and electric stoves and grills; vacuum cleaners; motor mowers; electric hair dryers; water tanks; mattresses and pillows; waterproof covers; umbrellas; textiles; cigarette and cigar holders; cigarettes; certain baskets; fiber string; photo frames and albums; paintings; key chains; candles; pumice stones; nail clippers; straws; pottery and china; utensils; Egyptian fava beans; canned food; and maize and barley.

December 20, 1993. Clarification was provided on the items added to the negative import list on November 21, 1993. Plastic products included on the list would be limited to utensils, flowers and household furniture. Xerox machines, textile ornaments, paper utensils, and canned juices, vegetables, fruits, and jams would not be included on the list.

February 28, 1994. The following products were eliminated from the negative import list: household utensils, other than plastic utensils; textiles (except for certain coarse upholstery fabrics, polyester, and women's wear); watches and alarm clocks; cameras and photographic equipment; jewelry; chains, including key chains; picture frames; electric hair driers; wallets; photo albums; umbrellas; pearls; bags, other than leather; fire resistant safes; sickles; nail clippers; cooking grills; and diapers.

Imports of the following products were authorized to be conducted through the Duty-Free Corporation: air conditioning equipment; refrigerators, water coolers, and freezers; TVs and VCRs; tape recorders and radios; rugs and carpets; washing machines and water heaters; electric heaters; vacuum cleaners; electric irons; stoves and ovens.

April 14, 1994. The following items were eliminated from the negative import list: reconditioned distributors for vehicles and agricultural machinery; shredded vegetable fiber for upholstery. Plain white calico and its derivatives were added to the negative import list.

April 27, 1993. The authorization to import products through the Duty-Free Corporation established in February 1994 was broadened to cover women's saris and veils.

April 29, 1994. The prohibition on the import of Egyptian fava beans was lifted.

July 9, 1994. All items except the following were eliminated from the negative import list: alcoholic drinks and narcotics; gambling equipment; unlicensed weapons, ammunition, and explosives; sugar; and passenger (saloon) cars.

July 20, 1994. Sudanese individuals in the following categories were permitted to import automobiles for personal use: residents abroad returning to Sudan on a permanent basis; Sudanese deported from other countries; emigrant experts and advisers returning to official positions; students in higher education abroad returning to Sudan; and diplomats returning to Sudan.

September 21, 1994. The categories of Sudanese individuals authorized to import cars for personal use were widened to include Sudanese working abroad for Sudanese maritime lines, the Sudanese Airlines, overseas centers of Sudanese state-owned corporations, and workers in international organizations.

4. Exports and export proceeds

July 25, 1993. The minimum export price applicable to sorghum was amended to US\$120/ton (US\$130/ton in sacks).

July 26, 1993. Reptile skins were exempted until January 16, 1994 from the prohibition on exports of hides and skins.

August 16, 1993. To finance the import of essential commodities, requirements for the surrender of export proceeds were raised from 45 percent to 55 percent for three corporations: COPTRADE Ltd., Gezira Commerce and Services Ltd., and Sudan Oil Seeds Ltd. Of total export proceeds, 45 percent would be surrendered to the Bank of Sudan and 10 percent to the Bank of Khartoum (New York account).

October 16, 1993. Foreign exchange export proceeds were subject to compulsory repatriation within 45 days from the date of export shipment.

October 24, 1993. The minimum f.o.b. price for exports of live sheep was raised from US\$100 per head (effective since April 1992) to US\$120 per head (or US\$2,200 per ton).

March 30, 1994. The prohibition on the export of semi-processed leather (imposed in May 1993) was lifted.

May 10, 1994. The export of scrap aluminum and scrap copper was prohibited.

July 1, 1994. Export ban on scrap aluminum and copper eliminated.

August 1, 1994. Reptile skins were exempted until January 18, 1995 from the prohibition on exports of unprocessed hides and skins.

August 3, 1994. Effective November 1, 1994, exports of the following commodities were limited to public sector enterprises and (joint stock) public corporations: gum arabic; cotton; maize; sesame; peanuts; livestock; and hibiscus flowers. Businessmen and private companies dealing in the these commodities would be required to register as (joint stock) public corporations.

September 19, 1994. The August 3, 1994 regulation governing exports of certain commodities was declared null and void.

October 4, 1994. The prohibition on the export of maize was lifted. Minimum export price for maize were established as US\$100 per ton bulk, and US\$120 per ton in sacks.

5. Foreign currency and nonresident accounts

July 3, 1993. Commercial banks were required to report to the Bank of Sudan the balances of public bodies held in free foreign currency accounts as of July 6, 1993. Commercial banks were required to seek Bank of Sudan approval prior to opening any new free currency accounts for public bodies.

September 18, 1993. The surrender requirement to the Bank of Sudan from foreign exchange purchased by commercial banks from private foreign currency accounts was reduced from 100 to 90 percent.

April 27, 1994. Comprehensive regulations were issued governing the operations of free foreign currency accounts and special foreign currency accounts. Free accounts could henceforth be opened by all Sudanese resident individuals and legal entities, other than the government, public institutions and public sector enterprises. Such accounts may be freely credited with remittances from abroad, foreign exchange (where the depositor has a valid customs declaration), transfers from other free accounts, foreign currency banknotes purchased from the Sudanese banking system, and checks drawn on overseas accounts. Withdrawals from free accounts may be used to make transfers abroad, to make transfers to other free accounts, to purchase domestic currency, to make payments in foreign exchange to domestic institutions authorized to sell goods and services for foreign exchange, to finance imports, and to finance overseas travel (of up to US\$5,000 per person, based on evidence of travel authorization and tickets).

Special foreign currency accounts could be opened by diplomatic, foreign and regional missions and organizations; foreign charities and aid organizations; foreign companies; foreign contractors; and the foreign personnel of such organizations. Special foreign currency accounts may be credited with transfers from abroad. They may also be used to make transfers abroad to finance foreign travel, to purchase local currency to finance local payments, to make foreign currency payments to local institutions authorized to sell goods and services for foreign currency, and to finance imports.

The transfer of foreign exchange between free and special foreign currency accounts was prohibited.

6. Proceeds from invisibles

March 31, 1994. The system of income taxes payable by Sudanese workers abroad (adopted in January 1992) was replaced by a schedule of minimum annual transfers to Sudan, ranging from US\$150 (for ordinary workers, clerical and medical assistants, and soldiers) to US\$800-US\$5,000 (for professors, physicians, specialists in international organizations, and businessmen).

Table 12. Sudan: Cotton Production, 1989/90–1993/94

(In thousands of bales) ^{1/}

	1989/90	1990/91	1991/92	1992/93	1993/94
Total production	658	424	470	293	245
Extra long–staple (Barakat)	249	75	68	89	37
Long–staple (Shambat "B")	193	99	92	30	41
Medium–staple (Acala)	208	250	309	174	167
Short–staple	8	--	1	--	--

Sources: Ministry of Agriculture; and Fund staff estimates.

^{1/} One bale of lint weighs 420 pounds or approximately 0.191 metric tons.

Table 13. Sudan: Harvested Area, Production, and Yield of Cotton,
Average 1983/84–1987/88, 1992/93–1993/84

(Area in thousands of feddans; production in thousands of metric tons; and yield in kilograms per feddan)

	Area	Production	Average Yield	Area	Production	Average Yield	Area	Production	Average Yield
	1983/84–1987/88 1/			1992/93			1993/94		
Irrigated sector 2/									
Egyptian	499	298	597	158	72	456	120	54	450
Blue Nile	11	6	545	20	6	283	14	5	354
Gezira and Manegil	375	237	632	108	58	538	94	45	449
Tokar	24	4	167	30	8	283	12	4	353
Suki	6	1	167	--	--	--	--	--	--
White Nile	48	20	417	--	--	--	--	--	--
New Halfa	11	8	727	--	--	--	--	--	--
Rahad	24	22	917	--	--	--	--	--	--
Acala	212	140	660	163	94	577	158	90	570
Rahad	99	63	636	56	33	594	53	34	637
Zeidab	2	--	200	--	--	--	--	--	--
Gezira	--	--	--	67	41	608	55	31	566
Blue Nile	44	19	432	--	--	--	--	--	--
New Halfa	67	58	866	40	20	495	50	25	495
Rainfed sector									
American	80	15	188	35	4	114	14	4	260
Blue Nile	6	2	333	20	2	115	5	1	140
Gedaref	3	--	133	10	1	90	4	1	140
Nuba mountains	53	11	208	5	1	200	5	2	283
Abu Habil	--	--	--	--	--	--	--	--	--
Equatoria	18	2	111	--	--	--	--	--	--
Total	791	453	573	356	170	477	292	148	507

Source: Ministry of Agriculture.

1/ Five-year average.

2/ Includes Shambat variety.

Table 14. Sudan: Cropped Area, Output, and Yields of Major Noncotton Crops, 1989/90–1993/94

	1989/90	1990/91	1991/92	1992/93	1993/94
<u>(In thousands of feddans)</u>					
Area					
Sorghum	9,049	6,570	13,141	14,762	11,152
Irrigated	755	930	1,376	1,221	903
Rainfed	8,294	5,640	11,765	13,541	10,249
Millet	3,317	1,575	2,663	3,710	2,543
Groundnuts	1,295	531	546	1,298	1,858
Irrigated	159	128	134	298	293
Rainfed	1,136	403	412	1,000	1,565
Sesame	2,622	1,104	1,280	3,207	2,931
Wheat	614	1,102	903	777	851
<u>(In thousands of metric tons)</u>					
Output					
Sorghum	1,536	1,180	3,581	4,042	2,386
Irrigated	392	516	886	769	602
Rainfed	1,144	664	2,695	3,273	1,784
Millet	161	85	308	449	221
Groundnuts	218	123	180	380	428
Irrigated	119	101	114	235	254
Rainfed	99	22	66	145	174
Sesame	140	80	97	266	175
Wheat	409	686	838	445	475
Gum arabic	30	12	22	13	24
<u>(In kilograms per feddan)</u>					
Yields					
Sorghum	170	180	272	274	214
Irrigated	519	555	644	630	666
Rainfed	138	118	229	242	174
Millet	49	54	116	121	87
Groundnuts	168	232	330	293	231
Irrigated	748	789	851	798	867
Rainfed	87	55	160	145	111
Sesame	53	72	76	24	60
Wheat	666	623	928	891	558

Sources: Ministry of Agriculture; Ministry of Economics, Planning, and Investment; and Gum Arabic Corporation.

Table 15. Sudan: Land and Water Charges, 1989/90–1993/94

(In Sudanese pounds per feddan)

	Gezira Scheme					Other Schemes				
	1989/90	1990/91	1991/92	1992/93	1993/94	1989/90	1990/91	1991/92	1992/93	1993/94
Cotton	157	253	400.0	590	1,650	164	326	346	744	1,800
Wheat	131	205	273.0	463	1,300	137	251	258	634	1,300
Groundnuts	104	205	273	463	1,300	110	251	258	634	1,300
Sorghum	104	205	273	463	1,300	110	251	258	634	1,300
Vegetables	175	500	715	1,083	5,000	192	660	815	1,608	5,000

Source: Ministry of Agriculture.

Table 16. Sudan: Procurement Prices, 1989/90-1993/94

(In Sudanese pounds per kantar)

	1989/90	1990/91	1991/92	1992/93	1993/94
Cotton ^{1/}					
Extra long—staple (Barakat)					42,157 ^{2/}
Grade 1	837	1,167	2,485	6,090	
2	817	1,107	2,385	5,990	
3	787	1,047	2,285	5,890	
4	747	987	2,185	5,790	
5	727	967	2,085	5,690	
6	707	947	1,985	5,590	
7	687	927	1,885	5,490	
8	667	907	1,785	5,390	
9	647	887	1,685	5,290	
Long—staple (Shambat "B")					37,175 ^{2/}
Grade 1	602	773	1,535	4,800	
2	572	733	1,435	4,700	
3	532	713	1,335	4,600	
4	512	693	1,235	4,500	
5	492	673	1,135	4,400	
6	472	653	1,035	4,300	
Medium—staple (Acala)					30,851 ^{2/}
Grade 1	602	773	1,535	4,550	
2	572	733	1,435	4,450	
3	532	713	1,335	4,350	
4	512	693	1,235	4,250	
5	492	673	1,135	4,150	
Wheat (LSd per ton)	3,000	3,100	6,000	12,000	38,500
Gum arabic (ex El-Obeid)	400	430	583	2,789	17,500

Sources: Ministry of Agriculture; and Sudan Cotton Company.

^{1/} Prices are in Sudanese pounds per kantar of seed cotton. One kantar of seed cotton weighs 315 pounds and yields about 106 pounds of lint in the case of long—staple cotton, 95 pounds for Shambat "B", and about 116 pounds of lint in the case of medium—staple cotton.

^{2/} Average prices according to formula: US\$ export (f.o.b.) price less 11.5 percent (1 percent for Sudan Cotton Co., 0.5 percent quay dues, and 10 percent for exporter) equals "ex-store" price; "ex-store" price converted at average official exchange rate less 4 percent (2 percent each for storage fees and Reserve Fund) equals procurement price for cotton.

Table 17. Sudan: Cropping Patterns in the Gezira Scheme,
1989/90 – 1993/94

	1989/90	1990/91	1991/92	1992/93	1993/94
<u>(In thousands of feddans)</u>					
Total area cultivated	1,321	1,381	1,489	1,557	1,398
Groundnuts	80	36	35	165	178
Wheat	392	612	527	500	531
Sorghum	441	507	744	729	540
Cotton	358	166	112	108	94
Other noncotton	50	60	71	55	55
<u>(As percent of total area)</u>					
Total area cultivated	100.0	100.0	100.0	100.0	100.0
Groundnuts	6.1	2.6	2.4	10.6	12.7
Wheat	29.7	44.3	35.4	32.1	37.9
Sorghum	33.4	36.7	49.9	46.8	30.6
Cotton	27.1	12.0	7.5	6.9	6.7
Other noncotton	3.8	4.3	4.2	3.5	3.9
<u>(In thousands of metric tons)</u>					
Output					
Groundnuts	56	32	30	146	149
Wheat	235	334	495	280	282
Sorghum	238	254	482	496	394
<u>(In kilograms per feddan)</u>					
Yield					
Groundnuts	700	889	857	885	837
Wheat	599	545	939	560	531
Sorghum	540	500	648	680	730

Sources: Sudan Gezira Board; and Ministry of Agriculture.

Table 18. Sudan: Market Prices of Agricultural Commodities,
1990/91 - September 1994

(In Sudanese pounds, period averages)

	Sorghum (Gedaref) (Per sack) 1/	Millet (El Fasher) (Per sack) 2/	Groundnuts (El-Obeid) (Per kantar) 3/	Sesame (El-Obed) (Per kantar) 3/
1990/91	1,230	1,776	584	825
1991/92	1,057	1,842	1,122	1,688
1992/93	829	1,716	1,407	1,972
1993/94	2,812	7,056	3,353	6,127
1992				
June	726	1,872	1,553	1,641
July	793	1,727	1,513	1,925
August	806	2,000	1,115	1,949
September	707	...	...	1,902
October	734	...	...	...
November	770	...	...	...
December	733	1,450	2,500	...
1993				
January	760	1,500	1,337	...
February	921	1,400	1,030	...
March	1,079	1,613	1,113	1,923
April	880	1,763	1,240	2,160
May	882	1,667	...	...
June	884	2,325	...	...
July	850	2,100	...	...
August	1,157	2,633	...	...
September	1,660	3,500	...	...
October	2,262	...	...	...
November	1,850	...	...	...
December	2,265	...	2,500	4,140
1994				
January	2,370	...	2,750	4,230
February	4,250	...	...	6,940
March	3,460	9,500	3,440	6,110
April	4,110	10,160	3,280	7,850
May	4,760	11,000	4,110	7,490
June	4,750	10,500	4,040	...
July	...	10,530	...	...
August	...	10,770	...	...
September	...	9,230	...	...

Source: Ministry of Agriculture.

1/ Feterita variety; one sack is equal to 91.50 kg.

2/ One sack is equal to 94.35 kg.

3/ One kantar is equal to 44.93 kg.

Table 19. Sudan: Manufacturing Production, 1989/90–1993/94

	1989/90	1990/91	1991/92	1992/93	<u>Prel.</u> 1993/94
Food and beverages					
Flour (thousand tons)	475	722	610	530	423
Sugar (thousand tons)	387	428	470	515	425
Vegetable oils (thousand tons)	93	86	72	180	90
Soft drinks (million dozen bottles)	24	25	33	40	28
Textiles and apparel					
Textiles (million yards)	47	72	50	70	75
Shoes (million pairs)	1.0	0.7	1.2	2.4	1.3
Other consumer goods					
Cigarettes (tons)	965	1,000	875	890	1,935
Tires (thousands)	93	154	229	300	111
Intermediate goods					
Cement (thousand tons)	170	150	175	170	186
Petroleum products (thousand tons)	568	1,085	1,152	1,000	1,000

Sources: Ministry of Industry; and Fund staff estimates.

Table 20. Sudan: Monthly, Quarterly, and Annual Consumer Price Index, 1988/89–October 1994 ^{1/}

(January 1990 = 100)

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
<u>(Index levels, monthly averages)</u>							
July	52.8	95.8	135.8	335	707	1,349	3,083
August	60.0	85.8	164.9	347	725	1,513	3,247
September	57.4	88.9	166.8	341	742	1,590	3,383
October	57.8	85.9	157.8	338	762	1,573	3,275
November	58.5	87.1	161.3	341	819	1,772	
December	60.6	97.4	174.4	345	863	1,888	
January	66.9	100.0	214.1	443	906	2,132	
February	70.3	104.7	249.3	514	965	2,050	
March	69.1	111.0	254.0	559	1,015	2,298	
April	77.9	114.6	291.5	609	1,106	2,482	
May	79.8	123.3	303.9	612	1,119	2,720	
June	89.3	127.6	312.3	636	1,291	2,815	
Year average index level	66.7	101.8	215.5	452	918	2,015	
<u>(Index levels, quarterly averages)</u>							
July–September	56.8	90.1	155.8	341	725	1,484	3,238
October–December	58.9	90.1	164.5	341	815	1,744	
January–March	68.8	105.2	239.1	505	962	2,160	
April–June	82.3	121.8	302.6	619	1,172	2,673	
<u>(Percentage changes)</u>							
Year average	74.8	52.7	111.6	109.5	103.3	119.4	
End–year	81.7	42.9	144.7	103.6	103.0	118.1	
<u>(Change over previous quarter)</u>							
July–September	24.3	9.5	27.9	12.6	17.0	26.7	21.1
October–December	3.8	–0.0	5.6	0.1	12.4	17.5	
January–March	16.7	16.8	45.4	48.0	18.1	23.9	
April–June	19.7	15.8	26.5	22.6	21.8	23.7	
<u>(Change over previous year)</u>							
July–September	138.4	43.7	167.7	61.0	87.7	157.3	115.4
October–December	16.2	–0.1	24.2	0.6	59.9	90.7	
January–March	85.4	85.8	346.6	379.3	94.3	135.4	
April–June	105.4	79.7	156.3	125.8	120.1	134.4	

Table 20 (concluded). Sudan: Monthly, Quarterly, and Annual Consumer Price Index, 1988/89–October 1994 1/

	1988/89	1989/90	1990/91	1991/92	1992/93	1993/94	1994/95
(Percentage change)							
Change over previous month							
July	7.6	7.3	6.4	7.2	11.2	4.5	9.5
August	13.6	-10.5	21.4	3.5	2.6	12.2	5.3
September	-4.3	3.6	1.2	-1.5	2.3	5.1	4.2
October	0.6	-3.3	-5.4	-0.9	2.7	-1.1	-3.2
November	1.2	1.3	2.2	0.7	7.5	12.6	
December	3.6	11.8	8.1	1.3	5.4	6.5	
January	10.5	2.7	22.8	28.3	5.0	12.9	
February	5.0	4.7	16.4	16.1	6.4	-3.8	
March	-1.6	6.0	1.9	8.7	5.2	12.1	
April	12.7	3.2	14.8	9.1	8.9	8.0	
May	2.4	7.6	4.3	0.5	1.1	9.6	
June	11.9	3.5	2.8	3.8	15.4	3.5	
Change over previous year							
July	72.8	81.3	41.7	146.5	111.2	90.8	128.5
August	84.7	42.8	92.3	110.1	109.2	108.7	114.6
September	64.5	54.7	87.7	104.6	117.3	114.3	112.8
October	58.9	48.7	83.6	114.4	125.2	106.4	108.2
November	65.4	48.9	85.2	111.2	140.4	116.3	
December	77.7	60.7	79.1	97.8	150.3	118.6	
January	80.4	49.4	114.1	106.8	104.7	135.2	
February	76.5	49.0	138.1	106.1	87.7	112.5	
March	72.2	60.6	128.8	119.9	81.8	126.4	
April	75.6	47.1	154.4	109.0	81.6	124.5	
May	83.2	54.5	146.5	101.5	82.7	143.2	
June	81.7	42.9	144.7	103.6	103.0	118.1	

Source: Ministry of Finance and Economic Planning.

1/ Middle income Greater Khartoum index.

Table 21. Sudan: Central Government Revenue, 1989/90–1994/95

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94	Modified Budget 1/ 1994/95
(In billions of Sudanese pounds)						
Total revenue	8.3	15.4	34.0	78.2	130.8	271.4
Tax revenue	6.7	9.6	22.7	56.6	105.6	193.8
Taxes on income and profits	1.4	2.4	5.7	20.7	37.9	74.0
Personal income tax	0.3	0.3	0.5	0.9	1.3	1.6
Business profit tax	1.0	1.7	4.4	16.4	30.2	58.0
Sudanese working abroad	0.1	0.1	0.4	0.7	4.2	10.3
Other 2/	...	0.2	0.5	2.6	2.2	4.1
Taxes on goods and services	1.9	3.0	4.8	12.3	28.5	37.0
Excise duties	1.8	1.9	2.8	9.9	17.7	22.5
Sales taxes	0.1	1.0	2.0	2.4	10.8	14.5
Taxes on international trade and transactions	3.3	4.0	11.5	22.6	36.9	76.0
Import duties	2.7	2.8	5.5	13.4	16.9	38.5
Export tax	0.1	0.1	0.6	2.7	3.9	7.5
Defense tax	0.4	0.7	4.8	5.9	13.4	23.2
Other	0.1	0.3	0.6	0.6	2.7	6.8
Other taxes 3/	0.1	0.2	0.7	1.0	2.4	6.7
Nontax revenue	1.6	5.8	11.3	21.6	25.2	77.6
Fees and charges on public services	0.6	1.3	3.8	0.6	2.3	15.8
Charges on land and water	0.0	0.3	0.7	0.8	0.2	6.2
Public enterprises profits, interest, rent, and dividends	0.1	0.3	0.3	1.5	5.1	6.0
Commodity price differentials (oil)	...	...	...	...	...	24.0
Commodity price differentials (sugar)	0.1	2.5	4.1	6.1	7.5	13.0
Sales of Sudanese petroleum	...	...	...	...	...	2.0
Receipts from sales of public enterprises	...	...	...	1.9	0.5	5.8
Land sales	...	...	...	0.0	0.9	2.0
Pension contributions	0.4	0.5	...	...	...	...
Other 4/	0.2	0.7	2.3	10.7	8.5	2.7
Loan repayment	...	...	...	...	0.1	0.1
(In percent of GDP)						
Total revenue	8.1	8.1	8.4	9.4	7.8	9.0
Tax revenue	6.6	5.0	5.6	6.8	6.3	6.4
Nontax revenue	1.5	3.1	2.8	2.6	1.5	2.6
(In billions of Sudanese pounds)						
Nominal GDP	101	190	407	830	1,669	3,032

Source: Ministry of Finance and Economic Planning; and Fund staff estimates.

1/ As approved by the National Assembly and adjusted for revised assumptions on exchange rate and interest payments.

2/ Includes rent tax and capital gains tax.

3/ Includes stamp duty, car licences, agricultural taxes, and airport departure tax.

4/ Includes mechanical transport works surplus, villages replanning charges, and other miscellaneous items.

Table 22. Sudan: Central Government Expenditure, 1989/90-1994/95

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94	Modified Budget 1/ 1994/95
(In billions of Sudanese pounds)						
Total expenditure	22.78	34.77	110.53	254.94	365.35	752.35
Expenditure excluding interest arrears	19.51	31.29	80.64	152.30	197.97	387.46
Current expenditure (excluding interest arrears)	12.33	20.38	51.38	87.30	150.60	279.07
Wages and salaries	0.92	0.94	1.55	3.32	32.67	48.91
Goods and services	4.97	8.44	14.28	29.20	65.54	96.55
Ministries	...	1.94	3.42	9.82	22.14	37.76
Defense	...	5.34	9.50	17.85	41.07	58.79
Other	...	1.17	1.36	1.54	2.33	0.00
Current transfers	6.25	8.90	30.12	38.19	30.87	75.21
To regions	1.95	1.97	2.29	2.66	4.67	20.00
To institutions	4.29	6.93	27.83	35.53	26.21	55.21
Interest paid	0.19	0.13	1.38	3.00	4.92	34.05
General sovereignty expenditure		1.98	4.04	13.59	16.59	24.36
Capital expenditure and net lending	3.18	6.93	21.31	53.10	28.77	108.40
Development expenditure	2.57	5.06	13.68	38.07	25.25	107.70
Foreign expenses	1.40	3.08	9.72	22.66	16.46	44.65
Local expenses	1.17	1.64	3.62	12.64	7.43	55.75
Agriculture and Industry Funds		0.34	0.34	2.77	1.36	7.30
Equity	0.03	0.06	0.41	0.66	0.81	0.70
Net lending	0.58	1.81	7.22	14.38	2.70	0.00
Extrabudgetary	4.01	3.98	7.95	11.89	18.60	...
Interest arrears	3.26	3.48	29.89	102.65	167.38	364.89
(In percent of GDP)						
Total expenditure	22.5	18.3	27.1	30.7	21.9	24.8
Expenditure on cash basis	19.3	16.4	19.8	18.4	11.9	12.8
Current expenditure (excluding interest arrears)	12.2	10.7	12.6	10.5	9.0	9.2
Defense		2.8	2.3	2.2	2.5	1.9
Wages and salaries	0.9	0.5	0.4	0.4	2.0	1.6
Goods and services	4.9	4.4	3.5	3.5	3.9	3.2
Current transfers	6.2	4.7	7.4	4.6	1.9	2.5
Development expenditure	2.5	2.7	3.4	4.6	1.5	3.6
Extrabudgetary	4.0	2.1	2.0	1.4	1.1	--
Interest arrears	3.2	1.8	7.3	12.4	10.0	12.0
(In billions of Sudanese pounds)						
Nominal GDP	101	190	407	830	1,669	3,032

Source: Ministry of Finance and Economic Planning; and Fund staff estimates.

1/ As approved by the National Assembly and adjusted for revised assumptions on exchange rate and interest payments.

Table 23. Sudan: Monetary Survey, 1989/90-1993/94

	1990	1991	June 1992	1993	1994
<u>(In billions of Sudanese pounds) 1/</u>					
Foreign assets (net)	-10.6	-12.1	-235.4	-356.2	-517.8
Bank of Sudan	-12.4	-14.6	-266.3	-386.1	-600.6
Commercial banks	1.9	2.5	30.9	29.8	82.8
Domestic credit	28.7	41.7	81.7	131.3	213.7
Net claims on Central Government	19.3	28.6	60.3	89.9	143.1
Bank of Sudan	20.4	30.0	62.6	91.2	143.7
Commercial banks	-1.0	-1.4	-2.3	-1.3	-0.6
Claims on public enterprises	4.8	4.8	6.4	9.8	10.7
Claims on private sector	4.5	8.4	15.0	31.6	60.0
Other items (net)	-0.1	3.7	-9.7	17.9	32.4
Counterpart to valuation changes 2/	8.4	8.4	258.6	374.6	588.5
Money and quasi-money (M2)	26.3	41.7	95.2	167.5	316.8
Money (M1)	22.2	35.7	61.7	120.1	188.8
Currency outside banks	10.8	13.4	27.9	63.5	111.7
Demand deposits	11.5	22.3	33.8	56.6	77.1
Quasi-money deposits	4.1	5.8	33.5	47.4	128.0
In local currency	3.5	3.4	8.7	17.5	27.8
In foreign currency	0.6	2.6	24.8	30.0	100.1
Memorandum items: 3/					
Official exchange rate	4.5	4.5	98.1	144.7	216.0
Commercial bank exchange rate	12.2	12.2	...	...	312.0
<u>(Changes as percent of beginning stock of broad money)</u>					
Foreign assets (net)	-0.1	-1.5	-223.3	-120.8	-161.6
Domestic credit (net)	8.4	13.1	40.0	49.6	82.5
Net claims on Central Government	7.2	9.2	31.7	29.6	53.2
Claims on nongovernment entities	1.2	3.9	8.2	20.0	29.3
Other items, net	0.9	3.8	-13.4	27.6	14.5
Valuation adjustment	0.2	--	250.3	115.9	214.0
Money and quasi-money	9.4	15.4	53.5	72.2	149.3
<u>(Change from previous year, as percent of broad money)</u>					
Foreign assets (net)	-0.8	-5.8	-535.3	-126.9	-96.5
Domestic credit (net)	49.3	49.7	95.8	52.1	49.2
Net claims on Central Government	42.5	35.1	76.1	31.1	31.8
Claims on nongovernment entities	4.7	14.6	19.7	21.0	17.4
Other items, net	5.1	14.5	-32.1	29.0	8.6
Valuation adjustment	1.4	--	599.9	121.7	127.7
Money and quasi-money	55.0	58.4	128.3	75.9	89.1

Source: Bank of Sudan.

1/ Monetary survey data revised June 1992 in structure and valuation.

2/ Valuation adjustment applies to parts of "other items (net)" as well as to net foreign assets.

3/ End of month exchange rates (pounds per dollar) to be used by Bank of Sudan and commercial banks, respectively, in revaluing foreign currency components of their balance sheets.

Table 24. Sudan: Balance Sheet of the Bank of Sudan, 1989/90–1993/94

(In billions of Sudanese pounds)

	1990	1991	June 1992	1993	1994
Assets	24.0	33.2	67.8	105.6	162.2
Foreign assets	0.1	0.1	2.0	7.6	9.8
Domestic credit	23.9	33.2	65.7	97.9	152.3
Net claims on Central Government 1/	20.4	29.9	62.6	91.2	143.7
Public enterprises and specialized banks	3.4	3.1	2.7	2.3	2.3
Claims on commercial banks	0.2	0.2	0.5	4.4	6.3
Liabilities	24.0	33.2	67.8	105.6	162.2
Reserve money	20.4	31.1	59.2	103.5	178.9
Currency outside banks	10.8	13.4	27.9	63.5	111.7
Cash in commercial banks	0.5	2.8	2.9	5.7	13.7
Deposits of commercial banks 2/	8.2	13.1	24.7	29.6	48.6
Other current deposits	0.9	1.7	3.7	4.8	4.8
Quasi-money deposits	0.2	0.4	8.2	5.8	12.7
Foreign liabilities	12.5	14.7	268.3	393.7	610.5
Revaluation accounts 3/	-8.9	-8.9	-265.3	-385.2	-597.5
Rescheduling adjustment	-0.7	-0.7	-0.6	-0.6	-0.6
Capital accounts	0.4	0.5	0.2	0.9	-0.5
Other items (net) 4/	0.2	-3.8	-2.1	-12.4	-41.2
Memorandum items:					
Official exchange rate	4.5	4.5	97.1	143.7	216.0
Commercial bank exchange rate	12.2	12.2	...	...	310.0

Source: Bank of Sudan.

1/ Excludes counterpart to overdue Fund charges.

2/ Includes mandatory and free reserves held by commercial banks, plus working balances.

3/ Offset to valuation effects in foreign currency assets and liabilities.

4/ Includes counterpart to overdue Fund charges.

Table 25. Sudan: Consolidated Balance Sheet of the
Commercial and Specialized Banks, 1989/90–1993/94 ^{1/}

(In billions of Sudanese pounds)

	1990	1991	June 1992	1993	1994
Assets	16.9	27.5	83.8	118.3	226.3
Reserves	8.4	14.2	28.0	39.7	57.1
Vault cash	0.5	2.8	2.9	5.7	13.7
Balances with Bank of Sudan	7.9	11.4	25.0	33.8	42.7
Statutory reserves ^{1/}	...	...	...	1.0	22.0
Other balances	7.9	11.4	25.0	32.8	20.7
Other claims	--	--	--	0.2	0.7
Foreign assets, of which:	2.6	3.2	37.1	38.5	98.4
Claims on foreign banks	...	...	...	36.1	86.2
Claims on Central Government	--	--	--	1.1	2.6
Claims on public enterprises	1.4	1.7	3.4	6.9	5.5
Claims on private sector, of which:	4.6	8.4	15.0	31.6	59.9
Agriculture	...	...	...	8.2	16.6
Industry	...	...	...	5.8	11.2
Local trade financing	...	...	...	5.3	5.0
Claims on nonbank financial institutions	...	...	0.3	0.5	2.8
Liabilities	16.9	27.5	83.8	118.3	226.3
Demand deposits	10.5	20.6	30.1	51.8	72.3
Time and saving deposits	2.4	2.3	3.1	7.8	13.1
Margin accounts on trade financing	0.9	0.9	3.5	6.1	4.6
Restricted deposits	...	0.1	0.2	0.2	0.2
Central Government deposits	1.1	1.4	2.3	2.3	2.9
Government lending funds ^{2/}	--	--	--	0.1	0.2
Liabilities to Bank of Sudan	--	--	0.3	0.2	1.3
Foreign liabilities, of which	0.7	0.7	6.2	8.6	15.6
To nonresident banks	...	...	...	5.4	10.7
Foreign currency deposits ^{3/}	0.6	2.3	18.8	27.7	97.5
Capital accounts	1.6	2.1	5.2	11.0	25.1
Exchange valuation adjustment (net) ^{4/}	1.2	1.2	7.3	11.3	9.6
Unclassified liabilities, net ^{5/}	-2.1	-4.1	6.8	-8.9	-16.2
Memorandum item:					
Net foreign currency position ^{6/}	1.2	0.2	12.1	2.1	-14.8

Source: Bank of Sudan.

^{1/} Data exclude Agricultural Bank of Sudan.

^{2/} Funds for onlending in context of Islamic finance.

^{3/} Foreign currency deposits of Sudanese residents.

^{4/} Net valuation effect between assets and liabilities.

^{5/} Net of unclassified assets, including interbranch accounts.

^{6/} Foreign assets, less foreign liabilities and foreign currency deposits of residents. Small amounts of foreign currency positions may be located elsewhere in the balance sheets.

Table 26. Sudan: Claims of the Banking System on the Central Government, 1989/90–1993/94

(In billions of Sudanese pounds)

	1990	1991	June 1992	1993	1994
Total net claims on Central Government	19.3	28.6	60.3	89.9	143.1
Bank of Sudan					
Net claims on Central Government	20.4	29.9	62.6	91.2	143.7
Claims on Central Government	23.7	33.9	73.9	108.0	147.1
Main government account	11.3	21.5	61.3	61.3	61.3
Temporary advances	1.5	1.5	1.5	35.5	74.5
Long-term loans	9.3	9.3	9.3	9.3	9.3
Arrears on Fund charges ^{1/}	0.4	0.4	0.6	0.8	0.9
Treasury IMF position	1.2	1.2	1.2	1.2	1.2
Less: Government deposits	3.3	3.9	11.3	16.8	3.4
Commercial banks					
Net claims on Central Government	-1.0	-1.4	-2.3	-1.3	-0.6
Claims on Central Government	--	--	--	1.1	2.6
Less: Government deposits, of which:	1.1	1.4	2.3	2.3	2.9
Demand deposits	--	--	--	1.8	2.3
Margin accounts ^{2/}	--	--	--	0.5	0.1

Source: Bank of Sudan.

^{1/} Excludes valuation effects from exchange rate changes.

^{2/} Margins collected for import transactions.

Table 27. Sudan: Commercial Banks' Rates of Return and Charge, 1983–94 ^{1/}

(In percent per annum or percent ranges)

	Jan. 1983– Sept. 1984	April 1989	May 1990	Since July 1993 ^{2/}
Lending rates				
Discount of bills of exchange	20	...	...	...
Advances against bills of exchange	20	...	...	...
Advances to industrial borrowers	17	...	...	...
Overdrafts and other advances	17–20	...	...	...
Murabaha				
Short-term ^{3/}	...	2–3	1–3	...
Long-term	...	15–35	15–18	...
By purpose:				
Agriculture				30
Exports				30
"Other productive sectors"				36
Crafts and Cooperatives				25
Local trade				48
Musharaka	...			
Minimum on customer participation	...	...	5–25	...
Share for management	...	20–30	15–45	...
Bank's share	...	...	55–85	...
Deposit rates				
Demand deposits	--	--	--	--
Fixed deposits				
6 months	14	...	...	...
12 months	15	...	...	...
Savings deposits	13	...	...	...
Foreign currency deposits (U.S. dollars and pounds sterling)		Linked to rates in international markets		

Source: Bank of Sudan.

^{1/} The charging and payment of interest was prohibited by law effective September 1984, when banks' operations were made subject to Islamic principles. Observations for April 1989 and later are based on Bank of Sudan circulars.

^{2/} Minimum annualized nominal rates. Owing to discounts, advance payments, and other lending practices, effective rates are higher.

^{3/} Monthly profit margins for loans under one year.

Table 28. Sudan: Commercial and Specialized Banks: Balance Sheets and Deposits at Bank of Sudan, June 1994

(In billions of Sudanese pounds)

	Deposits at Bank of Sudan	Balance Sheet Size
Commercial banks	36.9	436.5
Bank of Khartoum Group <u>1/</u> <u>2/</u>	13.7	87.4
El Nilein Bank Group <u>1/</u> <u>3/</u>	4.7	55.1
El Tadamon Islamic Bank	1.6	77.8
Al Shamal Islamic Bank	1.2	39.9
Sudan Islamic Bank	1.7	20.2
Sudanese–French Bank	1.6	25.7
Al Baraka Bank	1.4	11.2
National Bank of Sudan	0.9	16.1
Saudi Sudanese Bank	2.1	14.4
Sudan Commercial Bank <u>4/</u>	1.5	13.7
Faisal Islamic Bank	2.0	17.5
Omdurman National Bank	0.5	17.6
El Gharb Islamic Bank	0.5	7.9
Animal Resources Bank	0.1	8.5
Citibank	0.7	4.0
National Bank of Abu Dhabi	0.1	2.7
Farmers' Bank	0.3	4.0
Workers National Bank	0.8	2.9
Islamic Cooperation Development Bank	0.9	7.0
Al Mashreq Bank	0.1	1.0
Blue Nile Bank	0.2	0.9
National Development Bank	0.1	0.5
Habib Bank	0.06	0.3
Safa Investment and Credit Bank	0.06	0.2
Ivory Bank (established 1994)		
Specialized banks		
Agricultural Bank of Sudan <u>1/</u>	--	30.1
Sudan Savings Bank <u>1/</u>	1.0	4.2
Sudan Estates Bank <u>1/</u>	0.5	4.5

Source: Bank of Sudan

1/ Government–owned bank.

2/ Merger of Bank of Khartoum, Unity Bank, and Exim Bank in 1993.

3/ Merger of El Nilein Bank and Industrial Bank in 1993.

4/ Privatized in sale to Farmers' Bank.

Table 29. Sudan: Commodity Composition of Exports, f.o.b., 1989/90-1993/94

(Value in millions of U.S. dollars; volume in thousands of tons except as indicated; price in U.S. dollars per ton except as indicated)

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
Total	442.8	342.1	349.2	353.1	502.8
Total recorded	423.1	331.0	334.5	346.7	500.2
Cotton	229.0	161.8	122.2	62.6	95.9
Extra long--staple	85.1	47.7	43.0	24.5	35.9
Volume (thousand bales)	180.0	142.0	142.1	117.9	134.4
Unit value (U.S. cents/lb)	112.6	80.0	72.1	49.5	63.6
Other	143.9	114.1	79.1	38.0	60.0
Volume (thousand bales)	539.8	449.8	321.9	384.3	276.2
Unit value (U.S. cents/lb)	63.5	60.4	58.5	23.6	51.7
Groundnuts	20.1	15.3	7.6	15.7	25.8
Seeds and edible nuts	3.5	4.3	0.4	4.2	4.6
Volume	7.2	5.5	0.6	7.2	12.3
Unit value	482.6	782.3	574.9	580.2	375.2
Oil	10.1	10.3	5.9	5.7	11.7
Volume	13.3	11.3	7.7	5.1	17.1
Unit value	761.5	910.8	770.1	1,114.1	685.1
Cake	6.5	0.7	1.4	5.8	9.5
Volume	55.4	6.7	11.4	51.7	75.2
Unit value	117.4	105.7	119.3	112.3	126.3
Sesame	49.9	27.7	42.2	52.2	76.7
Seed	48.9	27.7	42.2	50.6	74.2
Volume	53.4	21.7	56.0	97.3	137.3
Unit value	916.6	1,278.0	753.2	537.5	540.3
Cake	0.9	--	--	1.6	2.5
Volume	6.0	--	--	8.4	15.2
Unit value	140.0	--	--	191.4	164.5
Dura	10.8	--	--	42.3	34.9
Volume	106.9	--	--	415.0	358.9
Unit value	101.0	--	--	101.9	97.3
Gum arabic	44.1	60.5	39.2	19.8	81.0
Volume	21.1	29.4	19.9	12.8	24.1
Unit value	2,090.0	2,061.1	1,969.8	1,547.0	3,361.0
Livestock	27.3	22.6	32.6	72.5	89.8
Sheep and lambs	22.8	22.3	30.5	53.0	76.8
Volume (thousand head)	207.1	257.2	294.6	697.3	793.0
Unit value (U.S. dollars per head)	110.0	86.6	78.6	76.0	96.8
Cattle	3.8	--	1.0	18.5	4.7
Camels and goats	0.6	0.3	1.2	1.0	8.3
Other	42.0	43.2	90.7	81.6	96.1
Hibiscus (karkadeh)	1.4	1.4	13.8	8.1	15.2
Yarn	1.7	2.6	3.5	2.9	0.5
Watermelon seeds	11.7	8.3	15.8	7.7	8.3
Hides and skins	9.5	17.1	16.3	11.6	9.4
Fruits and vegetables	6.8	0.5	2.1	2.3	2.1
Other	11.0	13.3	39.2	49.0	60.6
Unrecorded in customs data	19.6	11.1	14.6	4.5	2.6
Livestock	14.0	7.5	7.5	--	--
Camels (Egypt bilateral)	5.6	3.6	7.1	4.5	2.6

Sources: Information provided by the Sudanese authorities, and Fund staff estimates.

Table 30. Sudan: Commodity Composition of Imports, c.i.f.,
1989/90-1993/94

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

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
Foodstuffs ^{1/}	227.6	344.1	326.3	165.5	204.8
Wheat	149.6	220.6	238.1	17.2	9.6
Wheat flour	20.7	56.4	26.7	12.5	55.8
Sugar	6.4	3.8	--	--	--
Tea	14.2	21.9	13.7	6.8	32.1
Coffee	9.4	8.5	6.3	3.0	8.5
Dairy products	10.2	--	--	3.9	2.2
Animal and vegetable oils	6.2	21.9	24.4	34.8	7.0
Other foodstuffs	11.0	11.0	17.2	87.3	89.6
Drinks and tobacco	3.6	1.2	1.6	2.5	6.6
Crude materials	244.8	400.3	305.5	279.6	254.5
Petroleum	243.9	356.2	224.5	249.5	230.4
Quantity (thousand metric tons)	1,359.0	1,502.5	1,251.0	1,384.6	1,514.1
Unit value (US\$ per metric ton)	179.5	237.1	179.0	180.2	152.2
Other	0.9	44.1	81.0	30.2	24.1
Chemicals	79.9	109.4	97.5	57.1	113.3
Pharmaceuticals	22.5	20.3	26.9	8.0	12.2
Fertilizers	16.7	33.2	33.3	15.6	28.2
Insecticides	13.0	28.5	26.8	4.0	18.9
Other	27.6	27.4	10.6	29.6	54.0
Manufactured goods	140.1	305.6	181.9	199.5	293.2
Machinery and equipment	117.4	168.2	168.1	163.6	202.1
Transport equipment	168.8	172.3	195.4	191.7	134.2
Automobiles	17.3	30.4	41.6	50.9	21.4
Trucks	132.8	35.3	39.9	103.7	60.6
Auto spare parts	13.3	90.9	112.0	13.7	37.4
Other	5.4	15.7	1.8	23.4	14.8
Textiles	53.0	34.3	13.5	8.3	17.4
Total	1,035.2	1,535.4	1,289.8	1,067.8	1,226.2

Source: Staff estimates based on information provided by Sudanese authorities.

^{1/} Includes commodity aid imports, and emergency aid assistance.

**Table 31. Sudan: Commodity Aid and Cash Loan Disbursements
1989/90–1993/94**

(In millions of U.S. dollars)

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
Bilateral official	191.0	462.3	173.3	12.6	3.7
Denmark	4.0	--	--	--	--
Finland	1.1	1.1	--	--	--
France	1.6	--	1.0	--	--
Italy	9.0	6.0	1.0	0.5	3.7
Japan	14.8	--	2.9	8.0	--
Kuwait and Egypt	4.0	--	--	--	--
Libya	74.9	271.0	160.5	--	--
Netherlands	9.7	6.5	7.9	4.1	--
Nigeria	--	1.7	--	--	--
Qatar	5.1	--	--	--	--
Saudi Arabia	32.0	156.0	--	--	--
Turkey	1.3	--	--	--	--
United Kingdom	1.6	--	--	--	--
United States	31.9	20.0	--	--	--
Multilateral	211.3	119.2	139.5	90.1	65.6
IDA	16.3	--	--	--	--
AfDB/AfDF	75.0	--	--	18.0	--
ISDB	--	10.0	--	--	--
OPEC Fund	--	7.0	--	--	--
World Food Program	120.0	102.2	139.5	72.1	65.6
Commercial	--	--	34.1	83.0	25.0
Bangladesh	--	--	--	25.0	--
Indonesia	--	--	10.0	--	--
Libya	--	--	--	13.0	25.0
Malaysia	--	--	--	40.0	--
Pakistan	--	--	6.7	5.0	--
Saudi Arabia	--	--	17.4	--	--
Total, of which:	402.3	581.5	346.9	185.7	94.3
Grants	192.7	109.8	154.0	84.7	69.3
Loans	209.6	471.7	192.9	101.0	25.0

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

Table 32. Sudan: Disbursements of External Project Grants and Loans, 1989/90–1993/94 ^{1/}

(In millions of U.S. dollars)

	1989/90	1990/91	1991/92	1992/93	Est. 1993/94
IDA ^{2/ 3/}	86.3	99.5	66.4	77.1	33.4
IFAD	6.9	6.9	4.1	2.8	4.3
AfDB ^{2/}	24.7	12.7	14.9	16.6	2.9
AfDF	7.7	12.0	15.6	33.3	6.8
EIB	2.1	9.6	0.9	1.2	--
UNDP	10.0	16.5	42.2	16.0	6.0
IDB	0.2	1.9	6.3	2.4	0.2
OPEC Fund	5.2	10.0	11.1	1.2	0.1
Arab Fund	8.9	1.1	7.3	--	--
Kuwait Fund	16.7	0.5	--	--	--
Saudi Fund	3.8	8.4	21.1	2.4	--
EEC	11.6	14.3	9.4	6.4	4.5
Canada	--	--	1.3	0.3	--
China	--	5.1	5.2	4.5	13.5
Finland ^{4/}	7.9	--	--	--	--
Germany ^{4/}	8.6	--	7.2	2.1	1.5
Iran, Islamic Republic of	--	--	2.1	7.3	5.0
Japan	45.9	39.0	22.6	--	--
Netherlands ^{4/}	20.8	13.3	28.0	4.3	--
United Kingdom ^{4/}	12.5	--	--	--	--
United States ^{4/}	30.3	12.0	--	--	--
UNHCR	1.5	--	--	--	--
Total	311.5	262.8	265.9	177.5	78.2
Of which: Grants	149.1	95.1	114.6	39.7	18.8
Loans	162.4	167.7	151.3	137.8	59.4

Sources: Ministry of Economics, Planning, and Investment; and Fund staff estimates.

^{1/} Based upon withdrawal applications sent to creditors for disbursement, except as indicated by footnotes 3 and 4.^{2/} Excludes drawings under the third Agricultural Recovery Program to finance agricultural inputs which is shown in commodity aid.^{3/} For 1989/90 to 1992/93 based on World Bank disbursement data.^{4/} The figures for 1989/90 and 1990/91 represent contractual installments. They are believed to overstate disbursement but by an unknown amount.

Table 33. Sudan: External Public Debt Service Obligations, 1989/90–1993/94

	1989/90	1990/91	1991/92	1992/93	<u>Est.</u> 1993/94
(In millions of U.S. dollars)					
Principal due	752	742	622	518	510
IMF (including Trust Fund)	72	38	2	—	—
Other	680	704	620	518	510
Interest due	767	801	836	845	868
IMF (including Trust Fund)	105	116	106	73	49
Other <u>1/</u>	662	685	730	772	819
Total debt service due	1,519	1,543	1,458	1,363	1,378
IMF (including Trust Fund)	184	154	108	73	49
Other <u>1/</u>	1,355	1,377	1,348	1,387	1,329
Actual debt service payments	105	93	147	40	28
(As a percent of exports of goods, nonfactor services, and private transfers)					
Memorandum item:					
Debt service <u>2/</u>	181	315	261	238	208

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

1/ Includes estimates of late interest and interest on short-term credits.

2/ Commitment basis.

Table 34. Sudan: External Public Debt Including Arrears, 1989-93

(In millions of U.S. dollars)

	End of December				
	1989	1990	1991	1992	1993 ^{1/}
Multilateral loans	2,844	3,234	3,471	...	3,657
AfDB	43	59	68	...	80
AfDF	69	94	107	...	126
Arab Fund	271	274	283	...	256
Arab Monetary Fund	189	196	206	...	248
European Investment Bank	56	60	69	...	76
IBRD	28	21	22	...	6
IDA	874	966	1,023	...	1,123
IFAD	50	56	63	...	64
IMF GA	1,098	1,302	1,409	1,433	1,489
IMF Trust Fund	91	99	99	114	117
Islamic Development Bank	3	20	24	...	2
Multiple lenders	29	32	34	...	17
OPEC Special Fund	43	55	62	...	54
Bilateral loans	7,413	7,965	8,682	...	...
Paris Club 2/	3,414	3,673	3,942	...	...
Other	3,999	4,292	4,740	...	...
Iran, Islamic Republic of	156	164	172	...	174
Iraq	102	104	106	...	101
Kuwait	1,071	1,104	1,140	...	684
Libya	111	240	520	...	562
Qatar	27	27	28	...	27
Saudi Arabia	1,678	1,776	1,878	...	1,571
United Arab Emirates	150	156	162	...	201
Czechoslovakia	114	123	131	...	107
Hungary	4	4	4	...	12
Poland	28	31	34	...	28
Romania	124	130	137	...	173
U.S.S.R.	37	39	40	...	43
China	89	90	92	...	100
Egypt	214	214	214	...	74
India	9	10	11	...	5
Indonesia	--	--	--	...	1
Korea	4	4	5	...	13
Malaysia	--	--	--	...	41
Pakistan	--	--	--	...	8
Turkey	38	38	39	...	53
Yugoslavia	43	39	28	...	...
Croatia	...	...	...	...	64
FRY-Serbia and Montenegro	...	...	...	...	42
Suppliers' credits	496	677	714	...	...
Financial institutions	2,096	2,282	2,479	...	...
Total	12,849	14,143	15,346	...	...

Source: Staff estimates based on information provided by Sudanese authorities.

^{1/} Information derived from new official debt monitoring exercise, and not reconciled with earlier data.^{2/} Country breakdown for 1989-1991 provided in SM/92/130, (7/2/92), Table 31.