INTERNATIONAL MONETARY FUND

Staff Country Reports

October 2007
IMF Country Report No. 07/343

Sudan: 2007 Article IV Consultation and Staff-Monitored Program—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Sudan

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2007 Article IV consultation and staff-monitored program with Sudan, the following documents have been released and are included in this package:

- The staff report for the 2007 Article IV consultation and staff-monitored program, prepared by a staff team of the IMF, following discussions that ended on June 28, 2007, with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on August 6, 2007. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- A staff statement of September 4, 2007 updating information on recent developments.

- A Public Information Notice (PIN) summarizing the views of the Executive Board as expressed during its September 7, 2007 discussion of the staff report that concluded the Article IV consultation.

- A statement by the Executive Director for Sudan.

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

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INTERNATIONAL MONETARY FUND

SUDAN

Staff Report for the 2007 Article IV Consultation and Staff-Monitored Program

Prepared by the Middle East and Central Asia Department
(in consultation with other departments)

Approved by Adam Bennett and Adnan Mazarei
August 6, 2007

Mission dates: June 13–28, Khartoum. The mission met with Mr. Ahmed Elhassan El Zubair (Minister of Finance and National Economy), Dr. Mohamed Hassan Sabir (Governor of the Central Bank of Sudan), other senior officials, and representatives of the business and donor communities.

IMF team: H. Al-Atrash (head), T. Schneider, K. Moriyama (all MCD), M. Tareen (PDR), S. Arslanalp (FAD), J. Solé (MCM), and K. Abdallah (Resident Representative). Mr. Uanguta (OED) attended the policy meetings.

Exchange system: Sudan accepted the obligations of Article VIII, Sections 2, 3, and 4 on October 8, 2003, and has (until June 2007) maintained an exchange system that is free of restrictions on the making of payments and transfers for current international transactions. On June 4, 2007, the Central Bank of Sudan introduced a cash margin requirement on letters of credit and import credit that constitutes an exchange restriction and multiple currency practice under Article VIII, Section 2(a) and 3. Sudan has maintained a managed float exchange rate system since May 2003, and a de facto peg since January 2007.

Fund relations: The Executive Board completed the 2006 Article IV Consultation on May 3, 2006. The staff report and PIN were made available at: www.imf.org/external/pubs/ft/scr/2006/cr06182.pdf on May 24, 2006.

Fund surveillance: In recent consultations, the Fund's advice has focused on fiscal prudence, transparency, exchange rate flexibility, and structural reforms to reduce market rigidities and maintain competitiveness. This advice has been partly followed. While Sudan did take some key fiscal measures—such as reducing fuel subsidies—the overall deficit increased in 2006, largely due to revenue shortfalls. The exchange rate was allowed to appreciate, but downward flexibility in the face of shifting fundamentals has been lacking. Progress has been made on fiscal transparency, but some major weaknesses remain. Reforms to ensure external competitiveness have been slow, but may accelerate in line with a new 5-year plan.

Data: Bank of Sudan (http://www.bankofsudan.org), Ministry of Finance and National Economy (http://www.mof.gov.sd/English/index.htm). Despite some weaknesses, data provision is adequate for surveillance. Sudan participates in the GDDS.

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EXECUTIVE SUMMARY

Background

Sudan has maintained close cooperation with the Fund over the last eight years, as evidenced by good performance under successive staff monitored programs (SMPs) and by making payments in excess of obligations falling due. Performance under the 2006 SMP was mixed, however, reflecting a number of new challenges to economic management, and some weaknesses in the policy framework.

Macroeconomic imbalances emerged in the latter half of 2006 and early 2007. Expansionary fiscal policy, combined with lower oil revenues, resulted in a buildup of government arrears, a deterioration of financial sector indicators, and exchange rate pressures.

Focus of discussions and main policy recommendations

The Article IV and SMP discussions focused on (i) policies to ensure macroeconomic stability and growth; (ii) fiscal reforms to increase the revenue base; and (iii) financial sector reforms to strengthen financial intermediation and increase investment. The main elements of an 18-month SMP (July 2007–December 2008) are:

- **A tightening of the fiscal stance.** The authorities agreed to reduce the 2007 fiscal deficit by about 2 percent of GDP in the second half of 2007, to 3.8 percent of GDP.

- **A prudent monetary policy targeting single digit inflation, combined with greater exchange rate flexibility.** The central bank will limit foreign exchange intervention and target an increase in international reserves.

- **Fiscal reforms to increase the revenue base and improve public finance management.** Critical measures to be implemented include: (i) establishing a Treasury Single Account; (ii) enacting controls that limit expenditures; (iii) halting the use of nontraditional forms of financing; (iv) adopting 2001 GFSM classification for the 2008 budget; (v) reducing VAT exemptions and income tax holidays; and (vi) improving tax administration.

- **Financial sector reforms to address current weaknesses and promote development.** In particular, an audit of Omdurman Bank will be done in preparation for a resolution/restructuring plan for the bank.

The main risk remains waning political support for reforms, given Sudan's concern with the lack of progress on debt relief.

I. Introduction

1. **Sudan has maintained close cooperation with the Fund over the last eight years**, as evidenced by generally good performance under successive staff monitored programs (SMPs) and by making payments in excess of obligations falling due. This positive track record is notable given a rapidly changing economic landscape as well as international political pressures associated with a post-conflict environment. Performance under the 2006 SMP was mixed, however, reflecting a worsening economic situation and weaknesses in the policy framework.

2. **Sudan's economy has significant potential if concerns related to policy management and security can be improved.** The major challenges discussed were: (i) policies to ensure macroeconomic stability in the context of significant structural changes; (ii) recent fiscal performance and the need for further reform of public financial management, tax policy, and tax administration; and (iii) financial sector reform and development. Agreement was reached on an 18-month SMP (July 2007–December 2008), which balances a prudent macroeconomic framework with fiscal reforms to increase the revenue base, and financial sector reforms to strengthen financial intermediation.

II. Recent Developments and Performance Under the 2006 SMP

3. **The Comprehensive Peace Agreement (CPA) is being implemented, and progress is being made in a number of key areas.** Most of the commissions mandated in the CPA have now been formed. However, three critical commissions—the National Human Rights Commission, the Electoral Commission, and the Land Commission—have yet to be created. Draft bills on these bodies will be discussed when the National Assembly reconvenes in October. Importantly, the National Assembly recently passed legislation to establish the National Audit Chamber. The nationwide exchange to a new national currency (the Sudanese pound) was also largely completed as of end-June 2007 (a limited exchange is available for a few additional months in remote parts of the country).

4. **Darfur remains Sudan's single most difficult political issue.** Recent developments, however, suggest room for some guarded optimism. Sudanese negotiators agreed on June 12 in Addis Ababa to the deployment of the full 23,000 strong UN/African Union hybrid force in Darfur. There remains the significant risk that this achievement will be short-lived if it is not followed by domestic and international political dialogue to address the root causes of the Darfur crisis.

5. **Economic growth was strong in 2006, but inflation rose.** Overall real GDP increased by 12 percent (Text Table 1), with growth in oil production over 26 percent. Non-oil GDP increased by roughly 10 percent—buoyed by a continued recovery in agriculture and strong activity in manufacturing, construction, and services. However, the 12-month rate of inflation nearly tripled from 5.6 percent in 2005 to 15.7 percent in 2006. A substantial portion of the price surge was linked to an increase in administered prices (fuels and transportation) in the third quarter of 2006. The rate of inflation declined to 8–9 percent by February–March 2007 (largely due to a drop in food prices), and has remained in this range through June.[1]

Text Table 1. Selected Economic Indicators, 2002–06
(In percent of GDP, unless otherwise noted)

	2002	2003	2004	2005	2006 Est.
Real GDP growth (in percent)	5.4	7.1	5.1	8.6	11.8
Consumer prices (average, in percent)	8.3	7.7	8.4	8.5	7.2
Gross investment	19.5	20.0	22.5	23.6	24.6
Balance of the central government 1/	3.1	0.7	1.5	-1.8	-4.2
Broad money growth (in percent)	30.3	30.3	32.1	44.7	27.4
External current account balance 1/	-6.6	-4.7	-3.8	-8.3	-13.1
Net international reserves (in months of imports)	0.3	0.8	1.9	2.4	1.7

Sources: Sudanese authorities; and Fund staff estimates.
1/ Cash basis.

6. **Oil production was below target in 2006, and the performance of a new crude (Dar blend) on international markets was initially disappointing.** Average daily production rose from 287,000 barrels per day (bpd) in 2005 to 364,000 bpd in 2006. While this increase in output was notable, it was well below projected levels of 492,000 bpd envisioned at the beginning of the year. Technical problems delayed production of Dar blend from new fields until the fourth quarter. Further, marketing problems with Dar blend (which is highly acidic and difficult to process), resulted in substantial discounts in international markets. Many of the technical problems continued into the first part of 2007, limiting production and exports. By the end of the second quarter, however, key infrastructure problems had been resolved, and Dar blend had found wider acceptance in international markets, resulting in a substantial increase in price.[2]

7. **The fiscal position deteriorated substantially in 2006, reflecting mostly revenue shortfalls.** The overall deficit is estimated to have widened to over 4 percent of GDP (2 percentage points higher than targeted in the revised 2006 SMP—Text Table 2). Shortfalls in oil revenue played a key role. Non-oil revenues were also lower than projected, however, due to administrative deficiencies and wide use of tax exemptions—notably in the

[1] Core inflation (excluding food and transport) rose from 11 percent at end-2005 to 13.3 percent by end-2006, but declined to 6.3 percent by June 2007.

[2] By May-June, the discount on Dar blend relative to dated Brent had narrowed from about US$34 per barrel (at the beginning of the year) to US$25 per barrel.

VAT, customs, and business profit tax (the tax-to-GDP ratio fell from 6.9 to 6.3 percent from 2005 to 2006). In addition, capital spending exceeded programmed levels, and poor expenditure control resulted in further accumulation of domestic arrears (equivalent to about 2 percent of GDP). The deficit was financed by running down the oil savings account (OSA), issuance of government bonds, and central bank credit. The deficit on a commitment basis was larger due to accumulation of arrears and the nonrecording of expenditure financed by the issuance of promissory notes ("sanadats"). Some of the loss of fiscal discipline also appears linked to fulfilling commitments under the various peace agreements in the absence of anticipated donor funding.

Text Table 2. Sudan: Selected Fiscal Indicators, 2006

	2006 Rev. Prog.	2006 Est.
	(In billions of Sudanese dinars)	
Total revenue	1,796	1,579
Of which: Oil	1,020	879
Total expenditure	1,970	1,923
Current Expenditure	1,683	1,611
Capital Expenditure	287	312
Overall balance	-174	-344
(as share of GDP)	*-2.1*	*-4.2*

Sources: Sudanese authorities; and IMF staff estimates.

8. **Many of the fiscal difficulties that emerged in 2006 carried over into the first quarter of 2007.** With continued difficulties in the production and sale of Dar blend, oil revenues again fell short of projections. With expenditures remaining largely in line with the budget, the overall deficit for the first quarter was roughly 6 percent on an annualized basis. Critically, the shortfall in oil revenue is having a direct impact on the public finances not only of the national government (the Government of National Unity—GNU), but also on the Government of Southern Sudan (GOSS). Most of GOSS's income derives from the share of oil revenues accorded to the South under the Wealth Sharing provisions of the CPA. The shortfall in production and export of Dar blend in the first quarter (relative to GOSS expectations) has resulted in the emergence of a substantial deficit for GOSS and the need for either considerable cuts in expenditure or additional donor financing.[3]

9. **The external current account worsened significantly in 2006, reaching a deficit of roughly 13 percent of GDP.** While exports of crude oil rose by some 70 percent in volume terms, the extremely low price received for Dar blend resulted in an increase of only 24 percent in value terms. Nonoil exports, meanwhile, declined by some 11 percent in dollar terms—with notable drops in cotton, gum arabic, and livestock products. The strong appreciation of the dinar appears to have had some impact, but an increasingly costly business environment also appears to have been a factor. Imports—particularly of capital goods—surged over the course of the year, reflecting strong foreign investment and capital spending. The large current account deficit contributed to a sharp drop in net international reserves of the central bank, which fell by almost one-third (from US$1.9 billion at end-2005

[3] The World Bank fielded a mission to Southern Sudan during June to help the GOSS assess the revenue shortfall and the short-term outlook, as well as options to improve budget formulation.

to less than US$1.4 billion by end-2006). The loss in international reserves also resulted from increased foreign exchange sales to mop up excess dinar liquidity associated with fiscal expansion and the injections into state-owned Omdurman Bank, and to bring the dinar to a soft landing after two years of steady appreciation.

10. **Monetary policy was largely accommodative during the first half of 2006, but was tightened in the latter part of the year.** Broad money growth (year-over-year) peaked at 45 percent by July 2006—roughly in line with end-2005 levels. Growth of credit to the private sector was notably more rapid, however, reaching almost 90 percent by July, which added to pressure on prices and international reserves. Money and credit growth slowed dramatically in the final three months of the year, however, due largely to corrective actions by the central bank, a decline in deposits linked to the difficulties in Omdurman Bank, and central bank sales of foreign exchange. Broad money growth ended the year at 27 percent, while private sector credit growth declined to 45 percent. Data for the first five months of 2007 show a continuation of this trend. Broad money growth as of end-May stood at 5 percent—the lowest level in more than five years—reflective of the continued drop in net foreign assets. Private sector credit growth has also slowed further to 16 percent as of end-May (Figures 1 and 2).

Figure 1. Sudan: Broad Money Growth and Contribution
(12-month growth, percent)

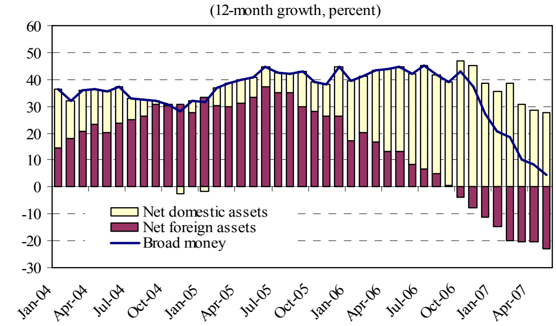
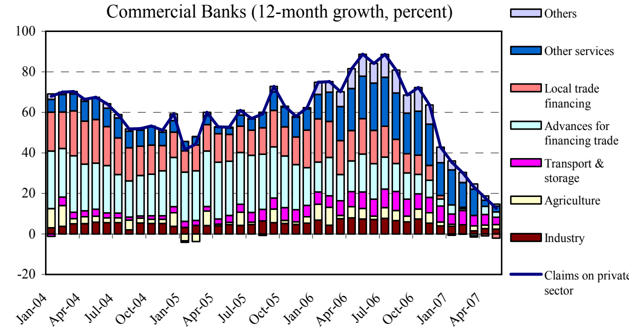
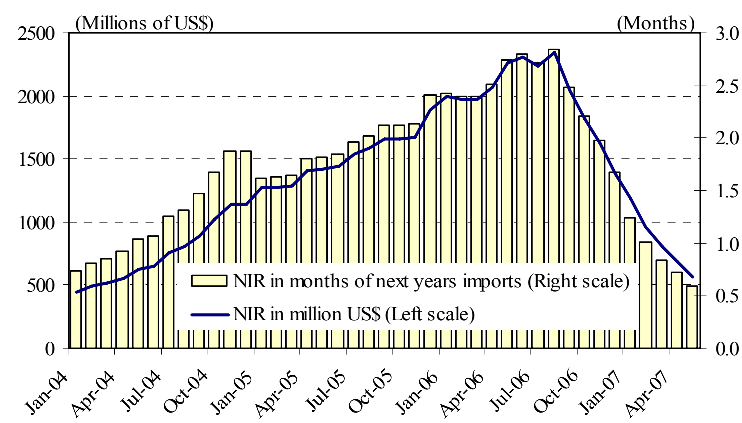


Figure 2. Claims on Private Sector of Commercial Banks (12-month growth, percent)



11. **The dinar appreciated steadily during 2006 but has remained flat during 2007.** The dinar rose by 12.7 percent in nominal terms vis-à-vis the U.S. dollar in 2006. The real effective exchange rate appreciated by 21 percent during the same period due to the surge in inflation. From end-December onwards, however, the dinar has been virtually flat—fluctuating

Figure 3. Sudan: Net International Reserves



within a very narrow range—and the exchange rate system is now a de facto peg. The stability of the dinar relative to the dollar has been facilitated by continued ample sales of foreign exchange by the central bank, leading to a further decline in net international reserves to an uncomfortably low level of US$563 million (less than three weeks of imports) as of end-May 2007 (Figure 3).

12. **Financial sector indicators (FSIs) have deteriorated markedly, reflecting fiscal expansion, rapid credit growth, the accumulation of government arrears, and the intervention of state-owned Omdurman Bank** (Text Table 3 and Table 10). Although banks' capitalization levels remain above statutory requirements (set at 12 percent of risk-weighted assets), financial soundness indicators have notably weakened. Additionally, due to the existing low provisioning levels it is possible that banks are de facto undercapitalized. Between 2005 and 2006, the ratio of nonperforming loans (NPLs) to assets almost tripled, reaching a level of 19.4 percent at end-2006. In the first few months of 2007, NPLs rose further and stood at 23.9 percent of loans in April 2007. Much of the downturn in FSIs is linked to the state-owned Omdurman Bank.[4] Prolonged mismanagement, regulatory forbearance, and accumulation of nonliquid (and nonperforming) government debt put pressure on Omdurman Bank's position—leading to official intervention and several injections of liquidity from the central bank (totaling SD120 billion—1.5 percent of GDP) during September 2006–January 2007.[5] A number of other banks have also shown substantial portfolio deterioration, however.

Text Table 3. Sudan: Financial Soundness Indicators, 2005–07

	Dec-05	Dec-06	Mar-07	Apr-07
	(In percent, unless otherwise indicated)			
Capital Adequacy				
Regulatory capital to risk-weighted assets 1/	19.1	19.7	18.3	...
Capital (net worth) to assets	12.0	14.1	13.0	...
Asset composition and quality				
Gross NPLs to gross loans	7.1	19.4	23.3	23.9
NPLs net of provisions to capital	37.4	63.7	76.0	91.0
Earnings and Profitability				
ROA (before tax)	5.0	3.6	2.8	3.6
ROE(before tax)	56.0	35.4	23.4	32.0
Liquidity				
Liquid assets to total assets	16.9	25.0	22.5	24.0
Liquid assets to total short-term liabilities	37.2	75.0	75.0	71.2

Sources: Bank of Sudan

1/ Data for December 2006 and March 2007, refers only to 27 of the 30 existing banks due to data limitations (excludes Sudanese Agriculture Bank, Capital Bank, and Industrial Development Bank).

13. **Performance under the 2006 SMP was uneven—representing a break from Sudan's usual good track record.** Two of the five quantitative targets (payments to the Fund and the ceiling on nonconcessional borrowing) were met (Table 7). The remaining three targets (net international reserves, net domestic assets, and domestic financing of the

[4] Omdurman Bank represents about 44 percent of total bank lending, and about 40 percent of total deposits.

[5] The Bank of Sudan does not envisage further injections of liquidity into Omdurman Bank.

government) were not met. A major factor in this regard was the need to meet commitments under various peace agreements in the absence of disbursements from donors. Another factor was a shortfall relative to projected revenues from oil exports. Most structural reforms under the program were implemented, although some with delays. Only three of the benchmarks—fiscal reporting on a GFSM 2001 basis, publishing of financial audits of state oil company Sudapet, and formulation of a program to revamp investment incentives under the Investment Encouragement Act—were not met (Table 8).

III. Policy Discussions

A. Overview

14. In light of the above issues, the discussions focused on (i) policies to ensure macroeconomic stability and growth; (ii) short and medium-term reforms to improve public financial management, tax policy, and tax administration; and (iii) financial sector reform and development.

B. Macroeconomic Policies

15. **The economic outlook for 2007–08 should be favorable if recent imbalances can be addressed, but would be subject to risk in the absence of substantial policy adjustment.** The macroeconomic framework envisages real GDP growth of about 11 percent in both 2007 and 2008, and average inflation of 8 percent and 6.5 percent, respectively. With the completion of a long-delayed marine terminal and pipeline, oil production and exports are expected to pick up in the second half of 2007, bringing annual daily production above 500,000 bpd,[6] with a modest increase to 565,000 bpd in 2008. Nonoil GDP growth is expected to be in the range of 8 percent in 2007, reflecting government efforts to reign in the fiscal deficit, the effects of lower credit growth, and some slowing of foreign investment. Non-oil growth is projected to pick up again in 2008, however, assuming a resumption of private sector credit, buoyant activity in construction and services, and a resumption of foreign capital inflows.

16. **Fiscal adjustment is central to the government's plan to ensure macroeconomic stability and to address the imbalances that emerged in the last part of 2006 and early 2007.** The authorities are keenly aware of the impact that fiscal expansion has had on inflation, and how nontraditional financing of the deficit (in the face of repeated revenue shortfalls) has negatively affected corporate and banks' balance sheets. The authorities agreed on the need to more closely align expenditures with available resources, and in this

[6] The program's assumptions on production are somewhat conservative, and include an adjustor so that oil revenues in excess of program would accrue to the OSA. If oil revenues are below program levels, the shortfall will be compensated (to the extent that such resources are available) by drawing from the OSA, or otherwise through a reduction in spending so as to maintain the fiscal deficit unchanged.

context the discussion centered on ways to bring the 2007 fiscal deficit to 3.8 percent of GDP, compared with an estimated deficit under the approved budget of 5.6 percent of GDP (see MEFP, ¶20). While this implies a significant of level adjustment, the program target still allows for a 20 percent increase in nominal terms in primary expenditures (excluding interest payments and the fuel subsidy), and protects spending related to government commitments under the various peace agreements. Importantly, this target is consistent with a monetary policy framework aimed at ensuring single digit inflation, and an acceptable level of nonbank financing. A similarly prudent approach on the fiscal side is envisioned for 2008 (a deficit of about 3 percent of GDP), while also allowing room for greater transfers to the states in support of fiscal decentralization.

17. **Most of the fiscal adjustment is from expenditure cuts, but several revenue measures are also being implemented.** The authorities agreed to implement measures to control expenditures and improve budget execution. They intend to reduce expenditures in the second half of 2007 by 1.6 percent of GDP relative to the approved 2007 budget.[7] There was concern that further expenditure cuts could impact either the government's commitments under the peace agreements, or result in the accumulation of arrears. The government also increased the VAT rate from 10 percent to 12 percent, effective June. The authorities also agreed to reduce tax incentives/holidays in the context of the 2008 budget (see below and MEFP, ¶21–23). The authorities also indicated their intention to hold off on any further tariff reductions in 2007.[8]

18. **Monetary policy has sought to contain recent risks to macroeconomic stability, but the limits and costs of the current strategy are recognized.** Staff argued in this context that macroeconomic and empirical analysis indicated that the dinar had become overvalued by end-2006 (although more recent data suggest the degree of overvaluation has diminished—see Box 1), and that greater exchange rate flexibility should have been allowed to facilitate adjustment and protect reserves. The authorities highlighted that macroeconomic stability is a relatively recent phenomenon in Sudan. They saw as critical the need to contain the impact of fiscal expansion and the intervention of Omdurman bank, and ensure minimal spillover onto inflation and the exchange rate. In this context, the central bank sold sufficient foreign exchange to mop up domestic liquidity and to provide a soft landing for the exchange rate after several years of steady appreciation (particularly given the introduction of a new currency, which was completed in July 2007). The authorities viewed this strategy as largely successful, but having come at the cost of lower net international reserves. Moreover, they

[7] To meet the overall expenditure envelope, the authorities will restrain spending on goods and services (0.3 percent of GDP), other current spending (0.4 percent of GDP), transfers to states (0.3 percent of GDP), and capital spending (0.6 percent of GDP).

[8] Staff will follow-up on a resumption of the tariff reduction program in the context of discussions on the 2008 budget.

Box 1. Resource Inflows, External Competitiveness, and the Exchange Rate

Oil has brought both benefits and challenges to Sudan. Government revenue and the balance of payments have reaped considerable benefits from the oil sector in terms of exports, domestic sales, and related foreign investment. The spending of these resources and the scale of investment, however, have led to upward pressures on the real effective exchange rate (REER), which has appreciated by about 40 percent since January 2005 (Figure 1). The flow of resources into Sudan is likely to continue over the medium term, and with it the challenges of maintaining economic stability and promoting non-oil sector growth—both of which will be critical in addressing widespread poverty and unemployment.

Figure 1. Sudan: Real Effective Exchange Rates (2002=100)

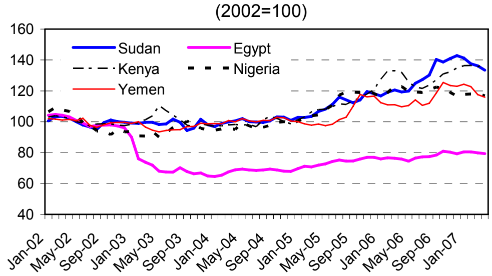
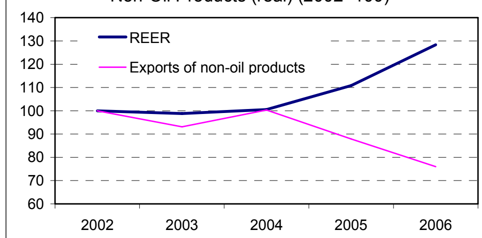
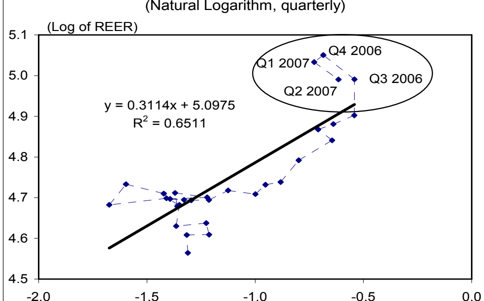


Figure 2. Sudan: REER and Exports of Non-Oil Products (real) (2002=100)



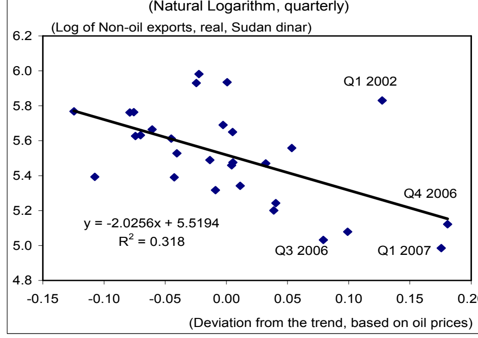
The value of the dinar has historically been closely tied to oil prices, but has recently deviated from this trend. Sudan's REER has been closely correlated with oil prices since the start of oil production (Figure 3). This is consistent with typical models used to examine the real exchange rate for oil-exporting countries, after accounting for Sudan-specific characteristics—such as the low-level of non-oil exports and the strong correlation between oil prices and the non-oil fiscal balance as a share of non-oil GDP. Based on a simple regression (which should be treated with caution given the small sample), the real effective exchange rate of the dinar (dashed line in Figure 3) started to deviate from its historical trend (solid line in Figure 3) in the second half of 2006. This was largely on account of higher inflation (relative to trading partners) and the continued nominal appreciation of the dinar, and suggests that the dinar was likely overvalued by the end of 2006. Since that time, however, the REER has moved back toward the implied trend (ie, the degree of misalignment has declined) due to (i) a drop in inflation; (ii) a steady nominal rate vis-à-vis the U.S. dollar (a de facto peg since January 2007); and (iii) rising oil prices. Figure 4 plots the deviation of the real exchange rate from the trend against non-oil exports. The negative correlation suggests that the real appreciation of the dinar may have negatively affected external competitiveness.

Figure 3. Oil Prices (Real, US$) and REER, 2000-Q2 2007 (Natural Logarithm, quarterly)



Note: Q2 2007 includes April and May only.

Figure 4.REER Deviation and Non-oil Exports, 2000-Q1 2007 (Natural Logarithm, quarterly)



Increasing productivity will be key to ensure external competitiveness and non-oil growth. The World Bank's "*Doing Business*" (2006) survey highlights the difficulty with respect to hiring and firing, obtaining credit, and enforcing contracts. Structural reforms to remove these rigidities will be necessary to increase productivity and stimulate investment to ensure growth.

noted that the cash margin requirement on sight letters of credit was introduced primarily for prudential reasons given the rise in NPLs, but also to more tightly limit the demand for foreign exchange.

19. **Looking forward, it was agreed that rebuilding foreign exchange reserves should be a priority** (see MEFP, ¶17–18). The authorities recognized that international reserves of the central bank had fallen to unacceptably low levels, and that rebuilding a sufficient cushion should be a priority for 2007 and 2008. In this context, they agreed to target an increase in net international reserves to US$1.3 billion (1.4 months of imports) by end-2007 and to US$1.8 billion (1.7 months of imports) by end-2008.[9] The authorities also recognized that exchange rate flexibility would be an essential element to this strategy, even if this implied some depreciation. They agreed that the central bank should more closely limit its interventions to servicing the market for current international transactions and smoothing short-term volatility. In this context, the mission suggested greater use of indirect instruments (GMCs and GICs), rather than sale of foreign exchange, to manage liquidity—consistent with allowing for greater flexibility in the exchange rate. In this regard, the authorities noted that central bank holdings of government securities are currently about two-thirds of excess reserves, and that these instruments could be used for liquidity management purposes. The authorities intend to remove the cash margin on sight letters of credit and import credits by the end of 2007.

20. **Also critical from the authorities' perspective was a monetary program that allowed for a resumption of credit to the private sector.** While aware of the need to rebuild reserves, keep a lid on inflation, and reduce NPLs, the authorities stressed that it was important to have greater liquidity available to the private sector—particularly given the credit crunch evident in the first part of the year. In this context, the authorities agreed on reserve money and broad money growth targets of 18 percent and 24 percent, respectively (see MEFP, ¶18). The broad money target is consistent with projected economic growth, inflation, and money demand growth resulting from issuance of the new common currency. These targets will also allow for ample private sector credit growth (albeit less rapid than in recent years) of near 40 percent by end-2007. The program for 2008, which will be discussed in more detail in subsequent missions, targets reserve and broad money growth of 20 percent and 25 percent, respectively.

[9] Preliminary data indicate that the central bank began to accumulate reserves in June 2007.

C. Structural Reforms

Growth and external competitiveness

21. **Maximizing Sudan's potential will require a balancing of macroeconomic policies and structural reforms to ensure competitiveness, poverty reduction, and non-oil growth.** Oil production, and accompanying capital inflows, have already had a significant impact on the structure of Sudan's economy, and brought new challenges to macroeconomic management (Box 1). These flows are likely to be a feature of Sudan's economic landscape over the medium and long term. A commitment to fiscal prudence and a flexible approach to exchange rate and monetary policy will help ensure macroeconomic and external stability, but these policies must be complemented by attention to infrastructure, regulatory, and other bottlenecks that may impede investment and non-oil growth.

22. **The authorities are aware of the challenges for medium and long-term growth, and are committed to a process of review and reform**. A new five-year plan (2007–11) recently drafted by the National Council for Strategic Planning, highlights a number of areas for attention. Key among them are: (i) physical infrastructure—particularly electricity and transport; (ii) irrigation projects and prioritizing agriculture sector expenditures; (iii) improving production and management processes in the agricultural and industrial sectors to meet international standards; (iv) aligning training and education outputs to labor market needs; (v) modernizing and developing the judicial system; and (vi) simplification of administrative and legal procedures to facilitate domestic and foreign investment. The authorities have also committed to producing a draft PRSP by March 2008.

Fiscal reforms

23. **A key pillar underlying the government's fiscal reform effort is a set of measures to improve public financial management.** A significant amount of the financial stress evident in late 2006 and early 2007 stemmed from the inability to adjust public expenditures in the face of revenue shortfalls, and resort to nontraditional forms of public finance—including issuance of promissory notes and the accumulation of arrears. The authorities recognized the negative impact that these practices were having on growth, confidence, and macroeconomic balances. They have started to implement measures to put public finances on a firmer footing, and more closely align expenditures with available resources, including (see MEFP, ¶21–23): (i) establishing a Treasury Single Account (TSA); (ii) enacting commitment controls that limit expenditures by line ministries to monthly or quarterly cash plans; (iii) halting the use of sanadats, standing orders, and other nontraditional forms of finance; and (iv) adopting the full economic and functional classifications of the Government Financial Statistics Manual (GFSM) 2001.

24. **Over the medium term, emphasis must be given to improvements in tax policy and administration**, with a view to creating a more stable revenue base and lessening dependence on volatile oil earnings. Despite significant progress in tax policy and administration in recent years, the authorities shared the staff's view on the need to make further improvements in these areas (Box 2), and agreed to broaden the tax base by reducing

VAT exemptions and income tax holidays. At the same time, the authorities believed that the scope for a significant reduction in tax exemptions was limited as most exemptions were on capital goods. Moreover, the authorities were concerned that eliminating tax incentives may harm investment.

Box 2. Tax Reform in Sudan

Sudan has undertaken a number of tax reforms since 2000, including introduction of a VAT (2000), imposition of an excise tax on benzene, and improvement of the tariff structure. As a result, tax revenue rose from 5.8 to 8.6 percent of non-oil GDP during 2001–04. More recently, however, tax revenue fell to 7.4 percent of non-oil GDP during 2005–06, and ranks as one of the lowest among countries in the region (Table 1). Given the challenges ahead, including oil revenue volatility and pressures to show a "peace dividend" through public investment, further efforts are needed to increase tax revenue, notably through improvements in tax policy and revenue administration.

Table 1. Tax Revenue for Selected Countries, 2001-2006 1/

	2001	2002	2003	2004	2005	2006	Average 2001-06
	(in percent of non-oil GDP)						
Sudan	**5.8**	**5.8**	**6.4**	**8.6**	**8.1**	**7.4**	**7.0**
Algeria	14.1	15.7	15.5	15.3	15.5	14.9	15.2
Egypt 2/	13.8	13.8	13.9	14.5	15.0	17.6	14.8
Kenya 2/	16.5	15.9	16.6	17.0	18.0	16.6	16.8
Nigeria	31.2	23.8	27.7	31.9	34.9	32.5	30.3
Yemen	10.6	10.4	10.1	10.4	9.9	8.6	10.0
Unweighted average	17.2	15.9	16.8	17.8	18.7	18.0	17.4

Sources: IMF country documents; *Government Finance Statistics* (IMF); and Fund staff estimates

1/ For all countries, except for Egypt and Nigeria, the fiscal coverage is the central government. For Egypt, the fiscal coverage includes central government, NIB, and social insurance funds. For Nigeria, the fiscal coverage includes the federal, state and local governments.
2/ For Egypt and Kenya, the fiscal year ends on June 30th.

Tax policy is impacted by exemptions and incentives for businesses. Under the Investment Encouragement Act (IEA), businesses can enjoy five- to ten-year exemptions (renewable) from the business profits tax and customs in a large array of activities at an estimated cost of 2.0 percent of GDP. The VAT exempts a wide range of goods at an estimated revenue cost of 1.2 percent of GDP. The personal income tax (PIT) base is very narrow, with a large number of allowances. Almost all government employees and about 80 percent of private-sector workers are exempt.

A number of revenue administration reforms have been introduced, but challenges remain. Key reforms included establishing the large taxpayer office (LTO)—which accounts for 70 percent of domestic tax collection—and the medium taxpayers office (MTO); and raising the VAT threshold to SD 10 million. On the other hand, the 2007 budget enacted a number of ill-advised tax measures. These include raising the VAT rate on telecommunication services from 10 percent to 15 percent (which fragmented the VAT system) and exempting agricultural inputs from custom duties.

Fiscal decentralization poses further challenges to tax policy and revenue administration. Greater clarity is needed on assignment of tax authority and revenue collection between the GNU, the GOSS, and the various state governments. For instance, the base of the PIT is not yet harmonized between the GNU and the states. The assignment of customs collection authority at the borders needs to be clarified, as there appears to be two different systems in place between North and South.

Addressing these challenges will require bold steps. In terms of **tax policy**, the authorities would gain by replacing the incentives under the IEA with a system of accelerated depreciation, unifying the business profit tax at around 20 percent, scaling back VAT and customs exemptions, and broadening the personal income tax base. In terms of **revenue administration**, there is a need to restructure the network of tax offices and establish a function-based headquarter structure; adopt a simple, transparent criterion for the selection of taxpayers administered by the LTO and MTO; and improve compliance programs to support a proper self-assessment system. Without these steps, current initiatives, such as major IT investments, could fall short of the authorities' objectives.

Financial sector reforms

25. **Continued financial sector reform and development is an essential pillar for Sudan's medium and long-term prospects.** While progress has been made in deepening financial intermediation, Sudan's financial system remains relatively underdeveloped (Box 3). In the short-term, improvements to ensure the soundness of the banking system will likely dominate. Over the medium and long-term, however, there are a range of reforms that Sudan could undertake to achieve a more efficient channeling of savings to investment, and more closely integrate the financial systems of the North and South.

Box 3. Financial Sector Intermediation

Sudan's financial system is relatively small compared with countries at a similar level of development (Table 1). There is no interbank market; the equity and foreign exchange markets are shallow, and nonbank financial institutions are small. Sudan remains underbanked, given the low ratios of deposits and credit to GDP. Only a small share of the population has access to bank services, and enterprises often face difficulties in obtaining funding from banks or the capital markets.

Table 1: Indicators of Financial Development, 2006

	Deposits/GDP	Credit/GDP
Egypt	84.3	84.1
Kenya	34.1	34.1
Nigeria	16.0	20.3
Sudan	**15.5**	**15.5**
Yemen	25.7	12.8

Source: *International Financial Statistics*.

The financial system is dominated by commercial banks, which accounted for 97 percent of the sector's total assets at end-2003. Nonperforming assets are relatively high, and provisioning low (Table 2). Symptomatic of a low level of competition, spreads and profitability indicators tend to be higher than in other economies.

Priority reforms include measures to (i) improve the legal and regulatory framework (greater corporate transparency and creation of a credit bureau); (ii) rehabilitate Omdurman bank; (iii) enhance competition to reduce the cost of financing for small firms; and (iv) promote the integration of the northern and southern financial systems. These reforms would increase financial deepening and facilitate Sudan's financial integration with other countries in the region.

Table 2: Banking Sector Indicators 1/

	Egypt	Kenya	Nigeria	Sudan	Yemen
Capital to risk-weighted assets	16.3	13.4	14.3	18.3	12.0
Non-performing loans to total loans	24.7	5.2	21.9	23.9	23.0
Provisions to non-performing loans	68.2	115.6	...	9.5	...
Return on assets	0.9	1.0	0.5	3.6	1.2
Return on equity	17.4	3.1	7.5	32.0	16.4
Lending-Deposit Spread 2/	6.6	8.5	7.4	9.2	5.0

Source: *Global Financial Stability Report*, April 2007, and *International Finacial Statistics*.

1/ Latest data available: Egypt (end-2006, except ROA and ROE for Sept 2006); Sudan (Apr-2007, except CAR for Mar-2007, and spread for end-2003); Yemen (end-2006); Nigeria (end-2005); Kenya (end-2005, except spread end-2006).

2/ For Sudan, lending-deposit spread equals the difference between the effective investment rate and the effective deposit rate.

26. **The authorities agreed that there was ample room for modernization and development of the financial system, and highlighted the progress that has already been made in a relatively short period**. Commercial banking only appeared in Sudan in the 1960s, and almost entirely in the form of subsidiaries of foreign banks (with different operating procedures and standards). In 1999, however, the Bank of Sudan launched a comprehensive banking reform policy aimed at bringing the banking sector in line with international standards, including the recommendations of the Basle Committee. Reforms

focused on capital adequacy, banking structure and improvement of human resources, statistics and accounting, and bolstering the central bank's supervisory capacity. Now entering a second generation of reform, a second round of recapitalization is currently underway, and additional reforms are focused on mergers, modernization of information technology, development of an interbank market, building capacity for supervision of conventional banking in the South, and implementation of the Islamic Financial Services Board (IFSB) standards (equivalent to Basle II for Islamic banks).

27. **Regarding specific actions for 2007–08, an audit of Omdurman Bank will be done by a local affiliate of one of the internationally recognized auditing firms.** Based on the findings of the audit, the central bank will prepare a plan for resolution/restructuring of the bank (see MEFP, ¶25). Also, commercial banks are being required to submit well-specified action plans to achieve compliance with existing regulations on capitalization and provisioning.

D. External Debt and Relations with Creditors

28. **Sudan's external debt overhang remains a serious concern**. The end-2006 stock of public and publicly-guaranteed debt is estimated at US$27 billion in nominal terms, up by about US$9 billion since end-2000. The bulk of the increase reflects primarily a further buildup of arrears (approximately US$6 billion) to Paris Club and non-Paris Club creditors. It also includes new drawings of some US$520 million from Arab multilateral and bilateral creditors, as well as from China and India. In NPV terms, the end-2006 stock of external debt was equivalent to roughly 55 percent of GDP and 340 percent of exports. The authorities expressed concern that, after nearly a decade of cooperation on policies and payments, no concrete progress has been made on alleviating Sudan's external debt burden—despite debt relief provided to other countries in similar circumstances—severely limiting Sudan's prospects for meeting the Millennium Development Goals (MDGs).

29. **A debt sustainability analysis (DSA) based on the joint Bank-Fund Low-Income Country Debt Sustainability Framework was prepared and discussed with the authorities**. The results for the baseline scenario suggest that, even assuming prudent macroeconomic policies and further increases in oil revenues, most of Sudan's debt ratios remain above the indicative thresholds for sustainability. Moreover, with its heavy reliance on oil, Sudan is highly vulnerable to both oil production and price shocks. The analysis also suggested that Sudan will be at a much lower risk of further debt distress if it curtails recourse to any additional nonconcessional borrowing.

30. **The authorities agreed that they needed to minimize nonconcessional borrowing**. The authorities emphasized that contracting of such loans had been limited in recent years, that these loans were principally in the form of supplier credits, and that they were generally tied to specific development projects (Box 4). The financial implications will also be monitored by the respective debt units of the Bank of Sudan and the Ministry of Finance and

National Economy. They authorities argued that limited fiscal space, the lack of access to more traditional forms of concessional finance, and pressing development needs associated with the various peace agreements and unification left nonconcessional borrowing as a necessity. But they intended to limit contracting of nonconcessional borrowing to US$700 million annually in 2007 and 2008 (see MEFP, ¶28).

Box 4: Nonconcessional Borrowing

Sudan has made recourse to nonconcessional financing in recent years mainly from China and India, reflecting the limited access to concessional loans because of the difficulties in resolving its debt and arrears situation. The authorities signed US$589 million and US$125 million of nonconcessional loans in 2006 and the first quarter of 2007, respectively (Table).

Most of the contracted loans have been used to finance infrastructure and social development projects such as power, water supply and transportation. Debt units at the central bank and the ministry of finance are in charge of monitoring and compiling data on disbursements and repayments of all external borrowing.

Sudan: Foreign Nonconcessional Loans Agreements, 2006-07 Q1
(Millions of U.S. dollars)

	2006 1/		2007 Q1 1/	
Total amount of loans contracted	589	(11.6)	125	(3.2)
Power projects	416	(12.8)	-	-
of which, from China, India	416	(12.8)	-	-
Water projects	136	(9.4)	50	(4.0)
of which, from China, India	136	(9.4)	-	-
Other projects	36	(6.6)	75	(2.7)
of which, from China, India	22	(11.0)	-	-

Sources: Government of Sudan.
1/ Number in parentheses is grant elements (percent).

31. **Cooperation with the Fund will likely continue to be strong, but the authorities do not see the current approach of token payments as a solution to the arrears issue**. The authorities paid in excess of their commitment for 2006, and intend to make minimum annual payments of US$50 million in 2007 and 2008 (see MEFP, ¶29). The authorities wished to convey their intent to continue cooperating with the Fund in this regard, but highlighted that such token payments are not a meaningful solution to Sudan's obligations to the Fund—the lion's share of which is in overdue charges rather than original principal. Resolving Sudan's overdue financial obligations remains a high priority for the government. To this end, the authorities believe that debt relief under HIPC and MDRI initiatives will play a crucial role in helping Sudan to normalize its relations with the Fund and other multilateral and bilateral donors.

E. Data Issues and Technical Assistance

32. **Sudan's economic data are sufficient for surveillance and program monitoring, but some inadequacies remain**. The quality of Sudan's economic data has improved in recent years—in part because of participation in the Fund's General Data Dissemination System. Monetary and financial sector statistics are comprehensive and generally timely, and information on oil production, shipments, pricing, and transfers of revenue are available regularly. Significant progress is also being made on fiscal reporting, and should culminate in the adoption of GFSM 2001 classification for the 2008 budget. However, regular data on domestic debt (particularly standing orders, promissory notes (sanadats and letters of guarantee), and arrears) is uneven. This highlights the need to press ahead with a centralized domestic debt office in the MOFNE. CPI and national accounts data remains weak, but should improve with the completion of the national census and the household budget survey.

33. **The authorities emphasized the need for continued technical assistance from the Fund**. Priorities for the short-term include further training on GFSM 2001 methodology, assistance on improving public financial management (commitment control and treasury single account), tax policy and administration, and fiscal federalism. Improving bank supervision is also seen as critical (particularly in the context of a dual banking system). In this context, the Fund is providing technical assistance to the South in the areas of currency exchange and supervision of conventional banking systems. The authorities also reiterated their desire for an FSAP update as soon as possible.

IV. Risks to the Outlook

34. **Sudan's economic prospects continue to be good, but significant risks remain**. The main risk for reforms remains waning political support, given Sudan's concern with lack of progress by the donor community on debt relief. From the authorities' perspective, Sudan has made a good faith effort to cooperate with the Fund and the international community on economic policies, even when such actions were politically costly. The authorities accept that such actions were in the best interest of macroeconomic stability and development, but also point out that there has been no corresponding action on debt relief or donor financing. Other risks include volatility in oil production and prices as well as capital flows, weaknesses in public financial management, and failure to move quickly and decisively to improve financial sector indicators. It will be critical for macroeconomic stability to forcefully implement the policies outlined in the attached MEFP.

V. Staff-Monitored Program

35. **The 18-month program aims at addressing the institutional and policy weaknesses underlying the emergence of macroeconomic imbalances in 2006–07, ensuring the safety and soundness of the financial system, and laying the groundwork for medium-term macroeconomic stability and growth.** The proposed semi-annual quantitative targets for end-December 2007, end-June 2008, and end-December 2008, as well

as the structural benchmarks are detailed in Table 1 and Table 2 of the attached MEFP. Semi-annual staff assessments are envisaged under the program.

VI. Staff Appraisal

36. **Sudan must navigate a challenging course over the next few years with many competing objectives**. These include implementation of various peace agreements, addressing development needs with limited resources, and maintaining macroeconomic stability in the face of a rapidly changing economic landscape.

37. **The 18-month staff-monitored program aims at sustaining the recent record of high growth, preserving macroeconomic stability, and meeting the country's development and poverty reduction needs**. The program balances a prudent fiscal framework with fiscal reforms to increase the revenue base for financing needed expenditures and financial sector reforms to strengthen financial intermediation and increase investment.

38. **Meeting the twin objectives of higher expenditures for development needs and macroeconomic stability will require better expenditure management and bold fiscal reforms to increase revenues.** Serious imbalances emerged in the latter half of 2006 and early 2007 resulting in arrears buildup, deterioration of financial sector conditions, and exchange rate pressures. Staff welcomes the authorities' recent decision to tighten fiscal policy while maintaining peace commitments to the various regions. Conservative revenue forecasting, improved expenditure management, and more transparent budget execution are key to maintaining macroeconomic stability and preventing a recurrence of the problems observed in 2006 and early 2007. It is noteworthy that the authorities agreed to lower the budget deficit by about 2 percent of GDP in the second half of 2007 and to take important measures to control expenditures and improve budget execution.

39. **Fiscal reforms are needed to improve the revenue base.** Sudan's tax-to-GDP ratio is relatively low compared to other countries at a similar level of development. This is largely on account of generous tax incentives/holidays, but also weak tax administration. Generous tax incentives may encourage some foreign investment, but macroeconomic stability, a transparent and predictable tax structure, and a good infrastructure base are far more important to potential investors. In turn, a stronger revenue base will be needed to finance infrastructure spending in a noninflationary manner. In this regard, the authorities' recent decision to broaden the tax base by reducing VAT exemptions and income tax holidays is a step in the right direction. Staff also welcomes the authorities' recent efforts to improve tax administration. Although not likely to raise significant revenue in the short-term, these and other revenue measures will be an important component in the fiscal outlook for 2008 onwards.

40. **The conduct of monetary policy will likely be more challenging than in the past.** Shifting FDI and other capital flows, volatility in oil-related foreign exchange movements, aid disbursements, and the monetization of the south make it particularly important to closely monitor monetary developments to ensure that money growth remains in line with the inflation objective. The conduct of monetary policy will also need to increasingly rely on open market operations—with an emphasis on indirect monetary policy instruments—as well as on greater coordination between the finance ministry and the central bank. In this regard, staff welcomes the central bank's decision to acquire government securities from the banking system. The trading of these instruments could, in future, be used to meet liquidity management objectives, rather than relying on sales of foreign exchange.

41. **Greater exchange rate flexibility will be needed to buffer the economy from external shocks and protect reserves.** The central bank has had the difficult job of trying to achieve a soft landing for the dinar in an environment of expansionary fiscal policy and lower-than-expected oil revenues. Staff notes the authorities' concern that excessively rapid adjustment in the exchange rate could have had a disruptive impact on the economy, particularly given that the shortfall in oil production was temporary. However, this resulted in an uncomfortably low level of reserves. Further, although difficult to quantify the exact magnitude, staff analysis suggests that the level of the exchange rate may have become somewhat overvalued by end-2006 (although the magnitude of misalignment has since diminished). Accordingly, staff welcomes the authorities' decision to allow greater exchange rate flexibility and to rebuild foreign exchange reserves to more comfortable levels. Staff also welcomes the authorities' decision to eliminate the exchange restriction and multiple currency practice arising from imposing a floor on cash margins for letters of credit and import credit. In light of this, staff recommends the approval of this restriction and multiple currency practice until end-2007.

42. **To address concerns about external competitiveness, the authorities must press ahead with structural reforms to increase productivity.** It is difficult to assess to what extent the real appreciation of the dinar in 2005–06 has negatively impacted non-oil exports. However, indications are that structural rigidities and low labor productivity have played a more fundamental role in the weakening of external competitiveness than the recent appreciation of the exchange rate. Improving the business climate will be necessary if recent strong growth is to be sustained.

43. **Sustaining strong growth will also require a greater role for the financial sector to channel savings into needed investment.** Notwithstanding the progress made over the past few years in developing Sudan's financial system, financial intermediation is still relatively low. Moreover, financial sector indicators have recently deteriorated. In this regard, it will be important to prepare a resolution/restructuring strategy for Omdurman Bank based on the results of the forthcoming independent audit. The central bank must also more actively enforce prudential standards and ensure that banks comply with existing regulations on capitalizations and provisioning, based on credible and independent loan assessments.

44. **Sudan's external debt problem continues to constrain access to external development financing.** Sudan's record of cooperation on economic policies and payments to the Fund augur well for the clearance of Sudan's arrears at the appropriate time. In the meantime, the authorities should minimize contracting nonconcessional debt as such borrowing threatens debt sustainability and could delay the process of securing creditors' participation in a potential debt-relief operation. In this regard, the staff underscores that it will be critical for creditors and Sudan to treat all such new borrowing under the Enhanced Heavily Indebted Poor Countries' initiative. This will ensure that any eventual relief provided under the initiative is sufficient to restore debt sustainability.

45. **While the proposed level of nonconcessional borrowing implies that in this area the program does not meet the standard of upper-credit tranche conditionality, the SMP is a valuable tool to support the reform momentum.** The program contains important actions to reduce the budget deficit by 2 percent of GDP, address critical weaknesses in public financial management, rebuild international reserves, and tackle difficult problems in the banking system. It also provides a framework within which donors can support the peace process and afflicted areas. Except for the high level of nonconcessional borrowing, the staff considers that the 2007–08 SMP continues to be equivalent in strength to a Rights Accumulation Program.

46. **While Sudan's economic prospects are good, important risks exist.** The main risk is a weakening of political resolve to maintain macroeconomic stability, advance critical reforms, foster Sudan's integration with the world economy, and resist political pressures—particularly in the context of forthcoming elections. It will be crucial for the authorities to implement the envisioned fiscal adjustment in order to maintain macroeconomic stability.

47. It is proposed that the next Article IV consultation with Sudan be held on the standard 12-month cycle.

Table 1. Sudan: Selected Economic and Financial Indicators, 2003–08

	2003	2004	2005	2006 Est.	2007 Proj. 1/	2008 Proj. 1/
	(Annual changes in percent, unless otherwise indicated)					
Production, population, and prices						
Nominal GDP (in billions of Sudanese dinars, at market prices)	4,640	5,592	6,798	8,131	9,373	11,186
Nominal GDP (in millions of U.S. dollars)	17,780	21,685	27,904	37,442	46,708	55,929
Oil production (average, in thousands of barrels per day)	262	288	287	364	505	565
Population (in millions)	33.6	34.5	35.3	36.2	37.2	38.1
GNP per capita (in U.S. dollars)	506	597	753	970	1,182	1,382
Real GDP	7.1	5.1	8.6	11.8	11.2	10.7
Oil	13.0	9.9	-0.2	26.5	38.8	11.9
Non-oil	6.6	4.6	9.6	10.3	8.1	10.5
Consumer prices (average)	7.7	8.4	8.5	7.2	8.0	6.5
Consumer prices (end of period)	8.3	7.3	5.6	15.7	7.0	6.0
	(In percent of GDP)					
Investment and saving						
Gross investment	20.0	22.5	23.6	24.6	24.1	24.6
Government 2/	2.9	5.0	5.4	6.2	7.1	7.3
Nongovernment	17.0	17.5	18.2	18.4	17.0	17.3
Gross national saving	15.3	18.7	15.3	11.6	14.7	17.2
Government	3.6	6.5	3.6	2.0	3.2	4.4
Nongovernment	11.7	12.3	11.7	9.5	11.5	12.8
Central government operations 3/						
Total revenue	16.0	19.7	21.7	19.4	18.7	20.4
Total expenditure	15.3	18.2	23.4	23.7	22.5	23.3
Overall balance	0.7	1.5	-1.8	-4.2	-3.8	-2.9
Non-oil balance	-7.6	-8.3	-15.3	-16.0	-14.5	-15.8
Money and credit						
Broad money (change in percent)	30.3	32.1	44.7	27.4	24.0	25.0
Reserve money (change in percent)	26.6	27.8	34.9	27.8	18.0	20.0
Velocity (ratio of non-oil nominal GDP to average broad money)	6.6	5.7	4.8	4.1	4.2	3.8
	(In millions of U.S. dollars; unless other wise indicated)					
External sector						
Exports, f.o.b.	2,577	3,778	4,878	5,813	7,567	9,440
Of which: oil	2,082	3,101	4,240	5,244	7,014	8,819
Imports, f.o.b.	2,536	3,586	5,946	7,105	7,518	9,000
Non-oil export volume (change in percent)	-6.9	7.8	-12.4	-13.6	-3.4	12.7
Non-oil import volume (change in percent)	6.6	27.9	55.2	16.1	5.6	18.6
Current account balance (cash basis, percent of GDP)	-4.7	-3.8	-8.3	-13.1	-9.3	-7.4
Dinars per U.S. dollar (period average)	261	258	244	217	...	...
Real effective exchange rate (change in percent) 4/	-1.5	2.8	17.1	20.8	...	...
External debt (in billions of U.S. dollars) 4/	25.7	23.3	26.7	26.6	28.0	29.9
External debt (percent of GDP)	144.6	107.6	95.5	71.0	60.0	53.4
Debt service ratio (commitment basis) 5/	33.8	26.0	20.9	16.9	14.3	11.9
Debt service ratio (cash payments) 5/	10.6	9.0	6.3	5.8	5.7	5.2
Net international reserves (in millions of U.S. dollars) 4/	290	1,144	1,889	1,384	1,300	1,800
In months of next year's imports	0.8	1.9	2.4	1.7	1.4	1.7
Sudan's crude-oil export price (U.S. dollars per barrel) 6/	27.0	36.2	49.7	54.4	46.8	51.8

Sources: Sudanese authorities; and Fund staff estimates.

1/ Based on the staff proposal.
2/ Includes estimated capital spending by state governments.
3/ Cash basis.
4/ End of period.
5/ As a share of exports of goods and services.
6/ Average of Sudanese blends. Since 2006, the price reflects the introduction of a new crude (Dar blend) that trades at a substantial discount because of its low quality.

Table 2. Sudan: Central Government Operations, 2004–08

	2004	2005	2006	2007 Year Budget 1/	2007 Year Proj.	2008 Year Proj.
	(In billions of Sudanese dinars)					
Total revenue 2/	1,105	1,473	1,579	1,732	1,748	2,282
Tax revenue	421	472	510	608	578	731
Direct taxes	75	92	95	120	109	142
Business profit tax	48	59	63	87	77	100
Personal income tax	10	13	13	11	11	14
Sudanese working abroad	6	7	5	2	2	2
Stamp duty	11	14	14	20	20	26
Indirect taxes	346	380	415	488	469	589
Taxes on international trade	159	202	212	254	225	278
Excise duties	114	91	104	126	110	130
VAT 2/	73	87	99	108	134	182
Nontax revenue	684	1,001	1,033	1,069	1,114	1,484
Oil revenue 3/	579	901	879	913	913	1,305
Other 4/	105	100	154	156	202	178
Departmental fees	14	15	20	26	22	26
Public enterprise profits	46	57	79	92	86	101
Public enterprises	0	36	57	70	64	73
Joint ventures	0	21	22	22	22	28
Other	44	27	55	38	94	51
Grants	0	0	36	56	56	67
Total expenditure 2/	1,020	1,594	1,923	2,252	2,107	2,608
Current expenditure	763	1,383	1,585	1,858	1,768	2,188
Chapter one (wages and salaries)	274	301	395	521	521	622
Chapter two (other current spending)	405	651	614	546	483	576
Debt service paid	81	86	93	97	97	118
External interest payment	61	50	40	44	44	55
Internal (GMC/GIC) profit distribution	21	36	53	53	53	63
Domestic arrears repayment	34	52	22	38	38	32
Goods and services	71	72	93	121	97	127
General reserves (including section 3)	144	123	125	118	109	146
Other obligations	81	99	66	93	70	96
Social subsidies	27	33	37	49	42	57
Fuel subsidy	...	238	178	30	30	0
Chapter three (transfers to subnational governments)	84	431	576	792	764	991
Transfers to the South	24	191	296	296	290	395
To the GOSS	0	190	277	285	278	381
To the oil-producing states in the South	...	1	19	12	12	14
Transfers to northern states 2/	60	240	280	495	474	596
Current transfers (including oil-related transfers)	...	82	113	140	136	171
Development projects for states	...	72	87	239	224	264
Of which: Reconstruction Fund 5/	...	...	...	69	69	...
Locally financed	...	67	69	159	174	204
Foreign financed	...	6	17	80	50	60
Development transfers to three areas	...	0	7	18	14	21
Public institutions moved to Northern states	...	60	47	64	65	99
Wages and salaries	...	55	46	60	61	94
Goods and services	...	5	1	4	4	5
Agricultural taxes compensation	13	17	22	24	24	28
Social subsidies	...	...	4	11	11	13
Capital expenditure	277	228	312	394	340	420
Locally financed	227	178	232	250	233	347
National development	156	118	171	207	191	302
Agricultural season support	...	0	20	17	17	20
Development financing credit	20	16	6	5	2	5
Capital participation	44	44	36	21	23	20
Foreign financed	50	49	79	144	107	73
Discrepancy	-20	-16	27	0	0	0
Overall balance	85	-121	-344	-520	-359	-326
Financing	-85	121	344	520	359	326
Foreign financing (net)	5	11	22	119	53	7
Disbursement	50	55	61	168	101	66
Repayment	44	44	38	48	48	59
Domestic financing	-90	110	322	401	307	319
Central bank	-86	47	131	134	95	100
GMC/GICs (net)	1	17	14	99	95	100
Temporary advances	0	-10	32	35	0	0
Deposits	-87	40	86	0	0	0
Commercial banks	9	30	84	100	85	100
GMC/GICs (net)	14	44	75	100	85	100
Advances	0	0	0	0	0	0
Deposits	-5	-15	9	0	0	0
Nonbanks	21	85	96	147	107	119
Privatization	0	0	10	20	20	0

Table 2. Sudan: Central Government Operations, 2004–08 (Concluded)

	2004	2005	2006	2007 Year Budget 1/	2007 Year Proj.	2008 Year Proj.
	(In percent of GDP)					
Total revenue 2/	19.7	21.7	19.4	18.5	18.7	20.4
Tax revenue	7.5	6.9	6.3	6.5	6.2	6.5
Direct taxes	1.3	1.4	1.2	1.3	1.2	1.3
Indirect taxes	6.2	5.6	5.1	5.2	5.0	5.3
Taxes on international trade	2.8	3.0	2.6	2.7	2.4	2.5
Excise duties	2.0	1.3	1.3	1.3	1.2	1.2
VAT 2/	1.3	1.3	1.2	1.2	1.4	1.6
Nontax revenue	12.2	14.7	12.7	11.4	11.9	13.3
Oil revenue 3/	10.4	13.3	10.8	9.7	9.7	11.7
Other 4/	1.9	1.5	1.9	1.7	2.2	1.6
Grants	0.0	0.0	0.4	0.6	0.6	0.6
Total expenditure 2/	18.2	23.4	23.7	24.0	22.5	23.3
Current expenditure	13.6	20.3	19.5	19.8	18.9	19.6
Chapter one (wages and salaries)	4.9	4.4	4.9	5.6	5.6	5.6
Chapter two (other current spending)	7.2	9.6	7.6	5.8	5.2	5.1
Of which: Fuel subsidy	...	3.5	2.2	0.3	0.3	0.0
Chapter three (transfers to subnational governments)	1.5	6.3	7.1	8.4	8.1	8.9
Transfers to the South	0.4	2.8	3.6	3.2	3.1	3.5
Transfers to Northern states 2/	1.1	3.5	3.4	5.3	5.1	5.3
Of which: Reconstruction Fund 5/	...	...	...	0.7	0.7	...
Capital expenditure	5.0	3.3	3.8	4.2	3.6	3.8
Locally financed	4.1	2.6	2.9	2.7	2.5	3.1
Foreign financed	0.9	0.7	1.0	1.5	1.1	0.7
Discrepancy	-0.4	-0.2	0.3	0.0	0.0	0.0
Overall balance	1.5	-1.8	-4.2	-5.6	-3.8	-2.9
Financing	-1.5	1.8	4.2	5.6	3.8	2.9
Foreign financing (net)	0.1	0.2	0.3	1.3	0.6	0.1
Disbursement	0.0	0.0	0.7	1.8	1.1	0.6
Repayment	0.0	0.0	0.5	0.5	0.5	0.5
Domestic financing	-1.6	1.6	4.0	4.3	3.3	2.9
Central bank	-1.5	0.7	1.6	1.4	1.0	0.9
Commercial banks	0.2	0.4	1.0	1.1	0.9	0.9
Nonbanks	0.4	1.3	1.2	1.6	1.1	1.1
Privatization	0.0	0.0	0.1	0.2	0.2	0.0
Memorandum items:						
Tax revenue (in percent of non-oil GDP)	8.6	8.1	7.4	7.5	7.2	7.7
Consolidated current expenditure 6/	13.3	18.0	17.4	16.2	15.4	16.0
Consolidated capital expenditure 6/	5.0	5.4	6.2	7.9	7.1	7.3
Non-oil balance (in percent of non-oil GDP)	-8.3	-15.3	-16.0	-16.5	-14.5	-15.8
Nominal GDP (in billions of Sudanese dinars)	5,592	6,798	8,131	9,373	9,373	11,186

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

1/ Represents the authorities' 2007 budget with oil revenues evaluated at current international prices.
2/ Excluding VAT transfers to northern states in the amount of SDD 107 billion for 2007.
3/ Valued at international prices.
4/ Includes departmental fees, public enterprise profits, revenues from government joint ventures, and telecom license fees.
5/ Established in 2007 based on the framework of the Abuja agreement regarding peace in Darfur, and the East Peace Agreement regarding Eastern states. It includes SDD 40 billion for Darfur, SDD 27.5 billion for Eastern states, and SDD 1.5 billion for others.
6/ Includes estimated capital spending by subnational governments. Before 2006, part of the transfers were expenditures carried out by the central government on behalf of the states. Since then, part of Chapter 3 transfers constitute estimated capital spending by the states.

Table 3. Sudan: Monetary Survey, 2005–08

	2005	2006		2007				2008		
	Dec.	June	Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Dec.
	Act.	Act.	Act.	Prel.	Proj.	Proj.	Proj.	Proj.	Proj.	Proj.
Net foreign assets	-57.9	5.9	-184.4	-325.5	-359.1	-313.8	-225.6	-205.5	-184.4	-140.7
Central Bank of Sudan	-219.0	-140.6	-314.7	-422.1	-442.8	-408.2	-336.4	-312.6	-287.7	-236.4
Commercial banks	161.2	146.6	130.3	96.6	83.7	94.4	110.8	107.0	103.3	95.8
Counterpart to valuation changes	763.3	753.0	733.1	726.9	725.0	725.0	725.0	725.0	725.0	725.0
Net foreign assets (excluding valuation adjustment)	705.5	759.0	548.8	401.4	365.9	411.2	499.4	519.5	540.6	584.4
Net domestic assets	697.7	962.7	1,238.5	1,367.1	1,527.9	1,621.6	1,716.7	1,797.1	1,978.1	2,185.8
Net domestic credit	834.6	1,213.5	1,455.1	1,488.1	1,717.5	1,878.3	2,092.6	2,210.2	2,351.0	2,844.8
Net claims on general government	46.0	116.1	311.0	310.6	400.6	452.5	504.3	549.3	596.3	704.3
Central Bank of Sudan net claims on central govt.	41.8	73.7	173.1	173.5	227.7	278.4	323.1	338.1	375.1	443.1
Of which, purchased securities from commercial banks	…	…	…	…	10.0	35.0	55.0	50.0	60.0	75.0
Central Bank of Sudan net claims on the govt. of the south	-63.1	-59.7	-13.3	-7.1	-6.6	-3.3	0.0	0.0	0.0	0.0
Commercial banks claims on central government	67.4	102.2	151.2	144.2	179.5	177.4	181.2	211.2	221.2	261.2
Net claims on nongovernment sectors	788.7	1,097.4	1,144.1	1,177.5	1,316.9	1,425.8	1,588.3	1,660.9	1,754.8	2,140.6
Other items (net)	-137.0	-250.9	-216.6	-121.1	-189.6	-256.7	-375.9	-413.1	-372.9	-659.1
Broad money	1,403.1	1,721.6	1,787.2	1,768.4	1,893.8	2,032.8	2,216.1	2,316.6	2,518.7	2,770.1
Currency outside banks	374.0	409.0	535.5	457.1	482.9	518.4	609.4	590.7	642.3	761.8
Deposits	1,029.1	1,312.6	1,251.6	1,311.3	1,410.8	1,514.4	1,606.7	1,725.8	1,876.4	2,008.3
Demand deposits	705.2	801.3	743.3	754.8	841.0	882.4	946.8	1,076.6	1,118.5	1,183.5
Domestic currency	444.0	543.3	516.2	529.2	610.7	629.0	670.6	822.2	812.3	838.3
Foreign currency	261.2	258.1	227.1	225.6	230.2	253.4	276.2	254.4	306.2	345.2
Quasimoney deposits	323.9	511.3	508.3	556.5	569.9	632.0	659.9	649.2	757.9	824.8
Memorandum items:										
Reserve money (annual percentage change)	34.9	27.6	27.8	5.5	7.5	14.1	18.0	33.1	34.6	20.0
Broad money (annual percentage change)	44.7	41.9	27.4	10.2	10.0	16.0	24.0	31.0	33.0	25.0
Credit to nongovernment sector (annual percentage change)	61.7	80.4	45.1	26.6	20.0	25.9	38.8	41.0	33.2	34.8
Currency to broad money (in percent)	26.7	23.8	30.0	25.8	25.5	25.5	27.5	25.5	25.5	27.5
Foreign currency deposits to total deposits (in percent)	26.6	21.3	18.6	17.6	17.7	17.7	17.7	17.7	17.7	17.7
Broad money multiplier	2.3	2.5	2.3	2.4	2.5	2.5	2.4	2.4	2.5	2.5
Non-oil GDP velocity (average)	4.8	...	4.1	...	...	...	4.2	...	...	3.8
Net International Reserves (in million of U.S. dollars)	1,889	2,309	1,384	802	750	932	1,300	1,419	1,543	1,800
Commercial banks net foreign assets (in millions of U.S. dollars)	699	674	647	482	418	472	554	535	516	479
Commercial banks credit to the government (cumulative change)	29.8	34.8	83.8	-7.0	38.3	61.2	85.0	25.0	45.0	100.0

Sources: Sudanese authorities; and Fund staff estimates.

Table 4. Sudan: Monetary Authorities' Accounts, 2005-08

	2005	2006		2007				2008		
	Dec. Act.	Jun. Act.	Dec. Act.	Mar. Prel.	Jun. Proj.	Sep. Proj.	Dec. Proj.	Mar. Proj.	Jun. Proj.	Dec. Proj.
Net foreign assets	-219.0	-140.6	-314.7	-422.1	-442.8	-408.2	-336.4	-312.6	-287.7	-236.4
Foreign assets	580.4	686.3	429.8	330.8	321.8	385.2	427.2	449.6	473.0	521.2
International reserves	477.8	566.4	334.2	227.5	230.2	295.3	339.2	361.6	384.9	433.1
Other assets	102.6	120.0	95.6	103.3	91.7	89.9	88.0	88.0	88.0	88.0
Foreign liabilities	799.5	827.0	744.5	752.9	764.6	793.4	763.6	762.1	760.7	757.6
Short-term liabilities	42.3	64.0	55.6	66.7	80.2	109.0	79.1	77.7	76.2	73.2
Medium and long-term liabilities	757.1	763.0	688.9	686.2	684.4	684.4	684.4	684.4	684.4	684.4
Counterpart to valuation changes	756.9	744.9	724.1	719.7	717.8	717.8	717.8	717.8	717.8	717.8
Net domestic assets	73.9	92.1	372.2	424.7	473.5	490.7	541.1	556.0	577.3	625.3
Net domestic credit	19.8	85.5	306.9	332.8	375.6	424.6	467.6	477.6	509.6	568.5
Net claims on central government	41.8	73.7	173.1	173.5	227.7	278.4	323.1	338.1	375.1	443.1
Claims	153.7	176.0	199.1	225.3	253.7	304.4	349.1	364.1	401.1	469.1
Temporary advances	27.5	33.5	59.0	86.7	31.5	31.5	31.5	31.5	31.5	31.5
Govt. securities	21.0	37.2	34.8	33.3	89.5	140.1	184.8	199.8	236.8	304.8
of which, purchased from DMB	…	…	…	…	10.0	35.0	55.0	50.0	60.0	75.0
Long-term claims	105.3	105.3	105.3	105.3	132.8	132.8	132.8	132.8	132.8	132.8
Deposits	112.0	102.3	26.0	51.7	26.0	26.0	26.0	26.0	26.0	26.0
Of which: oil Savings Account 1/	64.4	65.1	1.4	1.9	1.4	1.4	1.4	1.4	1.4	1.4
Net claims on government of the south	-63.1	-59.7	-13.3	-7.1	-6.6	-3.3	0.0	0.0	0.0	0.0
Net claims on public enterprises	19.8	22.1	30.1	29.6	29.6	29.6	29.6	29.6	29.6	29.6
Net claims on banks	35.0	40.1	103.8	125.4	116.9	111.9	106.9	101.9	96.9	87.8
Money market instruments (net)	-13.5	9.4	13.2	11.4	8.0	8.0	8.0	8.0	8.0	8.0
Other items (net)	54.0	6.6	65.3	91.9	97.9	66.1	73.6	78.4	67.8	56.8
Reserve money	611.7	696.3	781.6	722.2	748.5	800.3	922.6	961.2	1,007.5	1,106.7
Currency outside banks	374.0	409.0	535.5	457.1	482.9	518.4	609.4	590.7	642.3	761.8
Reserves of commercial banks	188.9	230.7	205.9	198.0	203.2	219.5	250.7	308.1	302.8	282.5
Required reserves	77.7	91.1	86.2	85.9	88.7	95.2	101.0	108.5	118.0	126.3
Excess reserves	111.2	139.6	119.6	112.1	114.4	124.3	149.7	199.5	184.8	156.2
Deposits at CBOS included in broad money	48.8	56.7	40.2	67.1	62.4	62.4	62.4	62.4	62.4	62.4
Memorandum item:										
Central bank credit to govt (cum. change)	44.6	31.9	131.3	0.4	44.7	70.3	95.0	20.0	47.0	100.0

Sources: Sudanese authorities; and Fund staff estimates.

1/ Balance of the Oil Savings Account of the national unity government (as envisaged in the peace agreement with the south).

Table 5. Sudan: Balance of Payments, 2004–08

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

	2004	2005	2006	2007	2008
			Prel. Act.	Projected	
Current account balance	-1,399	-2,977	-5,489	-4,975	-4,761
Current account balance (on cash basis)	-815	-2,324	-4,903	-4,358	-4,145
Trade balance	192	-1,068	-1,291	49	440
Exports, f.o.b.	3,778	4,878	5,813	7,567	9,440
Oil exports	3,101	4,240	5,244	7,014	8,819
Non-oil products	677	638	569	553	621
Imports, f.o.b.	-3,586	-5,946	-7,105	-7,518	-9,000
Foodstuffs	-456	-713	-656	-643	-853
Petroleum products	-89	-283	-364	-125	0
Machinery and transport equipments	-1,602	-2,747	-3,785	-4,096	-4,938
Manufactured goods	-877	-1,433	-1,444	-1,520	-1,876
Other imports	-562	-770	-855	-1,134	-1,333
Services (net)	-1,020	-1,641	-2,689	-3,016	-3,231
Receipts	44	114	201	234	270
Payments	-1,064	-1,755	-2,890	-3,250	-3,501
Of which: oil transportation costs	-434	-404	-602	-882	-1,005
Income (net)	-1,694	-1,989	-2,898	-3,418	-3,874
Receipts	22	44	89	106	105
Non-oil payments	-678	-762	-696	-746	-781
Of which: interest cash payments	-83	-101	-94	-113	-148
Oil-related payments 1/	-1,038	-1,271	-2,292	-2,778	-3,198
Current transfers (net)	1,123	1,721	1,390	1,409	1,904
Private transfers	1,095	1,487	1,034	1,009	1,254
Public transfers	28	234	356	400	650
Capital account	0	0	0	0	0
Financial account (net)	1,165	2,806	4,257	4,352	4,567
Disbursements	80	309	286	322	331
Amortization	-280	-290	-336	-387	-390
Of which: cash payments (excluding IMF)	-187	-182	-213	-282	-297
Short-term capital flows and other assets (net) 2/	-58	666	767	794	802
Commercial banks NFA (increase -)	-26	-204	52	94	75
FDI and portfolio investment (net)	1,481	2,355	3,533	3,580	3,804
Errors and omissions	382	220	30	-224	0
Overall balance	149	49	-1,202	-847	-195
Financing	-148	-49	1,202	847	195
Change in net international reserves (increase -)	-855	-745	505	84	-500
Other foreign reserves (increase -)	30	-23	-30	28	-15
Change in arrears	677	719	726	736	709
Financing gap	0	0	0	0	0
Memorandum items:					
Current account (in percent of GDP)	-6.5	-10.7	-14.7	-10.7	-8.5
Current account, cash basis (in percent of GDP)	-3.8	-8.3	-13.1	-9.3	-7.4
Net international reserves (end-period)	1,144	1,889	1,384	1,300	1,800
(in months of next years imports)	1.9	2.4	1.7	1.4	1.7
Sudanese crude oil price (U.S. dollars per barrel)	36.2	49.7	54.4	46.8	51.8
Nominal GDP	21,685	27,904	37,442	46,708	55,929

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

1/ Includes payments to oil companies related to profit-sharing arrangements.
2/ Net short-term trade and other credit facilities of the government and commercial banks.

Table 6. Sudan: Medium-Term Macroeconomic Scenario, 2006–12

	2005	2006	2007	2008	2009	2010	2011	2012
		Est.	Projections					
	(Change in percent, unless otherwise indicated)							
Production and prices								
Nominal GDP (in millions of U.S. dollars)	27,904	37,442	46,708	55,929	66,931	75,784	84,808	94,423
Real GDP	8.6	11.8	11.2	10.7	12.6	8.3	7.6	7.5
Oil	-0.2	26.5	38.8	11.9	26.7	2.0	-1.0	0.8
Non-oil	9.6	10.3	8.1	10.5	10.6	9.4	9.0	8.5
Inflation (period average)	8.5	7.2	8.0	6.5	5.5	4.5	4.0	4.0
	(In percent of GDP, unless otherwise indicated)							
Investment and saving								
Gross investment	23.6	24.6	24.1	24.6	25.5	25.5	25.3	25.0
Government 1/	5.4	6.2	7.1	7.3	8.0	7.7	7.3	7.0
Nongovernment	18.2	18.4	17.0	17.3	17.5	17.9	18.0	18.0
Gross national saving	15.3	11.6	14.7	17.2	20.3	20.0	20.1	20.7
Government	3.6	2.0	3.2	4.4	5.8	5.5	5.3	4.6
Nongovernment	11.7	9.5	11.5	12.8	14.5	14.5	14.8	16.0
Central government								
Total revenue	21.7	19.4	18.7	20.4	22.9	22.0	21.2	20.5
Of which: Oil revenue 2/	13.3	10.8	9.7	11.7	14.1	12.9	11.8	10.7
Total expenditure	23.4	23.7	22.5	23.3	25.1	24.2	23.3	22.9
Overall balance (cash basis)	-1.8	-4.2	-3.8	-2.9	-2.2	-2.2	-2.1	-2.4
External sector								
External trade balance	-3.8	-3.4	0.1	0.8	3.4	2.6	1.8	1.3
Exports, f.o.b.	17.5	15.5	16.2	16.9	18.8	17.5	15.9	14.7
Imports, f.o.b.	21.3	19.0	16.1	16.1	15.4	14.9	14.2	13.4
Current account balance on cash basis	-8.3	-13.1	-9.3	-7.4	-5.2	-5.5	-5.2	-4.3
Net international reserves (in months of imports)	2.4	1.7	1.4	1.7	2.5	2.6	2.6	2.9
Terms of trade (change in percent)	25.2	5.7	-13.2	8.9	4.4	2.4	2.1	0.0
Memorandum item:								
Crude oil export price (U.S. dollars per barrel) 3/	49.7	54.4	46.8	51.8	54.7	56.9	58.7	59.3

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

1/ Includes estimated capital spending by state governments.
2/ Crude oil revenue.
3/ Sudanese oil blends. Projections are based on the latest WEO assumptions.
(based on future prices).

Table 7. Sudan: Quantitative Targets Under the 2006 Staff-Monitored Program 1/

	2005 2/	Cumulative change during 2006					
	Dec	Jan-Jun			Jan-Dec		
	Actual	Prog.	Prog. w/adj.	Actual	Rev. Prog.	Rev. Prog. w/adj.	Est.
	(In billions of Sudanese dinars; unless otherwise indicated)						
Central Bank of Sudan net domestic assets 3/	76	21	148	18	27	180	298
Domestic financing of the central government 3/	111	37	160	117	133	269	322
Net international reserves (in millions of U.S. dollars) 3/	1,889	283	-298	420	792	31	-505
Contracting or guaranteeing of external nonconcessional debt							
by the government or the central bank (in millions of U.S. dollars)	935	...	...	547	700	...	589
Payments to the Fund (in millions of U.S. dollars)	30	15	...	14	45	...	51
Memorandum items:							
Broad money	1,403	151	...	318	491	...	384
Reserve money	612	88	...	85	161	...	170
Net central bank claims on government of southern Sudan	-63	0	...	3	33	...	50
Government oil export revenues	...	382	...	259	675	...	539
Of which: oil savings account	64	57	...	1	29	...	-63

Sources: Sudanese authorities; and Fund staff estimates.

1/ Based on CR/06/182, Attachment I, Table 1, and Midyear Review under the SMP, Table 6.

2/ Outstanding stock at end-2005, except for external nonconcessional debt and payment to the Fund which are in flow terms.

3/ As specified in the Technical Memorandum of Understanding (CR/06/182, Attachment I), three program targets for December 2006 have been adjusted as follows: i) The target on net domestic assets of the central bank has been increased by the difference between programmed and accrued government oil revenue (SDD 136 billion) and increased by the (non-programmed) change in bank claims on the Government of Southern Sudan (SDD 17 billion). ii) The target on net international reserves has been reduced by the difference between accrued and programmed government oil revenue (US$677 million) and reduced by the (non-programmed) change in central bank claims on the Government of Southern Sudan (US$84 million). iii) The target on the domestic financing of the central government has been increased by the difference between accrued and programmed government oil revenue (SDD 136 billion). In addition, the central bank's NDA outturn in June and December 2006 is valued at the program exchange rate.

Table 8. Sudan: Structural Benchmarks under the 2006 Staff-Monitored Program

Measures	Timing (end of period)	Status at End-December 2006
Stop the referral of requests for renewal of exemptions under the Investment Encouragement Act by the Minister of Investment to the Council of Ministers	After March 2006	Met
Remit net operating income of Sudapet (at year end) and the SPC (quarterly), including those derived from exports of petroleum products to the treasury	Throughout	Met
Convert the 2006 fiscal framework of the national government to GFSM 2001 classification and present it to parliament for information (economic and functional classification)	May 2006	Met in October 2006
Finalize and publish the GOSS budget for 2006 according to GFSM 2001 methodology (economic and functional classifications)	May 2006	Met in October 2006
Initiate public information campaign sensitizing the public about the costs of fuel subsidies and highlighting pro-poor policies	June 2006	Met
Compile (monthly) and publish (quarterly) fiscal reporting data according to GFSM 2001 for the national government and the GOSS (economic and functional classifications)	June 2006	Not met
Establish the rules and procedures for the operations of the Fiscal and Financial Allocation and Monitoring Commission (FFAMC)	June 2006	Met
Begin monthly publication on official websites (e.g. Sudan Petroleum Corporation, ministry of finance, central bank) of the following information (one-month lag) (i) volume of oil production by blend of crude; export receipts and prices (in US$) by blend, sales to refineries, exports and imports of petroleum products, revenue accrued to the government, and transfers to the government of Southern Sudan; and (ii) details of any new external loan or financing contracted or guaranteed by the government or the central bank, specifying the nature of the contract and the amount and terms	July 2006	Met in August 2006
Complete and publish the 2004 and 2005 financial audits of Sudapet	September 2006	Not met
Finalize a strategy for the elimination of fuel subsidies and the adoption of an automatic mechanism that passes through changes in the world price of crude oil to domestic product prices	October 2006	Met
Finalize a program to revamp the system of investment incentives granted under the Investment Encouragement Act in line with best international practice	October 2006	Not met

Table 9. Sudan: Indicators of Debt Service Capacity, 2002–07

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

	2002	2003	2004	2005	2006	2007
					Est.	Proj.
Total debt service paid	166	276	342	313	352	445
Payments to the Fund	25	28	33	30	51	50
Charges and interest falling due	16	13	15	19	24	26
Charges settled	3	2	1	2	3	4
Reduction in overdue principal obligations	22	26	31	28	48	47
Overdue obligations to the Fund	1,475	1,596	1,650	1,507	1,580	1,556
Total debt service paid, in percent of:						
Exports of goods and nonfactor services	8.3	10.6	9.0	6.3	5.8	5.7
Net current receipts 1/	18.4	18.7	14.6	9.4	11.3	10.7
Gross official reserves	66.5	52.5	25.6	15.1	21.2	26.2
GDP	1.1	1.6	1.6	1.1	0.9	1.0
Payments to the Fund, in percent of:						
Exports of goods and nonfactor services	1.2	1.1	0.9	0.6	0.8	0.6
Net current receipts 1/	2.7	1.9	1.4	0.9	1.6	1.2
Gross official reserves	9.9	5.3	2.4	1.5	3.1	2.9
Quota 2/	10.6	11.1	12.4	12.6	19.9	19.4
External debt service paid	14.8	10.1	9.5	9.7	14.4	11.2
Available fiscal revenue 3/	1.5	1.1	0.8	0.7	1.1	1.0
Overdue obligations to the Fund, in percent of:						
Exports of goods and nonfactor services	74	61	43	30	26	20
Net current receipts 1/	164	108	70	45	51	38
Gross official reserves	593	303	123	73	95	92
GDP	9.8	9.0	7.6	5.4	4.2	3.3
External debt	7.0	6.9	7.1	5.7	5.9	5.6
Memorandum items:						
Exports of goods and services	1,996	2,613	3,822	4,992	6,015	7,802
Net current receipts 1/	898	1,478	2,351	3,316	3,120	4,142
Gross official reserves	249	527	1,338	2,072	1,660	1,696
In months of next year's imports	1.0	1.5	2.2	2.6	2.0	1.8
GDP (in millions of U.S. dollars)	14,976	17,780	21,685	27,904	37,442	46,708
Quota (in millions of SDRs) 2/	169.7	169.7	169.7	169.7	169.7	169.7
Available fiscal revenue (in millions of U.S. dollars) 3/	1,668	2,652	4,057	4,521	4,805	4,849
Exchange rate (U.S. dollar/ SDR, end of period)	1.36	1.49	1.55	1.43	1.50	1.51

Source: Fund staff estimates.

1/ Exports of goods and services adjusted for oil related payments for services and transfers to foreign investors.
2/ As percent of Eighth Review Quota.
3/ Domestic fiscal revenue, net of transfers to states.

Table 10. Sudan : Financial Soundness Indicators for the Banking Sector, 2004–07

	Dec-04	Dec-05	Dec-06	Mar-07	Apr-07
	(In percent, unless otherwise indicated)				
Capital Adequacy					
Regulatory capital to risk-weighted assets 1/	12.0	19.1	19.7	18.3	...
Regulatory Tier I capital to risk-weighted assets 1/	…	10.0	17.4	16.2	...
Capital (net worth) to assets	13.8	12.0	14.1	13.0	...
Asset composition and quality					
Loans to nongovernment to total assets	47.0	52.2	46.3	47.0	48.9
Gross NPLs to gross loans	8.9	7.1	19.4	23.3	23.9
NPLs net of provisions to gross loans	6.0	6.3	17.0	20.0	21.3
NPLs net of provisions to capital	34.5	37.4	63.7	76.0	91.0
Loans provisions to NPLs	26.0	26.5	14.0	12.0	9.5
Foreign currency loans to total loans	34.5	32.9	26.0	26.6	24.0
Deposits and investment accounts to total assets	62.0	63.9	60.0	51.5	54.0
Foreign currency deposits to total deposits	39.4	27.2	22.0	21.0	21.4
Off- balance sheet commitments to assets	32.6	32.2	33.0	35.6	35.7
Earnings and Profitability					
ROA (before tax)	5.3	5.0	3.6	2.8	3.6
ROE(before tax)	61.4	56.0	35.4	23.4	32.0
Liquidity					
BOS deposits to total assets	11.8	15.5	8.0	7.0	7.0
Required reserves to total assets	5.5	4.9	4.0	3.6	3.5
Required reserves to total reserves	47.9	44.7	39.0	53.7	50.6
Cash in vault to total assets	1.4	1.4	1.0	1.9	2.2
Liquid assets to total assets	15.5	16.9	25.0	22.5	24.0
Liquid assets to total short-term liabilities	30.2	37.2	75.0	75.0	71.2
Customer deposits to total (non-interbank) loans	...	...	119.0	96.2	97.6

Source: Bank of Sudan.

1/ Data for December 2006 and March 2007, refers only to 27 of the 30 existing banks due to data limitations (excludes Sudanese Agriculture Bank, Capital Bank, and Industrial Development Bank).
2/ Free capital equals regulatory capital minus fixed assets.
3/ Amended NPLs exclude murabaha contracts that are overdue for less than 3 months.

Table 11. Sudan: Millennium Development Goals, 1990–2005

	1990	1995	2000	2003	2005
1. Eradicate extreme poverty and hunger					
Population below $1 a day (percent)	...	...	...	...	...
Poverty gap ratio at $1 a day (percent)	...	...	...	...	...
Percentage share of income or consumption held by poorest 20 percent	...	...	...	...	...
Prevalence of child malnutrition (percent of children under 5)	...	...	...	...	...
Population below minimum level of dietary energy consumption	...	...	...	27.0	...
2. Achieve universal primary education					
Net primary enrollment ratio (percent of relevant age group)	40.0	...	43.2	...	...
Percentage of cohort reaching grade 5 (percent)	93.8	...	84.1	91.9	...
Youth literacy rate (percent ages 15-24)	65.0	...	...	...	77.2
3. Promote gender equality					
Ratio of girls to boys in primary and secondary education (percent)	77.6	...	...	88.3	89.0
Ratio of young literate females to males (percent ages 15-24)	71.5	...	...	...	84.4
Share of women employed in the nonagricultural sector (percent)	22.2	20.1	18.2	17.1	...
Proportion of seats held by women in national parliament (percent)	...	...	5.0	10.0	14.7
4. Reduce child mortality					
Under 5 mortality rate (per 1,000)	120.0	106.0	97.0	93.0	90.0
Infant mortality rate (per 1,000 live births)	74.0	69.0	65.0	63.0	62.0
Immunization, measles (percent of children under 12 months)	57.0	51.0	47.0	57.0	60.0
5. Improve maternal health					
Maternal mortality ratio (modeled estimate, per 100,000 live births)	...	...	...	...	...
Births attended by skilled health staff (percent of total)	69.4	...	87.0	...	...
6. Combat HIV/AIDS, malaria and other diseases					
Prevalence of HIV, female (% ages 15-49)	...	...	3.1	1.6	1.6
Contraceptive prevalence rate (% of women ages 15-49)	8.7	...	7.0	...	...
Number of children orphaned by HIV/AIDS	...	...	...	...	...
Tuberculosis prevalence rate (per 100,000 people)	178.2	193.5	210.2	220.8	228.2
Tuberculosis cases detected under DOTS	...	2.0	32.1	32.2	34.6
7. Ensure environmental sustainability					
Forest area (percent of total land area)	32.1	...	29.7	...	28.4
Nationally protected areas (percent of total land area)	...	...	...	5.2	...
GDP per unit of energy use (PPP $ per kg oil equivalent)	2.7	3.4	4.1	3.7	...
CO2 emissions (metric tons per capita)	0.2	0.1	0.2	0.3	...
Access to an improved water source (percent of population)	64.0	...	...	69.0	...
Access to improved sanitation (percent of population)	33.0	...		34.0	...
Access to secure tenure (percent of population)	...	...	...	...	...
8. Develop a Global Partnership for Development					
Youth unemployment rate (percent of total labor force ages 15-24)	...	...	...	...	...
Fixed line and mobile telephones (per 1,000 people)	2.4	2.6	12.5	42.0	68.9
Personal computers (per 1,000 people)	...	0.3	3.0	10.0	89.7
General indicators					
Adult literacy rate (percent of people ages 15 and over)	45.8	...	...	...	60.9
Total fertility rate (births per woman)	5.6	5.1	4.6	4.4	4.1
Life expectancy at birth (years)	52.7	54.6	55.9	58.6	56.7
Aid (percent of GNI)	6.6	3.8	2.1	3.8	7.1

Sources: World Bank, World Development Indicators.

ATTACHMENT I. SUDAN: LETTER OF INTENT

July 27, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

Sudan has maintained close cooperation with the IMF over the past many years. This cooperation has helped us implement economic policies that aim at maintaining economic stability, fostering growth, and reducing poverty—which are necessary to promote peace and reconciliation throughout the country.

The attached Memorandum of Economic and Financial Policies (MEFP) sets forth our policy intentions under an 18-month Staff Monitored Program (SMP) covering July 2007 through December 2008. We are committed to maintaining macroeconomic stability and advancing the reform agenda, which will focus on fiscal reforms to increase the revenue base for financing needed expenditures and financial sector reforms to strengthen financial intermediation. The Government believes that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program, but it stands ready to take additional measures that may be appropriate for this purpose. The Government intends to make these understandings public and authorizes the IMF to publish this letter, the attached MEFP, and the IMF staff report.

We are committed to a process of economic integration, both within Sudan and with the international community. But our success depends also on the support we get from multilateral institutions and development partners. In this regard, we look forward to the IMF's Executive Board's discussion of the SMP and to the resolution of Sudan's debt and arrears problems in the future. In the meantime, we will intensify our efforts to obtain financing assurances from creditors for arrears clearance and debt relief under the Enhanced Heavily Indebted Poor Countries and the Multilateral Debt Relief Initiatives.

Sincerely yours,

s/

Al-Zubeir Ahmed Al-Hassan
Minister of Finance and National Economy
Ministry of Finance and National Economy

s/

Dr. Sabir Mohamed Hassan
Governor
Central Bank of Sudan

ATTACHMENT II. SUDAN: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES
July 27, 2007

1. This memorandum sets out the economic policies and objectives of the Government of National Unity (GNU) for the period July 2007 to December 2008. These policies will be pursued in the context of an IMF staff-monitored program (SMP).

I. PERFORMANCE UNDER THE 2006 SMP

2. Program performance under the 2006 SMP was uneven, due in large part to a number of unforeseen factors and challenges related to implementation of peace agreements. Two of the five quantitative targets (payments to the Fund and the ceiling on nonconcessional borrowing) were met. The remaining three targets (net international reserves, net domestic assets, and domestic financing of the government) were not met. Critical in this regard was the need to meet commitments under various peace agreements in the absence of disbursements from donors. Also a factor was a shortfall relative to projected revenues from oil exports. With respect to net international reserves, the need to absorb excess domestic liquidity—generated mainly by fiscal expansion and intervention in Omdurman Bank—and lower oil revenues resulted in a substantial decline in foreign exchange reserves of the central bank in the last quarter of the year. Most structural reforms under the program were implemented, although some with delays. Only three of the benchmarks—fiscal reporting on a GFSM 2001 basis, publishing of financial audits of state oil company Sudapet, and formulation of a program to revamp investment incentives—were not met.

II. RECENT DEVELOPMENTS

A. Developments in 2006

3. Despite the numerous challenges in implementing various peace agreements, the government has endeavored to maintain a focus on ensuring high levels of economic growth within an environment of macroeconomic stability. For the most part, we have been successful in these objectives. Growth was robust in 2006, and Sudan was one of the region's strongest countries in terms of attracting investment. With rapid growth have come new challenges—some have related to volatility in oil production and pricing, while others have stemmed from the need for greater flexibility and coordination in implementing macroeconomic policy.

4. The Sudanese economy achieved a growth rate of about 11.8 percent in 2006—largely in line with program expectations. A substantial increase in oil production (albeit less than hoped) contributed to this robust performance. Nonoil growth was also strong, however, at an estimated 10.3 percent—due in large part to a continued recovery in agriculture, and vibrant activity in construction, trade, and services. Average inflation was 7.2 percent. However, there was a steep rise in end-period inflation to 15.7 percent—stemming from the government's decision to reduce subsidies on domestic fuel products. Reflecting strong

capital inflows, the dinar rose by some 12 percent in nominal terms vis-à-vis the US dollar. Given the surge in inflation in the second half of the year, the dinar rose by some 21 percent in real effective terms during 2006.

5. Despite a substantial rise in oil production, the external current account position deteriorated. Exports of crude oil in 2006 increased by roughly 70 percent in volume terms over 2005, due almost entirely to production from new fields. In dollar terms, however, oil exports increased by only 24 percent. Marketing problems and the low quality of a new crude (Dar blend, which has a high level of acidity) resulted in a substantial discount relative to prevailing international prices and lower than expected export receipts. Nonoil exports, meanwhile, declined by some 11 percent in dollar terms—with notable declines in cotton, gum arabic, and livestock products. Imports—particularly shipments of capital goods—surged over the course of the year, reflecting a strong increase in foreign investment. As a result, the external current account deficit expanded from 8 percent of GDP in 2005 to roughly 13 percent in 2006. Net international reserves of the central bank declined by almost one-third, although this mainly reflected increased foreign exchange sales to mop up excess dinar liquidity associated with fiscal expansion and the injections into state-owned Omdurman Bank.

6. Fiscal performance in 2006 was weaker than programmed. The overall deficit is estimated to have widened to over 4 percent of GDP (2 percentage points higher than targeted in the revised 2006 SMP). This was in large part due to shortfalls in oil production and government oil revenue. Although total production (at some 132 million barrels) was substantially higher than in 2005, it was still much less than had been anticipated in formulating the budget. Low prices for Dar blend also had a negative impact, as did lower than projected non-oil revenues. Overall expenditures were in line with program commitments. Excess capital expenditures was compensated for by restraint in current spending. The higher fiscal deficit was financed by depletion of resources in the oil savings account, issuance of government bonds and promissory notes, central bank credit, and accumulation of domestic arrears.

7. Broad money growth (on an annual basis) remained around 40 percent through most of the year. Credit to the private sector grew at a rapid pace through much of the first half of 2006—peaking at just over 80 percent on a 12-month basis in July. The second half of the year was marked by a deceleration of this expansion. Broad money growth declined sharply to 27.4 percent by end-December, with a similar drop in growth of private sector credit, to about 45 percent. These sharp declines, which took place largely in the last quarter, were due to corrective actions by the central bank (principally foreign exchange sales to mop up domestic liquidity), a decline in deposits linked to the Omdurman Bank, and the emergence of government arrears which impacted banks' balance sheets. Reserve money growth was broadly in line with program targets at about 28 percent.

8. Important structural reforms were completed in the past year. Of particular importance has been ongoing work on fiscal management and transparency with respect to the oil sector. During 2006, the fiscal framework of the national government was converted to GFSM 2001 format, and presented to parliament for information—a critical step forward in public financial management. Also key was the compilation and public release of data on oil production, trade, and related transfers to the Government of Southern Sudan. Finally, a difficult but necessary reduction in domestic fuel subsidies was accomplished in August.

B. Developments in 2007

9. A number of the challenges that emerged in the final months of 2006 carried over into the first part of 2007—highlighting the need for a comprehensive approach to resolve emerging imbalances while simultaneously maintaining macroeconomic stability. Revenues in the first quarter were below the levels hoped for in the budget. While a weak first quarter performance in non-oil revenue (particularly tax revenue) is not unusual, oil revenues again failed to meet anticipated levels. Production and export of Dar blend crude were hampered by technical problems related to completion of a new pipeline and marine terminal. Prices for Dar blend in the first few months of the year were also lower than expected, running at an average of US$19 per barrel during January-March. Government expenditures, meanwhile, remained in line with budget allocations. As a result, the overall government deficit in the first quarter reached SD 143.6 billion (1.5 percent of annual GDP).

10. While inflation has remained in single digits and the exchange rate has been steady, monetary growth has decelerated. The 12-month rate of broad money growth fell to about 8 percent by April, due in large part to continued monthly declines in net foreign assets and less credit to the private sector. Given the expansion in government spending and imports, the use of foreign exchange reserves to mop up domestic liquidity and bring the exchange rate to a soft landing was seen by the central bank as the most prudent option.

III. Medium-Term Outlook and Challenges

11. Meeting Sudan's medium-term challenges will require macroeconomic stability, a strong commitment to reform, and flexibility in dealing with a rapidly changing economic landscape. We would highlight in this context that Sudan has only recently emerged from a long period of civil conflict. The demands of implementing the Comprehensive Peace Agreement (CPA), the Eastern Peace Agreement (EPA), and the Darfur Peace Agreement (DPA) are substantial, and the commitments made under these agreements must be met regardless of whether the international community fulfills earlier pledges of support. The demands in this area are likely to increase given the need to proceed with demobilization, as well as providing support to the joint AU-UN peacekeeping force. Meeting these obligations while simultaneously undertaking critical infrastructure and pro-poor spending limits our maneuverability on economic policies. The situation would be improved considerably with greater donor support and recognition of our accomplishments.

12. The medium-term macroeconomic framework envisages growth of about 9-10 percent, based on prudent macroeconomic policies designed to ensure single digit inflation and a rebuilding of international reserves. Increasing production of oil will provide one source of growth, but we also anticipate robust activity in non-oil sectors—including construction, manufacturing, transport, and services. We will also seek to boost the performance of our agricultural sector through market reforms and removal of transport, finance, and input bottlenecks.

13. Structural reforms and flexibility in labor and capital markets will be essential to maintain competitiveness over this period. The external position is likely to improve over time, with the external current account (cash basis) projected to stabilize at a deficit of 4-5 percent of GDP. Fiscal policy will focus on the difficult task of balancing expenditure needs with maintaining a fiscal stance consistent with macroeconomic stability. Monetary policy will continue to target a broad money growth rate consistent with inflation and growth objectives. Financial sector stability and development, in conjunction with prudent regulation and oversight, will be critical components in enhancing the prospects for medium and long-term growth of the Sudanese economy.

14. In addition to targeting high and sustainable levels of growth, the government's medium-term policies will focus on poverty alleviation and development. To this end, we have developed a work plan to prepare a national Poverty Reduction Strategy Paper (PRSP). A request for funding under the Technical Assistance Facility is pending. We expect the final PRSP to be ready by March 2008. The PRSP will place heavy emphasis on relevant and flexible policies to ensure a macroeconomic framework consistent with post-conflict challenges, decentralization, an enabling environment for private sector growth, and capacity and institution building. We are also pleased to report that the Bank of Sudan, in cooperation with the World Bank, has initiated a microfinance unit. The unit will focus on creating financial access for the poor, setting up the legislative and organizational framework for microfinance work, and establishing an information network for microfinance providers.

IV. Policies for 2007-08

15. Recognizing the seriousness of imbalances which emerged in the latter half of 2006 and the first quarter of 2007, the government has already implemented several corrective actions. On expenditure management, starting in June, the Bank of Sudan is coordinating payments for priority expenditures (wages, expenditures already committed and financed by standing orders, guarantees, and development sanadats), via direct transfer from current revenues. Remaining expenditures are based exclusively on remaining cash revenues, and will be executed by a committee including the State Minister of Finance, the Under Secretary of Finance (as co-chair), the Director of the Budget, and the Director of the Chamber of Accounts.

A. Real Sector

16. The program envisages real economic growth of 11.2 percent in 2007 and 10.7 percent in 2008. Oil GDP is expected to grow by about 39 percent in 2007 (reflecting the additional output from Blocks 3 and 7), and by nearly 12 percent in 2008 as production stabilizes. Non-oil growth is expected to moderate somewhat in 2007, but remain at a robust level of 8 percent in real terms. The moderation in growth will reflect fiscal consolidation, the need to tighten monetary policy to stem reserve outflows, weakness in the financial system during the first part of the year, and more moderate growth in agriculture and livestock production—which grew sharply in 2005–06.

B. Monetary/Exchange Rate Policy

17. With respect to monetary policy, the central bank will—in the context of a managed float exchange rate system—maintain a focus on price stability as its central mandate. The pound will be allowed to move in line with fundamental forces, and sales of foreign exchange will focus primarily on serving government and market needs. Given the lumpiness of foreign exchange movements related to oil production and FDI flows, occasional limited intervention may be needed to smooth short-term volatility. However, in light of the need to rebuild foreign exchange reserves to prudent levels, the room for further intervention will be limited. The central bank will avoid resisting sustained and fundamental pressures on the pound. We will also remove, by end-December 2007, the floor on cash margins for sight letters of credit and import credits.

18. The program will target a broad money growth rate of 24 percent in 2007, and 25 percent in 2008, consistent with GDP growth and inflation objectives, and an increase in money demand reflecting the reintegration of the south. The monetary target and the projected increase in foreign exchange reserves will allow for an appropriate growth of credit to the private sector. The conduct of monetary policy will be challenging given the changing economic landscape, but will seek to be flexible in the face of shifting FDI and other capital flows, volatility in oil-related foreign exchange movements, and aid disbursements. Accordingly, we will closely monitor monetary developments during the program period to ensure that the broad money growth rate remains in line with the inflation objective.

19. The conduct of monetary policy will increasingly rely on open market operations, with an emphasis on indirect monetary policy instruments. In the coming months, the central bank will acquire government securities from the banking system in order to increase its stocks of indirect monetary policy instruments. The trading of these instruments could in future be used to meet liquidity management objectives, rather than relying on sales of foreign exchange.

C. Fiscal Policy

20. The fiscal deficit for 2007 will be contained to no more than SD 359 billion on a cash basis, and to no more than SD 326 billion (2.9 percent of GDP) in 2008. The 2008 budget parameters will be reviewed later in 2007, as the preparation of the 2008 budget advances. All standing orders, guarantees, sanadats, and other obligations coming due will be paid, and no new arrears will be created in 2007 and 2008. Fiscal revenues are expected to reach SD 1,748 billion in 2007. This revenue will include some SD 56 billion (US$280 million) in license fees and payment of past obligations from Mobitel. Oil revenues are projected to reach 9.7 percent of GDP in 2007. The increase in oil revenues will reflect a rise in government share, as well as a narrowing discount on Dar blend relative to international prices. Total central government expenditures are programmed to be SD 2,107 billion in 2007. The government is fully aware of the risks associated with oil revenue projections given the volatility of international oil prices, and the uncertainties with respect to production and shipment. Flexibility and frequent review of expenditures and commitments will thus be required to ensure that the deficit stays at or below the agreed level. Specifically, if oil revenues are lower-than-programmed, we will (to the extent that such resources are available) compensate for the revenue shortfall by drawing from the Oil Saving Account (OSA), or otherwise reduce spending to maintain the fiscal deficit unchanged. If oil revenues exceed programmed levels, the additional revenue will be deposited in the OSA.

21. To meet the programmed revenue targets and to raise revenues over the medium-term, fiscal reform measures we intend to undertake in 2007-08 are as follows:

- The VAT rate was raised from 10 percent to 12 percent effective June 1, 2007.
- Reduce VAT exemptions granted by ministerial decree to achieve an additional SD 15-20 billion in revenue on an annual basis, effective December 2007.
- The Ministry of Finance will prepare a program by October 2007 to progressively reduce income tax holidays for new investments under the IEA.
- Recommendations of the above program will be incorporated and implemented as part of the 2008 budget.
- Implement an accelerated depreciation mechanism, and agree to adopt a single profit tax rate in 2009.
- Existing exemptions will be grandfathered, but eliminated at the time of expiration (no renewal).
- Continue to suspend the granting of any new VAT or income tax exemptions.

- Improve tax administration through introduction of self-assessment for business income tax (BIT) for taxpayers covered under the Large Taxpayer Office (LTO) by end-January 2008.

22. Fiscal expenditure has risen significantly in recent years, reflecting priority reconstruction needs and increases in transfers to states in an effort to support greater decentralization. While continuing to support these objectives, expenditure policies for 2007-08 will focus on maintaining a tighter balance between spending and available resources. Specific actions we will undertake in this regard are as follows:

- To further bolster expenditure management and preclude the emergence of domestic arrears, the ministry of finance will implement a zero-balance Treasury Single Account (TSA) by August 15 2007.

- Implement commitment controls that limit expenditures by line ministries to monthly or quarterly cash plans, which reflect likely cash availability rather than budgeted allocations.

- The MOFNE will issue a decree by July 15, 2007 establishing that line ministries cannot undertake spending commitments without the permission of the MOFNE. Reports will also be prepared on a quarterly basis for accounting data on expenditure committed and expenditure paid, by main budgetary items and chapters.[1]

- Formulate contingency measures for expenditure cuts in the event that projected revenues (oil and non-oil) fail to materialize.

23. Critical to the effective implementation of fiscal policy is a renewed commitment by the government to transparency and sound public financial management. The resort to nontraditional forms of financing in 2006-07 complicated both fiscal and monetary management and made analysis of the true fiscal position difficult. To address this problem and to increase transparency, we intend to take the following measures:

- Halt the use of sanadats, standing orders, and other nontraditional forms of finance, and to carefully monitor the existing stock of such instruments with a view to their eventual extinction. Issuance of letters of guarantee in the second half of 2007 will not exceed SD 20 billion.

[1] These two measures will help ensure that line ministries will not be able to independently commit amounts under their allocations, and that they would be bound by actual measures under the cash plan.

- Establish in MOFNE a centralized domestic debt unit by September 2007 that will compile and monitor on a monthly basis the stock of domestic debt, and on a quarterly basis the stock of domestic arrears (payments due for over 3 months) by debt instrument and provide on a quarterly basis accounting data on expenditure committed and expenditure paid, by main budgetary items and chapters.

- Adopt for the 2008 budget the full economic and functional classifications of the Government Financial Statistics Manual (GFSM) 2001.

D. Balance of Payments / External Debt

24. The external current account deficit (cash basis) is expected to narrow significantly to some 9 percent of GDP, compared with a deficit of 13 percent in 2006. The improvement mirrors a sharp increase in oil exports, as difficulties with oil production and shipment are expected to be resolved by mid-year. Critically, Dar blend crude appears to have found broader acceptance in international oil markets, and thus prices are likely to be more stable in the future. Transfers are also expected to rise. Imports are expected to rise by about 6 percent—mainly in the form of materials and capital goods required for the implementation of large scale projects financed by loans from official creditors and FDI. With the net increase in foreign exchange inflow, we anticipate being able to rebuild net international reserves of the central bank to a level of about US$1.3 billion (1.4 months of imports) by the end of 2007 and US$1.8 billion (1.7 months of imports) by end-2008.

E. Financial Sector

25. We will continue our plans to restructure and strengthen the banking system. A strategy for resolving recent problems with Omdurman Bank is being implemented. An audit of the bank will be started by December 2007 by a local affiliate of one of the internationally recognized auditing firms. The audit will be consistent with international good practices and follow international audit standards. Based on the findings of the audit, we will prepare a plan for resolution/restructuring of the bank by June 2008. Similarly, rehabilitation plans for Saudi Sudanese Bank will be implemented. The CBOS will actively enforce prudential standards and ensure that banks comply with existing regulations. Commercial banks will submit to the central bank by end-December 2007 well-specified action plans to achieve full compliance with existing regulations on capitalization and provisioning.

F. Other Reforms

26. With the rise in oil production has come greater demands for oil sector transparency. A number of positive steps have been made in the last year with respect to publication of oil sector and oil revenue data, but much remains to be done. With a view to increasing the level of cooperation and transparency, the government will provide to the IMF the 2004 and 2005 audits of Sudapet by October 2007. The government will also publish (on the MOFNE

website) data on volume of oil production, total volume of crude oil exports, volume of government oil exports, volume of input to refineries, volume of petroleum product production, and import/export of petroleum products.

V. Relations with the Fund and Other Creditors

27. **External debt issues**. In 2007, Sudan's debt service capacity will be constrained by revenue shortfalls, the need to rebuild foreign exchange reserves, the burden of implementing the various peace agreements, and the need to address critical poverty and reconstruction requirements. Further shortfalls or delays in donor assistance or a significant negative shock to oil prices would further limit our capacity to service our obligations. Based on the available data, the end-2006 stock of public and publicly-guaranteed debt is estimated at over US$27 billion in nominal terms, up by about US$9 billion since end-2000. This increase largely reflects a US$6.3 billion buildup in arrears to official bilateral (Paris Club and non-Paris Club) creditors, and new drawings of some US$520 million from Arab multilateral and bilateral creditors as well as from China and India. Sudan has been making debt service payments to almost all multilateral creditors and selected bilateral creditors that have provided new financing in recent years. We wish to convey to the international community that Sudan has made every effort at cooperation on policies and payments for many years, and in that context met all the conditions and requirements for debt relief. We remain hopeful that the international community will recognize our track record, and take concrete action on debt relief for Sudan comparable to that provided to numerous other countries.

28. **External financing**. Sudan continues to suffer from limited access to concessional loans because of the difficulties in resolving our debt and arrears situation. We are unable to put critical infrastructure, reconstruction, and social development projects on hold indefinitely, however. These projects are an essential component of our strategy to unite the country after the signing of multiple peace agreements. Consequently, we have had to make recourse to nonconcessional financing in recent years. We are keenly aware of the concern of other creditors regarding this borrowing, and of the risks it may pose over the medium- and long-term. We will therefore seek to limit the contracting of such obligations as much as possible. For 2007, we will limit such contracting to US$700 million, and will impose a similar limit for 2008.

29. **Payments to the Fund**. In addition to cooperation with the Fund on matters of economic policy, Sudan's payments to the Fund have exceeded program levels under the SMP, and in this context we achieved a small reduction in the stock of external obligations. Payments to the Fund have continued in the first half of 2007, even in the absence of a staff-monitored program. The Fund's preferred creditor status will be maintained by ensuring that our payments continue in the remaining months of 2007 and 2008 by ensuring that our payments continue to exceed obligations falling due. To demonstrate our continued cooperation, we will make minimum payments of US$50 million in 2007 and at least US$50 million in 2008. Further, it is our intention to move to a monthly payment basis. We

would hasten to point out, however, that these payments—while demonstrating our good intentions—are not a solution to Sudan's arrears to the Fund. We appeal to the international community in this context to recognize our accomplishments, act in accordance with the principle of equal treatment, and work toward a rapid resolution of Sudan's debt and arrears problem.

VI. Program Targets and Monitoring

30. The proposed semi-annual quantitative targets for the periods up to end December 2007, end-June 2008, and end-December 2008 are set forth in Table 1, and the structural benchmarks are detailed in Table 2. We will closely monitor financial and economic developments in coming months and will implement any measures that may be needed to safeguard macroeconomic stability in consultation with the Fund staff. It is proposed that there will be semi-annual staff assessments of the program.

31. To ensure the effective monitoring of the program, the relevant ministries, the CBOS, and the Central Bureau of Statistics will compile and share with the Fund staff all economic and financial data necessary, on a timely basis, as specified in the attached TMU.

Table 1. Sudan: Quantitative Targets for 2007 and 2008

	2006 1/	2007 2/			2008 2/		
	Dec.	June	Sep	Dec.	Mar	Jun	Dec.
	Act.	Bench-mark	Indic. Target	Target	Indic. Target	Target	Target
	(In billions of Sudanese dinars, unless otherwise indicated)						
Central Bank of Sudan net domestic assets 4/	372	101	119	169	15	36	84
Domestic financing of the central government 4/	322	112	180	307	96	161	319
Reduction in the stock of domestic arrears of the central government 2/ 3/	22	14	…	38	8	16	32
Net international reserves (in millions of U.S. dollars) 4/	1,384	-634	-452	-84	119	243	500
Contracting or guaranteeing of external nonconcessional debt by the government or the central bank (in millions of U.S. dollars)	589	...	...	700	…	…	700
Payments to the Fund (in millions of U.S. dollars)	51	...	...	50	…	…	50
Memorandum items:							
Broad money	1,787	107	246	429	100	303	554
Reserve money	782	-33	19	141	39	85	184
Net central bank claims on government of Southern Sudan	-13	7	10	13	0	0	0
Government oil export revenues	539	260	460	646	205	409	853
Of which: oil savings account	-63	0	0	0	0	0	0

Sources: Sudanese authorities; and Fund staff estimates.

1/ The 2006 figures—except for domestic financing of central government, domestic arrears, external nonconcessional debt, payment to the Fund, and government oil export revenues—are displayed as end of period stocks.
2/ Cumulative flow during 2007 and 2008.
3/ Any new domestic arrears incurred during January – June should be cleared by end-June, and those incurred during July – December should be cleared by end-December. Arrears are defined as overdue financial obligations of the central government outstanding for 90 days or more.
4/ Subject to an adjustor (asymmetric) to take account of oil production and/or prices being more than assumed in the program.

Table 2. Structural Measures Under the SMP (July 2007 to December 2008)

Measures Under the SMP	Objective	Status/Timing [1]
1. Ministry of Finance to issue a decree establishing that line ministries cannot undertake commitments without permission of Ministry of Finance.	Expenditure control	July 15, 2007
2a. Provide to Fund staff the stock of domestic debt, including arrears, at end-2006, by type of instrument (loans from BOS, GICs, GMCs, standing orders, guarantees, development sanadats, and securitized arrears (debt extinction sanadats)).	Stop build-up of public debt	June 26, 2007
2b. Establish a centralized domestic debt unit that will compile and monitor on a monthly basis the stock of domestic debt by debt instrument, and on a quarterly basis the stock of domestic arrears (payments due for over 3 months) by debt instrument and provide on a quarterly basis accounting data on expenditure committed and expenditure paid, by main budgetary items and chapters.	Stop build-up of public debt	July 1, 2007
3a. Establish a zero-balance Treasury Single Account in line with recommendations of the FAD Public Financial Management mission of October 2006.	Expenditure control	August 15, 2007
3b. Implement commitment controls that limit expenditures by line ministries to monthly or quarterly cash plans, which reflect likely cash availability rather than budgeted allocations.	Expenditure control	September 1, 2007
4. Adopt for the 2008 budget the full economic and functional classifications of the GFSM 2001.	Improve budget execution	December 2007
5. Reduce VAT exemptions granted by ministerial decree to achieve an additional SD 15-20 billion in revenue on an annual basis.	Broaden tax base and raise revenue	December 2007
6. Continue to suspend the granting of any new VAT or income tax exemptions by the Ministry of Finance.	Raise revenue	Continuous
7a. Ministry of Finance to prepare a program to progressively reduce income tax holidays for new investments under the IEA.	Broaden tax base and raise revenue	October 2007
7b. Recommendations of the program to be incorporated and implemented as part of the 2008 budget.	Broaden tax base and raise revenue.	December 2007
7c. Implement an accelerated depreciation mechanism, and approve a single profit tax rate for implementation in 2009.	Broaden tax base and raise revenue.	December 2007
7d. Existing exemptions to be grandfathered, but eliminated at the time of expiration (no renewal).	Broaden tax base and raise revenue.	December 2007
8. Implement self-assessment (based on IMF technical assistance recommendations) for business income tax, starting with taxpayers covered under the Large Taxpayer Office (LTO).	Improve tax administration	January 2008
9. Provide to the Fund the 2004 and 2005 financial audits of Sudapet.	Transparency	October 2007
10. Begin publication on the MOFNE website the following information (one month lag): volume of oil production; total volume of crude oil exports; volume of government oil exports; volume of input to refineries; volume of petroleum product production; import/export of products.	Transparency	December 2007
11a. Begin an audit of Omdurman Bank by a local affiliate of one of the internationally recognized auditing firms. The audit should be consistent with international good practices and following international auditing standards as established by the International Auditing and Assurance Standard Board.	Financial sector soundness	December 2007
11b. Based on results of the audit, the government will prepare a restructuring/resolution plan for Omdurman Bank.	Financial sector soundness	June 2008
12. Commercial banks to undertake and submit to central bank well-specified actions plans to achieve full compliance with existing regulations on capitalization and provisioning.	Financial sector soundness	December 2007
13. Remove the central bank floor on cash margins for sight letters of credit (SLC) and import credits.	Current account liberalization.	December 2007

1/ Unless otherwise specified, measures are for end-month.

ATTACHMENT III. SUDAN: TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum specifies the understanding reached with the Fund staff regarding quantitative targets, structural benchmarks, and reporting for the 2007-08 staff-monitored program (SMP).

2. The SMP relies on six quantitative indicative targets for up to end-March and end-September and an equal number of quantitative targets for end-December 2007, end-June 2008 and end-December 2008. The targets are (i) ceilings on the change in net domestic assets of the Central Bank of Sudan (CBOS); (ii) ceilings on the domestic financing of the fiscal deficit; (iii) floors for the buildup of net international reserves of the central bank; (iv) ceilings on new nonconcessional external loans contracted or guaranteed by the government or the central bank; (v) floors for payments to the Fund; and (vi) change in domestic arrears. Broad money, reserve money, and total government revenues from crude oil exports will be monitored as memorandum items. Some of these targets are subject to adjustors depending on the financial position of the government of South Sudan and total government oil export revenue performance. The definitions of these variables and the adjustors are set out below. All the quantitative targets and structural benchmarks are displayed in Tables 1 and 2 of this attachment.

3. **Net domestic assets (NDA)** of the CBOS are defined as the sum of the Net Domestic Credit of the CBOS, the net issue of money market instruments and other items net. Net Domestic Credit is defined as net credit to the central government (i.e. Government Musharaka Certificates (GMCs), Government Investment Certificates (GICs), and any other form of central bank credit to the central government minus total central government deposits) plus net central bank claims on state and local governments, central bank claims on public enterprises, and claims on banks, and minus Central Bank Ijara Certificates (CICs). The definition of the central government comprises all accounts of line ministries and agencies controlled by the government (corresponding to Group no. 11, Group no. 12, and some accounts of the Group no. 19 in the CBOS general ledger), the Zakat funds (recorded under Group no. 13), and margin deposits placed with the CBOS by the central government against letters of credit issued by the CBOS. The definition includes all oil-related accounts controlled by the government. To evaluate program targets, the dinar equivalent values of foreign exchange denominated items in the balance sheet of the central bank will be calculated at the program exchange rate.

4. **Domestic financing of the fiscal deficit** is defined as total net domestic borrowing by the central government, including net borrowing from the banking system (including GMCs and GICs), net sales of GMCs and GICs outside the banking system, promissory notes (ie, standing orders, letters of guarantee, and sanadats), and revenues from privatization and changes in government cash deposits of the BOS. The definition of central government for the purpose of this criterion is the same as the one applied for the NDA of the central bank.

5. **Net international reserves** (NIR) are total gross non-earmarked official foreign reserve assets on active accounts plus reserve assets of the government of Southern Sudan in

the central bank minus official short-term liabilities (i.e. no more than one-year maturity). The assets are maintained on accounts with overseas correspondent banks and foreign exchange banknotes in the vaults of the central bank. Short-term liabilities include IMF deposit accounts, nonresident deposits, and (overdrawn) foreign correspondents accounts.

6. Limits on **contracting or guaranteeing of nonconcessional external debt** apply to all forms of debt of more than one-year maturity contracted or guaranteed by the government or the CBOS. The limit applies not only to debt as defined in point no. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision no. 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. The degree of concessionality of debt will be calculated as specified in the Guidelines.[1]

7. **Broad money** is defined as the sum of local currency circulating outside of the banks, banks' demand, and time and savings deposits. It also includes transferable deposits and margin deposits against letters of credit placed by state and local governments, nonfinancial public enterprises, and the nonbank private sector with the CBOS. **Reserve money** is defined as the sum of local currency circulating outside of the banks, total reserves (required and excess) for banks, and deposits at the CBOS included in broad money.

8. **Adjustor on the financial position of the government of South Sudan** (capped). The program target for changes in the NDA of the central bank will be reduced (increased) and the international reserve target will be increased (reduced) by the amount of any decline (increase) in net central bank claims on the government of South Sudan. The adjustor will not apply if the stock of net claims on the government of South Sudan turns positive.

9. **Oil revenue adjustor** (symmetric). The programmed government oil revenue from crude oil exports is based on the program's assumptions about oil prices (f.o.b. Port Sudan) and quantities expected to be exported (see Table below). Accrued revenue is the cumulative government oil revenue inflows based on actual shipments at current international prices (f.o.b. Port Sudan). Oil revenue for use in the 2007 and 2008 budgets is estimated at a projected international average quarterly price of oil as indicated in Table 1 (benchmark prices).[2] The accrued government oil revenue in excess of the planned budgeted amounts is deposited in an oil saving account (OSA), a locked sub-account within net credit to the government at the CBOS. The programmed OSA accumulation for 2007 is zero.

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[1] For program purposes, a loan is considered concessional if the grant element is at least 35 percent calculated using a discount factor based on the Commercial Interest Reference Rates (CIRRs) published by the OECD plus margins depending on the loan maturity. The margins are 0.75 percent for repayment periods of less than 15 years, 1 percent for 15–19 years, 1.15 percent for 20–29 years, and 1.25 percent for 30 years or more. The average of the CIRRs over the last ten years will be used for loans with a maturity of at least 15 years and the average of the CIRRs for the preceding six months will be used for shorter maturities.

[2] The projected prices for 2008 will be revisited in the context of preparing the 2008 budget, based on the latest information available regarding international prices and the discounts applied to Nile blend and Dar blend.

The oil revenue adjustor will work as follows:

- If the accrued government revenue from crude oil exports exceeds the programmed amount (either because the price and/or volume exceed the programmed levels), these proceeds will also be deposited in the OSA. The program targets for domestic financing of the budget deficit and NDA will be reduced, and the international reserves target will be increased, by the difference between the accrued and the programmed amounts.

- If the accrued government revenue from crude oil exports falls short of the programmed amount, the program targets for international reserves target will be reduced by the difference between the programmed and the accrued amounts.

- If within a given quarter the accrued oil revenue that goes to the budget falls below the planned amount, appropriate amounts will be withdrawn from the OSA (subject to these resources being available) to ensure that cumulative oil revenues for use in the budget match the cumulative amounts planned in the fiscal program. If such resources are not available from the OSA, the government will undertake appropriate expenditure adjustment to ensure that the deficit does not exceed the targeted level of SD 359 billion in 2007 and SD 326 billion in 2008.

Table 1. Sudan: Government oil revenues from crude exports

		2007					2008				
		Q1 Actual	Q2 Est.	Q3 Prog.	Q4 Prog.	Year Prog.	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.	Year Prog.
Nile blend crude (including crude from Block 5A)											
Price (f.o.b. Port Sudan)	US$/barrel	54.7	59.5	60.5	61.0	59.2	63.0	64.5	64.9	65.2	64.4
Volume exported	Million barrels	6.880	9.865	9.889	9.990	36.6	10.1	11.4	10.7	10.8	43.1
Export revenue	US$ millions	376.0	586.5	597.8	609.4	2,170	639	738	696	705	2,779
Of which: OSA accumulation	US$ millions	55	0	0	0	55	0	0	0	0	0
Dar blend crude											
Price (f.o.b. Port Sudan)	US$/barrel	17.7	27.1	33.6	35.6	30.9	34.7	34.5	34.9	35.2	34.8
Volume exported	Million barrels	6.6	8.4	10.9	11.1	37.0	11.1	11.2	11.4	11.5	45.2
Export revenues	US$ millions	117	252	377	399	1,144	383	387	399	404	1,573.2
Of which: OSA accumulation	US$ millions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memo item:											
Revenue from crude exports	US$ millions	493	838	975	1,009	3,314	1,023	1,125	1,095	1,110	4,352
Revenue from crude exports	SDD billions	99	168	195	202	663	205	225	219	222	870
Of which: programmed OSA accumulation	SDD billions	11	0	0	0	11	0	0	0	0	0
Oil export revenue for use in the budget	SDD billions	88	168	195	202	652	205	225	219	222	870

10. **Data Reporting.** The following table contains the agreed reporting framework. To the extent possible, the data will be submitted in both printed and electronic form to the IMF local office.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
CBOS	Flash report	Weekly data for movement in main indicators of the CBOS balance sheet, international reserves, sales and purchases of foreign exchange, exchange rate, murabaha rate, musharaka shares, and inflation	Weekly	Tuesday of each week
	CBOS balance sheet	Detailed CBOS balance sheet.	Monthly	1 month after the end of each month
	Monetary survey	Banking system balance sheet and consolidated balance sheet of commercial banks	Monthly	1 month after the end of each month
	Rates of return and securities	Murabaha rate and shares of Musharaka and the rate of return on securities (GMC, GIC and CIC). Information on auctions and expiry for all certificates from the Sudan Financial Company	Monthly	1 week after the end of each month
	Banking indicators	Capital adequacy; asset composition and quality; profitability; liquidity; open FX positions; and compliance with prudential norms	Quarterly	1 month after the end of each quarter
	Balance of payments	Detailed composition	Quarterly	2 months after the end of each quarter
Ministry of Finance	Central government	Revenues, expenditures, and financing as in traditional presentation	Monthly	30 days after the end of each month
	Central government	Revenues, expenditures, and financing as in GFSM 2001	Monthly	Data for January-May by end-June, for the remaining months 45 days after the end of each month
	GOSS	GFSM 2001	Monthly	Data for January-May by end-June, for the remaining months 45 days after the end of each month
	Privatization receipts	Detailed figures for each transaction and nature of the transaction	Quarterly	1 month after the end of each quarter
	Bank financing	Certificates or advances from the central bank or commercial banks, listed by transaction specifying entity, date, amount, and maturity	Monthly	1 month after the end of each month
	Nonbank financing	Sanadats, letters of guarantee, standing orders issued to any nonbank entity, listing by transaction specifying entity, date, amount and maturity	Monthly	1 month after the end of each month
	External debt	Disbursements, debt service, and contracting or guaranteeing of medium-and long-term external debt of the government, the CBOS, and state-owned companies	Quarterly	1 month after the end of each quarter
Central Bureau of Statistics	CPI	By category and income group (low, middle, high)	Monthly	1 week after the end of each month
Ministry of Finance/ Ministry of Energy	Crude oil exports	Shipment data, listing by blend specifying date, quantity, prices, and values in US$ and in dinars	Monthly	1 month after the end of each month
	Sales to refineries	Sales listing by refineries specifying date, quantity, prices, and values in US$ and in dinars	Monthly	1 month after the end of each month
	Net operating income transfers to the treasury	Net income of SPC (including those derived from exports of petroleum products)	Quarterly	1 month after the end of each quarter

INTERNATIONAL DEVELOPMENT ASSOCIATION AND
INTERNATIONAL MONETARY FUND

SUDAN

Joint World Bank/IMF Debt Sustainability Analysis

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

Approved by Vikram Nehru and Sudhir Shetty (World Bank) and Adam Bennett and Matthew Fisher (IMF)

August 6, 2007

Based on the joint Bank-Fund Low-Income Country Debt Sustainability Framework, this note assesses the sustainability of Sudan's total public debt.[1] The results confirm that the country is in debt distress. Under the baseline scenario, all debt ratios, except those for debt service, remain above their indicative thresholds over the medium- to longer-term, despite reasonably prudent macroeconomic policies and assumed higher oil revenues over the projection period. Moreover, with its heavy reliance on oil, Sudan is highly vulnerable to both oil volume and price shocks as illustrated by a lower oil price scenario. Finally, Sudan's debt indicators would decrease if it curtails recourse to any additional nonconcessional borrowing. It will therefore be critical for Sudan to maintain sound policies consistent with a prudent borrowing strategy for the medium and long term.

[1] This DSA has been jointly prepared by the Fund and World Bank staff and in collaboration with the Sudanese authorities.

I. Introduction

1. **This is Sudan's first debt sustainability analysis (DSA) prepared under the new joint Bank-Fund Low-Income Country (LIC) Debt Sustainability Framework (DSF).** The framework follows a clear methodology for assessing the risk of debt distress in LICs, based on projections of five debt burden indicators (under both baseline and standardized stress-test scenarios), namely the net present value (NPV) of external debt-to-GDP ratio; the NPV of external debt-to-export ratio; the NPV of external debt-to-revenue ratio; debt service-to-export ratio; and debt service-to-revenue ratio.[2] Empirical evidence suggests low-income countries with a better quality of policies and institutions can sustain a higher level of external debt. The LIC DSA framework, therefore, compares forecasts of these debt burden indicators with policy-dependent thresholds using the World Bank's Country Policy and Institutional Assessment (CPIA).[3]

2. **Despite the numerous challenges in implementing various peace agreements, Sudan has endeavored to maintain a focus on ensuring high levels of economic growth within an environment of macroeconomic stability**. Economic growth was strong in 2006, reflecting a substantial increase in oil production (albeit less than expected) and a vibrant non-oil sector. However, 12-month inflation nearly tripled to some 16 percent on account of an increase in administered prices (fuels and transportation) in the third quarter of 2006, but the rate declined to single digits by the first quarter of 2007. Partly as a result of the increase in inflation, the dinar appreciated by some 21 percent in real effective terms in 2006. The fiscal position deteriorated markedly in 2006 to a deficit of 4.2 percent of GDP, reflecting mostly a shortfall in oil revenue (relative to budget) linked to Dar blend crude. Similarly, the external current account position also deteriorated to a deficit of 13.1 percent of GDP in 2006, contributing to a notable drop in foreign exchange reserves of the central bank, which in turn led to a slowdown in money and credit growth in the second half of 2006.

II. Evolution and Structure of Total External Debt

3. **Despite Sudan's strong economic growth over the last seven years, its external debt, most of which is in arrears, remains high**. Based on the available data, the end-2006

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[2] Resolving Sudan's debt overhang remains a high priority for the government. The authorities believe that debt relief under the HIPC Initiative and the MDRI will play a crucial part in helping Sudan to normalize its relations with creditors and assume a path to achieving sustainable development goals. This DSA does not address HIPC eligibility. Sudan is potentially eligible for HIPC and MDRI debt relief. However, determining whether or not it qualifies for HIPC debt relief will require a HIPC-specific analysis that will be carried on at an appropriate time in the dialogue with Sudan.

[3] The CPIA ranks Sudan as a poor performer, with a 2004–06 average score of 2.6. The policy-dependent debt burden thresholds for countries in this category are: (a) NPV of debt-to-GDP ratio of 30 percent; (b) NPV of debt-to-export ratio of 100 percent; (c) NPV of debt-to-revenue ratio of 200 percent; (d) debt service-to-export ratio of 15 percent; and (e) debt service-to-revenue ratio of 25 percent.

stock of public and publicly-guaranteed debt is estimated at US$27 billion in nominal terms This increase largely reflects a US$6.3 billion buildup in arrears to official bilateral (Paris Club and non-Paris Club) creditors, and new drawings of some US$520 million from Arab multilateral and bilateral creditors (mainly from China and India). Sudan has been making partial debt service payments to almost all multilateral creditors. Sudan has also paid selected bilateral creditors that have provided new financing in recent years.

4. **The structure of Sudan's external debt has remained broadly unchanged since 2000, although there has been an increase in nonconcessional borrowing, mainly from China and India**. In nominal term, roughly two-thirds of end-2006 total external debt was owed to official bilateral creditors (Text Table 1), which was almost equally divided between Paris Club and non-Paris Club creditors. Of the remainder, multilateral institutions accounted for about 16 percent of Sudan's total debt, while its debt to commercial banks and suppliers accounted for some 18 percent.

Text Table 1. Sudan: Composition of External Debt, 2006

(In million US dollars)

Total public and publicly guaranteed external debt	26,588
Multilateral Creditors	4,262
Paris Club Creditors	8,821
Non-Paris Club Creditors	8,647
Commercial Banks	3,960
Suppliers	897

Source: Central Bank of Sudan and staff estimates.

5. **Sudan contracted US$589 million of new nonconcessional loans in 2006**, which adds to the already unsustainable debt burden of the country. Of this contracted total, US$392 million was from India, US$182 million from China, and a small amount from Turkey. The total amount of contracted nonconcessional loans was below the IMF staff-monitored program ceiling of US$700 million. Of these contracted loans, only US$286 million was actually disbursed in 2006. However, the authorities note that their strategy to foster national unity and peace agreements with Darfur and the eastern region calls for undertaking substantial infrastructure and investment projects, and that given the limited fiscal space and lack of access to concessional financing, they have little choice but to resort to other less desirable means of financing.

III. External Debt Sustainability

Baseline scenario

6. **The baseline scenario (Tables 1 and 2 and Figure 1), shows that Sudan is in debt distress**. This scenario is based on a set of reasonably prudent macroeconomic assumptions and oil sector developments presented in Boxes 1 and 2, respectively. The baseline results indicate that apart from the ratio of NPV of debt-to-revenue from 2009 onwards, all three debt-burden indicators are expected to remain above their policy-dependent thresholds in the period 2007–17. The NPV of debt-to-GDP ratio is expected to decline from 47 percent in 2007 to 34 percent in 2017, which is still 4 percentage points higher than the indicative threshold. The NPV of debt-to-exports is expected to fall from 284 percent in 2007 to 203 percent in 2009, but to increase thereafter to 429 percent in 2017, which is

substantially higher than the indicative threshold of 200 percent; this more or less reflects the projected path of oil exports that shows a noticeable steady decline after 2009. The NPV of debt-to-revenue is projected to decline from an average of about 240 percent a year in 2007 and 2008 to remain below its threshold of 200 percent through much of the forecast period through 2012, but is expected to breach the threshold by 7 percentage points in 2017. The two debt service indicators (debt service-to-exports ratio and debt service-to-revenue ratio) are expected to remain below their policy-dependent thresholds throughout the forecast period 2007–27. However, these indicators are misleading in that the macroeconomic framework for the baseline assumes servicing of only new obligations falling due, including highly concessional multilateral debt, and no servicing of the more than US$24 billion in arrears. For example, in 2006, Sudan paid US$352 million in debt service, while accruing some UD$124 million in additional arrears.

Standardized sensitivity analysis

7. **Under the new sustainability framework, the various standard stress tests conducted are distinguishable between alternative scenarios, based on permanent modifications of key baseline assumptions, and bound tests, representing temporary deviations—although some with permanent level effects.** There are two alternative scenarios: (A1) a historical scenario in which the main variables that determine debt dynamics (namely, real GDP growth; inflation, measured by changes in the U.S. dollar GDP deflator; the noninterest external current account in percent of GDP; and nondebt-creating flows in percent of GDP) are assumed to remain at their 10-year historical averages. This allows for a realistic comparison of the baseline projections with the country's own history. The second alternative scenario (A2) is a financing scenario in which new borrowing is assumed to be on less favorable terms (a 2 percentage points higher interest rate) throughout the projection period. The bound tests (B1 through B6) apply two-period/one standard deviation negative shocks to the key macroeconomic variables (the above-mentioned parameters plus export growth, a combined one-half deviation shock, and a one-time 30 percent depreciation of the Sudanese pound). The impact of these various stress tests for the key debt-burden indicators are presented in Table 2 and illustrated in Figure 1.

Box 1. Sudan: Macroeconomic Assumptions 2007–27

Real GDP is assumed to grow at an annual average rate of about 12 percent a year during 2007–09, boosted by further increases in oil production and a continued strong recovery (10 percent) in the non-oil economy. However, after the strong oil GDP growth, (an average 26 percent) during the period, the average GDP growth is forecast to fall to 5½ percent per annum during 2010–27. The non-oil sector will benefit in this period from wide-ranging macroeconomic and structural reforms, especially the financial, social, and infrastructure improvements, which will help remove impediments to growth and speed up diversification of the domestic economy. Some of the macroeconomic assumptions are on the optimistic side, suggesting that the debt situation could be even worse than what is projected in the analysis.

Exports are projected to grow at a rate of 30 percent a year during 2007–09, reflecting largely strong oil export performance, and will decline thereafter at an average rate of about 2½ percent per year through 2027. Similarly, oil exports are projected to grow at an average annual rate of 26½ percent during 2007–09, and then decline at an annual average rate of almost 12 percent a year through 2027. Although it would peak in 2009, oil is expected to continue to be the dominant element through much of the forecast period. Its share in total exports is projected to fall from 95 percent in 2009 to 50 percent in 2021, and further to 17 percent in 2027.

Imports are projected to grow by about 12 percent annually through 2009, reflecting sharp increases in capital spending, but the average rate is expected to fall to under 6 percent a year thereafter.

The current account deficit is projected to average about 8½ percent of GDP annually during 2007–09, but will improve markedly thereafter to an annual average of 3 percent of GDP through 2007. The improvement in the current account after 2009 is expected to come from lower imports and stronger net external transfer inflows, mostly driven by remittances. Meanwhile, net international reserves of the central bank are expected to increase sharply from US$1.3 billion (1.4 months of imports) in 2007 to US$6.3 billion (3.9 months of imports) in 2017, and the import coverage is forecast to increase to 4.6 months through 2027.

Debt assumptions include continued repayment of selected creditors on outstanding debt (and continued accumulation of arrears on other outstanding obligations), and scheduled amortization and interest obligations on new borrowing. Disbursement of new loans is projected at about US$300 million per year in the medium term (2008-12) and about US$380 million on average over the long term (2013-27), with a grant element of just under 35 percent.

Box 2. Sudan: Oil Sector Developments

Oil is a dominant sector in Sudan, accounting for almost two-thirds of GDP. Average daily production rose from 287,000 barrels per day (bpd) in 2005 to 364,000 bpd in 2006. While this increase in output was notable, it was well below the expected level of 492,000 bpd envisioned at the beginning of the year. Technical problems caused delays in production of Dar blend from new fields until the fourth quarter of 2006. Many of the technical problems continued into the first quarter of 2007, limiting production which is now projected to average about 505,000 (bpd). Assuming some new discoveries, oil production is expected to average about 730,000 bpd in 2010–13, and the level of output is projected to start a gradual descent to reach 292,000 bpd by 2027.

Oil currently accounts for about 95 percent of exports and about 50–60 percent of government revenue. Government oil revenue reached US$4.2 billion in 2006, compared with US$2.3 billion in 2004, reflecting increases in both production and international prices.

8. **Holding the key debt-dynamics parameters constant over the long term at their historical averages (scenario A1) produces some deterioration in the downward path of both debt and debt service indicators relative to the baseline.** This reflects the recent improvement in key macroeconomic aggregates in the past few years (particularly GDP and export growth) relative to the past decade. Over the projection period, a 2 percentage points higher interest rate (scenario A2) somewhat flattens the downward path of debt and debt service ratios in all indicators, except in NPV of debt-to-export ratios which show a marked deterioration after 2010 through 2017, mapping the declining path of oil exports during this period. Under these alternative scenarios, however, all of the debt ratios continue to remain above the indicative thresholds over the next decade.

9. **Among the bounded tests, the one-time 30 percent nominal depreciation relative to the baseline in 2008 (B6) proved to be the worst scenario for two of the three debt indicators (the NPV of debt-to-GDP ratio and the NPV of debt-to-revenue ratio).** It would cause the NPV of debt-to-GDP ratio to reach 60 percent in 2008, before gradually declining to 34 percent in 2027, which is still 9 percentage points higher than the baseline and 4 percentage points above the indicative threshold. Similarly, this scenario would cause the NPV of debt-to-revenue ratio to reach 301 percent in 2008, gradually declining thereafter to 228 percent in 2027, which is 63 and 28 percentage points above the baseline and indicative threshold, respectively. In the case of debt- and debt service-to-export ratios, the most challenging outcome would result from lowering the export value growth at its historical average minus one standard deviation in 2008–09 (B2). It would result in the ratio of NPV of debt-to-export to first rise to 370 percent in 2008, reaching 1037 percent in 2017, before falling to 996 percent in 2027, which is still 535 percentage points above the baseline

and some 896 percentage points higher than the indicative threshold. The debt service indicator produces a similar pattern, climbing to 26 percent (20 and 11 percentage points above the baseline and the threshold, respectively) in 2017, before falling to 19 percent (4 percentage points above the indicative threshold) in 2027.

10. **These results indicate that under various shocks, the debt situation would remain precarious over the next decade, and that there is little room for any slippages in the implementation of the planned reforms in the fiscal and structural areas.** In addition, in the coming period, improving the debt indicators would depend on obtaining concessional financing, rather than relying on the more expensive nonconcessional borrowing.

Customized sensitivity analysis

11. **Oil prices are inherently uncertain and volatile**. The baseline scenario uses IMF World Economic Outlook projections for future oil prices, which are significantly higher than oil price projections from the World Bank. To analyze the debt dynamics under a scenario using oil prices closer to the World Bank projections, an additional stress test is performed using a 20 percent shock to the baseline oil price (scenario A3).

12. **Under this customized scenario, Sudan's external debt indicators worsen significantly** (Figure 2). Most notably, the debt-to-revenue ratio would remain above its 200 percent threshold in this case over the entire period through 2017, suggesting longer-term downside risks. Although debt service indicators remain below their thresholds, they increase significantly due to higher exceptional financing on nonconcessional terms.

IV. TOTAL PUBLIC DEBT SUSTAINABILITY

13. **Under the baseline scenario (Table 3), although the total public sector debt starts at a relatively high level in 2006 (75 percent of GDP), it falls over the medium term to reach 55 percent in 2012**. This is mainly due to the contribution from high real GDP growth envisaged for 2007–12, but also from a reduction in the fiscal deficit over the same period. Public sector debt stocks in NPV terms start at 64 percent in 2006, but falls to 49 percent of GDP in 2012, and to 39 percent in 2027. The debt service-to-revenue ratio is projected to fall from 6 percent in 2006 to 5 percent in 2012 and then stay around 5–6 percent thereafter.

14. **Alternative scenarios (Table 4, Figure 3) show that improving Sudan's public debt indicators depend on the implementation of reforms to improve the fiscal deficit and growth, particularly in the non-oil economy**. The main results are the following:

- Under the no reform scenario, where the primary balance is kept unchanged from 2007 onwards, the NPV of debt-to-GDP would increase to 65 percent in 2017 and the debt service-to-revenue ratio would increase steadily to 11 percent.

- Under the most extreme stress test, where the real GDP growth is at its historical average minus one standard deviation, the NPV of debt-to-GDP would increase to 81 percent in 2017 and the debt service-to-revenue ratio would increase to 16 percent.

V. Conclusions

15. **Despite its considerable economic progress since 2000 Sudan is in debt distress**. Sudan's external debt ratios are well above the country-specific indicative thresholds during the complete period of analysis. The stress tests indicate that the debt indicators are sensitive to shocks. The sustainability analysis of total public debt strengthens this assessment. The vulnerabilities highlighted by the DSA need to be effectively addressed in the coming period through both proactive public debt and financial management policies.

16. **Sudan should reconsider its external borrowing strategy in light of the future debt service burden that would follow if it took on high volumes of nonconcessional debt**. Further recourse to such borrowing could also jeopardize Sudan's access to possible debt relief.

Table 1. Sudan: External Debt Sustainability Framework, Baseline Scenario, 2007-27 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
External debt (nominal) 1/	**107.6**	**95.5**	**71.0**			**60.0**	**53.4**	**47.5**	**44.6**	**42.3**	**40.3**		**37.4**	**25.6**	
o/w public and publicly guaranteed (PPG)	107.6	95.5	71.0			60.0	53.4	47.5	44.6	42.3	40.3		37.4	25.6	
Change in external debt	-21.6	-12.1	-24.5			-11.0	-6.6	-5.9	-2.9	-2.3	-2.0		-0.8	-1.8	
Identified net debt-creating flows	-23.6	-21.8	-19.1			-3.4	-3.7	-5.0	-1.9	-1.4	-1.7		0.0	-1.3	
Non-interest current account deficit	**5.7**	**9.9**	**14.3**	**9.2**	**2.6**	**10.3**	**8.2**	**5.9**	**6.2**	**5.9**	**5.0**		**4.1**	**1.0**	3.3
Deficit in balance of goods and services	3.8	9.7	10.6			6.4	5.0	2.1	2.6	3.1	2.9		6.5	4.2	
Exports	17.6	17.9	16.1			16.7	17.4	19.2	17.9	16.4	15.2		7.9	5.3	
Imports	21.4	27.6	26.7			23.1	22.4	21.3	20.5	19.4	18.1		14.4	9.5	
Net current transfers (negative = inflow)	-5.2	-6.2	-3.7	-4.5	1.2	-3.0	-3.4	-3.0	-3.0	-3.3	-3.5		-6.5	-5.2	-5.7
o/w official	-0.1	-0.8	-0.9			-0.9	-1.2	-0.9	-0.8	-0.7	-0.7		-0.7	-0.7	
Other current account flows (negative = net inflow)	7.0	6.3	7.4			7.0	6.6	6.8	6.6	6.1	5.6		4.1	2.0	
Net FDI (negative = inflow)	**-6.8**	**-8.4**	**-9.4**	**-5.4**	**2.8**	**-7.7**	**-6.8**	**-5.6**	**-4.9**	**-4.4**	**-4.0**		**-2.7**	**-1.1**	-2.2
Endogenous debt dynamics 2/	**-22.5**	**-23.2**	**-24.0**			**-6.1**	**-5.1**	**-5.4**	**-3.3**	**-2.8**	**-2.7**		**-1.4**	**-1.2**	
Contribution from nominal interest rate	0.8	0.8	0.3			0.3	0.3	0.3	0.2	0.2	0.2		0.1	0.1	
Contribution from real GDP growth	-5.4	-7.2	-8.4			-6.4	-5.4	-5.6	-3.5	-3.0	-2.9		-1.5	-1.3	
Contribution from price and exchange rate changes	-17.8	-16.8	-16.0			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**2.1**	**9.7**	**-5.4**			**-7.6**	**-3.0**	**-0.9**	**-1.0**	**-0.9**	**-0.3**		**-0.7**	**-0.5**	
o/w exceptional financing	-814.8	-663.0	-421.2			-316.1	-253.7	-221.7	-205.8	-187.6	-176.9		-160.3	-106.7	
NPV of external debt 4/	...	...	54.9			47.4	43.0	39.0	37.2	35.9	34.7		33.9	24.5	
In percent of exports	...	...	341.6			283.5	247.8	202.7	207.5	219.1	227.7		429.0	461.4	
NPV of PPG external debt	**...**	**...**	**54.9**			**47.4**	**43.0**	**39.0**	**37.2**	**35.9**	**34.7**		**33.9**	**24.5**	
In percent of exports	**...**	**...**	**341.6**			**283.5**	**247.8**	**202.7**	**207.5**	**219.1**	**227.7**		**429.0**	**461.4**	
In percent of government revenues	**...**	**...**	**289.1**			**262.3**	**217.2**	**175.1**	**174.0**	**173.7**	**174.1**		**206.9**	**164.6**	
Debt service-to-exports ratio (in percent)	**12.9**	**11.6**	**8.3**			**7.0**	**5.8**	**4.6**	**4.6**	**4.7**	**4.5**		**5.7**	**4.9**	
PPG debt service-to-exports ratio (in percent)	**12.9**	**11.6**	**8.3**			**7.0**	**5.8**	**4.6**	**4.6**	**4.7**	**4.5**		**5.7**	**4.9**	
PPG debt service-to-revenue ratio (in percent)	**11.5**	**9.6**	**7.1**			**6.5**	**5.0**	**3.9**	**3.8**	**3.7**	**3.5**		**2.8**	**1.7**	
Total gross financing need (billions of U.S. dollars)	0.2	1.0	2.3			1.8	1.4	0.8	1.6	1.9	1.6		2.5	0.7	
Non-interest current account deficit that stabilizes debt ratio	27.3	22.0	38.9			21.3	14.9	11.8	9.1	8.1	6.9		4.9	2.8	
Key macroeconomic assumptions															
Real GDP growth (in percent)	5.1	8.6	11.8	6.0	3.3	11.2	10.7	12.6	8.3	7.6	7.5	9.7	4.4	5.1	4.7
GDP deflator in US dollar terms (change in percent)	16.0	18.5	20.0	10.1	7.8	12.2	8.2	6.2	4.5	4.0	3.5	6.4	3.9	4.2	4.0
Effective interest rate (percent) 5/	0.7	1.0	0.5	0.7	0.2	0.6	0.6	0.6	0.5	0.5	0.5	0.5	0.3	0.2	0.3
Growth of exports of G&S (US dollar terms, in percent)	46.3	30.6	20.5	29.7	38.8	29.7	24.5	32.6	5.6	2.1	3.6	16.3	-4.8	4.0	1.7
Growth of imports of G&S (US dollar terms, in percent)	38.1	65.6	29.8	22.7	19.1	7.7	16.1	14.2	8.9	5.9	3.7	9.4	3.4	5.9	4.3
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	17.2	17.4	17.6	17.8	18.0	18.2	17.7	19.1	21.5	19.9
Aid flows (in billions of US dollars) 7/	0.0	0.2	0.4			0.4	0.7	0.6	0.6	0.6	0.7		1.0	2.4	
o/w Grants	0.0	0.0	0.2			0.3	0.3	0.4	0.5	0.5	0.6		0.8	2.0	
o/w Concessional loans	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.7	0.7	0.7	0.7	0.7	0.7		0.7	0.6	0.6
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			55.6	58.9	62.1	64.2	65.9	67.5		72.3	83.9	76.1
Memorandum items:															
Nominal GDP (billions of US dollars)	21.7	27.9	37.4			46.7	55.9	66.9	75.8	84.8	94.4		137.9	339.2	
(NPVt-NPVt-1)/GDPt-1 (in percent)						4.2	4.2	3.6	3.2	2.9	2.8	3.5	2.5	0.7	2.1

Source: Staff simulations.

1/ Includes both public and private sector external debt.
2/ Derived as [r - g - r(1+g)]/(1+g+r+gr) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and r = growth rate of GDP deflator in U.S. dollar terms.
3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.
4/ Assumes that NPV of private sector debt is equivalent to its face value.
5/ Current-year interest payments divided by previous period debt stock.
6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.
7/ Defined as grants, concessional loans, and debt relief.
8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the NPV of new debt).

Table 2. Sudan: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27
(In percent)

	Projections							
	2007	2008	2009	2010	2011	2012	**2017**	2027
NPV of debt-to-GDP ratio								
Baseline	47	43	39	37	36	35	**34**	25
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	47	46	45	43	42	41	**35**	30
A2. New public sector loans on less favorable terms in 2008–27 2/	47	43	39	38	36	35	**35**	25
A3. Twenty percent downward shock to baseline oil price 2008–27.	47	45	41	39	37	36	**35**	25
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	47	46	46	44	42	41	**40**	29
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	47	47	50	48	45	44	**41**	27
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	47	46	43	41	39	38	**37**	27
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 4/	47	47	44	42	40	39	**37**	25
B5. Combination of B1-B4 using one-half standard deviation shocks	47	48	51	49	47	45	**43**	30
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	47	60	54	52	50	48	**47**	34
NPV of debt-to-exports ratio								
Baseline	284	248	203	208	219	228	**429**	461
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 1/	284	264	235	242	255	267	**448**	558
A2. New public sector loans on less favorable terms in 2007–26 2/	284	249	204	209	221	231	**438**	478
A3. Twenty percent downward shock to baseline oil price 2008–27.	284	331	264	264	274	282	**508**	470
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	284	248	203	208	219	228	**429**	461
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	284	370	522	530	555	573	**1037**	996
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	284	248	203	208	219	228	**429**	461
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 4/	284	268	230	234	246	255	**470**	478
B5. Combination of B1-B4 using one-half standard deviation shocks	284	289	311	317	334	345	**638**	649
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	284	248	203	208	219	228	**429**	461
NPV of debt-to-revenue ratio								
Baseline	262	217	175	174	174	174	**207**	165
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2007–26 1/	262	232	203	203	202	204	**216**	199
A2. New public sector loans on less favorable terms in 2007–26 2/	262	218	176	175	176	176	**211**	171
A3. Twenty percent downward shock to baseline oil price 2008–27.	262	273	215	209	205	203	**229**	167
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	262	234	207	206	205	206	**244**	195
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	262	237	226	222	220	219	**250**	178
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008-09	262	230	193	191	191	191	**227**	181
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 4/	262	235	199	196	195	195	**227**	171
B5. Combination of B1-B4 using one-half standard deviation shocks	262	243	231	229	228	227	**265**	199
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	262	301	242	241	240	241	**286**	228

Table 2. Sudan: Sensitivity Analyses for Key Indicators of Public and Publicly Guaranteed External Debt, 2007–27 (continued)
(In percent)

				Debt service-to-exports ratio				
Baseline	7	6	5	5	5	5	**6**	5
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	7	5	5	5	5	5	**10**	21
A2. New public sector loans on less favorable terms in 2008–27 2/	7	5	4	4	4	4	**5**	5
A3. Twenty percent downward shock to baseline oil price 2008–27.	7	8	6	6	6	6	**7**	5
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	7	5	4	4	4	4	**5**	4
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	7	7	10	12	12	12	**26**	19
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	7	5	4	4	4	4	**5**	4
B4. Net nondebt creating flows at historical average minus one standard deviation in 2008–09 4/	7	5	5	5	5	5	**9**	7
B5. Combination of B1-B4 using one-half standard deviation shocks	7	6	6	7	7	6	**12**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	7	5	4	4	4	4	**5**	4
				Debt service-to-revenue ratio				
Baseline	7	5	4	4	4	3	**3**	2
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2008–27 1/	6	5	4	4	4	4	**5**	7
A2. New public sector loans on less favorable terms in 2008–27 2/	6	5	4	3	3	3	**2**	2
A3. Twenty percent downward shock to baseline oil price 2008–27.	7	6	5	5	4	4	**3**	2
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2008–09	6	5	4	4	4	3	**3**	2
B2. Export value growth at historical average minus one standard deviation in 2008–09 3/	6	5	4	5	5	5	**6**	3
B3. US dollar GDP deflator at historical average minus one standard deviation in 2008–09	6	5	4	4	3	3	**2**	2
B4. Net non-debt creating flows at historical average minus one standard deviation in 2008–09 4/	6	5	4	4	4	4	**4**	2
B5. Combination of B1-B4 using one-half standard deviation shocks	6	5	4	5	5	4	**5**	3
B6. One-time 30 percent nominal depreciation relative to the baseline in 2008 5/	6	6	5	5	4	4	**3**	2
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	18	18	18	18	18	18	**18**	18

Source: Staff projections and simulations.

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

Table 3.Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2004-2027
(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 5/	Standard Deviation 5/	Estimate	Projections								
	2004	2005	2006			2007	2008	2009	2010	2011	2012	2007-12 Average	2017	2027	2013-27 Average
Public sector debt 1/	109.2	96.1	74.5			70.6	65.3	59.6	57.4	55.7	54.7		55.4	39.6	
o/w foreign-currency denominated	105.0	90.4	65.8			59.8	53.4	47.5	44.6	42.3	40.3		37.4	26.1	
Change in public sector debt	-24.1	-13.1	-21.5			-3.9	-5.3	-5.7	-2.2	-1.6	-1.0		-0.2	-3.4	
Identified debt-creating flows	-26.2	-25.4	-21.2			-6.7	-8.4	-8.5	-4.7	-3.9	-3.2		-2.4	-3.9	
Primary deficit	-3.0	0.5	3.1	-0.6	2.1	2.8	1.9	1.1	1.1	1.0	1.3	1.5	0.9	-1.1	0.3
Revenue and grants	19.7	21.7	19.4			18.7	20.4	22.9	22.0	21.2	20.5		17.0	15.5	
of which : grants	0.0	0.0	0.4			0.6	0.6	0.6	0.6	0.6	0.6		0.6	0.6	
Primary (noninterest) expenditure	16.8	22.2	22.5			21.5	22.3	24.0	23.1	22.2	21.8		17.8	14.4	
Automatic debt dynamics	-23.2	-25.9	-24.2			-9.3	-10.3	-9.6	-5.8	-4.9	-4.5		-3.3	-2.7	
Contribution from interest rate/growth differential	-7.9	-10.0	-10.2			-7.6	-7.1	-7.6	-4.8	-4.3	-4.0		-2.6	-2.2	
of which : contribution from average real interest rate	-1.4	-1.3	-0.1			-0.1	-0.2	-0.3	-0.3	-0.2	-0.1		-0.3	-0.1	
of which : contribution from real GDP growth	-6.5	-8.7	-10.1			-7.5	-6.8	-7.3	-4.6	-4.1	-3.9		-2.3	-2.1	
Contribution from real exchange rate depreciation	-15.3	-15.9	-14.0			-1.7	-3.2	-2.0	-0.9	-0.6	-0.5		...	...	
Other identified debt-creating flows	0.0	0.0	-0.1			-0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	0.0	-0.1			-0.2	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.1	12.2	-0.3			2.8	3.1	2.8	2.5	2.3	2.2		2.2	0.5	
NPV of public sector debt	91.7	81.0	63.6			58.2	54.9	51.1	50.0	49.3	49.1		51.9	38.5	
o/w foreign-currency denominated	87.5	75.4	54.9			47.4	43.0	39.0	37.2	35.9	34.7		33.9	25.0	
o/w external	87.5	75.4	54.9			47.4	43.0	39.0	37.2	35.9	34.7		33.9	25.0	
NPV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	-1.5	1.8	4.2			3.8	2.9	2.2	2.2	2.1	2.4		1.9	-0.2	
NPV of public sector debt-to-revenue ratio (in percent) 3/	464.3	373.8	327.2			311.8	269.2	223.4	227.4	232.1	239.1		305.4	248.3	
o/w external	442.9	347.8	282.5			253.9	210.9	170.5	169.2	168.8	169.0		199.6	161.5	
Debt service-to-revenue ratio (in percent) 3/ 4/	7.3	5.9	5.9			5.5	5.2	4.8	4.8	5.0	5.2		6.0	6.0	
Primary deficit that stabilizes the debt-to-GDP ratio	21.1	13.6	24.6			6.7	7.2	6.8	3.3	2.6	2.3		1.1	2.2	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	5.1	8.6	11.8	7.1	2.8	11.2	10.7	12.6	8.3	7.6	7.5	9.7	4.4	5.1	4.7
Average nominal interest rate on forex debt (in percent)	1.0	0.9	0.7	0.7	0.2	0.8	1.0	1.2	1.1	1.1	1.0	1.0	0.7	0.5	0.7
Average real interest rate on domestic currency debt (in percent)	-2.3	2.4	6.4	-2.6	6.5	3.5	-1.3	-0.5	1.2	1.9	2.3	1.2	0.9	1.9	1.2
Real exchange rate depreciation (in percent, + indicates depreciation)	-12.6	-16.7	-17.4	-6.8	11.3	-2.9	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	12.9	12.6	6.9	14.1	12.3	3.8	7.6	6.3	4.3	3.7	3.3	4.8	3.8	4.1	3.7
Growth of real primary spending (deflated by GDP deflator, in percent)	30.9	42.7	13.5	23.4	33.7	5.9	15.1	21.2	4.6	3.9	5.7	9.4	0.7	4.4	2.0
Grant element of new external borrowing (in percent)	0.2	0.2	0.2	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2

Sources: Country authorities; and Fund staff estimates and projections.
1/ [Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.]
2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.
3/ Revenues including grants.
4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.
5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table 4.Sudan: Sensitivity Analysis for Key Indicators of Public Debt 2007-2027

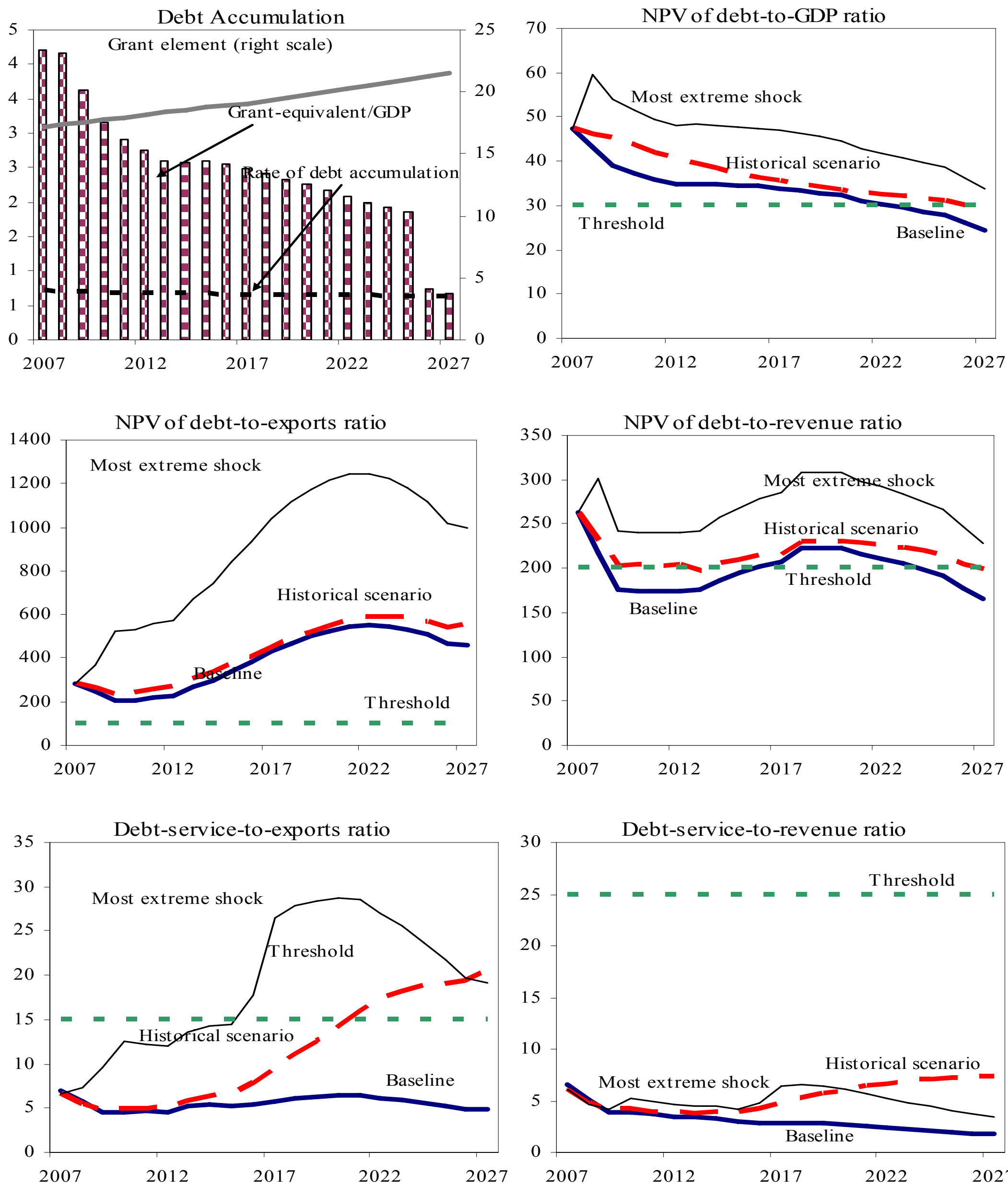
	Projections							
	2007	2008	2009	2010	2011	2012	2017	2027
NPV of Debt-to-GDP Ratio								
Baseline	58	55	51	50	49	49	52	38
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	58	55	52	50	48	47	40	21
A2. Primary balance is unchanged from 2007	58	56	53	53	54	55	65	46
A3. Permanently lower GDP growth 1/	58	55	52	52	52	52	61	61
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	58	59	62	64	65	67	81	76
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	58	58	57	58	61	63	80	90
B3. Combination of B1-B2 using one half standard deviation shocks	58	56	55	54	53	53	57	45
B4. One-time 30 percent real depreciation in 2008	58	72	66	63	62	61	62	47
B5. 10 percent of GDP increase in other debt-creating flows in 2008	58	64	59	57	56	55	57	42
NPV of Debt-to-Revenue Ratio 2/								
Baseline	312	269	223	227	232	239	305	248
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	312	267	227	227	227	228	233	139
A2. Primary balance is unchanged from 2007	312	273	233	243	255	267	380	300
A3. Permanently lower GDP growth 1/	312	271	227	234	243	254	360	393
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	312	291	272	289	306	326	473	487
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	312	282	248	266	285	305	468	583
B3. Combination of B1-B2 using one half standard deviation shocks	312	275	240	245	250	258	335	290
B4. One-time 30 percent real depreciation in 2008	312	354	288	289	290	295	365	303
B5. 10 percent of GDP increase in other debt-creating flows in 2008	312	312	257	259	263	269	336	271
Debt Service-to-Revenue Ratio 2/								
Baseline	6	5	5	5	5	5	6	6
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	6	5	5	4	4	4	1	-1
A2. Primary balance is unchanged from 2007	6	5	5	6	6	7	11	11
A3. Permanently lower GDP growth 1/	6	5	5	5	5	6	9	15
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2008-2009	6	5	6	7	8	9	16	24
B2. Primary balance is at historical average minus one standard deviations in 2008-2009	6	5	6	7	8	9	17	33
B3. Combination of B1-B2 using one half standard deviation shocks	6	5	5	5	5	5	6	7
B4. One-time 30 percent real depreciation in 2008	6	6	6	6	6	6	8	9
B5. 10 percent of GDP increase in other debt-creating flows in 2008	6	5	7	7	7	7	10	8

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

1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of 20 (i.e., the length of the projection period).

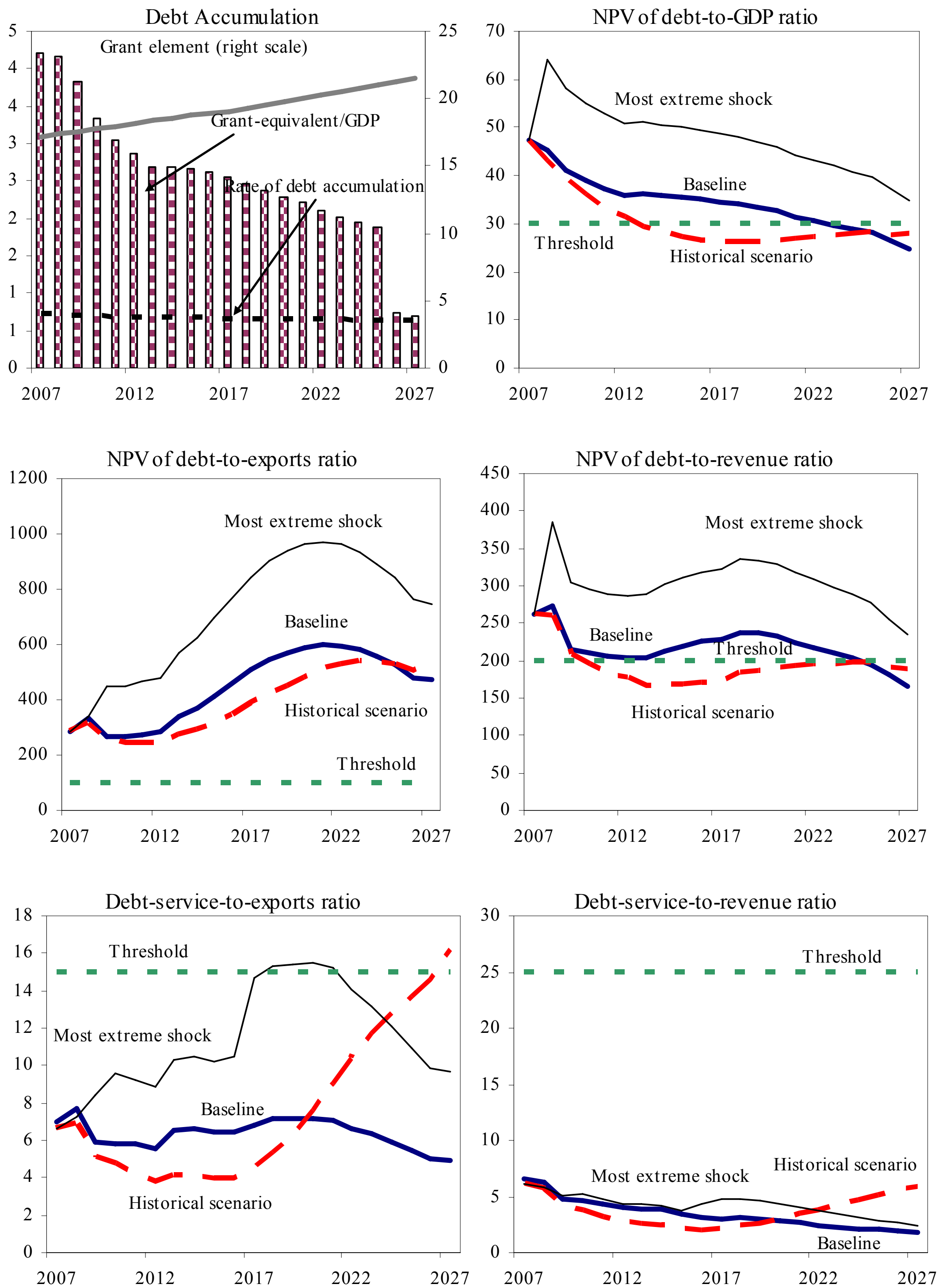
2/ Revenues are defined inclusive of grants.

Figure 1. Sudan: Indicators of Public and Publicly Guaranteed External Debt Under Alternative Scenarios, 2007-2027



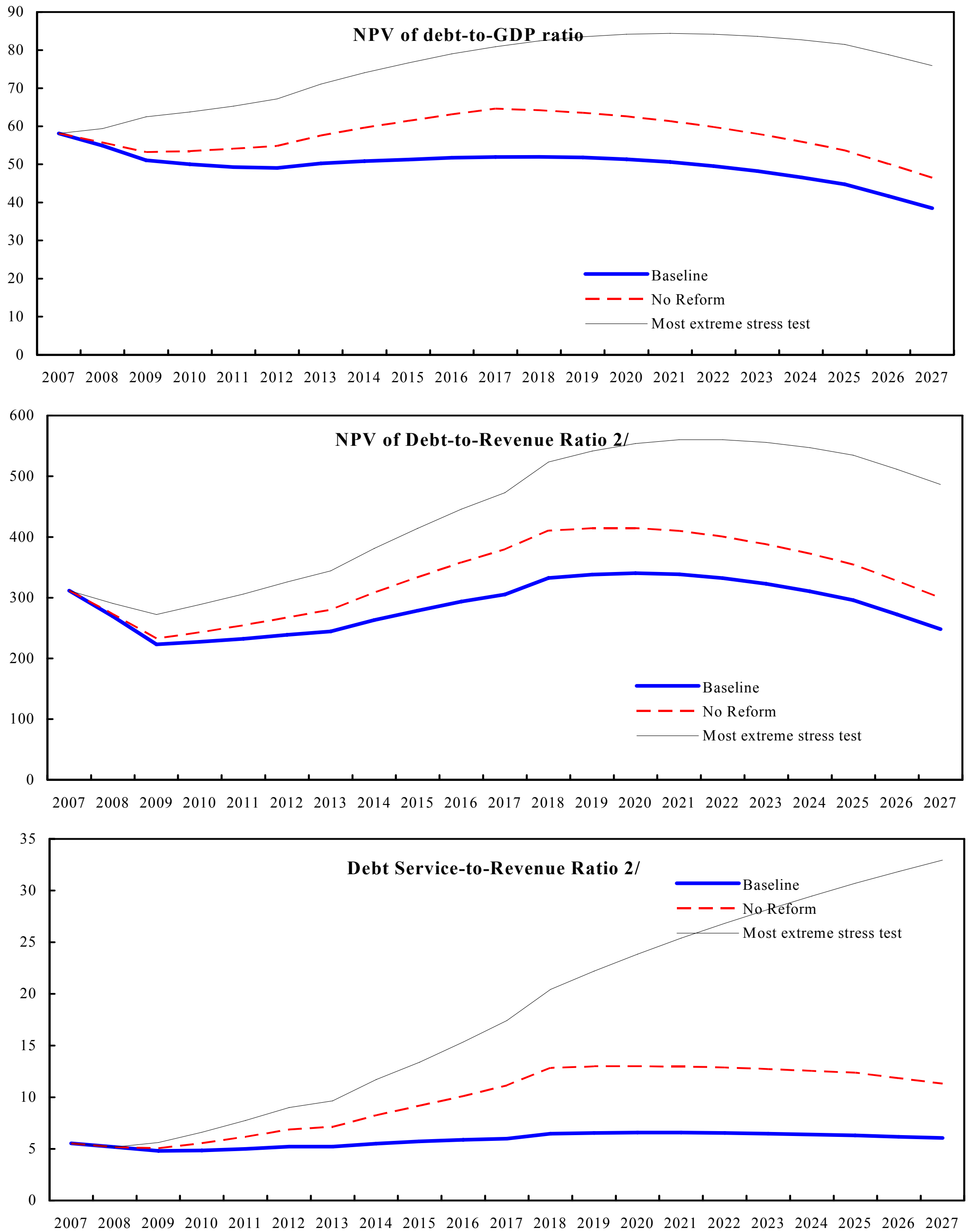
Source: Staff projections and simulations.

Figure 2. Sudan: Indicators of Public and Publicly Guaranteed External Debt
Under Oil Price Shock Alternative Scenarios, 2007-2027



Source: Staff projections and simulations.

Figure 3. Sudan: Indicators of Public Debt Under Alternative Scenarios, 2007–27



Source: Staff projections and simulations.

1/ Most extreme stress test is test that yields highest ratio in 2017.
2/ Revenue including grants.

INTERNATIONAL MONETARY FUND

SUDAN

2007 Article IV Consultation and Staff-Monitored Program

Informational Annex

Prepared by Middle East and Central Asia Department
(in consultation with other departments)

August 6, 2007

Contents Page

ANNEX I. SUDAN: RELATIONS WITH THE FUND

(As of June 30, 2007)

I. **Membership Status**: Joined 09/05/57; Article VIII.

II. **General Resources Account**:	**SDR Million**	**Percent of Quota**
Quota	169.70	100.00
Fund holdings of currency	430.92	253.93
Reserve position in Fund	0.01	0.01

III. **SDR Department**:	**SDR Million**	**Percent of Allocation**
Net cumulative allocation	52.19	100.00
Holdings	0.00	0.00

IV. **Outstanding Purchases and Loans:**	**SDR Million**	**Percent of Quota**
Stand-by Arrangements	157.88	93.04
Extended Arrangements	88.66	52.24
Contingency and Compensatory Financing Facility	14.66	8.64
Trust fund	59.23	34.90

V. **Financial Arrangements:**

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	06/25/1984	06/24/1985	90.00	20.00
Stand-by	02/23/1983	03/09/1984	170.00	170.00
Stand-by	02/22/1982	02/21/1983	198.00	70.00

VI. **Projected Obligations to the Fund**: (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue[1] 06/30/07	Forthcoming				
		2007	**2008**	**2009**	**2010**	**2011**
Principal	320.43					
Charges/Interest	713.69	8.50	16.89	16.87	16.88	16.88
Total	1,034.12	8.50	16.89	16.87	16.88	16.88

VII. **Exchange Rate Arrangements**

The legal tender is the Sudanese dinar, which replaced the Sudanese pound in proportion SDD 1=LSd 10 in 1999. Since 1998, the exchange rate system has been unified—market participants trade freely within a unified regulatory framework. In 2001, the Central Bank of Sudan (CBOS) introduced a formal band of ±1.5 percent (later broadened to 2 percent) around the official rate and began auctioning its foreign exchange within the band. Since May 2003, the CBOS adopted a managed-floating exchange rate regime with no pre-announced path for the exchange rate. The formal exchange rate band was abandoned and the auction system was replaced with direct transactions in the interbank market. The CBOS established an internal limit of ±2 percent in intraday trading in the average daily market rate. In 2004, the CBOS changed the permissible intraday exchange rate fluctuation from ±2 percentage points to ±3 percentage points. Sudan maintains one inoperative bilateral payment agreement with Egypt and an inoperative payment clearing account with the former Soviet Union. Sudan has maintained a managed float exchange system since May 2003, and de facto peg since January 2007. The exchange rate system has been free of restrictions on the making of payments and transfers for current international transactions[2] until the Bank of Sudan introduced an exchange restriction and multiple currency practice by imposing a floor on cash margins for letters of credit and import credit in June 2007. The Bank of Sudan intends to eliminate the measure by end-year.

VIII. **Article IV Consultation**

Sudan is on a 12-month consultation cycle. The last Article IV consultation discussion was completed by the Executive Board on May 3, 2006 (Country Report No.06/182).

[1] The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but that forthcoming obligations will be settled on time.

[2] In November 2005, the authorities removed two remaining exchange restrictions subject to Fund approval under Article VIII, Section 2(a) and 3 of the Fund's Articles of Agreement. At that time, they lifted the exchange restriction that prohibited importers in arrears with valid import licenses from executing payments and transfers for import transactions and eliminated the multiple currency practice arising from the use of a historic buying rate for the resale of export proceeds.

IX. FSAP Participation

The FSAP work took place during October 9–14, 2004 and was completed during December 1–14, 2004. The Financial System Stability Assessment report was discussed by the Executive Board on April 29, 2005.

X. Resident Representative

The Fund's resident representative office in Khartoum was opened in October 2005, as a shared post with Djibouti. It was converted to a full post in September 2006.

XI. Technical Assistance

In January 1995, the Executive Board decided to resume Fund technical assistance to Sudan. The following table contains a summary of the technical assistance provided since 2002. This assistance has been provided both from headquarters and from the IMF's Middle East Technical Assistance Center (METAC).

Sudan: Technical Assistance from the Fund, 2003–07

Subject	Type of Mission	Timing	Counterpart
Fiscal Affairs Department			
Expenditure control and management	Short-term	Periodic visits, January-September 2002, April 2006	Ministry of Finance (MOF)
Reform of direct taxation and revenue administration	Short-term	November 2002 and December 2003	MOF
Reform of direct taxes and investment incentives	Short-term	March 2003	MOF
Medium-term budgetary framework	Short-term	April 2003	MOF
Tax and customs administration	Short-term	September 2003, August 2006	MOF
Cash management and budget classification (GFS)	Short-term	February 2004, October 2006	MOF
Cash management and budget classification (GFS) (METAC)	Short-term	May and September 2004, June and October 2005, April 2006, April 2007	MOF
Revenue administration assessment (METAC)	Short-term	February and October 2005, August 2006 , January 2007	MOF
Revenue administration assessment	Short-term	May 2006	MOF
Public Finance Management Diagnostic	Short-term	October 2006, June 2007	MOF
Monetary and Capital Markets Department			
Monetary management and banking supervision	Short-term	Periodic visits, January-August 2002, March and April 2006	Central Bank of Sudan (CBOS)
Banking supervision	Resident Advisor	May 2001-May 2003	CBOS
Islamic compliant monetary instruments	Short-term	October 2002, August 2006, May 2007	CBOS
Monetary policy operations and introduction of a commodities futures/forward market	Short-term	December 2003	CBOS
Monetary policy operations	Short-term	September 2004, June 2006	CBOS
Introduction of new national currency	Short-term	February and April 2005, January 2006, February and April 2007	CBOS
Banking supervision (METAC)	Short-term	August 2005	CBOS
Central bank organization	Resident Advisor	September 2005, Feb. 2006-August 2007	CBOS
Assessment of technical assistance needs on microfinance supervision and regulation	Short-term	December 2005	CBOS
Liquidity management	Short-term	March 2006	CBOS
Bank regulation	Short-term	March and April 2006, May 2007	CBOS
Banking operations	Short-term	April and July 2006	CBOS
Banking supervision	Short-term	August, September and December 2006	CBOS
Currency handling and reform	Short-term	November 2006	CBOS
Statistics Department			
National accounts, CPI, and PPI statistics	Short-term	Periodic visits, March 2002-February 2003, April 2007	Central Bureau of Statistics (CBS)
Real sector statistics (METAC)	Short-term	March 2007	CBOS
Balance of payments statistics	Short-term	July 2003, September 2006, January 2007	CBOS
General data dissemination system (GDDS)	Short-term	July 2003, June 2006	CBS, MOF, CBOS
Assessing technical assistance needs in economic statistics (with METAC)	Short-term	May-June 2005	CBS, MOF and CBOS
Government Financial Statistics	Short-term	October 2005, March 2007	MOF
Monetary and Financial Statistics	Short-term	Periodic visits, January-November 2003, December 2005, June 2006, July 2007	CBOS

ANNEX II. SUDAN: RELATIONS WITH THE WORLD BANK[1]

(As of July 24, 2007)

1. The World Bank's International Development Association (IDA) has no active lending portfolio in Sudan because of Sudan's default on its financial obligations to IDA, which led to the suspension of disbursements in April 1993. After discussions between the Bank and the Sudanese authorities on the need for Sudan to take steps toward normalizing its relations and establishing a track record with the Bank, the authorities have been making small, intermittent debt service payments since mid-1999. The amount of payments has not been sufficient to prevent a continued accumulation of arrears, which stood at about US$438 million as of July 9, 2007 (from US$145 million at the end of 1999). Sudan's outstanding Bank debt, including arrears, is approximately US$1.3 billion.

2. The Bank was mostly absent from Sudan between 1992 and 2002. In the 1970s and 1980s, the Bank was a major player in the reconstruction of Sudan, following the Addis Ababa peace agreement of 1972. As the prospects for peace with the South rose in 2003, the Bank formulated a strategy for reengaging with Sudan in the event of peace. This strategy, described in the 2003 Sudan Country Reengagement Note (CRN), emphasized knowledge generation and sharing, capacity building to support policy reform, demonstration projects to improve delivery of social services, and the issue of Sudan's debt overhang.

3. Following the Comprehensive Peace Agreement (CPA), signed on January 9, 2005 by the Government of Sudan (GoS) and the Sudan People's Liberation Movement (SPLM), the Bank has administered two large Multi-Donor Trust Funds (MDTFs) that support the CPA, and built up its program of nonlending support. Sixteen international partners[2] have pledged a total of US$561 million to the MDTFs.[3] MDTF-supported projects have experienced major implementation challenges, as have all development and recovery programs in Sudan, but performance has steadily improved. Significant results are being seen on the ground, though daunting challenges remain—most notably low capacity, especially at the state level and in the South.

4. The World Bank has prepared a Sudan Interim Strategy Note which is scheduled for discussion by the Bank's Board on July 31, 2007. The Interim Strategy aims to support the

[1] Prepared by World Bank staff. For additional information, contact Mr. John Van Dyck, Operations Officer for Sudan, Tel. (202) 458-8321.

[2] Netherlands, Norway, UK, EC, Sweden, Germany, Finland, Denmark, Italy, Iceland, Greece, Canada, the World Bank, France, Egypt, and the Arab League. The World Bank has contributed US$10 million to the MDTFs through an IDA grant funded out of net income.

Government of National Unity (GoNU) and the Government of Southern Sudan (GoSS) to sustain peace and help reduce conflict by meeting the commitments contained in the Comprehensive Peace Agreement (CPA), Darfur Peace Agreement (DPA), and Eastern States Peace Agreement (ESPA), particularly in the areas of governance, basic services, and pro-poor economic growth—especially in war-affected and marginalized areas. Within its 17 month time frame, the ISN is expected to contribute toward the achievement of the longer-term strategic vision enshrined in the CPA: promoting the unity of Sudan by making it attractive through development, shared prosperity, and a reformed and fully developed system of governance in which all Sudanese are equal stakeholders.

5. The entry points for Bank support—through management of the MDTFs and nonlending activities—vary according to the diverse conditions facing different regions of Sudan. At the National level (excluding Darfur), a focus on stabilizing peace entails a major role for analytical work and policy dialogue on implementing key provisions of the CPA (pro-poor growth, good governance and decentralization, empowerment), and—in the Three Areas and the East—on demonstration projects and building capacity for local service delivery. In Darfur, the Bank will work with partners, as security allows, to assess development and recovery needs and to prepare rapid impact interventions for the eventual end of conflict. In the South, the main focus is on helping to build a strong and viable government in Southern Sudan based on good governance, rule of law, and transparency, while promoting efforts to empower and decentralize service delivery to the states, counties, and communities. Substantial financial support through the MDTFs as well as Bank's analytical and advisory services will be mobilized to meet this objective.

6. IDA's financial reengagement requires clearance of Sudan's outstanding arrears. The clearance of these arrears can only be undertaken once a firm and comprehensive agreement among preferred creditors is in place. Following the eventual clearance of IDA arrears, which currently stand at US$438 million, an exceptional IDA allocation for Sudan as a post-conflict country would be sought, and the Bank would prepare another strategy document which would include, inter alia, a pipeline of projects. World Bank staff are working with the IMF and other multilateral creditors to maintain a current database in anticipation of preparing a comprehensive arrears clearance plan.

7. Major nonlending products planned or under way include an Investment Climate Assessment (ICA) focusing on the needs of small firms, a Diagnostic Trade Study, an Environment and Natural Resources study, and a Country Integrated Fiduciary Assessment (CIFA), which is particularly important in the context of harmonizing donor practices regarding public procurement and financial management. The Bank is proposing to undertake in collaboration with the government a new Country Economic Memorandum (CEM) on pro-poor growth in an oil economy. The Bank has just completed a Public Expenditure Review (PER) focusing on increasing pro-poor spending at state and local levels; IMF staff have contributed to the preparation of the report. The Bank and Fund are also collaborating in the

preparation of an updated Debt Sustainability Analysis (DSA) for Sudan, and Bank staff have participated in the Fund's Article IV consultation missions to Sudan.

ANNEX III. SUDAN: STATISTICAL ISSUES

1. Available economic data are sufficient for program monitoring purposes. However, there are many areas where further improvements are needed, particularly in compiling national accounts, state budgetary data, and external trade and financial statistics. This appendix discusses outstanding statistical issues by sector.

2. As a participant in the Department for International Development (DFID) project for Anglophone African countries, Sudan has been receiving technical assistance in various statistical issues. DFID financed three STA missions in June–July 2003 (monetary and financial statistics, balance of payments statistics, and the General Data Dissemination System (GDDS) metadata completion), contributing to participation in the GDDS starting in August 2003. An anniversary letter was sent in August 2005 requesting the authorities to provide updates to the GDDS metadata. In early 2004, Sudan also received assistance for the initial stages of preparation of a strategic plan for the Central Bureau of Statistics (CBS). In May 2005, an STA/METAC mission assessed the technical assistance needs in macroeconomic statistics and identified emerging statistical priorities in the statistics-producing agencies. Since then, follow-up missions on monetary and financial statistics, balance of payments and national account statistics visited Khartoum to assist the authorities in further implementing the action plan developed by the mission in 2003.

I. REAL SECTOR

3. Practices in the production of the monthly Consumer Price Index (CPI) have been commendable in recent years. Monthly CPI data for the Khartoum area are provided shortly after the end of each month, while the CPI including other states is provided with a three-month lag. The CBS plans to conduct new household income and expenditure survey in 2007 and will construct the new CPI based on the survey. The new CPI is expected to be released in 2009.

4. The compilation of the national accounts is subject to delay. The national accounts statistics suffer from a lack of basic information for many sectors, including oil, livestock, horticulture, and most services. On the expenditure side, data are lacking on final consumption by households, investment, and changes in stocks. There are no national accounts or industrial production data at sub annual frequencies. There is an urgent need to increase funding to the CBS and rebuild its capacity. Priorities include introducing the *1993 System of National Accounts*, conducting a census of agricultural production, carrying out a household survey, producing poverty statistics, and improving coordination between the CBS, the Ministry of Finance and National Economy (MOFNE), the Ministry of Energy and Mining, and the Ministry of Agriculture and Livestock. A peripatetic real sector expert provided some assistance on national accounts, through end-2003.

II. Fiscal Sector

5. Government finance statistics reported to MCD are broadly adequate for program monitoring, with the main revenue, expenditure, and financing items reported on a monthly basis with a lag of about one month. The reported statistics are for the central government only, and do not include the states and publicly owned corporations. Data are submitted using an economic classification and, while the allocation of resources by MOFNE to the various ministries is reported, their actual expenditures are not. There is an urgent need to improve accounting and reporting procedures at the MOFNE, introduce the GFS classifications according to guidelines provided in *Government Finance Statistics Manual (GFSM) 2001*, and implement the technical assistance recommendations on GFS. Data reported for the *Government Finance Statistics Yearbook* are weak and cover only budgetary central government up to 1999. Monthly and quarterly fiscal data are not reported for the *International Financial Statistics (IFS).*

III. Monetary Sector

6. Sudan has received significant technical assistance to improve the collection, compilation, and dissemination of monetary and financial statistics. The most recent STA monetary and financial statistics mission took place in July 2007. It conducted a training course in monetary statistics methodology, and assisted the Bank of Sudan (BOS) in implementing the ongoing action plan, including the development of data reporting to STA in the format of the Standardized Report Forms (SRFs) and of a framework for incorporating data from South Sudan in the monetary statistics for Sudan. The weekly flash report on the activities of the BOS is consistent with relevant components in the depository corporations survey as recommended in the *Monetary and Financial Statistics Manual.*

7. In general, the monetary statistics compiled by the BOS are broadly acceptable for monitoring purposes. However, BOS should complete the harmonization of accounting codes and network connections as this would further improve the data collection and compilation. Also, it should work with MOFNE to review and reconcile government accounts held with the banking system to ensure their appropriate classification in the monetary statistics, and continue the work on implementing the framework for incorporating South Sudan's banking activities into the monetary statistics. Another follow-up mission on monetary and financial statistics will be considered after the authorities have completed the priority actions recommended by the July 2007 mission.

IV. External Sector

8. Daily exchange rate data are reported to the Fund with minimal lags. There are several areas for improvement in the external accounts, particularly with regard to foreign direct investment, trade, and oil statistics. The BOS's foreign exchange balances include reserves earmarked for particular purposes such as medicine, oil, and spare part imports, but

the composition of these reserves and their potential usability in the event of a balance of payment need is not clear. The authorities need to provide clarification on items that qualify as international reserves in general, and those earmarked reserves in particular, and should be encouraged to begin compiling the data template on international reserves and foreign currency liquidity. In this regard, assistance is needed in preparing a detailed foreign exchange cash flow of the central bank, which will serve as a valuable official reserve management tool for the monetary authorities.

9. Regarding import statistics, there are significant discrepancies between the reports from customs and the BOS. The July 2003 STA mission identified some possible causes and, in collaboration with the authorities, attempted to reconcile the data. Following up on the 2005 STA/METAC mission, in September 2006 METAC provided technical assistance in improving the quality of international investment position (IIP) data. The authorities now report partial IIP data for 2003-2006 to STA for publication in *IFS* and *BOPSY*. Staff from the BOS participated in a METAC IIP statistics seminar in Cairo in April 2007. The mission examined progress made in compiling foreign direct investment (FDI) statistics. Inadequate institutional arrangements for the collection of FDI, including the lack of survey data, continue to affect the compilation of important balance of payments and IIP data. The mission also provided training in external debt statistics.

10. Medium-term oil production projections and data on amortization of private sector debt need substantial improvement. The authorities have made some progress in improving oil projections, but appear reluctant to provide more detailed information on the phasing-in and expected production levels of new blocks and on amortization of debt in the oil sector.

Sudan: Data Quality

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
Real sector: national accounts	Historical data reported on time by the Central Statistics Office.	Broadly acceptable: Real and nominal GDP by sector available with a 2-year lag.	1968 System of National Accounts (SNA) still in use; oil sector value-added calculation not completed; no real GDP by expenditure; 4-year delay in nominal GDP by expenditure; private consumption derived as a residual; estimations rather than surveys are used for most GDP components.	Rebuild the Central Bureau of Statistics' (CBS) institutional capacity; introduce the 1993 SNA; conduct census of agricultural production. Implement the project prepared by the STA's peripatetic real sector expert.
	Last and current year estimates reported to missions by the ministry of finance and national economy (MOFNE).	Acceptable.	Estimates are based on incomplete data, in particular for oil value added, livestock, and fruit and vegetable production.	Improve coordination between MOFNE, CBS, and the ministry of agriculture.
Prices	Monthly CPI reported on time, with a minimal lag.	Acceptable; only CPI for Khartoum area available promptly; weekly CPI published in the flash report.	CPI for Sudan as a whole is not available.	Conduct new household income and expenditure survey; reduce timing discrepancies and other reporting inefficiencies by individual states.
Government finance	Monthly reporting of main budgetary items, generally on time; 1.5-month lag.	Good; main revenue and expenditure items reported; financing consistent with monetary accounts.	Only partial data on state budgets available; incomplete functional classification; MOFNE allocations to ministries are reported, but not their actual expenditure; slow progress on the introduction of the government finance statistics (GFS) classification.	Introduce the GFS classification; improve accounting and reporting procedures at MOFNE. Implement in full GFS (1997) technical assistance (TA) mission recommendations.
Monetary accounts	Monthly reporting of balance sheets. Generally on time; 1.5-month lag.	Acceptable following recent STA missions to improve transparency and reliability of the monetary statistics.	Large and variable other items (net); frequent misclassification errors by commercial banks, in particular for consortium financing, which prevents meaningful analysis of the composition of net domestic assets (NDA).	Establish a working group to review the Bank of Sudan's (BOS) foreign assets; review and revise the guidelines related to consortium financing and ensure compliance. Implement the 2001 TA mission on monetary statistics recommendations, including improvement of commercial banks'

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
				other items (net).
	Weekly flash reports of key monetary aggregates; 1-week lag.	Good; estimates of usable reserves of BOS added in January 2003.	Some divergence between reserve money in balance sheets and end-of-month flash reports.	Include data on returns on investment deposits. Aim at full reporting of the BOS balance sheet.
External sector: foreign exchange reserves	Monthly reporting of BOS active balances. Generally on time; 0.5-month lag.	Acceptable, but needs improvement; frequency of monitoring should increase to weekly; quality of data needs to be strengthened.	Gross usable reserves are part of BOS active balances, which also include unusable reserves earmarked for particular purposes (such as oil, medicine, and spare parts imports). The composition of the earmarked reserves and their potential usability in the case of a balance of payment need are not clear.	Clarify the items that qualify as international reserves in general and those included in earmarked reserves in particular.
Exchange rate	Upon request; minimal lag.	Good: daily exchange rate available.		
Balance of payments	Quarterly full BOP data provided on time and during missions; 3-month lag.	Acceptable, but needs improvement.	Incompleteness of data on some services (oil transportation costs), investment income (oil-related expenses and interest payments due on external public debt), transfers (workers' remittances), financial account (amortization due on external public debt), and FDI; large positive errors and omissions.	Introduce the revised reports form for commercial banks; improve data collection procedures; enforce the use of the residency criterion; enhance institutional capacity of the BOS BOP compilation unit. Implement in full the recommendations of the 1999 and 2003 TA in BOP statistics.
	Monthly trade data; upon request provided with a 2–3 month lag.	Acceptable, but needs improvement.	Discrepancies between BOS data and customs data.	
External debt	Monthly payments to creditors. On time;1.5-month lag.	Good; BOS cash flow table is not available.	BOS cash flow table does not reflect exactly actual payments made by the MOFNE.	Eliminate timing and recording discrepancies between the BOS and the MOFNE.

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
	Other debt data; 10-month lag.	Good; coverage is comprehensive, although weaknesses in some areas persist.	BOS records are not reconciled with those of some creditors; data on Official Development Assistance not available; charges on interest in arrears not calculated; for some creditors, interest on arrears not separated from delayed interest.	Reconcile the data with creditors; further disaggregate the data according to standard definitions; Debt Management Unit to send monthly statements on external debt to the BOS's Statistics Department.

SUDAN: TABLE OF COMMON INDICATORS REQUIRED FOR SURVEILLANCE
(AS OF JULY 16, 2007)

	Date of latest observation	Date received	Frequency of data[6]	Frequency of reporting[6]	Frequency of publication[6]
Exchange Rates	7/15/07	7/16/07	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	5/31/07	7/10/07	M	M	M
Reserve/Base Money	5/31/07	7/10/07	M	W	M/W
Broad Money	5/31/07	7/10/07	W	W	M/W
Central Bank Balance Sheet	5/31/07	7/10/07	M	M	M
Consolidated Balance Sheet of the Banking System	5/31/07	7/10/07	M	M	M
Interest Rates[2]	12/31/06	1/09/06	Q	Q	Q
Consumer Price Index	June 2007	7/05/07	M/W	M	M
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	2007:Q1	June 2007	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2007: Q1	June 2007	A	A	A
External Current Account Balance	2007: Q1	June 2007	Q	Q	Q
Exports and Imports of Goods and Services	2007:Q1	June 2007	M	M	M
GDP/GNP	2005	Sep. 2006	A	A	A
Gross External Debt	2006:Q4	June 2007	A	A	A

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

Statement by the Staff Representative
September 7, 2007

1. The following information has become available since the issuance of the staff report on August 7. It does not change the thrust of the staff appraisal.

2. Broad and reserve money growth in July were in line with program targets, but the growth of credit to the private sector was lower than envisaged, suggesting that the deterioration of financial sector indicators continues to impact the intermediation function of the banking system. Net international reserves rebounded by about US$300 million since May 2007 in line with the target under the staff-monitored program. This increase, which took place in an environment of a broadly stable nominal exchange rate, suggests that market pressures have mostly subsided and that central bank intervention in the foreign exchange market has reverted to replenishing reserves. As of July, 12-month inflation was 8.2 percent.

3. Preliminary June data show an improvement in the fiscal position during the second quarter of 2007. The annualized overall deficit decreased from 6.0 percent of GDP at end-March to 4.8 percent of GDP at end-June. This reflects better revenue performance in the second quarter, mainly in oil revenues, as well as lower-than-budgeted expenditures.

4. Finally, the authorities have started to move forward on expenditure control reforms with the establishment of a Treasury Single Account and the implementation of an interim agreement between the Ministry of Finance and the Central Bank to control current expenditures while commitment control procedures based on quarterly cash ceilings are being established in line with FAD recommendations.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 07/121
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October 2, 2007

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

IMF Executive Board Concludes 2007 Article IV Consultation with Sudan

On September 7, 2007, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sudan.[1]

Background

Economic growth continued to be strong in 2006. Overall real GDP increased by 12 percent, despite a lower growth in oil production than previously projected. Non-oil GDP increased by roughly 10 percent—buoyed by a continued recovery in agriculture and strong activity in manufacturing, construction, and services. However, the 12-month rate of inflation nearly tripled from 5.6 percent in 2005 to 15.7 percent in 2006. A substantial portion of the price surge was linked to an increase in administered prices (fuels) in the third quarter of 2006. The rate of inflation declined to 8 percent by February–March 2007 (largely on the back of a drop in food prices), and has remained in this range through June.

The fiscal position weakened in 2006, reflecting mostly oil revenue shortfalls. The overall deficit is estimated to over 4 percent of GDP. Shortfalls in oil revenue—mainly linked to Dar blend crude—played a key role. However, non-oil revenues were also

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

lower than projected due largely to wide use of tax exemptions—notably in the VAT, customs, and business profit tax. Many of the fiscal difficulties that emerged in 2006 carried over into the first quarter of 2007, due largely to the continued difficulties in the production and sale of Dar blend oil.

The external current account position deteriorated in 2006, reaching a deficit of roughly 13 percent of GDP. While exports of crude oil rose by some 70 percent in volume terms, the extremely low price received for Dar blend resulted in an increase of only 24 percent in value terms. Nonoil exports, meanwhile, declined by some 11 percent in dollar terms. Imports—particularly of capital goods—surged over the course of the year, reflecting an increase in foreign investment.

In 2006, monetary growth remained high in the first half of the year but was tightened in the latter part of the year. Broad money growth ended the year at 27 percent, bolstered by strong economic growth and further monetization. The dinar appreciated by nearly 13 percent in nominal terms vis-à-vis the U.S. dollar, due to the fiscal expansion and strong capital inflows. In 2007, however, the dinar has remained broadly unchanged.

Important structural reforms were completed in 2006. The fiscal framework of the national government was converted to GFSM 2001 format, and presented to parliament for information—a critical step forward in public financial management. A difficult but necessary reduction in domestic fuel subsidies was accomplished in August 2006.

Executive Board Assessment

Following several years of good performance, policy slippages contributed to weaker fiscal and external sector positions in late 2006 and early 2007, and significant risks to Sudan's macroeconomic and financial stability emerged. Against this background, Directors welcomed the authorities' efforts to implement the necessary corrective measures envisaged in the new 18-month staff-monitored program (SMP), which aims at restoring fiscal discipline and ensuring stability while supporting continued strong economic growth. Directors stressed that successful implementation of the peace agreement will be crucial for the social and economic advancement of Sudan.

Directors noted that the authorities' program to meet the twin objectives of boosting expenditures to address development needs while maintaining macroeconomic stability will require improved expenditure management and more transparent budget execution, combined with bold fiscal reforms to increase revenues. They welcomed the authorities' recent efforts to tighten fiscal policy, including through reducing fuel subsidies. Broadening the tax base by reducing exemptions and incentives and improving tax administration, as well as conservative revenue forecasting, will be key to ensuring macroeconomic stability. Directors called for improved transparency in oil sector revenues.

Directors considered that the conduct of monetary policy going forward will likely be challenging in the context of higher and more volatile capital inflows and oil revenues. They urged the authorities to monitor developments to ensure that money growth remains in line with the inflation objectives. The conduct of monetary policy will also need to rely increasingly on open market operations, with an emphasis on indirect monetary policy instruments.

Directors noted that over the past year Sudan’s de facto exchange rate regime shifted from a managed float to a peg, which required heavy central bank intervention and led to an uncomfortably low level of foreign exchange reserves. Against this background, Directors welcomed the authorities’ decision to allow greater exchange rate flexibility and to rebuild reserves. They welcomed the authorities’ intention to eliminate the exchange restriction and multiple currency practice arising from the imposition of a floor on cash margins for letters of credit and import credit before the end of 2007.

Directors underlined the importance of implementing structural reforms aimed at strengthening competitiveness, reducing poverty, and bolstering non-oil growth. In particular, they welcomed the authorities’ plans to modernize the judicial system and simplify legal and administrative procedures to improve the climate for domestic and foreign investment. Directors looked forward to the completion of the draft PRSP in early 2008.

Directors considered that sustained economic growth will require deeper financial intermediation and, in this context, expressed concern about the deterioration in financial sector indicators. They stressed the importance of preparing a resolution/restructuring strategy for the state-owned Omdurman Bank based on the results of the forthcoming independent audit. Directors also called on the central bank to actively enforce prudential standards and ensure that banks comply with regulations on capitalization and provisioning.

Directors welcomed Sudan’s record of cooperation on economic policies and payments to the Fund, and a number of Directors called for a further increase in repayments. A number of Directors urged the authorities to allocate their payments to cover the General Resources Account (GRA) charges as they arise, while recognizing Sudan’s right to attribute such payments to overdue GRA principal. While acknowledging Sudan’s considerable reconstruction and development needs, many Directors urged the authorities to minimize nonconcessional borrowing in view of Sudan’s already unsustainable external debt burden and to avoid complications in a potential debt-relief operation. A number of Directors would have preferred a zero ceiling on nonconcessional borrowing in the SMP. Directors recalled that under the HIPC Initiative, all creditors will be expected to contribute to the restoration of debt sustainability.

Directors generally considered that the new SMP would serve as a valuable tool to support the reform momentum, and welcomed the program’s measures to reduce the budget deficit, address critical weaknesses in public financial management, rebuild

international reserves, and tackle difficult problems in the banking system. A number of Directors noted that the expected reliance on nonconcessional borrowing would not allow them to consider the SMP as constituting part of a satisfactory track record for HIPC or MDRI purposes. However, some other Directors felt that Sudan’s performance under successive SMPs should be reflected in the timetable for arrears clearance, and called for a timely and clear road map in this respect.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Sudan: Selected Economic Indicators, 2002-07

	2002	2003	2004	2005	2006	2007
Real Sector						
Real GDP growth (percent change)	5.4	7.1	5.1	8.6	11.8	11.2
GDP (in billions of dinars)	3,943	4,640	5,592	6,798	8,131	9,373
GDP (in millions of U.S. dollars)	14,976	17,780	21,685	27,904	37,442	46,708
GNP per capita	436	506	597	753	970	1,182
Inflation (in percent)						
Period average	8.3	7.7	8.4	8.5	7.2	8.0
End-of-period	8.3	8.3	7.3	5.6	15.7	7.0
Central government operations (in percent of GDP)						
Revenue and grants	11.9	16.0	19.7	21.7	19.4	18.7
Expenditure	8.8	15.3	18.2	23.4	23.7	22.5
Overall balance (commitment basis)	3.1	0.7	1.5	-1.8	-4.2	-3.8
Monetary Indicators						
Reserve money (end-of-period growth rate, in percent)	22.0	26.6	27.8	34.9	27.8	18.0
Broad money (end-of-period growth rate, in percent)	30.3	30.3	32.1	44.7	27.4	24.0
Broad money velocity	7.2	6.6	5.7	4.8	4.1	4.2
External Sector						
Current account balance (including transfers)	-982	-827	-815	-2,324	-4,903	-4,358
In percent of GDP	-6.6	-4.7	-3.8	-8.3	-13.1	-9.3
External debt						
In billions of U.S. dollars	23.6	25.7	23.3	26.7	26.6	28.0
In percent of GDP	158	145	108	96	71	60
Net international reserves (in millions of U.S. dollars)	84	290	1,144	1,889	1,384	1,300
In months of next year's imports of goods and services	0.3	0.8	1.9	2.4	1.7	1.4

Sources: Sudanese authorities; and Fund staff estimates.

Statement by Peter Gakunu, Executive Director for Sudan and Ebson Uanguta, Advisor to Executive Director
September 7, 2007

1. The Sudanese authorities are appreciative of the Fund's engagement and support. They reiterate their commitment to maintaining sound macroeconomic stability and advancing the ambitious reform agenda, which focuses on fiscal and financial sector reforms. They appreciate the candid exchange of views with staff during the 2007 Article IV Consultation and the Staff-Monitored Program discussions. They find the staff report as informative, fair and well balanced on the country's economic policies, challenges and prospects.

Progress on Implementation of the CPA and Darfur Negotiations

2. The authorities continue to make significant progress in the implementation of a number of key areas of the Comprehensive Peace Agreement (CPA). All the commissions mandated in the CPA have now been formed, except three, namely the National Human Rights Commission, the Electoral Commission, and the Land Commission which are in process. The draft bills on these bodies have already been finalized and are waiting to be tabled to the National Assembly scheduled to reconvene in October 2007. The introduction of the new currency at the beginning of this year which was completed as of end-June 2007 is an important step to integrate fully the economy of the South Sudan with the rest of the country and further consolidate reform and broaden macroeconomic management. The recent agreement by the authorities on the deployment of the UN/AU hybrid force in Darfur demonstrates the authorities' commitment in finding a long-lasting peace in Sudan.

3. However, it is important to recognize that the implementation of the peace agreements has been delayed partly by some key donor partners who fail to fulfill their pledges of support to the peace process. Consequently, since mid-last year the need to fulfill peace commitments was putting intense pressure on the meager resources of the Government. In this regard, the fiscal expenditures started rising which partly resulted in the unprecedented high budgeted deficit for the fiscal year 2007. Nevertheless, the authorities managed to make the necessary adjustment to reduce the estimated deficit to less than 4 percent of GDP.

4. Completion of the HIPC process and MDRI would go a long way in assisting the country to normalize its relations with creditors and assume a path to achieving sustainable development goals. Sudan's strong track record on policy implementation under successive SMPs and continuous cooperation in payments to the Fund augur well for a comprehensive approach to solve arrears problem.

Recent Economic Developments and Prospects

5. Notwithstanding numerous challenges in implementing various peace agreements, the Sudanese authorities have endeavored to maintain a focus on ensuring high levels of economic growth within an environment of macroeconomic stability. Growth has been robust, inflation kept under control, and the country remains one of the strongest in terms of attracting foreign investment. The Sudanese economy achieved a growth rate of about 11 percent in 2006, driven mainly by increase in oil production. Non-oil growth was also strong, due in large part to a continued recovery in agriculture, and vibrant activity in construction, trade, and services. Average inflation was contained at 7.2 percent. However, the strong fiscal expansion prompted the monetary authority to use foreign exchange reserves to mop up domestic liquidity and that partly contributed to low level of reserves (less than a month of imports), in addition to lower oil revenues and intervention in Omdurman bank. The recent developments of reserves build up to more than one month of imports, positive adjustment in expenditures and further decline in inflation during the month of June 2007 confirm the authorities' commitment to restore and further consolidate macroeconomic stability.

Fiscal Policy

6. The authorities are faced with the challenges of meeting the twin objectives of higher expenditures for development needs and macroeconomic stability. They remain committed to maintaining prudent fiscal policies to ensure macroeconomic stability and to address the imbalances that emerged in the last part of 2006 and early 2007.

7. On the revenue side, the authorities are fully aware of the risks associated with oil revenue projections given the volatility of international oil prices, and the uncertainties with respect to production and shipment. It is for this reason that the Oil Saving Account has been established to smoothen out risks and volatility and to help improve expenditure and revenue management. The authorities are committed to raising revenues over the medium–term through specific fiscal reform measures, including raising VAT rate, reduction of the VAT exemptions and income tax holidays, among others. The general organizational structure reform of Tax Chamber, including the establishment of revenue collection centers country-wide would also be complementing these revenue enhancing efforts.

8. Fiscal expenditure has risen significantly in recent years, reflecting priority reconstruction needs and increases in transfers to states in an effort to support decentralization. While continuing to support these objectives, they are cognizant of the likely adverse impact of fiscal expansion on macroeconomic stability. The expenditure policies for 2007-08 will focus on maintaining a tighter balance between spending and available resources. A number of measures would be put in place to bolster expenditure management, including controls that limit expenditures by line ministries to cash plans rather

than budgeted allocations; centralized Treasury Single Account, and contingency measures for expenditure cuts in the event that projected revenues fail to materialize. The authorities also agreed to halt the use of sanadats, standing orders and other nontraditional forms of finance, and to carefully monitor the existing stock of such instruments with a view to their eventual extinction.

9. Despite Sudan's strong economic growth over the last seven years, its external debt, most of which is in arrears, remains high. In this light, resolving Sudan's debt overhang remains a high priority for the authorities. The authorities noted that notwithstanding Sudan's superb economic performance and satisfactory cooperation with the Fund, the progress towards resolving the debt problem has been slow, uneven and frustrating to say the least. The authorities believe that debt relief under the HIPC Initiative and the MDRI will play a crucial part in helping Sudan to resolve its debt and enable them to assume a path to achieving sustainable development goals.

10. On the structural issues, the authorities are committed to further strengthen public expenditure management, through recently adopted measures to control expenditures and improve budget execution, as well as implementing the full economic and functional classification of the GFSM 2001 for 2008 budget. The authorities view the continuing Technical Assistance as important as it supports the effective implementation of planned measures. Required TA should therefore be made available from the Fund, World Bank and other stakeholders.

Monetary, Exchange Rate, and Financial Sector Policies

11. The authorities will continue to maintain a focus on price stability as their central mandate, in the context of a managed float exchange rate system. The Sudanese Pound will be allowed to move in line with fundamentals, with intervention being limited to smoothing transitory overshooting of the exchange rate. My authorities will be moving away in the coming months from the use of direct instruments and rely more on open market operations with an emphasis on indirect monetary policy instruments. As part of this process the central bank will acquire government securities from the banking system to consolidate its stocks of indirect monetary policy instruments. They will continue to monitor closely the monetary developments to ensure that broad money growth rate remain in line with the target and inflation objective.

12. The authorities agree with staff's assessment that sustaining strong growth will require a greater role for financial sector to channel savings into needed investment. Continued financial sector reform and development is an essential pillar for Sudan's medium and long term prospects. The short term reforms would be dominated by improvements to ensure the soundness of the banking system. The authorities have already undertaken measures to restructure the banking system, including implementation of an overhaul strategy for one of the largest bank in the country, Omdurman Bank. The swift response from the authorities through liquidity injection, replacement of the board and executive management

restored confidence in the Omdurman bank and prevented the experienced by the bank from spilling-over to the rest of the banking system. The Central Bank of Sudan has put in place measures to strengthen and enforce prudential standards and ensure that banks comply with existing regulations. The medium to long term financial reform in Sudan will focus on measures to achieve a more efficient channeling of savings to investment, and the integration of the financial sector of the North and South. The introduction of the new currency constitutes an important step toward realizing these objectives.

Non-Concessional Borrowing

13. One of the challenging issues confronting the Sudanese authorities is lack of access to concessional borrowing. The authorities do not consider it prudent to borrow on non-concessional terms. However, their limited fiscal space, the lack of access to more traditional forms of concessional finance, and pressing development needs associated with various peace agreements and unification make nonconcessional borrowing the only feasible recourse. The authorities also see a gradual improvement in terms of concessional borrowing compared to three years ago.

14. They emphasize that most of the non-concessional borrowing contracted was directly linked to financing infrastructure development and social development projects, such as power, water supply and transportation. They have been very transparent on the use of all non-concessional loans. The provision of these services is an essential component for the overall strategy to unite the country after the signing of multiple peace agreements. Recognizing the risks this kind of borrowing may pose to medium and long term prospects as well as the possibility of jeopardizing the country's access to possible debt relief, the authorities agreed on the borrowing limit ceiling of US$700 million, which was fulfilled for 2006 and they are committed to imposing and complying with a similar limit in 2007 and 2008.

Structural Reforms

15. The fiscal reforms undertaken by the authorities to improve the revenue base, including reduction of VAT exemptions and income tax holidays is a step in the right direction. The authorities agree that improvement in tax policy and administration would not only create a more stable revenue base and lessen dependence on volatile oil receipts, but will also enable government to address major economic challenges on infrastructure development and poverty reduction.

16. Lack of external competitiveness cannot be entirely blamed on strong domestic currency alone; productivity factors also play a major role. In this regard, the authorities are committed and are already undertaking measures to address some of these structural problems affecting the non-oil exports, including poor quality, enhance the role of the National Agency for Insurance and Exports Financing and rigidity in labor market, among

others. The Green Revolution project launched recently by the government should go a long way towards transforming agriculture from subsistence and traditional ways of farming to a commercial exports competitive sector.

Conclusions

17. The authorities reaffirm their strong commitment to prudent macroeconomic policies aimed at sustaining growth, employment creation and poverty reduction. They recognize the challenges in balancing the expenditure needs of the peace process and maintaining macroeconomic stability as crucial for Sudan in going forward. The country's debt overhang continues to remain a thorny issue in the efforts to address critical poverty and reconstruction needs. They remain, however, hopeful that the international community will recognize Sudan's track record, and take tangible actions on debt relief for Sudan comparable to that provided to other countries in similar circumstances.