

**SUDAN: FIRST REVIEW UNDER
THE STAFF MONITORED
PROGRAM AND STATEMENT BY
THE EXECUTIVE DIRECTOR
FOR SUDAN**



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FIRST REVIEW UNDER THE STAFF MONITORED PROGRAM AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SUDAN

August 2014

In the context of the First Review under the Staff Monitored Program, the following documents have been released and are included in this package:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 28, 2014, following discussions that ended on May 8, 2014. Based on information available at the time of these discussions, the staff report was completed on June 30, 2014.
- A **Statement by the Executive Director** for Sudan.

The following documents have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Sudan*
Memorandum of Economic and Financial Policies by the authorities of Sudan*
Technical Memorandum of Understanding*

*Also included in Staff Report

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

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International Monetary Fund
Washington, D.C.



SUDAN

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

June 30, 2014

KEY ISSUES

Political Context: Sudan is embarking on a difficult national dialogue with the opposition and some armed groups in the Blue Nile and South Kordofan regions. The objective is to break the current destructive cycle of instability and prepare for the upcoming presidential election in 2015. This dialogue, if successful, could help create the conditions needed to address the challenges that emerged after the secession of South Sudan, including sustaining a much-needed broad economic recovery and adjusting the economy to its new potential. The current staff monitored program (SMP) is providing an adequate policy framework and a path in this direction.

Macroeconomic situation and outlook: Tight monetary conditions and improved fiscal performance, together with lower food prices, contributed to lower inflation at end-March. However, the curb market exchange rate further depreciated against the U.S. dollar on account of the uncertainties in the oil market triggered by the South Sudan conflict, further widening the gap between the official and curb market rates to more than 50 percent. The outlook for 2014 remains broadly favorable, with growth expected to reach 2.5 percent, and inflation to continue its downward trend to about 18 percent.

Program performance: Performance under the SMP through end-March 2014 was affected by adverse shocks and security spillovers. All end-March quantitative benchmarks were met, except for the ones on net international reserves and net domestic assets of the Central Bank of Sudan (CBOS). The indicative targets on social spending and the non-oil primary deficit were also missed by a slight margin. Corrective actions have been taken to ensure that these targets will be met in the second quarter. Urgent measures are needed to address the gap between the official and curb market exchange rates. The authorities have also made good progress toward meeting their end-June structural benchmarks.

Risks remain large and tilted to the downside. The uncertain political transition, the volatile domestic oil market, and the fragile security environment may slow down the reform momentum. The recent peace agreement between the warring factions in South Sudan, if implemented, would improve the risk outlook.

Approved By
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Discussions took place in Khartoum during April 29-May 8, 2014. The staff team comprised E. Gemayel (Head), A. Bessaha, H. Shi (all MCD), Y. Kim (FAD), B. Hacibedel (FIN), and Y. Xiong (SPR). M. Sumlinski (FIN) backstopped the mission from headquarters. The mission was assisted by Messrs. L. Erasmus, IMF Resident Representative in Sudan and A. Yasin, local economist. Mr. Todani (OED) participated in the policy discussions. The mission met with Minister of Finance and National Economy Badredin Mahmoud Abbas, Minister of Petroleum Makawi Mohamed Awad, Governor of the Central Bank of Sudan Abdulrahman Hassan Abdulrahman, and other senior government officials. The mission also met the business and donor communities. Ms. Penso and Ms. Ibrahim provided editing preparing the report. Ms. Dougherty-Choux and Mr. Zimand (all MCD) provided research assistance with data and figures.

CONTENTS

INTRODUCTION	4
RECENT DEVELOPMENTS, OUTLOOK, AND RISKS	4
STAFF-MONITORED PROGRAM FOR THE REST OF 2014	8
A. Pursuing Fiscal Consolidation	8
B. Improving Monetary Policy Credibility	10
C. Enhancing Exchange Rate Flexibility	12
D. Improving Competitiveness in Support of Inclusive Growth	13
E. Protecting the Most Vulnerable	14
F. Debt Issues	16
PROGRAM ISSUES	17
STAFF APPRAISAL	18
A. Macroeconomic Policies and Reforms	35
B. Other Structural Reforms	37
C. Program modalities and monitoring	38
BOXES	
1. South Sudanese Refugees in Sudan	6
2. Forecasting Inflation in Sudan	11
3. Sources of Growth in Sudan	15

FIGURES

1. Selected Economic Indicators	20
2. Selected Political and Social Indicators	21
3. Selected Economic and Financial Indicators	22

TABLES

1. Selected Economic Indicators, 2010-18	23
2. Balance of Payments, 2010-18	24
3. Government Operations, 2013-18	25
4. Monetary Survey, 2010-14	26
5. Summary Accounts of the Monetary Authorities, 2010-14	27
6. Summary of Accounts of the Commercial Banks, 2010-14	28
7. Medium-Term Macroeconomic Outlook, 2010-18	29
8. Financial Soundness Indicators for the Banking Sector, 2006-14	30

APPENDICES

Appendix I. Letter of Intent	31
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Attachments

I. Supplementary Memorandum of Economic and Financial Policies for 2014	33
II. Technical Memorandum of Understanding	41

INTRODUCTION

1. **The domestic and regional political environments are somewhat improving.** The government indicated that the National Dialogue will commence in the next few weeks. Opposition parties have so far cautiously welcomed this initiative, and called for the formation of an inclusive transitional government to prepare for the 2015 presidential elections. In this context, a framework agreement was recently reached with the Sudan People's Liberation Movement—North to halt fighting in Blue Nile and South Kordofan states. However, the recent arrest of two key political leaders¹ and the closure of some newspapers may complicate the national dialogue process.
2. **The security situation in neighboring South Sudan has remained fragile.** Sporadic conflict in the north of the country has continued in recent months despite two peace agreements signed between the government and rebels. The most recent deal in Addis Ababa also calls for the formation of a transitional government in the next two months, ahead of the drafting of a new constitution and the organization of new elections, but the timing for discussions and action on these issues remains fluid.
3. **Refugees from South Sudan continue to cross into Sudan.** An estimated 62,500 refugees have crossed into Sudan, according to the United Nations High Commissioner for Refugees and its partner organizations (Box 1). UN agencies, NGOs, and the government are assisting the refugees. A further influx of refugees, as the conflict lingers, is expected to weigh heavily on the local states' budgets and eventually on the central government budget.

RECENT DEVELOPMENTS, OUTLOOK, AND RISKS

4. **Economic performance is improving.** Twelve-month inflation fell to 35.7 percent at end-March, from 41.9 percent at end-December 2013, mainly reflecting lower food prices. Monetary conditions have been tight, with reserve money growth contained at 3.2 percent at end-March and broad money growing by a mere 6.7 percent. The curb market rate for the local currency depreciated by 10 percent against the U.S. dollar over March and April on account of the South Sudan conflict, further widening the gap between the official and curb market rates to more than 50 percent. Gross international reserves initially declined from US\$1.6 billion at end-2013 to US\$1.2 billion at end-February but subsequently rebounded to US\$1.5 billion by end-March.
5. **Budget execution in the first quarter of 2014 exceeded program projections.** Revenue amounted to SDG 11.3 billion or 2.9 percent of full-year GDP, representing a more than 60 percent increase over the first quarter of 2013. This performance reflects the increase in tax revenue and fuel stabilization fees. Tax revenue amounted to 1.5 percent of GDP, up from 1.3 percent of GDP in the first quarter of 2013. With current spending at SDG 11.2 billion, and capital spending reaching

¹ Sadik Al Mahdi, a former prime minister and key political figure, was arrested in Mid-May, and was then released on June 15th.

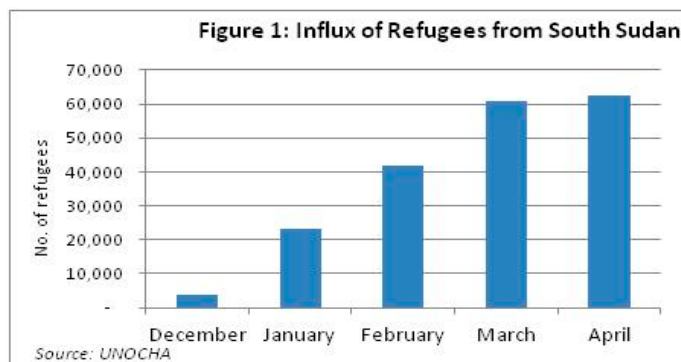
SDG 1 billion, the overall fiscal deficit was 0.2 percent of GDP, against 0.5 percent of GDP in the first quarter of 2013. Reflecting the improved fiscal stance, the Central Bank's temporary advances to the government were contained at SDG 290 million, well under the first quarter target of SDG 593 million.

6. Monetary developments are broadly in line with the program targets for the first quarter. Reserve money expanded by 3.2 percent, against a program target of 6 percent, while broad money growth eased to 6.7 percent. This reflected a lower-than-programmed increase in the Central Bank of Sudan's (CBOS) net credit to the central government (SDG 13.1 billion, against a target of SDG 14.2 billion), as temporary advances increased by SDG 290 million only, less than half of the program target of SDG 593 million, and government deposits at CBOS grew by SDG 1.2 billion, reflecting the closing of most central government accounts in commercial banks. At the same time, growth in credit to the private sector was higher than planned (4.5 percent). Reflecting these developments, net domestic assets of the CBOS reached SDG 53.3 billion, slightly above the target. Gross international reserves stood at US\$1.5 billion at the end of March, a decline of US\$83 million over the end of 2013. With external liabilities remaining broadly the same, net foreign assets fell by 3.5 percent over end-2013. NIR declined to US\$267 million from US\$355 million at end-2013.

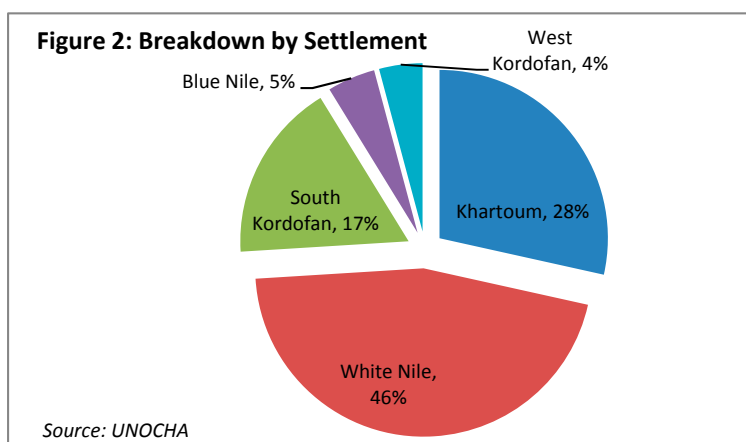
7. External sector performance in the first quarter was mixed. The trade balance improved slightly, compared with the first quarter of 2013, owing in part to the tightening of monetary conditions and the exchange rate depreciation in September that reduced demand for imports. However, fuel imports remained strong as domestic oil production fell short. Exports were weaker than last year, as exports of sesame, sugar, and other agricultural exports declined because of weather and changes in demand from Saudi Arabia. Oil-related receipts from South Sudan were also much lower than expected (US\$188 million compared with the projected US\$227 million) as oil production in the South was disrupted by the lingering conflict.

Box 1. South Sudanese Refugees in Sudan

Since the start of the South Sudan conflict in December 2013, there has been a large influx of refugees to Sudan. As of end-April, around 62,500 South Sudanese sought refuge in Sudan, a significant increase since end-December (Figure 1). The majority are in White Nile state, originating mostly from Upper Nile and Unity states.

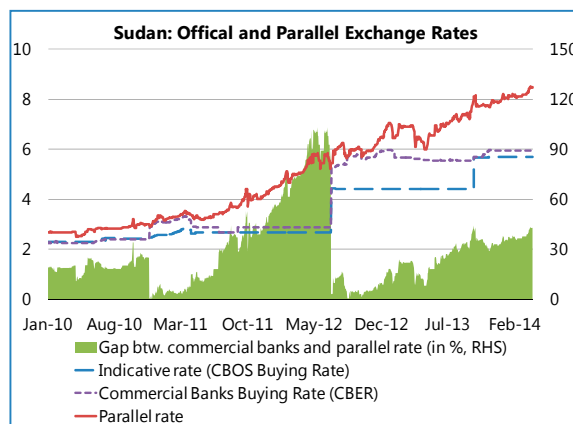


The increasing number of refugees has implied unforeseen fiscal costs for Sudan, but these are hard to measure at this stage. The federal authorities are using a portion of their current transfers to the states to cover some of the costs for incoming refugees. For the period January–April 2014, a total amount of US\$1.8 million was provided by the United Nations High Commissioner for Refugees (UNCHR) to assist refugees arriving in Sudan. Additionally, around US\$2 million was received from UNICEF and US\$0.3 million from the WHO for the South Sudanese Refugee Emergency in Sudan. The UN's requirements for 2014 amount to US\$40 million, and as of end-April, only US\$4.1 million have been raised.



8. The exchange rate of the dollar against the local currency on the curb market

depreciated further during the first quarter. After remaining stable in January and February, it depreciated in March, largely because of the intensified security threats to oil production in South Sudan and market participants' speculations about lower—even a complete stoppage of—oil-related revenue flows from South Sudan. In addition, because of the rising costs of doing business with countries under U.S. international sanctions, several foreign banks stopped all their transactions with Sudanese banks in March, disrupting the flow of transfers and lines of credit, and putting further pressures on the curb market rate and the foreign exchange supply. As a result, CBOS continued to draw down on its foreign exchange reserves; consequently, net international reserves declined by US\$90 million in the first quarter, against a program target of a US\$50 million increase. With limited resources, CBOS directed its supply of foreign exchange mostly towards supporting the operations of the government and importers of basic commodities such as food and fuel. Since then, the curb market exchange rate has somewhat stabilized after the government's announcement of its intention to supply foreign exchange to meet the needs of other small importers and households. Given the large size of the curb market, the recent depreciation could push up the prices for imported goods, adding more pressure on consumer prices.



9. Program performance was affected by adverse shocks and security spillovers. The authorities have missed two benchmarks related to: (i) net international reserves (NIR), partly because of shortfalls in both domestic oil production and oil-related revenues from South Sudan, and market uncertainties arising from the conflict in South Sudan; and (ii) the net domestic assets, by a small margin. They also missed two indicative targets related to: (i) social spending, because the January outlays were not undertaken due to the delayed adoption of the spending authorization. Social spending resumed in February and remained on track in March; and (ii) the non-oil primary deficit (NOPD) because of a rise in fuel subsidies in view of increased imports of oil triggered by unusual weather conditions as well as higher agricultural imports. On the structural front, good progress was made with respect to end-June targets.

10. The outlook for 2014 remains broadly unchanged. The main macroeconomic objectives are to (i) reach a non-oil real GDP growth rate of 2.5 percent as a result of a rebound in agriculture, continued improvement in export performance, and productivity gains in the economy as reforms take hold; (ii) bring inflation down to 18.1 percent, reflecting the combined effects of fiscal consolidation, monetary tightening, and the stabilization of the exchange rate; (iii) reduce the overall fiscal deficit to about 1.2 percent of GDP, on account of an improvement in revenue collection and a reduction in spending; and (iv) narrow the current account deficit to 6.9 percent of GDP and finance it mostly by non-debt-creating flows.

11. The medium-term outlook remains favorable as the government proceeds with its adjustment program. With reforms taking hold and, against the background of the pursuit of appropriate macroeconomic policies and an improved political environment, economic activity is expected to rebound. As a result, real GDP growth is projected to gradually increase to about 5 percent by 2018. At the same time, inflation is projected to continue its downward trend, thus bringing consumer price inflation down to single digits. Both the fiscal and external deficits are also expected to gradually decline towards sustainable levels.

12. The risks are large and tilted to the downside. On the downside, there are risks associated with the fragile security situation, the domestic political situation, and regional tensions. Security conditions remain fragile in some parts of the country, and the public remains dissatisfied with the costs of the economic reforms implemented so far. In addition, political developments in the run-up to the 2015 presidential elections which are fueling uncertainty, together with uncertainties regarding the zero option, may complicate policy-making. On the upside, the recent peace agreement between the warring factions in South Sudan, if implemented, would improve the prospects of continued oil production in the South. Equally, the current discussions with the domestic opposition and armed groups, if concluded, could pave the way to a smooth political transition.

The Authorities' Views

13. The authorities concurred with the staff's overall macroeconomic and risk assessment. They are aware of the risks to the program. They pointed to the ongoing domestic political dialogue as an effort to secure broad support for the reform agenda and prepare for a smooth election year. They also indicated that they were continuing to support peace efforts in South Sudan to enhance stability in the region, continued transit of oil to Port Sudan to minimize risks to fiscal and external performance under the SMP, and reactivate much-needed cooperation with South Sudan. They remained committed to implementing the SMP.

STAFF-MONITORED PROGRAM FOR THE REST OF 2014

A. Pursuing Fiscal Consolidation

14. Efforts to raise revenue and reduce non-priority spending are proceeding. Staff and the authorities agreed on the need to enhance revenue intake and continue to streamline non-priority spending to meet the SMP targets. On the revenue side, strict execution of the tax legislation, together with scaled-up mobilization capacity, will guide government actions in the coming months to meet the end-year target and, most importantly, the programmed central bank financing ceiling. In March, prompted by the need to raise non-oil revenue collection in 2015 and beyond, the government established a tax and customs reform committee chaired by the Minister of Finance. The committee comprises government officials from the relevant ministries, experts from academia, and the private sector representatives. It will review tax exemptions and the application of the VAT, and incorporate advice on developing more efficient tax policies to enhance non-oil tax revenues;

the committee will report its findings to the government (MEFP, ¶10) by the end of September 2014, and its recommendations will be reflected in the 2015 budget.

15. On spending, controlling fuel subsidies is crucial. In the first quarter, spending on fuel subsidies amounted to about 0.5 percent GDP, exceeding the programmed levels, mainly reflecting higher fuel imports because of warmer-than-usual weather. On current trend, fuel subsidies are expected to reach about 2 percent of GDP by year-end, against a projected level equivalent to 1.5 percent of GDP in the SMP fiscal program. While the higher-than-expected peak in demand in the first quarter that resulted from the warmer weather may not incur again as the summer season comes to an end, staff advised the authorities to avoid overruns of spending over the next few months and adhere strictly to the agreed annual budget allocation of 1.5 percent of GDP, including through a retail price adjustment. In addition, they plan to introduce an operational framework to phase out the fuel subsidies; this would include putting together a flexible pricing mechanism to allow regular price adjustments of domestic petroleum prices (MEFP, ¶11). In the same context, the authorities will conduct a public information campaign to build support for this reform and protect the most vulnerable segments of the population through a more effective social safety net and better targeted assistance.

16. In rationalizing spending, it is crucial to continue public financial management (PFM) reforms. These will be centered on the development of a medium-term fiscal framework (MTFF) to enhance macroeconomic management and facilitate implementation of poverty reduction policies. More specifically, they focus on improving budget preparation and execution, including the implementation of the Treasury Single Account, and effective budgetary controls, linked to a credible cash plan, to prevent arrears (MEFP, ¶10 and ¶11). These PFM reforms will be supplemented by measures to strengthen within-year budget reporting in line with best practice and accounting procedures. In support of these reforms, the authorities are planning to put together a small MTFF committee with adequate resources. Additional reforms will seek to strengthen transparency in the fiscal area, through an upgrade of the current website of the ministry, the publication of quarterly revenue and spending data, and information on the fiscal policy pursued by the government.

17. Commitment to fiscal consolidation, in the face of unforeseen expenditure pressures and revenue shortfalls, is essential. This is critical in view of the current domestic uncertainties and the upcoming presidential election in 2015.² The authorities need to stand ready to meet revenue shortfalls, including those from a possible loss of revenues related to oil transit from South Sudan, and keep spending (especially non-priority expenditures) under control, to avoid an expansion of domestic financing or payments arrears accumulation. This would help control budget deficits, contain money creation, and thus, contain inflationary pressures.

² The 2014 budget contains SDG 50 million for the preparation of elections.

The Authorities' Views

18. The authorities broadly agreed with the staff recommendations. Noting the satisfactory outcome of the first quarter, they reiterated their commitment to continue implementing the fiscal program agreed under the SMP. They confirmed their intention not to exceed the annual fuel subsidy target despite higher-than-planned subsidy spending in the first quarter. They remained concerned that another price adjustment in the current volatile situation may lead to social unrest, as occurred last September when fuel prices were raised. They reiterated, however, their commitment to phase out these subsidies by 2017, building upon the recommendations of the audit on subsidies being conducted jointly by the ministry of finance and the ministry of petroleum. They are also looking forward to the recommendations of the Tax and Customs Reform Committee for Revenue Mobilization to strengthen preparation of the 2015 budget and continue progress on the path of fiscal consolidation.

B. Improving Monetary Policy Credibility

19. Containing inflationary pressures should remain a priority for the central bank. Helped by a better-than-programmed fiscal performance, the monetary authorities should continue mopping up excess liquidity, through the issuance of sukuks (Government Muharba Certificates (GMCs) and Government Investment Certificates (GICs)), and should further reduce direct credit to public enterprises and commercial banks (Box 2). These steps will clear the way for lower bank financing and a reduction in inflation.

20. The continuation of a tight monetary stance is crucial to contain inflation, lessen exchange rate pressures, and reduce the gap between the official and curb market exchange rates. Achieving the agreed reserve money target will require continued mopping up of excess liquidity, enhancing central bank independence, and strengthening of the interbank market for GICs and GMCs as well as the auction system (MEFP, ¶12).

Box 2. Forecasting Inflation in Sudan

The SMP targets 18 percent inflation, down from 41.9 percent at end-December 2013. We used a simple autoregressive model to assess the realism of this target. A monthly inflation was modeled as a function of a lagged monthly inflation, a black market monthly devaluation rate, a broad money monthly growth rate, and a dummy variable marking June 2012 and October 2013,

the months when inflation increased after the introduction of adjustment policies by the government of Sudan. The results of the estimation are in Box Table 1.

Box Table 1. Inflation model	
Dependent variable: monthly inflation	
	OLS
Lagged inflation	0.34 *** (0.09)
Curb exchange rate (monthly change)	0.22 *** (0.07)
Broad money (monthly change)	0.29 ** (0.14)
Price reform dummy	0.05 *** (0.02)
Constant	0.00 (0.00)
Number of observations	72
DW	2.1
R ²	45
F-stat	13.5
Note: ** = significant at 5%; *** at 1%. Estimated for Jan. 2008 -- Jan. 2014.	

We used the above model to forecast inflation in 2014. The forecast indicates that 18 percent inflation, projected for 2014 under the SMP, is realistic. We used estimated coefficients and the following assumptions to forecast inflation: (i) actual inflation rates for the first three months of 2014, (ii) a black market exchange rate that will depreciate by 1.5 percent per month (an average depreciation during Q1 2014), and (iii) a 1.1 percent growth rate in broad money per month, in line with the assumed yearly growth rate of 17 percent.

The performance on inflation depends on the steady implementation of appropriate policies, although some factors are beyond the government's control. The latter include developments in South Sudan and their impact on the oil market. The model takes these developments into account to create dynamics of explanatory variables deviating from the assumed "normal" paths.

21. Strengthening CBOS' independence will help ensure monetary policy effectiveness.

CBOS should continue to cap temporary advances to the government by capitalizing on the positive developments in the first quarter.³ Cooperation between the ministry of finance and the central bank on the formulation of economic policy should also continue. Finally, enhancing CBOS's communication strategy, by regularly explaining to the general public—through either the media or CBOS's website—the monetary policy objectives and the means to reach them, would enhance the central bank's traction.

³ Temporary advances to the government during the first quarter amounted to SDG 290 million, well below the program target of SDG 593 million.

The Authorities' Views

22. The authorities agreed with the staff assessment. With inflation declining, they are determined to pursue a tight monetary stance for the rest of 2014. They observed, however, that their ability to effectively manage domestic liquidity remains constrained by limited instruments and weak institutional capacity. The authorities have reiterated their request for TA in this area. They stressed that since the formation of the new government, cooperation between the ministry of finance and CBOS has been stepped up through regular weekly meetings.

C. Enhancing Exchange Rate Flexibility

23. Addressing foreign exchange imbalances is crucial to restoring competitiveness. Since last September's 29 percent devaluation, the exchange rate between the U.S. dollar and the local currency has remained constant (Figure 1). With inflation higher in Sudan than in its trading partners, the real exchange rate appreciated by about 24 percent through end-March. Staff pressed the authorities to enhance exchange rate flexibility in order to support the new operational monetary framework, which is anchored in reserve money, avoid the loss of international reserves, and provide a shock absorber to the economy.

24. Enhanced exchange rate flexibility is crucial to reducing the gap between the official and curb market exchange rates (MEFP, ¶14). This 50 percent gap is the result of a range of factors, including: (i) uncertainty about the revenues from oil transit as the conflict in South Sudan remains unsettled; (ii) domestic political uncertainty in the run-up to next year's presidential elections; and (iii) imbalances in the foreign exchange market through pervasive foreign exchange rationing. Staff urged the authorities to follow through on their intention to address this widening gap through a policy mix anchored in: (i) greater exchange rate flexibility; (ii) a continuation of the tight fiscal and monetary policy stance; (iii) strengthening prudential regulations on exchange rate risks; (iv) the removal of the remaining restrictions on foreign exchange transactions to improve the functioning of the market;⁴ and (v) a steady communication strategy with market participants regarding the government's policy intentions to head off some of the speculation.

25. The authorities have recently introduced new measures to address the imbalances in the foreign exchange market. The CBOS recently issued a set of circulars allowing: (i) foreign

⁴ The Fund has granted approval through September 20, 2014 for Sudan's retention of the following measures subject to Fund approval under Article VIII, Sections 2(a) and 3: i) an exchange restriction arising from the government's limitations on the availability of foreign exchange and the CBOS' allocation of foreign exchange to certain priority items; ii) a multiple currency practice arising from the establishment by the government of a system of multiple exchange rates used for official and commercial transactions, which gives rise to effective exchange rates that deviate by more than 2 percent; iii) a multiple currency practice and exchange restriction arising from the channeling of market participants to the parallel market due to the CBOS' establishment of exchange rates that do not reflect market conditions and the limitations on availability of foreign exchange; and iv) an exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports. The Fund will revisit the further retention/approval of these measures in the context of the upcoming Article IV consultation.

exchange bureaus to transact at any rate they choose; and (ii) exporters to sell their proceeds to importers. These measures will enhance the functioning of the foreign exchange market by shifting a significant portion of the dollar transactions to the official market, and will allow for rebuilding reserves to the accumulation path envisaged in the program. Nonetheless, further exchange rate flexibility will be needed to reduce the gap between the official and curb market rates.

The Authorities' Views

26. The authorities broadly agreed with staff's assessment of recent exchange rate developments and advice on policy corrections. They are committed to maintaining tight fiscal and monetary policy stances to support the currency. They also fully recognize the urgent need to act to close the exchange rate gap. In this context they believe that the recently introduced corrective measures will help address the imbalances in the foreign exchange market. They have also committed to adjusting the indicative rate and the trading bands by June 25th, with a view to achieving a gradual convergence between the official and the curb market rates.

Financial sector reforms

27. The modernization of the banking sector is under way. The authorities have updated the risk-based manuals for offsite and onsite supervision (MEFP, ¶13). They are currently working to: (i) introduce best practices in bank supervision, inspection, and enforcement; and (ii) terminate direct ownership of banks by CBOS. The authorities are also focusing on upgrading the legal, regulatory, and institutional framework of the banking sector, to enhance financial deepening. At the same time, progress is being made in strengthening the operations of Omdurman Bank, in line with their restructuring plan.

The Authorities' Views

28. The authorities agreed with staff's assessment of their ongoing reforms. They reiterated the need to continue implementing these reforms to adjust the banking sector to the new potential of the country and modernize it in line with staff recommendations. They recognized the need for a better sequencing of these reforms and adequate prioritization. The authorities explained that the breadth of the reform process requires much-needed technical assistance in support of the banking sector reform effort.

D. Improving Competitiveness in Support of Inclusive Growth

29. Structural reforms are centered on improving the business environment to support inclusive growth and reduce poverty (Box 3). The authorities are focusing on upgrading the legal framework for private investment, and modernizing the Khartoum Stock Exchange (MEFP, ¶16). Priority is also given to upgrading the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) framework, with assistance from the Fund, to address corruption and other serious crimes, and address the shortcomings identified by the Financial Action Task Force (FATF). In

this respect, amendments to the AML/CFT law will be enacted, in line with the FATF standard, by end-September 2014 (new structural benchmark).

E. Protecting the Most Vulnerable

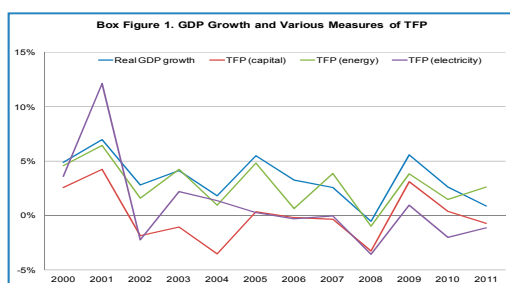
30. Improving the targeting of the social safety net is critical for the success of the fuel subsidy reform and for shielding the most vulnerable from the effects of the crisis. Sudan's social indicators compare unfavorably vis-à-vis the regional comparators. The authorities agreed that the removal of the subsidies through successive price adjustments needs to be accompanied by measures to shield the poorest from the impact of price increases while also helping middle income groups to adjust. Their strategy is to: (i) move from a patchwork of social programs to an integrated and well-targeted network that will benefit 500,000 families in 2014; (ii) ensure complementarities with the other safety nets operated by private entities, including the Zakat which benefits 4.5 million households; (iii) improve the targeting of the safety nets to benefit those really in need; and (iv) strengthen coordination between various government agencies involved. With such a multi-pronged strategy in place, the authorities could build support for subsidy reforms at this crucial stage and create fiscal space for ramping up other public social expenditures that also benefit middle-income groups, such as expanding education and health services and increasing health insurance coverage for the poor (MEFP, ¶17).

Box 3. Sources of Growth in Sudan

Growth in Sudan will come from a combination of capital, human capital, and total factor productivity (TFP). TFP represents a shift in the production function i.e., output growth not accounted for by the growth in inputs. TFP captures influences on growth from many factors: technical innovation, organizational and institutional changes, shifts in societal attitudes, fluctuations in demand, and changes in factor shares, omitted variables, and measurement errors.

TFP is likely to become a major source of growth in Sudan. This should not be surprising, given structural changes in the economy and the sudden stop of reliance on oil in the aftermath of the South Sudan secession. These changes had negative influence on the economy, but they are, at the same time, removing many of the constraints that hampered TFP growth in the past. It will take some time for the supply of inputs to respond to new price structures and new opportunities, especially given the set of risks still facing the economy. Nevertheless, productivity improvements can take place much more quickly.

TFP in Sudan during the 2000s grew on average by 1 percent to 3 percent, depending on the measure of capital services. Using data from: (i) the Penn World Table 8.0 in per-employee terms¹; and (ii) energy consumption data from the International Energy Agency World Energy Balances, the model provides the following estimates: (i) average growth



of TFP in 2000–11 is about nil with capital services measured by a change in capital stock; (ii) the average TFP is about 1 percent when capital services are measured by a change in total final consumption of electricity; and (iii), the average TFP is about 3 percent (Box Figure 1) when capital services are measured by a change in total final consumption of energy².

With TFP feasibly growing at 13 percent per annum, a long-term growth rate of 5 percent or more is within Sudan's reach. The other factors of production need to contribute about 2 percent to 3 percent to growth. Human capital has historically

grown at about 1 percent per annum in Sudan. A removal of constraints on the economy would likely result in an increased growth rate of human capital. Similarly, capital services would likely grow at an increased rates, assuring sustainable growth rates that result in inclusive growth and poverty reduction.

Ultimately, future growth will depend on the government's ability to formulate and implement policies that create incentives to accumulate capital, use resources efficiently, and encourage technological progress. The most immediate requirements are to ensure a stable macroeconomic environment, encourage further financial deepening, and keep inflation low.

Debt relief will support growth in the medium to long term. It will unlock access to external financing for public and private borrowers, which should result in growth-enhancing public and private investment assuring future debt sustainability.

1/ Data are for pre-2011 secession Sudan. Data limitations do not allow for exclusion of South Sudan from the data.

2/ The use of changes in energy consumption as a measure of capital services, instead of changes in an estimated capital stock, is likely a more accurate measure of capital services in a country where data quality is weak. Use of energy balances does not require guessing the original stock of capital (as energy cannot be stored) or assuming a depreciation rate.

F. Debt Issues

31. Sudan has a high risk of debt distress, and remains cut off from most external financing sources because it is in arrears to most of its creditors.⁵ In the first quarter, the authorities contracted one loan in the amount of US\$47 million, to develop the mining sector.⁶ The authorities continue to seek external support to fund a number of key development projects in the priority sectors, including agriculture, mining, water, electricity, and social services (MEFP, ¶18); however, it has proven difficult so far to secure financing. Furthermore, a number of still-disbursing creditors cut back or suspended their scheduled disbursements in late 2013, when Sudan stopped servicing their obligations. The authorities increased debt service payments to US\$92 million in the first quarter to unlock some of these disbursements; nevertheless, external payment arrears are accumulating.

32. Nonconcessional financing needs to be minimized. Staff advised the authorities to minimize nonconcessional borrowing and seek instead the most concessional financing terms possible. Staff reiterated that any new borrowing will eventually have to be treated as part of a comprehensive debt relief plan that would restore Sudan's external debt to a sustainable level. Staff also advised the authorities to avoid selective debt servicing, because this may complicate reaching agreement with creditors on a debt resolution strategy.

33. The authorities are advancing their efforts to reach out to creditors to gather support for debt relief.⁷ The Tripartite Committee (Sudan, South Sudan, and the African Union High Implementation Panel) met in early May to agree on an outreach program to major multilateral and bilateral creditors of Sudan. Building upon the outcome of the 8th Technical Working Group (TWG) on Sudan's external debt, staff encouraged the authorities to keep the reform momentum, and underscored the importance of handling the "zero option" deadline in a flexible way by extending it beyond September 2014, so as to avoid any renewed tensions between the two countries.⁸

⁵ Sudan: Staff Report for the 2013 Article IV Consultation—Debt Sustainability Analysis, IMF Country Report No. 13/317.

⁶ This 20-year loan was signed with the Kuwait Fund and has a grant element of 25 percent.

⁷ Resources to finance debt relief for Sudan have not been included in the HIPC Trust. Substantial resources will be needed when Sudan is ready to embark on the HIPC Initiative. The financing modalities developed for Liberia could provide a useful framework to follow at that time.

⁸ Under the "zero option" agreed in September 2012, Sudan retained the entire stock of external debt, provided that the international community gives firm commitments for delivery of debt relief to Sudan within two years. Absent such a commitment by end-September 2014, Sudan's external debt would be apportioned with South Sudan, based on a formula to be determined. Debt owed to the Fund will remain with Sudan.

The Authorities' Views

34. The authorities broadly agreed with some of the staff's advice. They forcefully reiterated their request for debt relief by end-2014. They noted that Sudan's unsustainable debt situation makes it difficult to secure concessional financing for the critical infrastructure projects. They also noted that the shortage of foreign exchange resources continue to cause delays in debt servicing and leads them to adopt the selective approach. They reiterated their commitment to limit nonconcessional borrowing within the program target of US\$600 million in 2014. With respect to the "zero option," they believe that its extension will entail the re-opening of all the integrated set of political, economic, and security bilateral agreements reached so far with South Sudan. Nevertheless, they are in favor of continuing the dialogue with all creditors and donors in the run-up to the deadline as part of the joint outreach with South Sudan to build broad support for debt relief.

PROGRAM ISSUES

35. Performance under the SMP through end-March 2014 was affected by adverse shocks and security spillovers. All quantitative benchmarks as of end-March 2014 were met, except for the ones on net international reserves and net domestic assets of the central bank. The indicative targets on social spending and the non-oil primary deficit were also missed by a slight margin. Corrective actions have been taken to ensure that these targets will be met in the remainder of the year, including implementing greater exchange rate flexibility, improving cash management procedures, sustaining the fiscal consolidation process, and pursuing the structural reform agenda. With regard to social spending, they intend to pursue a rigorous execution of the budgetary social spending allocations. The authorities have also made good progress toward meeting their end-June structural benchmarks. A new structural benchmark was proposed to enhance the AML/CFT legal framework, in line with Fund staff recommendations.

36. Modifications to the conditionality are proposed, to better monitor the program. In this context, the definition of net domestic assets of the central bank is modified and the non-oil primary deficit is now adjusted for the deviations from the programmed values in oil transit fees and in the transitional financial arrangement.⁹ The structural conditionality—existing and new—is summarized in the Table 2 of the MEFP.

37. Payments to the Fund. The authorities made a payment of US\$2.5 million to the Fund on March 26, in line with their commitment under the SMP. As of end-March, arrears to the Fund were about SDR 980 million. Staff noted the authorities' commitment to a minimum payment of

⁹ Under the agreement signed in September 2012 between Sudan and South Sudan, South Sudan will provide, under a transitional financial arrangement, cumulative payments totaling US\$3.028 billion over three and a half years. These payments are expressed in per barrel terms (US\$15/barrel). In addition, South Sudan will pay transit fees averaging US\$9.7/bl. These fees will apply during the whole three and a half year period, and will be renegotiated thereafter.

US\$10 million to the Fund under the 2014 SMP and strongly encouraged them to make payments to the Fund regularly, and to significantly increase them as Sudan's payment capacity improves.

STAFF APPRAISAL

38. The authorities' economic program is being implemented in line with the SMP and is supporting the ongoing reforms of the economy. The program has so far enabled the authorities to reduce the fiscal deficit, limit central bank financing, and bring down inflation. In contrast, the gap between the official and curb market continues to widen, reflecting an inadequate exchange rate policy and factors beyond the government's control. In the structural area, reforms in revenue administration and public financial management are proceeding well. Other economic reforms, notably in the financial sector, business environment, and governance, are also proceeding, albeit at a slower pace. The outlook for SMP implementation remains favorable but not without risks. The economic recovery is under way and the fiscal and external accounts are set to continue to improve. However, risks arise in the short term from the domestic political and social environment. Accordingly, macroeconomic policy should be adjusted to address the exchange rate issue, building upon progress achieved so far under the SMP.

39. Fiscal policy needs to continue balancing macroeconomic stability with the developmental needs of the country and strengthening the social safety nets to protect the most vulnerable. Staff welcomes the favorable fiscal performance of the first quarter, and urges the authorities to continue executing the fiscal program as agreed under the SMP. In this connection, the authorities will be well advised to continue enhancing their revenue collection efforts and restraining spending (including on fuel subsidies), to ensure funding for development and social needs and keeping the deficit at 1.2 percent of GDP, and containing central bank financing. Reforms of the tax exemptions and continued progress in phasing out fuel subsidies are becoming increasingly important.

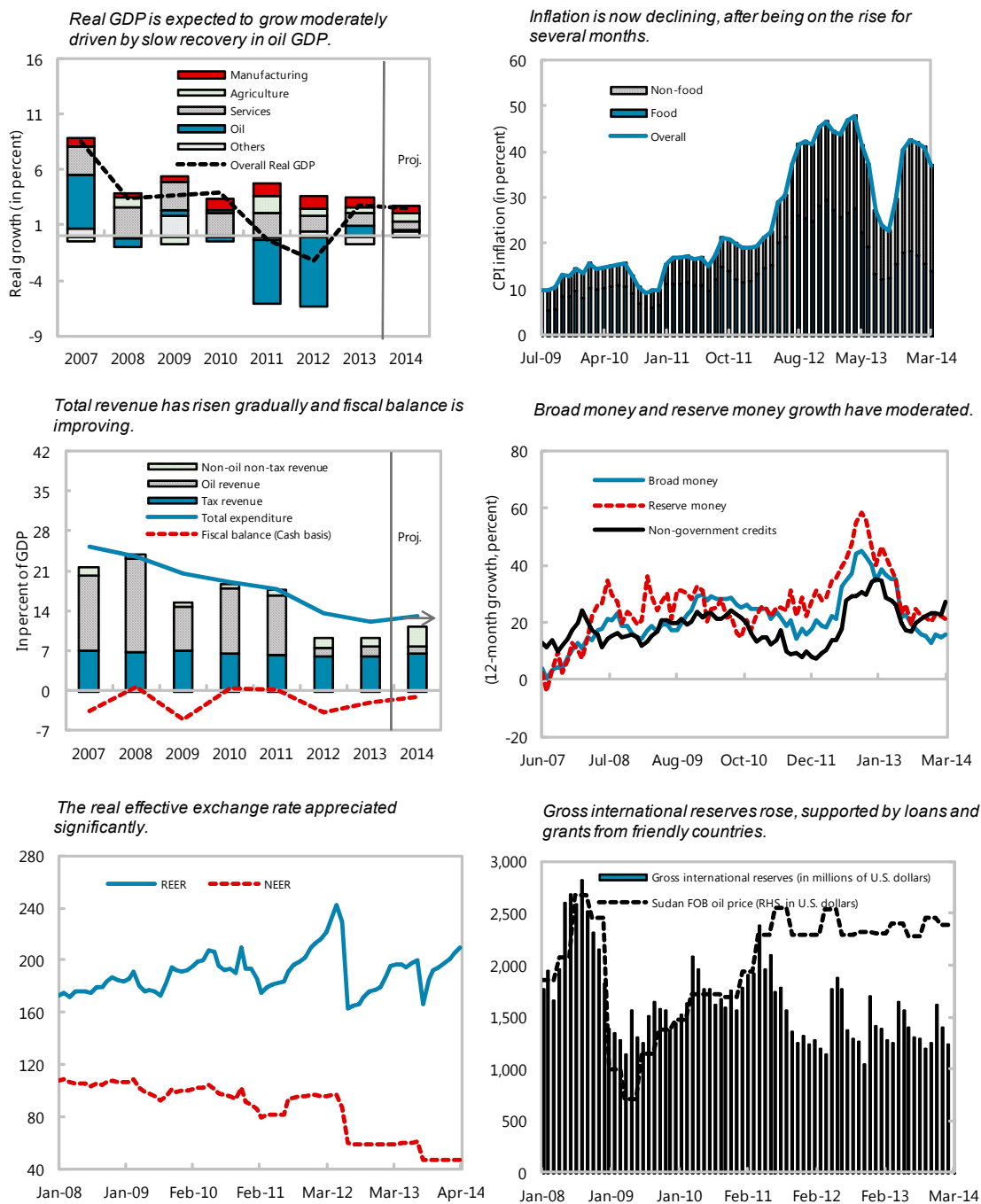
40. To bring inflation down, it is important to limit the central bank's financing of the government and enhance its independence. Progress so far needs to continue in the coming months. Fiscal consolidation and monetary restraint will be crucial in lowering central bank financing. In this context, the authorities will be well advised to continue improving the monetary policy transmission channels, deepening the financial sector, and strengthening central bank independence.

41. Exchange rate flexibility is critical to addressing the persistent gap between the official and curb market rates. The gap between the official and curb market exchange rates will hinder reserve accumulation, and will compromise the central bank's credibility in protecting the value of the local currency. This issue requires the utmost attention from the authorities. A greater flexibility in the foreign exchange market, together with the elimination of the remaining restrictions, are needed to significantly reduce the persistent gap between the exchange rates. In this context, the recently implemented measures as well as the commitment to introduce exchange rate flexibility (see para 25) are welcome steps in the right direction and will keep the program on track, by

allowing for rebuilding reserves to the accumulation path envisaged in the program. Nonetheless, further exchange rate flexibility will be needed to close the gap between the official and curb market rates. It is also important that the authorities communicate their policy objectives in a transparent and timely manner. At the same time, efforts should be intensified to improve data availability, which would improve policymaking.

42. Continued joint efforts are needed in reaching out to creditors to garner support for debt relief. Staff welcomes the program agreed by the Tripartite Committee in early May to reach out to major multilateral and bilateral creditors of Sudan. In this context, it is important for Sudan to continue successful implementation of the SMP, and to approach the “zero option” deadline in a flexible way by extending it beyond September 2014. This will help avoid any renewed tensions between the two countries and maintain a fruitful dialogue with the donor community. It is equally important to minimize nonconcessional borrowing and avoid selective debt servicing as this may complicate reaching agreement with creditors on a debt resolution strategy.

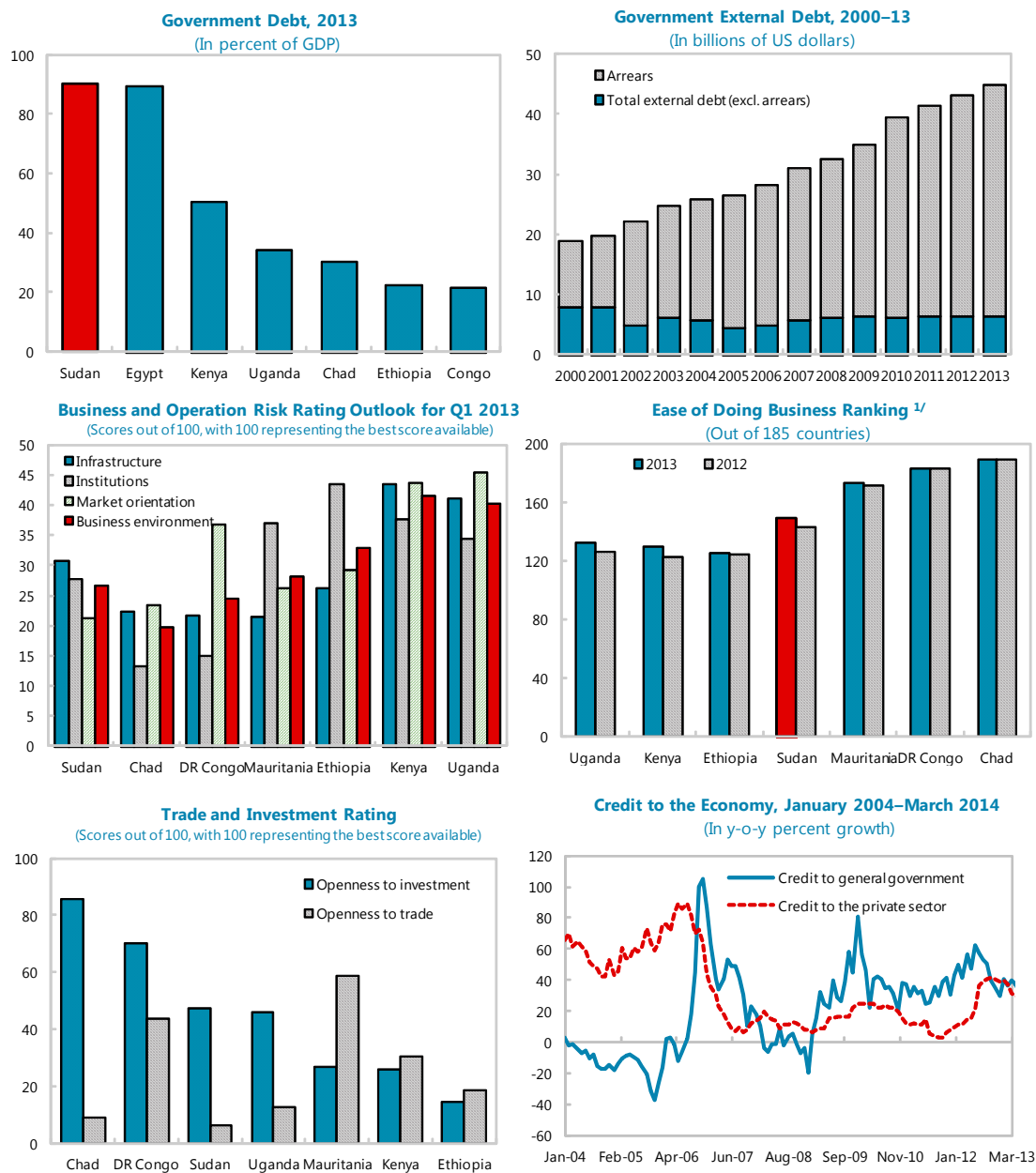
43. The monitoring of the program needs to be improved through some changes in the conditionality. Staff supports the new definition of net domestic assets of the central bank, as this will help government efforts to cut down on central bank financing, bring inflation under control, and strengthen program execution. At the same time, staff concurs with the authorities on the need to adjust the non-oil primary deficit for the deviations in terms of revenues from oil transit fees and the Transitional Financial Agreement, considering the continued turmoil in South Sudan and its impact on Sudan’s oil and foreign exchange markets. Lastly, staff supports the government’s proposal to include a new end-September structural benchmark on AML/CFT.

Figure 1. Selected Economic Indicators

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

Figure 2. Selected Political and Social Indicators

Sources: Worldwide Governance Indicators; Global Competitiveness Indicators; UNDP Human Development Indicators; World Bank Development Indicators; and Business Monitor International.

Figure 3. Selected Economic and Financial Indicators

Sources: Worldwide Governance Indicators; Business Monitor International; IFC Doing Business Rankings; Sudanese authorities; and IMF staff estimates.

^{1/} As pointed out in an independent evaluation of the Doing Business survey (see www.worldbank.org/ieg/doingbusiness), care should be exercised when interpreting these indicators given subjective interpretation, limited coverage of business constraints, and a small number of informants which tend to overstate the indicators' coverage and explanatory power.

Table 1. Selected Economic Indicators, 2010-18

	2010	2011	2012 Est.	2013 Prel.	2014	2015	2016	2017	2018
	Projections								
Output and prices	(Annual changes in percentage)								
Real GDP (at factor costs) 1/	4.0	-0.3	-2.2	2.7	2.5	3.6	4.1	4.3	4.7
Oil GDP 1/	-3.9	-36.0	-59.0	28.0	2.3	3.0	3.6	4.2	4.9
Nonoil GDP 1/	5.7	6.8	4.6	1.5	2.5	3.6	4.1	4.4	4.7
Consumer prices (end of period)	15.4	18.9	44.4	41.9	18.1	12.0	8.6	6.5	5.7
Nonoil GDP deflator	13.8	15.2	32.6	36.2	20.2	14.2	9.4	7.0	5.8
Oil GDP deflator	60.9	62.0	23.8	33.2	29.2	13.9	-1.1	2.4	8.8
Investment and saving	(In percent of GDP, unless otherwise specified)								
Gross disposable income	95.4	97.5	97.5	97.9	98.1	98.3	98.6	98.9	99.2
Gross domestic expenditure	97.5	98.0	106.8	106.6	105.0	104.5	104.5	104.1	104.1
Final consumption	77.4	78.9	88.1	86.6	87.3	86.5	86.2	85.3	85.0
Gross capital formation	20.1	19.1	18.7	20.0	17.7	18.0	18.3	18.8	19.1
Gross Savings	18.0	18.6	9.5	11.3	10.8	11.8	12.4	13.6	14.2
Government operations									
Revenue and Grants	19.3	18.0	9.8	10.1	11.8	12.1	12.1	12.2	12.4
Revenues	18.7	17.7	9.4	9.4	11.3	11.4	11.4	11.5	11.7
Tax revenue	6.6	6.4	6.2	6.1	6.5	6.8	7.2	7.5	7.8
Total expenditure	19.0	17.8	13.5	12.2	13.0	12.9	12.6	12.4	12.4
Current expenditure	16.5	16.1	12.0	11.1	11.5	11.2	10.5	9.8	9.5
Wage bill	5.0	5.4	4.8	4.3	4.1	3.9	3.8	3.7	3.5
Subsidies	0.6	1.5	1.8	1.9	1.9	1.6	1.2	0.6	0.5
Transfers	7.7	6.1	2.6	2.2	3.0	3.0	3.0	3.0	3.0
Capital expenditure	2.6	1.7	1.5	1.1	1.5	1.7	2.1	2.6	3.0
Overall balance	0.3	0.2	-3.7	-2.1	-1.2	-0.9	-0.5	-0.2	0.0
Overall primary balance	1.4	1.4	-2.3	-0.7	-0.1	0.3	0.6	0.8	1.0
Nonoil primary balance	-3.8	-4.1	-3.8	-2.8	-1.9	-1.4	-0.9	-0.7	-0.6
In percent of nonoil GDP	-4.5	-4.7	-3.9	-3.0	-2.0	-1.5	-1.0	-0.8	-0.6
Monetary sector	(Annual changes in percentage, unless otherwise specified)								
Broad money	24.9	17.7	40.3	13.0	16.6	15.5	15.0	14.9	13.3
Reserve money	17.2	27.8	46.7	20.3	14.7	14.4	13.2	12.6	11.4
Credit to the economy	16.4	8.0	34.1	23.2	22.6	22.4	21.8	22.0	28.9
Velocity (Non oil GDP/M2 ratio, eop)	3.6	3.7	3.7	4.5	4.8	4.9	4.9	4.7	4.7
Ratio of Money to Broad Money	69.5	70.9	71.4	71.2	71.2	71.2	71.2	71.2	71.2
Net claims on government as a ratio to Nonoil GDP	10.9	11.7	11.0	9.9	9.2	8.0	7.2	6.5	5.9
Credit to the economy as a ratio to Nonoil GDP	16.9	14.9	14.5	12.8	12.8	13.2	14.1	15.3	17.7
External sector	(In percent of GDP)								
Exports of goods (in US\$, annual percent change)	57.0	-12.9	-53.7	-6.4	17.9	7.5	8.6	10.3	4.9
Exports of oil	16.3	12.4	2.8	2.4	3.8	4.0	3.7	3.6	3.4
Imports of goods (in US\$, annual percent change)	3.1	-7.5	2.6	4.7	0.2	3.7	5.3	5.1	4.7
Merchandise trade balance	5.7	4.1	-5.4	-6.2	-5.2	-4.9	-4.7	-4.2	-4.1
Current account balance	-2.1	-0.4	-9.2	-8.7	-6.9	-6.2	-6.0	-5.2	-4.9
Ext. debt service (in percent of exp.of G&S.)									
Commitment basis	22.7	24.4	44.7	43.5	36.6	33.1	30.7	28.5	27.6
Cash basis	2.9	2.4	4.2	2.8	3.1	2.8	2.5	2.6	2.8
Total external debt	62.2	59.4	81.5	78.0	77.2	75.7	74.0	71.6	68.9
Total external debt (in US\$ billion)	39.5	41.4	43.2	45.0	46.5	48.1	49.8	51.5	53.2
Gross international reserves (in millions of US\$)	1,566	1,317	1,693	1,619	1,723	1,996	2,307	2,657	2,971
In months of next year's imports of G&S.	1.8	1.5	1.9	1.8	1.9	2.0	2.2	2.5	2.7
Memorandum items:									
Nominal GDP (in millions of SDGs)	151,348	179,519	225,640	316,187	393,020	467,275	532,557	598,066	666,740
Nominal nonoil GDP (in millions of SDGs)	127,717	156,088	215,738	299,999	368,603	437,746	500,299	561,135	624,101
Nominal GDP (in \$US million)	65,632	67,321	63,152	66,520	63,034	64,962	67,385	71,234	76,070
Exchange rate (SDG/US\$, end of period)	2.48	2.68	4.42	5.70					
Exchange rate (SDG/US\$, period average)	2.31	2.67	3.57	4.71					
NEER (2007=100, percent change, period average)	-1.3	-16.0	-12.2	-28.1	...	...	...	...	...
REER (2007=100, percent change, period average)	7.8	-4.8	8.1	-3.4	...	...	...	...	...

Sources: Sudanese authorities; and staff estimates and projections.

1/ Growth rates since 2011 exclude South Sudan.

Table 2. Balance of Payments, 2010-18

(In Millions of US Dollars)

	2010	2011	2012 Est.	2013 Prel.	2014	2015	2016	2017	2018
					Projections				
Current account balance	-1,348	-288	-5,839	-5,772	-4,343	-4,016	-4,012	-3,714	-3,759
Current account balance (on cash basis)	295	1,345	-4,226	-4,197	-2,735	-2,416	-2,418	-2,125	-2,175
Trade balance	3,711	2,751	-3,405	-4,132	-3,288	-3,192	-3,159	-2,978	-3,102
Exports, f.o.b.	12,700	11,063	5,122	4,793	5,653	6,076	6,597	7,277	7,635
Oil exports	10,991	8,679	2,012	1,720	2,961	2,769	2,678	2,695	2,747
Crude oil	10,702	8,378	1,755	1,617	2,402	2,604	2,519	2,534	2,583
Petroleum products	289	301	257	102	159	165	160	161	164
Non-oil products	1,709	2,384	3,110	3,073	3,092	3,306	3,919	4,582	4,888
Of which: Gold	1,018	1,442	2,158	1,048	1,012	1,108	1,129	1,195	1,298
Imports, f.o.b.	-9,989	-8,312	-8,528	-8,925	-8,941	-9,268	-9,756	-10,255	-10,737
Foodstuffs	-2,128	-1,699	-1,844	-2,135	-1,947	-1,822	-1,816	-1,844	-1,863
Petroleum products	-385	-662	-947	-1,313	-1,587	-1,707	-1,835	-1,792	-1,673
Machinery and transport equipments	-3,215	-2,892	-2,707	-2,384	-2,383	-2,563	-2,759	-3,033	-3,344
Manufactured goods	-1,832	-1,610	-1,761	-1,658	-1,684	-1,832	-1,980	-2,180	-2,396
Other	-1,429	-1,450	-1,268	-1,434	-1,339	-1,345	-1,366	-1,405	-1,461
Services (net)	-2,063	-1,389	-875	-226	152	285	98	54	-43
Receipts	259	764	1,159	1,578	1,960	2,159	2,071	2,127	2,128
Of which: Oil fees charged to South Sudan	0	0	0	123	333	368	255	224	197
Of which: TFA transfers	...	0	0	248	438	514	428	374	326
Payments	-2,321	-2,153	-2,033	-1,805	-1,808	-1,874	-1,973	-2,074	-2,171
Income (net)	-5,127	-2,763	-2,422	-2,795	-2,712	-2,755	-2,753	-2,762	-2,776
Receipts	138	108	14	9	0	-4	-3	13	35
Non-oil payments	-1,932	-1,886	-2,220	-2,533	-2,363	-2,370	-2,390	-2,413	-2,439
Public interest due 1/	-1,716	-1,701	-1,676	-1,663	-1,657	-1,654	-1,652	-1,653	-1,655
Of which: interest cash payments	-72	-67	-64	-87	-60	-54	-58	-64	-70
Other payments	-217	-185	-544	-870	-696	-716	-738	-760	-784
Oil related expenses 1/	-3,333	-985	-216	-271	-359	-381	-360	-362	-372
Current transfers (net)	2,131	1,112	863	1,380	1,505	1,646	1,802	1,972	2,161
Private	940	439	445	945	1,061	1,189	1,332	1,490	1,665
Official	1,191	673	418	436	445	456	470	482	495
Capital account and Financial Account	-1,451	-1,000	4,061	3,518	2,662	2,553	2,634	2,381	2,400
Capital account	174	162	320	309	249	228	225	237	252
Financial account (net)	-1,625	-1,161	3,741	3,209	2,413	2,326	2,409	2,144	2,148
Disbursements	569	606	376	344	324	406	421	445	476
Amortization	-485	-445	-402	-381	-405	-347	-286	-305	-317
Of which: Cash payments	-309	-216	-198	-90	-182	-173	-157	-183	-206
Net foreign assets of banks (increase -)	-429	313	-61	226	232	240	250	261	273
Investors' net income-cost oil	-1,641	-1,362	-731	-518	-762	-764	-758	-760	-760
Foreign direct investment and portfolio (net)	2,900	2,666	2,466	3,091	2,487	2,276	2,246	2,369	2,521
Other net capital flows	-2,539	-2,938	2,092	447	537	515	536	133	-43
Public	-1,289	-1,388	556	580	685	736	799	881	925
Private	-1,250	-1,550	1,536	-133	-148	-221	-263	-748	-968
Errors and omissions	-1,718	-708	549	92	0	0	0	0	0
Overall Balance	-4,517	-1,996	-1,229	-2,162	-1,681	-1,462	-1,378	-1,333	-1,359
Overall Balance (on cash basis)	-2,697	-134	588	-295	149	311	345	378	336
Financing	4,517	1,996	1,229	2,162	1,681	1,462	1,378	1,333	1,359
Change in net international reserves (increase -)	-290	192	-547	299	-115	-286	-328	-368	-334
Gross reserves	-195	249	-376	75	-105	-272	-312	-350	-314
Gross usable reserves (increase -)	-195	249	-376	75	-105	-272	-312	-350	-314
Gross earmarked and other reserves (increase -)	0	0	0	0	0	0	0	0	0
Short-term foreign liabilities (increase +)	-83	-51	-164	230	0	0	0	0	0
IMF (net)	-11	-5	-7	-6	-10	-14	-16	-18	-20
Disbursements	0	0	0	0	0	0	0	0	0
Repayments	-11	-5	-7	-6	-10	-14	-16	-18	-20
Exceptional financing	4,807	1,804	1,776	1,863	1,796	1,749	1,706	1,701	1,693
Of which: Change in arrears	4,807	1,804	1,776	1,863	1,796	1,749	1,706	1,701	1,693
Financing gap	0	0	0	0	0	0	0	0	0
Memorandum items:					(In percent of GDP)				
Current account balance (accrual basis)	-2.1	-0.4	-9.2	-8.7	-6.9	-6.2	-6.0	-5.2	-4.9
Current account balance (cash basis)	0.5	2.0	-6.7	-6.3	-4.3	-3.7	-3.6	-3.0	-2.9
Excluding official transfers (cash basis)	-1.4	1.0	-7.4	-7.0	-5.0	-4.4	-4.3	-3.7	-3.5
Non-oil current account (on cash basis)	-10.6	-8.4	-8.0	-6.7	-5.8	-5.3	-4.7	-4.1	-4.0
Current transfers (net)	3.2	1.7	1.4	2.1	2.4	2.5	2.7	2.8	2.8
Of which: Private transfers	1.4	0.7	0.7	1.4	1.7	1.8	2.0	2.1	2.2
Gross international reserves (in US\$ Million)	1,566	1,317	1,693	1,619	1,723	1,996	2,307	2,657	2,971
In months of next year's imports	1.8	1.5	1.9	1.8	1.9	2.0	2.2	2.5	2.7
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net repayment of external debt	-187.2	-322.1	-115.2	-167.1	-92.0	-179.0	-205.5	-198.4	-199.0
					(Annual changes in percent, unless otherwise specified)				
Exports of goods (value)	57.0	-12.9	-53.7	-6.4	17.9	7.5	8.6	10.3	4.9
Non-oil exports of goods (value)	67.5	39.5	30.4	-1.2	0.6	6.9	18.5	16.9	6.7
Imports of goods (value)	3.1	-7.5	2.6	4.7	0.2	3.7	5.3	5.1	4.7
Nominal GDP (in millions of U.S. dollars)	65,632	67,321	63,152	66,520	63,034	64,962	67,385	71,234	76,070
Crude oil exports (volume, in millions of barrels)	151.3	87.5	18.6	15.8	26.6	27.9	29.9	31.0	32.3
Sudanese crude oil price (U.S. dollars per barrel)	70.7	95.8	94.6	95.2	94.2	93.4	84.3	81.7	80.1

Sources: Sudanese authorities; and staff estimates and projections.

Table 3. Government Operations, 2013-18

(In Millions of SDGs)

	2013	2014		2015	2016	2017	2018
	Prel.	SMP	Revised		Proj.		
Revenues and grants	31,843	46,131	46,453	56,424	64,328	73,122	82,635
Revenues	29,772	43,982	44,304	53,142	60,613	69,074	78,293
Tax revenues	19,427	25,059	25,509	31,584	38,140	44,827	51,819
Income, profits and capital gains	1,714	2,106	2,169	2,730	3,370	4,007	4,546
Property	19	87	71	126	215	249	285
Goods and services	11,017	14,535	14,755	17,936	21,447	25,201	29,177
International trade and transactions	6,620	8,243	8,442	10,702	12,997	15,238	17,655
Other	58	88	72	90	110	132	157
Oil revenues	5,342	4,761	5,086	5,026	5,133	6,104	7,165
Domestic sales	5,146	4,471	4,782	4,570	4,420	5,257	6,173
Oil exports revenues	196	290	303	456	713	848	992
Other nontax revenues	5,003	14,163	13,710	16,531	17,341	18,143	19,309
Property income	1,034	1,420	1,251	1,560	1,872	2,247	2,674
Administrative fees	733	1,038	1,028	1,344	1,689	2,084	2,550
Transit fees	924	2,441	2,078	2,648	2,019	1,881	1,727
Other (including TFA)	2,312	9,265	9,352	10,980	11,760	11,931	12,358
Of which : TFA	1,176	3,244	2,731	3,697	3,385	3,136	2,861
Grants	2,071	2,149	2,149	3,283	3,714	4,048	4,342
Total expenditure	38,458	51,076	51,076	60,443	67,126	74,120	82,743
Expense (current expenditure)	35,127	45,225	45,225	52,381	56,075	58,789	63,067
Wages 1/	13,670	16,012	16,012	18,302	20,033	22,119	23,446
Goods and services	2,929	3,803	3,803	4,516	5,059	5,560	6,060
Interest due	4,355	4,061	4,061	5,526	5,995	5,909	6,478
Foreign interest due	416	336	336	386	461	537	618
Domestic interest due	3,940	3,726	3,726	5,140	5,534	5,371	5,860
Subsidies	6,133	7,527	7,527	7,688	6,303	3,880	3,563
Fuel subsidies	6,079	6,027	6,027	5,958	4,402	1,860	1,454
Other subsidies	54	1,500	1,500	1,730	1,901	2,020	2,109
Transfers	7,065	11,909	11,909	14,059	15,969	18,106	19,719
South	0	0	0	0	0	0	0
States	6,921	11,760	11,760	13,900	15,805	17,941	19,553
Current	4,515	7,846	7,846	8,614	8,777	8,581	8,141
Capital	2,405	3,914	3,914	5,286	7,028	9,360	11,413
Other transfers	144	149	149	159	164	165	166
Other expenditures	975	1,913	1,913	2,290	2,717	3,214	3,800
Net acquisition of NFA (capital expenditure)	3,331	5,850	5,850	8,062	11,051	15,332	19,677
Operating balance (accrual basis)	-3,284	906	1,228	4,043	8,253	14,333	19,568
Overall accrual balance	-6,615	-4,945	-4,623	-4,019	-2,799	-998	-109
Overall accrual balance (including discrepancy)	-6,615	-4,945	-4,623	-4,019	-2,799	-998	-109
Nonoil primary balance 2/	-8,884	-7,659	-7,431	-6,657	-4,977	-4,283	-3,930
Financing (accrual basis)	6,615	4,945	4,623	4,019	2,799	998	109
Foreign financing	1,210	708	886	1,674	2,085	2,203	2,362
Disbursements	1,636	1,844	2,022	2,921	3,330	3,739	4,169
Principal repayment (-)	427	1,136	1,136	1,248	1,245	1,536	1,807
Domestic financing	5,526	4,237	3,737	2,345	714	-1,205	-2,252
Bank financing	3,987	3,073	2,763	94	94	94	95
Of which: OSA	0	0	0	0	0	0	0
Nonbank financing	-2,034	3,275	3,355	3,293	1,661	-1,049	-2,098
Accounts payable (net arrears accumulation)	3,573	-2,111	-2,111	-1,042	-1,042	-250	-250
Accumulation of arrears	3,750	0	0	0	0	0	0
Repayment of arrears (-)	177	-2,111	2,111	1,042	1,042	250	250
Financing Gap	0	0	0	0	0	0	0
(In percent of GDP)							
Revenues and grants	10.1	11.7	11.8	12.1	12.1	12.2	12.4
Revenues	9.4	11.2	11.3	11.4	11.4	11.5	11.7
Tax revenues	6.1	6.4	6.5	6.8	7.2	7.5	7.8
Oil revenues	1.7	1.2	1.3	1.1	1.0	1.0	1.1
Other nonoil nontax revenues	1.6	3.6	3.5	3.5	3.3	3.0	2.9
Grants	0.7	0.5	0.5	0.7	0.7	0.7	0.7
Total expenditure	12.2	13.0	13.0	12.9	12.6	12.4	12.4
Expense (current expenditure)	11.1	11.5	11.5	11.2	10.5	9.8	9.5
Wages	4.3	4.1	4.1	3.9	3.8	3.7	3.5
Goods and services	0.9	1.0	1.0	1.0	0.9	0.9	0.9
Interest	1.4	1.0	1.0	1.2	1.1	1.0	1.0
Subsidies	1.9	1.9	1.9	1.6	1.2	0.6	0.5
Transfers	2.2	3.0	3.0	3.0	3.0	3.0	3.0
Other	0.3	0.5	0.5	0.5	0.5	0.5	0.6
Net acquisition of NFA (capital expenditure)	1.1	1.5	1.5	1.7	2.1	2.6	3.0
Operating balance (accrual basis)	-1.0	0.2	0.3	0.9	1.5	2.4	2.9
Overall accrual balance	-2.1	-1.3	-1.2	-0.9	-0.5	-0.2	0.0
Nonoil primary balance as a ratio to Nonoil GDP	-3.0	-2.1	-2.0	-1.5	-1.0	-0.8	-0.6
Financing (accrual basis)	2.1	1.3	1.2	0.9	0.5	0.2	0.0
Foreign financing	0.4	0.2	0.2	0.4	0.4	0.4	0.4
Domestic financing	1.7	1.1	1.0	0.5	0.1	-0.2	-0.3
O/w: Net accumulation of arrears	1.1	-0.5	-0.5	-0.2	-0.2	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Items							
Change in external arrears (SDG million)	8,855	11,197	11,197	12,577	13,482	14,283	14,835
Change in external arrears (percent of GDP)	3.0	3.0	3.0	2.9	2.7	2.5	2.4

Sources: Sudanese authorities; and staff estimates and projections.

1/ The retroactive effect of the September 2013 wage increase will be spread over 3 years starting in 2014. The total amount is SDG1.2 billion, of which SDG 550 million will be reflected under current transfers to state.

2/ Nonoil balances exclude oil revenues, grants, transfers to South, oil related transfers to Northern states and pipelines fees paid by the government.

Table 4. Monetary Survey, 2010-14

(In Millions of SDGs)

	2010	2011	2012	2013	2014			
					March	June	September	December
				Prel.	Projections			
Net foreign assets	-4,187	-5,876	-7,271	-12,729	-13,409	-14,021	-14,468	-15,145
Bank of Sudan	-6,429	-7,590	-10,372	-15,428	-15,974	-16,085	-16,031	-16,208
Commercial banks	2,242	1,713	3,100	2,700	2,564	2,064	1,563	1,063
Net domestic assets	39,799	47,790	66,064	79,174	84,291	87,091	89,725	92,589
Net domestic credit	35,483	41,536	54,888	68,024	69,511	73,336	76,997	80,887
Net claims on general government (NCGG)	13,951	18,272	23,681	29,575	28,862	30,227	31,341	33,740
NCGG excluding IMF	10,166	14,217	16,980	20,967	20,235	21,140	21,792	23,730
Bank of Sudan (Central Government)	6,186	8,173	9,861	13,503	13,140	13,690	13,988	15,572
Commercial banks (central government)	3,980	6,044	7,120	7,464	7,095	7,449	7,804	8,158
Claims on nongovernment sectors	21,532	23,264	31,207	38,449	40,650	43,109	45,656	47,147
Public enterprises	2,810	2,821	3,170	4,004	4,654	4,699	4,744	4,790
Private sector	17,959	19,427	26,966	33,034	34,514	36,883	39,339	40,739
Other sectors	763	1,016	1,071	1,411	1,481	1,527	1,572	1,618
Other items (net)	4,316	6,254	11,175	11,150	14,780	13,754	12,728	11,703
Broad money	35,612	41,914	58,792	66,446	70,882	73,070	75,257	77,445
Money	24,748	29,729	42,006	47,309	49,984	50,644	53,770	55,140
Currency in circulation	10,068	12,850	16,751	19,178	19,902	20,599	21,295	21,992
Demand deposits	14,680	16,879	25,254	28,130	30,082	30,045	32,474	33,148
Domestic currency	9,840	12,000	14,242	16,487	18,194	17,302	18,875	18,693
Foreign currency	4,840	4,879	11,012	11,643	11,887	12,743	13,599	14,454
Quasi-money	10,864	12,185	16,786	19,137	20,898	20,898	21,488	22,305
Domestic currency	10,380	10,894	13,969	15,394	16,971	16,883	17,385	18,114
Foreign currency	484	1,291	2,817	3,743	3,927	4,015	4,103	4,191
(In percent of beginning of the period broad money stock)								
Money	18.6	14.0	29.3	9.0				11.8
Quasi-money	6.3	3.7	11.0	4.0				4.8
Net foreign assets	1.4	-4.7	-3.3	-9.3				-3.6
Net domestic assets	23.4	22.4	43.6	22.3				20.2
Net claims on government	13.5	12.1	12.9	10.0				6.3
Credit to the economy	10.6	4.9	18.9	12.3				13.1
Nonfinancial public enterprises	1.8	0.0	0.8	1.4				1.2
Private sector	8.6	4.1	18.0	10.3				11.6
(Changes in percent, end of period)								
Broad money	24.9	17.7	40.3	13.0				16.6
Money	27.3	20.1	41.3	12.6				16.6
Currency in circulation	24.8	27.6	30.4	14.5				14.7
Demand deposits	29.0	15.0	49.6	11.4				17.8
O/w: Public enterprises	31.5	28.6	37.1	15.0				9.1
Private enterprises	24.0	11.9	42.1	12.4				9.1
Quasi-money	19.8	12.2	37.8	14.0				16.6
O/w: Public enterprises	23.3	-13.7	0.6	-1.7				9.1
Private enterprises	19.5	8.3	27.7	12.7				9.1
Deposits	24.9	13.8	44.6	12.4				9.1
Domestic currency	23.2	13.2	23.2	13.0				15.5
Foreign currency	31.7	15.9	124.1	11.3				21.2
Net foreign assets	-8.9	40.3	23.7	75.0				19.0
Net domestic assets	20.2	20.1	38.2	19.8				16.9
Net claims on government	38.0	31.0	29.6	24.9				14.1
Credit to the economy	16.4	8.0	34.1	23.2				22.6
Nonfinancial public enterprises	22.9	0.4	12.4	26.3				19.6
Private sector	15.8	8.2	38.8	22.5				23.3
(Ratios in percentage)								
Memorandum items								
Ratio of Money to Broad Money	69.5	70.9	71.4	71.2				71.2
Ratio of Currency in Circulation to M2	28.3	30.7	28.5	28.9				28.4
Ratio of Private sector deposits to M2	63.0	59.9	60.7	60.4				56.5
Net claims on government as a ratio to GDP	9.2	10.2	10.5	9.4				8.6
Net claims on government as a ratio to NHGDP	10.9	11.7	11.0	9.9				9.2
Credit to the economy as a ratio to GDP	14.2	13.0	13.8	12.2				12.0
Credit to the economy as a ratio to NHGDP	16.9	14.9	14.5	12.8				12.8
Velocity 1 (GDP, eop)	4.2	4.3	3.8	4.8				5.1
Velocity 2 (NHGDP, eop)	3.6	3.7	3.7	4.5				4.8
CBOS's gross foreign assets/M2 ratio	11.3	8.8	13.1	14.3				17.2
Foreign currency deposits/M2 ratio	14.9	14.7	23.5	23.2				24.1
Reserve money growth (annual changes, pa)	17.2	27.8	46.7	20.3				14.7
Money multiplier (average)	2.2	2.2	2.0	1.9				1.9

Sources: Sudanese authorities; and staff estimates and projections.

Table 5. Summary Accounts of the Monetary Authorities, 2010-14

(In Millions of SDGs)

	2010	2011	2012	2013 Prel.	2014				
					March		June	September	December
					SMP	Actual	Revised proj.		
Net foreign assets	-6,429	-7,590	-10,372	-15,428	-14,650	-15,974	-16,085	-16,031	-16,208
Gross foreign assets	4,040	3,672	7,722	9,496	11,442	9,024	10,870	11,822	13,335
O/w: Gross international reserve	3,887	3,526	7,485	9,180	9,967	8,709	9,368	10,236	11,666
o/w: SDR holdings	480	515	854	1,099	1,065	1,103	1,058	1,107	1,211
Foreign liabilities	10,470	11,261	18,093	24,924	26,092	24,997	26,955	27,853	29,543
O/w: Short term foreign liabilities	3,097	3,202	4,561	7,160	7,544	7,197	7,506	7,853	8,591
O/w: IMF-related liabilities	4,466	4,786	7,913	10,170	10,573	10,193	11,042	11,390	11,839
Net domestic assets	22,530	28,250	40,688	51,899	53,297	53,602	54,817	55,780	58,029
Net domestic credit	12,376	15,056	20,011	28,246	27,442	28,169	30,135	31,849	34,849
Net claims on general government (NCGG)	9,971	12,228	16,562	22,112	23,199	21,766	22,778	23,537	25,582
NCGG excluding IMF	6,186	8,173	9,861	13,503	14,249	13,140	13,690	13,988	15,572
Claims	10,563	12,984	17,415	23,118	24,053	23,967	24,580	24,941	26,588
O/w: Government Musharka Certificates	1,565	2,217	3,375	4,798	4,798	5,338	4,798	4,798	4,798
IMF on lent	3,785	4,055	6,701	8,608	8,950	8,626	9,087	9,549	10,010
Deposits	591	755	854	1,006	854	2,200	1,802	1,404	1,006
Of which: OSA	0	0	0	0	0	0	0	0	0
BOS claims on public enterprises	346	397	724	792	802	874	860	845	831
BOS claims on banks	1,997	2,372	2,663	5,156	3,255	5,285	6,273	7,261	8,249
Money market instruments (CICs)	63	58	62	187	186	244	225	206	187
Other items (net)	10,154	13,194	20,677	23,653	25,854	25,433	24,682	23,930	23,179
Reserve money	16,164	20,661	30,316	36,471	38,647	37,629	38,732	39,748	41,821
Currency outside banks	10,068	12,850	16,751	19,178	20,634	19,902	20,305	20,620	21,992
Reserves of commercial banks	5,448	6,365	10,864	13,897	14,476	14,394	14,908	15,422	15,936
Required reserves	1,356	1,537	3,442	3,975	4,141	4,181	4,306	4,432	4,558
Excess reserves	4,092	4,827	7,422	9,922	10,335	10,213	10,601	10,989	11,377
Cash in vault	829	810	1,118	1,234	1,286	1,584	1,528	1,472	1,416
Excess reserves on deposits	3,263	4,017	6,303	8,687	9,049	8,629	9,073	9,518	9,962
Deposits at BOS included in broad money	648	1,446	2,701	3,395	3,537	3,333	3,519	3,706	3,893
Memorandum items									
Gross international reserves (GIR, US\$)	1,566	1,317	1,693	1,619	1,668	1,535	1,575	1,645	1,714
Net international reserves (NIR, US\$)	318	121	662	356	405	267	307	377	452

Sources: Sudanese authorities; and staff estimates and projections.

Table 6. Summary of Accounts of the Commercial Banks, 2010-14

(In Millions of SDGs)

	2010	2011	2012	2013 Prel.	2014 Proj.
Net foreign assets	2,242	1,713	3,100	2,700	1,063
Gross foreign assets	3,494	2,489	4,894	4,696	3,458
Gross foreign liabilities	1,252	776	1,793	1,996	2,395
Net domestic assets	23,555	26,626	37,453	42,717	50,496
Reserves	5,831	6,838	13,134	14,440	17,351
O/w: Cash in vaults	829	810	1,118	1,234	1,416
Required reserves	1,318	1,646	3,775	4,029	4,620
Other reserves	3,400	3,950	7,988	9,098	11,316
Net claims on central government	3,980	6,044	7,120	7,464	8,158
Claims	4,907	6,132	7,277	7,590	8,290
O/w: GMCs	4,907	6,132	7,277	7,590	8,290
Deposits	927	88	157	126	132
Claims on state & local government	145	613	758	966	966
Claims on non-government sectors	21,040	22,254	29,724	36,691	46,316
Private sector	17,959	19,427	26,966	33,034	41,699
Non-financial Public enterprises	2,464	2,424	2,446	3,213	4,055
Non-bank financial institutions	618	403	312	444	561
Other items, net	-7,441	-9,123	-13,284	-16,844	-22,294
Unclassified assets	7,690	8,179	11,262	13,097	17,335
Unclassified liabilities	7,602	8,195	13,668	16,657	22,047
Capital accounts	7,478	9,036	10,831	13,149	17,404
Other (incl. discrepancies)	52	70	48	135	179
Deposits	24,896	27,623	39,340	43,872	51,559
Demand deposits	14,117	16,159	24,753	27,537	32,362
Domestic currency	9,278	11,280	13,741	15,893	18,678
Foreign currency	4,840	4,879	11,012	11,643	13,684
Quasi-money deposits (Time & saving)	10,778	11,459	14,586	16,335	19,198
Domestic currency	10,380	10,893	13,969	15,394	18,091
Foreign currency	398	566	617	942	1,107
Liabilities to BOS 1/	902	721	1,213	1,544	1,730
Memorandum items					
Deposits with commercial banks	25,823	27,711	39,497	43,998	51,691
Central government	927	88	157	126	132
Other sectors	24,896	27,623	39,340	43,872	51,559
State and local government deposits	412	521	1,756	1,744	2,050
Demand deposits	350	371	1,302	1,173	1,378
Time and savings deposits	62	150	454	571	671
Public enterprises deposits	2,037	1,995	1,896	2,011	2,363
Demand deposits	712	852	746	880	1,034
Time and savings deposits	1,325	1,143	1,150	1,131	1,329
Private sector deposits	22,446	25,107	35,687	40,117	47,146
Demand deposits	13,056	14,942	22,705	25,484	29,949
Time and savings deposits	9,390	10,165	12,982	14,633	17,197
Time deposits	2,297	3,165	4,397	5,371	6,313
Savings deposits	7,093	7,001	8,585	9,262	10,884
(Ratios in percentage)					
Banks' credit to deposits ratio	85.1	82.8	77.5	85.8	91.7
Bank reserves as a ratio to bank deposits	21.1	23.0	27.5	31.6	30.9
Reserve requirements as a ratio to bank deposits	5.2	5.5	8.7	9.0	8.8
Excess reserves as a ratio to bank deposits	15.8	17.4	18.8	22.6	22.1
Banks' cash to deposit Ratio	3.2	2.9	2.8	2.8	2.7
GMC as a ratio to Bank reserves	90.1	96.3	67.0	54.6	52.0
GMC as a ratio to Bank excess reserves	119.9	127.0	98.0	76.5	72.9

Sources: Sudanese authorities; and staff estimates and projections.

1/ The difference between commercial banks' liabilities to BOS and BOS's claims on banks is due to misclassification of government guarantees.

Table 7. Medium-Term Macroeconomic Outlook, 2010-18

	2010	2011	2012 Est.	2013 Prel.	2014	2015	2016	2017	2018
					Projections				
Production and prices									
Nominal GDP (billions of SDGs)	151.3	179.5	225.6	316.2	393.0	467.3	532.6	598.1	666.7
Nominal GDP (billions of US\$)	65.6	67.3	63.2	66.5	63.0	65.0	67.4	71.2	76.1
Nonoil GDP (billions of US\$)	55.4	58.5	60.4	63.1	59.1	60.9	63.3	66.8	71.2
Nonoil GDP (percent of total GDP)	84.4	86.9	95.6	94.9	93.8	93.7	93.9	93.8	93.6
Annual changes in percent									
Real GDP growth	4.0	-0.3	-2.2	2.7	2.5	3.6	4.1	4.3	4.7
Oil Sector	-3.9	-36.0	-59.0	28.0	2.3	3.0	3.6	4.2	4.9
Non-oil sector	5.7	6.8	4.6	1.5	2.5	3.6	4.1	4.4	4.7
GDP deflator	20.0	20.3	29.3	36.4	20.8	14.2	8.6	6.7	6.0
Nonoil GDP deflator	13.8	15.2	32.6	36.2	20.2	14.2	9.4	7.0	5.8
Oil GDP deflator	60.9	62.0	23.8	33.2	29.2	13.9	-1.1	2.4	8.8
Income, expenditure and saving									
In percent of GDP									
Gross national income (GNI)	92.2	95.9	96.2	95.8	95.7	95.8	95.9	96.1	96.4
Gross disposable income (GDI)	95.4	97.5	97.5	97.9	98.1	98.3	98.6	98.9	99.2
Gross domestic expenditure (GDE)	97.5	98.0	106.8	106.6	105.0	104.5	104.5	104.1	104.1
Final consumption	77.4	78.9	88.1	86.6	87.3	86.5	86.2	85.3	85.0
Gross capital formation	20.1	19.1	18.7	20.0	17.7	18.0	18.3	18.8	19.1
Gross Savings	18.0	18.6	9.5	11.3	10.8	11.8	12.4	13.6	14.2
Central government operations									
Total revenue and grants	19.3	18.0	9.8	10.1	11.8	12.1	12.1	12.2	12.4
Revenue	18.7	17.7	9.4	9.4	11.3	11.4	11.4	11.5	11.7
o/w: Oil revenue	11.5	10.4	1.5	1.7	1.3	1.1	1.0	1.0	1.1
Grants	0.6	0.3	0.4	0.7	0.5	0.7	0.7	0.7	0.7
Total expenditure	19.0	17.8	13.5	12.2	13.0	12.9	12.6	12.4	12.4
Current expenditure	16.5	16.1	12.0	11.1	11.5	11.2	10.5	9.8	9.5
Capital expenditure	2.6	1.7	1.5	1.1	1.5	1.7	2.1	2.6	3.0
Overall balance	0.3	0.2	-3.7	-2.1	-1.2	-0.9	-0.5	-0.2	0.0
Money and banking									
Annual changes in percent, unless otherwise specified									
Broad money	24.9	17.7	40.3	13.0	16.6	15.5	15.0	14.9	13.3
Reserve money	17.2	27.8	46.7	20.3	14.7	14.4	13.2	12.6	11.4
Credit to the economy	16.4	8.0	34.1	23.2	22.6	22.4	21.8	22.0	28.9
Credit to the economy as a ratio to NHGDP	16.9	14.9	14.5	12.8	12.8	13.2	14.1	15.3	17.7
Velocity (Non oil GDP/M2 ratio, eop)	3.6	3.7	3.7	4.5	4.8	4.9	4.9	4.7	4.7
External sector									
In percent of GDP, unless otherwise specified									
External trade balance	5.7	4.1	-5.4	-6.2	-5.2	-4.9	-4.7	-4.2	-4.1
Exports, f.o.b.	19.3	16.4	8.1	7.2	9.0	9.4	9.8	10.2	10.0
Non-oil exports	2.6	3.5	4.9	4.6	4.9	5.1	5.8	6.4	6.4
Imports, f.o.b.	-13.7	-12.3	-13.5	-13.4	-14.2	-14.3	-14.5	-14.4	-14.1
Current account balance	-2.1	-0.4	-9.2	-8.7	-6.9	-6.2	-6.0	-5.2	-4.9
Gross useable reserves (in months of imports)	1.8	1.5	1.9	1.8	1.9	2.0	2.2	2.5	2.7
Public debt									
External debt	73.1	70.5	94.4	90.3	89.1	86.3	83.5	80.0	76.1
Domestic debt 1/	62.2	59.4	81.5	78.0	77.2	75.7	74.0	71.6	68.9
Domestic debt 1/	10.9	11.0	12.9	12.4	11.8	10.6	9.6	8.4	7.3
Total debt in US\$ billion	46.1	48.8	50.0	50.7	51.7	53.2	55.2	58.1	61.3
Memorandum item:									
Crude oil export price (U.S. dollars per barrel) 2/	70.7	95.8	94.6	95.2	94.2	93.4	84.3	81.7	80.1
Crude oil production (million barrels per year)	168.5	106.1	37.6	48.1	49.3	50.7	52.6	54.7	57.4
Crude oil exports (million barrels per year)	151.3	87.5	18.6	15.8	26.6	27.9	29.9	31.0	32.3

Sources: Sudanese authorities; and staff estimates and projections.

1/ Staff estimates and projections

2/ Sudanese oil blends. Projections are based on the latest WEO assumptions (based on futures prices).

Table 8. Financial Soundness Indicators for the Banking Sector, 2006-14

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11	Dec-12	Mar-13	Jun-13	Sep-13	Dec-13	Feb-14	Mar-14
(In percent, unless otherwise indicated)													
Capital Adequacy													
Regulatory capital to risk-weighted assets 1/	19.7	22.0	10.5	7.1	10.0	13.0	12.0	-	14.9	14.9	16.6	16.6	-
Regulatory Tier I capital to risk-weighted assets 1/	17.4	20.0	8.7	6.1	8.9	11.0	10.5	-	13.6	13.6	21.1	21.1	-
Asset composition and quality													
Loans to nongovernment to total assets	46.3	50.7	51.1	52.3	51.8	-	-	-	-	-	-	-	-
Gross NPLs to gross loans	19.4	26.0	22.4	20.5	14.4	12.6	11.8	11.3	10.4	9.9	8.4	8.4	8.4
NPLs net of provisions to gross loans	17.0	22.0	17.9	17.9	10.4	7.6	7.5	7.5	5.8	5.7	3.8	4.7	4.6
NPLs net of provisions to capital	63.7	85.0	71.0	74.8	43.7	33.3	36.5	33.3	43.7	42.5	16.7	18.4	21.4
Loans provisions to NPLs	14.0	15.0	20.0	23.9	31.7	39.8	33.5	30.5	25.5	26.9	53.6	44.6	-
Foreign currency loans to total loans	26.0	13.2	15.8	20.4	13.7	9.0	15.7	13.2	11.8	10.8	11.8	10.5	11.3
Deposits and investment accounts to total assets	60.0	55.5	57.4	63.2	63.9	63.5	63.4	64.5	65.1	63.5	62.2	63.4	63.4
Foreign currency deposits to total deposits	22.0	21.4	21.2	19.2	22.0	18.7	27.0	26.9	24.9	24.3	31.9	25.5	25.9
Off- balance sheet commitments to assets	33.0	32.5	34.4	28.0	31.5	29.8	32.2	29.9	28.9	27.8	30.1	27.4	29.2
Liquidity													
BOS deposits to total assets	8.0	8.6	9.1	12.7	10.8	13.1	17.5	17.3	18.1	18.3	16.5	18.0	16.9
Required reserves to total assets	4.0	3.0	2.9	2.1	3.2	3.5	5.5	5.6	5.6	5.5	5.0	5.2	5.2
Required reserves to total reserves	39.0	34.8	26.0	14.5	25.5	23.9	28.6	28.9	28.0	27.7	27.8	26.3	27.7
Cash in vault to total assets	1.0	2.5	2.2	2.0	1.9	2.1	2.0	2.6	2.6	2.0	1.9	2.3	2.4
Liquid assets to total assets	25.0	25.6	28.0	34.2	35.3	36.3	41.7	39.6	39.8	39.2	39.5	36.9	36.3
Liquid assets to total short-term liabilities	75.0	75.0	85.0	97.0	98.2	93.8	102.5	96.3	96.7	98.3	99.5	93.1	91.7

Source: Central Bank of Sudan.

1/ Data for December 2006 refer only to 27 of the 30 existing banks (exclude Sudanese Agriculture Bank, Capital Bank, and Industrial Development Bank).

Appendix I. Letter of Intent

Khartoum, June 26, 2014

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde,

We would like to express our gratitude to the International Monetary Fund (IMF) for its support of our economic reforms at this critical time for our economy. The Staff-Monitored Program (SMP) for January 1–December 31, 2014 is providing us with the framework needed to maintain macroeconomic stability and implement our reform program in a challenging domestic and external environment.

In May 2014, together with the IMF mission that visited Khartoum, we assessed the economy's performance under the SMP as of end-March 2014. Owing to our determined efforts and the support of your staff, we have met most of the quantitative benchmarks and targets set for the first review of the program. However, we have missed two benchmarks related to: (i) net international reserves, partly because of shortfalls in both domestic oil production and oil-related revenues from South Sudan, and market sentiment factors owing to uncertainties arising from the conflict in South Sudan; and (ii) net domestic assets, by a small margin. We also missed two indicative targets related to: (i) social spending, because we could not undertake the January outlays because of delayed establishment of spending authorizations. Social spending resumed in February and remained on track in March; and (ii) the non-oil primary deficit. Revenue collection efforts are being intensified and will help us meet this target comfortably in the second quarter. As regards structural conditionality, we have made good progress as well. We have advanced in the implementation of the structural reforms agreed under the program, including revenue administration, public financial management, the financial sector, and the business environment reforms.

The tangible benefits of the program are already evident in its outcomes, most notably in the form of continued economic recovery, lower inflation, and fiscal stability. We consider the first results of this program as evidence of a track record of macroeconomic performance and policy implementation required to secure debt relief, which remains an utmost priority for us.

Nevertheless, we recognize that much remains to be done, and we will build on the progress already achieved in the months ahead. With that in mind, we have reached understandings with the mission on a revised macroeconomic framework for the remainder of 2014 and the medium term, and updated benchmarks and indicators for end-June, end-September, and end-December 2014. We

also confirmed the agreed structural benchmarks for end-June, end-September, and end-December 2014.

The attached memorandum of economic and financial policies (MEFP) updates the original March 2014 MEFP to reflect recent developments and highlights some of our key achievements. We believe that the policies set forth in the attached MEFP are sufficient to achieve the objectives of our program, but we will take any additional measures that may become necessary for this purpose. We will consult with the Fund staff in advance of any revision of the policies described in the MEFP, in accordance with the Fund's policies.

We intend to remain in close contact with Fund staff and provide timely information required for monitoring economic developments and implementation of policies under the SMP. In this context, to further improve monitoring of the program, we are requesting that the definition of net domestic assets be revised, and that the non-oil primary deficit be adjusted for the deviations in terms of oil transit fees and TFA. At the same time, we plan to improve governance by strengthening the current AML/CFT law. In this context, amendments to the AML/CFT law will be enacted by end-September 2014 (structural benchmark).

We authorize the IMF to publish this Letter of Intent, the attached MEFP, and the policy documents for the first review under the SMP.

Sincerely yours,

/S/

Badredin Mahmoud Abbas

Minister of Finance and National Economy

/S/

Abdulrahman Hassan Abdulrahman

Governor, Central Bank of Sudan

Attachment I. Supplementary Memorandum of Economic and Financial Policies for 2014

I. Background

1. This updated memorandum sets out the economic and financial policies and objectives of the Government of Sudan for the remainder of 2014. These policies aim to improve Sudan's economic and financial conditions that deteriorated in the aftermath of the secession of South Sudan and will be implemented in the context of a Staff Monitored Program (SMP) approved by the IMF managing director in March 2014. These policies are in line with our Interim Poverty Reduction Strategy Program (I-PRSP) for 2012–14 and will provide an anchor for our new National Economic Program and a full PRSP for 2015–17 which we have started to prepare with assistance from donors.

2. We are implementing the policies supported by the SMP in a changing political environment. Several initiatives are under way aiming to lessen domestic political tensions, bring peace to the provinces suffering from armed struggles, and make the political process more inclusive. These include most notably: (i) a call by the president for a comprehensive national dialogue on political reforms, including a new constitution to replace the Interim Constitution that was adopted as part of the 2005 Comprehensive Peace Agreement with the South; and (ii) the initiation of peace talks with the Sudan People's Liberation Movement—North Sector.

3. The South Sudan conflict is lingering and we are working toward peace. Sudan continues to encourage both parties in the conflict to agree on a ceasefire and submit to international mediation. At the request of South Sudan, Sudan is providing technical assistance to repair some damaged oil fields and ensure continued oil production and exports. In addition, we continue to welcome and offer shelter to refugees (about 62,000 as of mid-May) from South Sudan who continues to cross into Sudan. We are working closely with the UN agencies and various NGOs to provide assistance to the refugees.

II. Recent Macroeconomic Developments

4. Preliminary data suggest that economic performance in the first quarter of 2014 is improving. Twelve-month inflation fell to 35.7 percent at end-March, from 41.9 percent at end-December 2013, mainly reflecting lower food prices and tighter monetary conditions. Reserve money growth was contained at 3.2 percent at end-March and broad money grew by a mere 6.7 percent. The curb market exchange rate depreciated by 6 percent against the U.S. dollar in March, reflecting uncertainties related to the conflict in South Sudan. As a result, the gap between

the official and curb market exchange rates widened to close to 50 percent. Gross international reserves declined to US\$1.2 billion by end-February, from US\$1.6 billion at end-2013 but have subsequently rebounded to US\$1.5 billion at end-March. The fiscal performance is on track as envisaged in the SMP. With revenue exceeding by 40 percent from last year at the same period and constrained budget spending, the overall fiscal deficit during the first quarter dropped to 0.2 percent of GDP, compared with 0.5 percent of GDP in the same period of 2013.

5. We have met most of the end-March 2014 quantitative benchmarks and indicative targets of the SMP. However, we have missed two targets related to: (i) net international reserves partly because of shortfalls in both domestic oil production and oil-related revenues from South Sudan, and market sentiment factors owing to uncertainties arising from the conflict in South Sudan; and (ii) the net domestic assets by a small margin. We also missed two indicative targets related to: (i) social spending because we could not undertake the January outlays due to delayed establishment of spending authorization.¹ Social spending resumed in February and remained on track in March; and (ii) the nonoil primary deficit (NOPD) because of higher fuel imports triggered by unusual weather conditions and higher agricultural imports. Accordingly, we have taken corrective measures to enhance exchange rate flexibility and be able to meet the NIR target. In addition, we intend to remain within the second quarter ceiling for fuel subsidies to ensure that the NOPD target will be met.

6. As regards structural reforms, we have made good progress as well with respect to end-June targets. We have advanced implementation of the structural reforms agreed under the program, including revenue administration, public financial management, the financial sector, and the business environment reforms.

III. The Economic Program for the Rest of 2014

7. We remain committed to implement the agreed policy mix. We will: (i) continue fiscal consolidation through revenue enhancement and fiscal retrenchment, while broadening social protection and allocating more resources to productive projects; (ii) continue with our tight monetary policy stance and improvements of the transmission mechanisms; (iii) address external imbalances by assuring greater exchange rate flexibility through a managed-float exchange rate system; and (iv) implement structural reforms, including a restructuring of the public sector.

¹ In Sudan, the bulk of social spending is undertaken outside the government budget, including through a network of private institutions (e.g. Zakat Fund) and communities.

A. Macroeconomic Policies and Reforms

8. Our macroeconomic objectives remain unchanged. We are committed to: (i) bringing inflation down to 18.1 percent, reflecting the combined effects of fiscal consolidation, monetary tightening, and the stabilization of the exchange rate; (ii) reducing the overall fiscal deficit to about 1.2 percent of GDP, reflecting both an improvement in revenue collection and a reduction in spending; and (iii) narrowing the current account deficit to 6.9 percent of GDP and financing it mostly by non debt-creating flows. We expect non-oil real GDP to grow by 2.5 percent as a result of a rebound in agriculture, continued improvement in export performance, and productivity gains in the economy as reforms take hold.

9. Sudan's medium-term outlook remains favorable. We continue to project: (i) an average non-oil real GDP growth rate of about 3.8 percent; (ii) a fall in inflation to single digits (8.6 percent) by 2016; (iii) an overall fiscal deficit of 0.6 percent by 2016 as the consolidation of public finances continues through the medium term; and (iv) sustained growth of exports and reduction of current account deficit.

Fiscal Policy and Budgetary Reforms

10. Fiscal adjustment remains the cornerstone of the program. Based on the first quarter outcome, we retain our objective of reaching a tax revenue ratio to GDP of 6.5 percent. We also target a ratio of current spending to GDP of 11.5 percent, while improving public financial management (PFM) in line with IMF recommendations. We are pressing ahead with the implementation of a set of revenue-enhancing measures envisaged in the March 2014 MEFP. In particular, progress is underway to rationalize tax exemptions and strengthen taxpayer compliance management by introducing a framework that uses risk-based audit and non-audit interventions and the audit manual will be ready by end-September 2014 (structural benchmark). To achieve these goals, we have established a Tax and Customs Reform Committee in March 2014 that comprises not only government officials from relevant ministries but also experts from the private sector and academia and NGOs. At the same time, we are containing the wage bill and assuring improvements in operations of the state-owned oil company and the electricity sector. In this vein, we have established a joint working group between the ministry of oil and the ministry of finance to review the subsidies.

11. Fund TA will be crucial to help us meet our objectives. As we continue with our reform efforts, we have requested in an April 2014 letter technical assistance from the Fund in several areas, including public financial management, cash management, the Treasury Single Account, tax

collection and revenue mobilization, and energy subsidy and social safety net.² This will help us:

- (i) improve revenue collection, including through a review of tax and customs exemptions;
- (ii) strengthen public financial management, with a focus on strengthening budgetary execution and monitoring and helping make the budget as a key management tool; and (iii) strengthen anti-corruption and AML/CFT efforts to enhance transparency and efficient use of public resources (end-September 2014 structural benchmark).

Monetary Policy and Financial Sector Reforms

12. We will continue our tight monetary stance to keep inflationary pressures in check. In this context, we project reserve money growth at 14.7 percent and limit monetary financing of the fiscal deficit to 0.5 percent of GDP. At the same time, we continue to strengthen CBOS independence and improve the transmission mechanism of monetary policy by: (i) improving coordination between monetary policy and fiscal policy; (ii) promoting an interbank market for GMC and Government Investment Certificate (GIC) securities; and (iii) expanding the auction system to provide commercial banks with the opportunity to recycle their unused cash balances.

13. We are pursuing improvements in the operation of the banking sector. We have discontinued direct and subsidized credits, and begun efforts to raise the microfinance portfolio to 12 percent of the total portfolio supporting regulated and supervised micro finance institutions (MFIs). We are working to implement best practices in bank supervision, inspection and enforcement; update the risk-based manuals for offsite and onsite supervision; terminate the direct ownership of banks by CBOS; and upgrade the legal, regulatory, and institutional framework of the sector. We are seeking TA from partners to support our efforts. Last but not least, plans to restructure Omdurman National Bank in line with the recommendations of the independent audit (end-June 2014 structural benchmark) are under way.

Exchange Rate Policy and Reforms

14. A continuation of the tight monetary stance and enhanced exchange rate flexibility should reduce the gap between the official and curb market exchange rates. The persisting gap between these two rates reflects the stance of our monetary policy, uncertainty in the oil sector as the South Sudan conflict lingers, insufficient foreign exchange supply, lack of visibility of our economic policies and limited exchange rate flexibility. We fully recognize the urgent need to reduce

² A mission from the IMF Fiscal Affairs Department visited Khartoum in March 2014 to provide technical assistance on energy subsidies and social safety nets.

the gap. In this context, we prepared a set of corrective measures that enhances flexibility in the foreign exchange transactions. Specifically, commercial banks and foreign exchange bureaus will be allowed to set the exchange rate they quote to customers freely within the trading bands according to the managed float regime, while exporters are allowed to sell their proceeds of any importer. At the same time, starting on June 25th, 2014, the indicative rate (weighted average of exchange rates of the foreign exchange market) will be flexible with a view to achieving a gradual convergence between the official and a curb market rate. In addition, we will introduce new incentive, regulation and guarantee to attract remittances and the repatriation of export proceeds, improve the non-oil exports, and rationalize the uses of foreign exchanges to improve the functioning of the foreign exchange market. These measures will also help us strengthen the FX market and rebuild our net international reserves for the remainder of 2014. We are requesting technical assistance from the IMF to help us implement all these measures.

B. Other Structural Reforms

15. We remain committed to improve the business environment, strengthen our social policies, and upgrade debt management.

Business Environment

16. An appropriate business environment is critical to enhance the growth prospects of the country. Together with our efforts to assure macroeconomic stability, the reform agenda will continue to focus on lowering the cost of doing business to attract increased domestic and foreign investments. We are also taking action to improve governance and strengthen anti-corruption efforts within the administration.

Social and Employment Policies

17. We will continue our efforts to improve the human capital and reduce poverty. In addition to increased assistance to the most needy, we are also allocating more funds to education and health to improve the human capital. We are pressing ahead with our plans to support a network of SMEs through development of the micro-finance sector. At the same time, we are looking at enhancing employment opportunities in agriculture, through the implementation of different production plans in the real sectors, in cooperation with the private sector.

External Debt and Debt Relief Prospects

18. Resolving the unsustainable debt burden remains the government's utmost priority. As part of our efforts to secure debt relief, we have satisfied key technical requirements, including a

long track record of economic performance with the IMF through 13 successful SMPs, a finalized I-PRSP, and a reconciliation of our external debt stock. We believe that this progress will help bring debt relief and avoid the triggering of the “zero option” clause, as an extension of the deadline will also impact on all the other components of the bilateral agreement between Sudan and South Sudan. In the interval, with the deadline for the “zero option” fast approaching, we are therefore planning to: (i) continue our technical work; and (ii) step up, through the Tripartite Committee (Sudan/South Sudan/African Union), our joint outreach efforts towards international creditors to secure debt relief. At the same time, we are committed to: (i) minimize non-concessional borrowing, and borrow on as favorable terms as possible; and (ii) continue cooperation with the IMF on policies and payments. We are also working closely with the World Bank’s Debt Reduction Facility in preparation of our strategy for debt relief. We remain hopeful that the international community will recognize our track record, as evidenced by our performance under the current SMP, and take concrete action on debt relief equal to that provided to other countries.

19. We will further upgrade our investment planning and debt management capacity. We plan to establish a unit within the ministry of finance to oversee our development strategy, coordinate on investment projects, and manage foreign and domestic development financing sources in an integrated manner. We have set up a committee to prepare for the establishment of this unit.

C. Program modalities and monitoring

20. We will continue to closely monitor the implementation of our program. The understandings between the Sudanese authorities and the Fund staff regarding the quantitative benchmarks and structural benchmarks are further specified in the attached Technical Memorandum of Understanding (TMU). To further improve monitoring of the program, we are requesting a revision to the definition of net domestic assets (NDA), and that the nonoil primary deficit be adjusted for the deviations in terms of revenues from oil transit fees and the Transitional Financial Arrangement (TFA). At the same time, we plan to improve governance by strengthening the current AML/CFT law. In this context, amendments to the AML/CFT law will be enacted by end-September 2014 (structural benchmark). The government will continue to make available to Fund staff all data as specified in the TMU.

21. We formed an Inter-Ministerial Committee to monitor implementation of the SMP. This committee is working closely with the resident representative office.

22. We will continue our cooperation on payments with the IMF. In this context, we will continue making regular quarterly payments totaling at least US\$10 million in 2014, and further increase them as Sudan's payment capacity improves.

Table 1. Sudan: Quantitative Targets, 2013-14

	2013	2014 1/					
	December	March			June	September	December
		Program	Adj.	Actual	Revised Program	Revised Program	Revised Program
Quantitative Benchmarks							
Domestic financing of the central government (ceiling; in SDG million) 2/	5,596	1,059	1,149	-220	1,199	2,518	3,737
CBOS net credit to the central government (ceiling; in SDG million)	13,503	14,249	14,249	13,140	13,690	13,988	15,572
CBOS net domestic assets (ceiling; in SDG million) 3/	51,699	53,297	53,297	53,341	38,206	39,269	41,518
Net international reserves (floor; in millions of U.S. dollars) 2/	355	405	390	267	307	377	452
Contracting or guaranteeing of external long term nonconcessional debt by the government or the central bank (ceiling, in millions of U.S. dollars) 4/	600	600	600	47	600	600	600
Central government budget domestic expenditure arrears accumulation (ceiling, in SDG million)	0	0	0	0	0	0	0
Payments to the Fund (in millions of U.S. dollars)	6	2.5	2.5	2.5	5.0	7.5	10.0
Indicative Targets							
Tax revenue (floor; in SDG million)	19,427	5,295	5,295	5,746	11,562	18,173	25,509
Social spending (floor; in SDG million)	580	368	368	296	688	1,080	1,473
Reserve money (ceiling; change in percent)	20.3	6.0	6.0	3.2	6.2	9.0	14.7
Nonoil primary deficit (ceiling; in SDG million) 2/	8,377	1,743	1,743	1,930	4,122	6,172	7,431

1/ Cumulative from the beginning of the year.

2/ Subject to an adjustor to take account of oil-related fees and TFA from carrying crude oil of the RSS being different than assumed in the program.

3/ Calculated using program exchange rate. The definition of NDA has been revised for end-June target and onwards; see Technical Memorandum of Understanding (Attachment II).

March 2014 NDA is SDG37,091 million under the revised definition.

4/ Continuous benchmark.

Table 2: Prior Actions and Structural Measures Under the 2014 SMP

Benchmarks	Target Date	Macroeconomic Rationale	Status
Prior Actions for Request of SMP			
1. Adopt a 2014 budget in line with SMP.		Support fiscal consolidation.	Met.
2. Unify the CBOS exchange rates.		Eliminate distortions in the foreign exchange market and ensure flexibility going forward.	Met.
Structural Measures			
Tax policy			
1. Reduce VAT exemptions.	Jun. 2014	Boost tax revenue	Committee set up in March is reviewing the issue and will submit a report.
Revenue administration			
2. Complete and adopt the manual for risk-based audit and non-audit interventions.	Sep. 2014	Enhance VAT and income tax productivity.	Audit manual is ready to be rolled-out and appropriate IT system is being established.
3. Strengthen the penalty procedures for non-compliant tax payers.	Quarterly	Enhance tax administration.	Ongoing. Tax procedure code, including penalty system was finalized and submitted to the committee for review.
Expenditure policy			
4. Develop, with Fund TA, a flexible fuel pricing mechanism.	Dec. 2014	Improve the efficiency and targeting of current spending.	Authorities are reviewing the March 2014 TA report raising the issue.
Public financial management			
5. Extend the GFSM 2001 compatible economic classification to the six remaining states, and monitor the quality and consistency of classification applied at the state level.	Sep. 2014	Improve budget classification and fiscal reporting.	Remaining states are in the process of adopting the classification.
6. Develop a medium-term fiscal framework (MTFF) that provides three-year aggregate fiscal targets and projections of revenue and expenditure by main economic categories.	Dec. 2014	Enhance budget planning and preparation.	The first draft of MTFF template has been shared with authorities by resident advisor.
7. Close all central government accounts in commercial banks (except in areas with no CBOS branch).	Jun. 2014	Improve cash management.	Finance Minister issued directive on this issue in January 2014.
Financial sector			
8. Prepare a time-bound restructuring plan for Omdurman Bank in line with the recommendations of the independent audit.	Jun. 2014	Reduce risks stemming from the financial sector.	
AML/CFT			
9. Enact the amended AML/CFT Law based on the recommendations of the December 2013 IMF Technical Assistance on AML/CFT.	Sep. 2014	Support anti-corruption efforts, improve financial sector stability and integration into the global financial system.	

Attachment II. Technical Memorandum of Understanding

1. This technical memorandum of understanding (TMU) sets out the framework for monitoring the performance of Sudan under the 2014 Staff-Monitored Program (SMP). It specifies the quantitative benchmarks, indicative targets, and structural benchmarks on the basis of which the implementation of the SMP will be monitored. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to assess program implementation and performance.
2. The SMP relies on seven quarterly quantitative benchmarks and four indicative targets for end-March 2014, end-June 2014, end-September 2014, and end-December 2014.
3. The quantitative benchmarks are:
 - (i) Ceiling on domestic financing of the central government;
 - (ii) Ceiling on the CBOS net credit to the central government;
 - (iii) Ceiling on net domestic assets of the central bank;
 - (iv) Floor for the buildup of net international reserves of the CBOS;
 - (v) Ceiling on new nonconcessional external loans contracted or guaranteed by the government or the central bank;
 - (vi) Ceiling on central government budget expenditure arrears; and
 - (vii) Floor for payments to the Fund.
4. The indicative targets are:
 - (i) Floor for tax revenue;
 - (ii) Ceiling on reserve money growth;
 - (iii) Floor for social spending; and
 - (iv) Ceiling on non-oil primary deficit.
5. Some of these targets are subject to adjustors. The definitions of these variables and the adjustors are set out below. All the quantitative benchmarks and structural benchmarks are displayed in Tables 1 and 2 of the MEFP.

Definitions

6. Central Bank of Sudan (CBOS) net domestic assets (NDA) are defined as reserve money minus CBOS net foreign assets (NFA), minus revaluation accounts. CBOS Net foreign assets (NFA) are defined as foreign assets minus foreign liabilities. Foreign assets comprised of active accounts and other foreign assets of the CBOS. Foreign liabilities comprised of the following items: CBOS use of Fund credit, overdue Fund charges, liabilities to other international organizations, short-term liabilities, and other foreign liabilities. Revaluation accounts are as noted in the balance sheet of the CBOS.

7. CBOS net credit to the central government (NCG) is defined as CBOS credit to the central government minus total central government deposits. Central government deposits include all accounts of line ministries and agencies controlled by the government;

8. CBOS credit to the central government includes temporary advance, plus CBOS's acquisition of Government Musharaka Certificates (GMCs) and Government Investment Certificates (GICs), plus CBOS long-term claims on the central government;

- 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 (e.g., OSA).

9. Net international reserves (NIR) are total gross official foreign reserve assets on active accounts minus official short-term liabilities. The gross reserve assets include assets maintained on accounts with overseas correspondent banks, foreign exchange banknotes in the vaults of the central bank, monetary gold, and SDR holdings. Short-term liabilities include the foreign liabilities, net of barter and payment agreements and non residents' time liabilities, as reported in the balance sheet of the CBOS.¹

10. To evaluate program targets, the guinea equivalent values of foreign exchange denominated items in the balance sheet of the CBOS will be calculated at the program exchange rate of SDG 5.672 per U.S. dollar, and SDG 8.708 per SDR. For currencies other than SDR and U.S. dollar, cross program exchange rates against the U.S. dollar will be fixed as of end-March 2014.

¹ These liabilities are related to government debts dating back to the 1970s and 1980s and that were not repaid.

11. Domestic financing of the central government 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 (i.e., standing orders, letters of guarantees,² sanadats, etc.), revenues from privatization (net of new acquisition of financial assets), revenues from leasing, buildup of domestic government arrears, and drawdown in government cash deposits at the CBOS.

12. Non-oil primary fiscal balance of the central government (NOPB) is defined as non-oil revenues³ minus non-oil expenditures⁴ excluding net interest payments (interest payments minus interest receipts) cumulatively since the beginning of the calendar year.

- The floor on the NOPB set in Table 1 will be lowered by the excess in project loans or budget loans relative to program assumptions. The floor on the NOPB set in Table 1 will be raised by the shortfall in project loans relative to program assumptions.

13. Debt is defined for program purposes in accordance with Executive Board Decision No. 12274, Point 9, as revised on August 31, 2009 (Decision No. 14416-(09/91)).

- For the purpose of this guideline, the term “debt” will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
 - (i) Loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral

² These guaranties are issued by the government to finance capital and current spending and may, in some instances, be countersigned by the CBOS.

³ Oil revenue include royalties, oil income taxes, oil-related profit transfers, income from state equity in the oil sector (including national oil company dividends), oil export taxes, receipts from granting exploration rights, and signature bonuses.

⁴ Oil expenditures include government investment in the oil sector and any associated recurrent spending, other current oil spending, and transfers to national oil companies.

from the buyer in the future (such as repurchase agreements and official swap arrangements);

- (ii) Suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
 - (iii) Leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessee or retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property.
- Under the definition of debt set out in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

14. A non-concessional external debt ceiling applies to the contracting and guaranteeing by the public sector of new nonconcessional borrowing debt with nonresidents with original maturities of one year or more. The ceiling applies to debt and commitments contracted or guaranteed for which value has not yet been received. This applies to private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the public sector.

- The public sector comprises the central government, the central bank, nonfinancial public enterprises (enterprises and agencies in which the government holds a controlling stake—typically owns more than 50 percent of the shares, but which are not consolidated in the budget, and other official sector entities.
- For program purposes, the guarantee of a debt arises from any explicit legal obligation of the public sector to service a debt in the event of nonpayment by the debtor (involving payments in cash or in kind), or from any implicit legal or contractual obligation of the public sector to finance partially or in full any a shortfall incurred by the debtor.

15. For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows: the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of

payments of debt service due on this debt. The degree of concessionality of debt will be calculated using 5 percent discount rate. The concessionality calculator is available via the Internet at www.imf.org.

16. Central government budget expenditure arrears are defined as budgeted central government payments to residents determined by contractual obligations that remain unpaid 90 days after the due date. Under this definition, the due date refers to the date in which domestic debt payments are due according to the relevant contractual agreement, taking into account any contractual grace periods.

17. 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.

18. 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.

19. The program sets a floor on priority social spending of the central government. For the purpose of the program, priority social spending of the government is defined as the central government's spending on social benefits program that includes cash transfer, spending on health insurance, on primary health care, and students support.

20. Transitional financial arrangement (TFA) is defined as in the September 2012 agreement between Sudan and South Sudan and consists of financial transfers paid by South Sudan and totaling \$3.028 billion over 3½ year. These payments are expressed in per barrel terms (\$15/barrel), based on South Sudan's projection of an average of 152,000 barrels/day of oil production. If production is higher, payments will be made at the agreed rate until cumulative payments reach \$3.028 billion.

21. Oil transit fees are defined in the September 2012 agreement as the fees paid by South Sudan for exporting its oil using Sudan's pipeline and oil infrastructure. These fees (i) average \$9.6/barrel, of which only \$5.6/barrel accrue to the government and the rest to oil companies; and (ii) will apply for the whole 3½ year period and will be renegotiated thereafter.

Adjustors

22. An adjustor will be applied for the oil transit fees and TFA accrued from carrying crude oil from South Sudan. The gross programmed government revenue is based on the program's assumptions about oil transit fees and TFA from South Sudan. Accrued revenue is the cumulative government revenue inflows based on actual shipments at current international prices (f.o.b. Port Sudan).⁵ The local currency equivalent of the dollar difference between the programmed and accrued oil transit fees and TFA, needed to calculate the adjustor, will be obtained by multiplying the dollar difference by the average of the monthly exchange rates prevailing during the period in question.

The programmed value for the oil transit fees is SDG 2,078 million in 2014 (SDG 519.5 million quarterly), and the TFA is SDG 2,731 million in 2014 (SDG 682.8 million quarterly). The adjustor will work as follows:

- If the accrued oil transit fees and TFA falls short of the programmed value, the program targets on domestic financing of the central government and nonoil primary deficit will be increased by 25 percent of the local currency equivalent of the difference between the accrued and programmed value. The program target for NIR will be reduced by 25 percent of the difference between the accrued and programmed value.
- If the accrued oil transit fees and TFA exceeds the programmed value, the program targets on domestic financing of the central government and nonoil primary deficit will be reduced by the local currency equivalent of the difference between the accrued and programmed value. The program target for NIR will be increased by the difference between the accrued and programmed value.

23. The payments to the IMF are defined as a minimum quarterly payment of US\$2,500,000.

Program Monitoring

24. The Sudanese authorities established a program-monitoring committee composed of senior officials from the Ministry of Finance, the Ministry of Petroleum, the CBOS, and other relevant agencies. The IMF Resident Representative has an observer status on this committee. The committee is responsible for monitoring the performance of the program, recommending policy responses, informing the IMF regularly about the progress of the program, and transmitting the supporting

⁵ As compiled monthly by the Ministry of Finance and National Economy (MOFNE).

materials necessary for the evaluation of benchmarks. The committee shall provide the IMF with a progress report on the program on a monthly basis within four weeks of the end of each month, using the latest available data.

Data Reporting

25. 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)
Central Bank of Sudan	CBOS balance sheet	Detailed CBOS balance sheet	Monthly	15 days after the end of each month
	Monetary survey	Banking system balance sheet and consolidated balance sheet of commercial banks	Monthly	30 days after the end of each month
	Cash flow of foreign exchange	Cash flow data of foreign exchange, including sales and purchases by the dealing room at the CBOS	Monthly	1 week after the end of each month
	Banking indicators	Capital adequacy; asset composition and quality including non-performing loans; profitability; liquidity; open FX positions; and compliance with prudential norms	Monthly	30 days after the end of each quarter
	Balance of payments	Detailed composition (exports, imports volume and values, invisible transactions, quarterly BOP tables).	Quarterly	2 months after the end of each quarter
	External debt	Contracting or guaranteeing of medium- and long-term external debt of the government, the CBOS, and state owned companies	Quarterly	30 days after the end of each quarter
		Disbursements and repayments, (i) scheduled, and (ii) actual interest and principal on debt of the government, the CBOS, and state-owned companies, by creditor	Monthly	30 days after the end of each month
Ministry of Finance and National Economy	Central government operations	Revenues, expenditures, and financing as in GFSM 2001 format	Monthly	30 days after the end of each month
	Central government domestic debt	End-month stocks, and monthly issuances and repayments, of all domestic debt instruments: GMCs, GICs, loans and advances from the banking system, sanadat, letters of guarantee, standing orders, accounts payable (including arrears) and amortization schedule	Monthly	30 days after the end of each month
	Social spending	Spending on education, health and training	Monthly	30 days after the end of each month
	External support	Disbursement of grants, disbursement and repayment (principal and interest) of	Monthly	30 days after the end of each

		loans by donor, breakdown of foreign budget and project grants		month
Central Bureau of Statistics	CPI	Including detailed data and inflation for imported products	Monthly	1 week after the end of each month
Ministry of Finance and National Economy / Ministry of oil	Oil transit fees/TFA, from South Sudan	Shipment data, listing by blend specifying date, quantity, prices, and values in US\$ and in guinea	Monthly	30 days after the end of each month
	Crude oil	Production by block; share of Sudan and foreign partners; prices and values (\$ million), investment and production costs by block	Monthly	30 days after the end of each month
	Sales to refineries	Sales listing by refineries specifying date, quantity, prices, and values in US\$ and in guinea	Monthly	30 days after the end of each month
	Refineries	Volumes and prices of production, consumption and imports of gasoline, gasoil, fuel oil, jet oil, kerosene, and LPG (see attached template).	Monthly	15 days 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), see template.	Monthly	15 days after the end of each month

Statement by Momodou Saho, Executive Director for Sudan
July 28, 2014

Despite the challenging domestic and regional political environments, declining oil revenues and devastating economic sanctions, Sudan's economic performance is improving and gaining traction under the Staff Monitored Program (SMP). The SMP continues to play a pivotal role in providing the Sudanese authorities with the framework required to implement their reform program, restore macroeconomic stability and rebuild donor and investor confidence. In this regard, my authorities appreciate the dialogue with the staff, and are greatly committed to the full implementation of the program. Primarily, the authorities expect that their satisfactory performance under the program would contribute towards the fulfillment of the necessary conditions for achieving comprehensive debt relief, including towards reaching the HIPC Decision Point.

The Staff Monitored Program

The 2014 SMP serves as an anchor for macro-economic policy and a confirmation of the Government's strong commitment to normalize domestic economic and financial conditions. As detailed in the staff report, Sudan is already making progress under the SMP as evidenced by the improvements in economic performance during the period under review. Specifically, government revenue collections and the trade balance have improved, while inflation, deficit monetization and the fiscal deficit have declined. However, the widening gap between official and unofficial (curb) exchange rates remains a major challenge, with net international reserves declining below the program target.

Overall program implementation was satisfactory. Most end-March quantitative benchmarks and indicative targets were met. However, the quantitative benchmark on net international reserves was missed, due to both declining domestic oil production and oil related revenues from South Sudan, and market jitters arising from the protracted regional conflict. The benchmark on net domestic assets of the Central Bank of Sudan (CBOS) was also missed marginally. With respect to indicative targets, the social spending target was not met due to delayed approvals of payment authorizations, while the target on the non-oil primary deficit was missed because of increased oil subsidies as bad weather induced a rise in imported oil. However, my authorities are taking the necessary remedial measures to ensure that the end-June targets are met.

The Sudanese authorities have also made progress with respect to the June-September 2014 structural measures, through the accomplishment of the following tasks: the completion and adoption of the manual for risk-based audit and no-audit interventions; the extension of the GFSM 2001 compatible economic classification to the six remaining states; and the closure of all central government accounts in commercial banks, except in areas where the Central Bank of Sudan has no branches. They have also amended and strengthened the AML/CFT law.

The authorities have reiterated their commitment to continue making regular payments to the Fund totaling at least \$10 million in 2014. They have also, as envisaged in my Buff

for the March 24, 2014 meeting, formed an Inter-Ministerial Committee to monitor the implementation of the SMP. With respect to program modalities and monitoring, the authorities are requesting modifications to the definitions of net domestic assets of the central bank and the non-oil primary balance, in order to enhance monitoring of the program.

Fiscal Policy

My authorities are committed to fiscal consolidation and public finance management reforms. They will continue to adopt revenue enhancing measures and rationalize expenditures to build fiscal buffers, mainly through improved tax collections and further measured reductions in fuel subsidies, while protecting the most vulnerable. To improve the country's financial position, they have established the Tax and Customs Reform Committee (TCRC), with the objective of enhancing non-oil tax receipts. They expect to finalize the recommendations of the TCRC by September 2014, in time for incorporation in the 2015 budget.

Monetary Policy and Exchange Rates

In line with advice from staff, the authorities have continued to pursue a tight monetary stance to contain inflation to within the end-year program target. To improve the effectiveness of their conduct of monetary policy, they will limit deficit monetization and strengthen central bank independence. However, they face challenges in liquidity management, for which they have requested technical assistance. The authorities are cognizant of the need to narrow the arbitrage gap between the official and curb exchange rates. They have agreed to enhance the flexibility in foreign exchange transactions. In this regard, the authorities are also committed to implement the appropriate fiscal and monetary policy mix to achieve the indicative rate and trading bands. As of July 23, the authorities have adjusted the indicative rate by one percent, marking the beginning of the gradual process of aligning the rate to its market value.

Public Debt

Sudan is facing a precarious debt situation with a high risk of debt distress, continued accumulation of arrears, and the need for additional credit to fund the development agenda. With limited options for contracting new debt, especially on concessional terms, the authorities are forced to take on additional debt on non-concessional terms, which exacerbates Sudan's debt situation. My authorities have stepped up efforts to service debt during the first quarter of 2014, especially to currently disbursing creditors in order to retain the inflow of finance for essential social and development projects. However, their capacity to repay remains limited, making the accumulation of further arrears inevitable.

My authorities find themselves in a vicious cycle. On the one hand, they need financing to reinvigorate the economy and generate revenues to meet the country's obligations, especially on poverty reduction. On the other hand, the accumulated arrears impede the

country's access to international financing, which in turn constrains the ability of government to fund its responsibilities and meet its social contract.

Clearly, Sudan is in a dire need of debt relief to open up channels of creating fiscal space. The division of the debt between Sudan and South Sudan is still unresolved. Under the “zero option”, the two countries agreed that Sudan would retain all external debts and assets on condition that Sudan obtains debt relief, before the September 2014 deadline, through the HIPC initiative. In the event that debt relief is not secured within this period, the division of the liabilities would be reviewed. Without debt forgiveness for Sudan, a review of the “zero option” may be unavoidable, jeopardizing the still fragile diplomatic relations with South Sudan. My authorities see debt relief as critical to salvaging the Sudanese economy and are pleading with the international community for the much needed assistance. In this regard, the government has been proactive in garnering support for debt relief, and is appealing to creditors for support through the Tripartite Committee comprising Sudan, South Sudan and the African Union. During its third meeting held in May 2014, the Tripartite Committee completed a revised strategy and roadmap for future engagement with the international community. The Committee's strategy develops the modalities to guide outreach efforts in the following four areas; (i) comprehensive debt relief; (ii) development support for South Sudan; (iii) transitional financial assistance for Sudan and (iv); the lifting of economic sanctions imposed on Sudan.

Risks to the Program

The difficult domestic environment and the negative regional spillovers pose a substantial risk to macroeconomic stability and program performance. Additional cuts in fuel subsidies could escalate social discontent and undermine the ongoing reforms. This coupled with the depressed domestic oil production, could constrain the ability of government to adhere to the fiscal program. In addition, my authorities face considerable challenges from possible further reductions in the inflow of oil-generated revenues from South Sudan, the continued sanctions, the influx of refugees and failure to secure debt relief, all of which could severely undermine the attainment of program targets.

Conclusion

The authorities have agreed to implement various staff recommendations and have met many of the program targets. They have also created structures to expedite the implementation of reforms as outlined in the staff report, and have requested technical assistance in fiscal and financial sector reforms. All these efforts demonstrate their strong commitment to the execution of the SMP. They are eager and committed to see a turnaround in their economy, and strongly wish to reduce their debt stock to a manageable level. To this end, my authorities expect that a track record of successful performance under the SMP would help them comply further with the requirements to trigger the HIPC decision point.

Finally, I wish to reiterate my Authorities' strong belief that debt relief would provide a major impetus in their pursuit of macroeconomic stability and for achieving the shared objective of two viable states. They appeal to the Fund for assistance in this endeavor.