IMF Country Reports 21/142

Sudan: Request for a 39-Month Arrangement Under the Extended Credit Facility-Press Release; Staff Report; and Statement by the Executive Director for Sudan

INTERNATIONAL MONETARY FUND

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IMF Country Report No. 21/142

SUDAN

June 2021

REQUEST FOR A 39-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SUDAN

In the context of the Request for a 39-Month Arrangement Under the Extended Credit Facility, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on June 28, 2021, following discussions that ended on May 7, 2021, with the officials of Sudan on economic developments and policies underpinning the IMF arrangement under the Extended Credit Facility. Based on information available at the time of these discussions, the staff report was completed on June 21, 2021.
- A **Statement by the Executive Director** for Sudan.

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

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PRESS RELEASE

PR21/198

IMF Executive Board Approves Extended Credit Facility Arrangement for Sudan

FOR IMMEDIATE RELEASE

- IMF Board approves new, 39-month Extended Credit Facility Arrangement (ECF) for Sudan in the amount of SDR1,733.051 million (about US$2,472.7 million).
- The three-year financing package will support the implementation of the authorities' transformational reform agenda—anchoring reforms between the Heavily Indebted Poor Countries (HIPC) Decision and Completion Points needed to support inclusive growth and poverty reduction.
- Reforms will focus on a continued strengthening of public finances and the social safety net, improvements in governance to foster private sector-led growth, increasing central bank independence and putting in place a framework for effective monetary policy.

Washington, DC – **June 29, 2021:** The Executive Board of the International Monetary Fund (IMF) approved a 39-month arrangement under the Extended Credit Facility (ECF) for Sudan in the amount of SDR1,733.051 million (about US$2,472.7 million or 275 percent of quota). The arrangement aims to support the authorities' implementation of their ambitious reform agenda and catalyze concessional donor financing.

This will help the country build greater economic resilience, promote higher and more inclusive growth, and reduce poverty and raise living standards. The Executive Board's decision will enable an immediate disbursement equivalent to SDR 991.551 million (about US$1,414.7 million).

At the conclusion of the Executive Board's discussion, Ms. Kristalina Georgieva, Managing Director and Acting Chair, stated:

"Sudan has reached the HIPC Decision Point given the authorities' sustained commitment to reform in an extremely challenging political, economic and security environment. The second review of the Staff-Monitored Program (SMP), which has been approved by the Management and endorsed by the Board as meeting the standards of upper credit tranche conditionality, has been completed and the authorities met the prior action for the new 39-month Extended Credit Facility (ECF) arrangement. The authorities' strong policy commitment has helped strengthen public finances while channeling assistance to the most vulnerable; reduce distortions by moving to a market-determined exchange rate system; and improve governance. The authorities have also completed a Poverty Reduction Strategy Paper (PRSP) reflecting the shared view of key stakeholders on a national roadmap to alleviate poverty and identify priority sectors to achieve this objective.

"The authorities' ECF is an ambitious and appropriate response to Sudan's macroeconomic challenges. Continued reform commitment will be critical to achieve the program's objectives, as well as to reduce poverty and secure higher and more inclusive growth.

"The fiscal framework under the program appropriately balances the need to reduce spending on regressive and distortionary energy subsidies while channeling new resources toward

needed social and infrastructure spending. Additional tax measures and administrative improvements, including PFM reforms and actions to strengthen the Large Taxpayer Office, should also be deployed to raise domestic revenue. Improved debt management will help to avoid the re-accumulation of unsustainable debt.

“The recent approval of the revised Central Bank Act is an important measure, but additional steps are needed to strengthen central bank independence and its supervisory capacity. In particular, it will be important to enact a revised Banking Regulation Act which includes a comprehensive resolution regime for the banking sector in line with international best practice to lay the groundwork for restructuring the banking sector. Though the move to a market-determined exchange rate has gone relatively smoothly, the authorities should guard against the reemergence of multiple currency practices. While fiscal adjustment will be crucial to reduce monetization and resultant high inflation, the re-introduction of conventional banking will foster the development of more effective monetary instruments.

“Unlocking Sudan’s private sector potential will require significant steps to improve governance, reduce the role of the state in the economy, and mobilize private investment. The establishment of an independent Anti-Corruption Commission is key to reduce corruption, while a strategy for the SOE sector is needed to improve oversight and management of the sector, and determine those that are privatized and those that remain under state control.

“Sudan’s PRSP was designed after extensive consultations with domestic and international stakeholders, and provides a comprehensive set of sectoral plans and reform policy measures for reducing poverty and making progress toward the Sustainable Development Goals (SDGs). It is important that the international community increases its provision of financial and technical assistance to support the authorities’ reforms and the implementation of the PRSP.

“Sudan’s request for interim HIPC Initiative assistance on the debt service due to the Fund has been approved. The progress made in securing commitments from other creditors to provide debt relief in the context of the HIPC Initiative is welcome given the need for equitable burden-sharing across all creditors. The coverage and content of the HIPC floating Completion Point triggers, which focus on growth and the business climate, public financial management, domestic revenue mobilization, debt management, governance, social protection and statistics, is appropriate.”

Annex

Recent Economic Developments

The authorities’ have made progress toward economic stabilization, but significant challenges remain. The economy contracted for a third consecutive year in 2020, though less than expected, and growth is expected to pick up gradually starting in 2021 as economic stability is restored. The fiscal deficit has come down and is expected to narrow further in 2021, facilitating a reduction of inflation, but both it and the current account deficit remain large, inflation is very high (379 percent y/y in May 2021), and competitiveness is weak. Retail gasoline and most fuel subsidies were removed in December 2020 and electricity tariffs were increased, while progress has been made on bank stress tests and AML/CFT inspections of banks.

Program Summary

The reform priorities in the ECF arrangement have been closely coordinated with other donors and complement the proposed HIPC floating Completion Point (CP) triggers that will determine precisely when Sudan could reach the CP. These will focus on:

- fiscal sustainability via increased domestic revenue mobilization and reduced expenditure on regressive energy subsidies;
- increasing spending on health, education and other critical services to improve living standards and raise long-term growth;
- supporting exchange rate flexibility and the adoption of a reserve money targeting regime;
- increasing central bank independence, strengthening the financial sector by implementing a dual banking system, and reforming the bank resolution regime;
- and strengthening governance and transparency, especially in the SOE sector.

INTERNATIONAL MONETARY FUND

SUDAN

June 21, 2021

REQUEST FOR A 39-MONTH ARRANGEMENT UNDER THE EXTENDED CREDIT FACILITY

EXECUTIVE SUMMARY

Context. Since the 2019 popular revolution, Sudan's transitional government has taken difficult steps to right decades of economic mismanagement. The challenges facing the authorities remain significant, but they have fulfilled the necessary conditions to reach the HIPC Decision Point (DP). This is an historic achievement and Sudan is set to clear its arrears and normalize relations with the IMF and other international financial institutions. This will unlock Sudan's access to new financial resources to fund much needed development and social spending.

Recent developments and outlook. The authorities have made significant progress on their reform program under the Staff-Monitored Program, but the macroeconomic situation remains challenging and the external position is weak. Growth is expected to turn positive in 2021 and gain momentum through 2022. The exchange rate has remained relatively stable following unification and adoption of a de jure managed float arrangement. However, with inflation in triple digits (363 percent in April) and expected to remain high, further depreciation is a risk that may test the government's resolve. Donor financing, strong domestic revenue mobilization and a reduction in energy subsidies will be needed to rein in monetization and support macroeconomic stability. Improvements in the business climate, including efforts to reduce corruption and create a more enabling environment for private sector investment, are crucial to sustaining higher growth and reducing poverty.

Staff-Monitored Program (SMP) performance. Program implementation has been satisfactory, and Management has approved the completion of the second review of the SMP. The IMF Executive Board has endorsed the SMP as containing policies and conditionality consistent with the Upper Credit Tranche (UCT) standard, and thus sustained satisfactory performance for at least six months can fulfil the track record requirement to reach the HIPC Decision Point.

Policies under the ECF arrangement. The authorities have requested the cancellation of the SMP and requested a 39-month financial arrangement under the Extended Credit Facility (ECF) in the total amount of US$2.5 billion (SDR1.733 billion or 275 percent of quota) to support their reform program. This ECF request is an important element of Sudan's path toward reaching the Decision Point under HIPC.

Other important milestones include, the reconciliation of Sudan's debt, adoption of a poverty reduction strategy, the provision of financing assurances for HIPC debt relief, the termination of ineligibility to use the general resources of the Fund, the upcoming clearance of arrears to the IMF, and the approval by the Boards of the IMF and the World Bank of the HIPC Decision Point document. The authorities intend to use a large portion (SDR 964 million, or 153 percent of quota) of the proceeds of the initial disbursement of SDR 991.55 million to repay the intraday bridge loan required to clear arrears to the IMF, with remaining access backloaded and expected to be used for significant reserve accumulation. Sudan will qualify for IMF interim HIPC Initiative assistance to cover debt service obligations on pre-arrears clearance debt falling due after the Decision Point.

The program will anchor the authorities' policies and reforms between the HIPC Decision Point and Completion Point. The reform priorities in the ECF arrangement have been closely coordinated with other donors and complement the proposed HIPC floating Completion Point (CP) triggers that will determine precisely when Sudan could reach the CP. Reforms will focus on: fiscal sustainability via increased domestic revenue mobilization and reduced energy subsidies, and measures to strengthen the social safety net; supporting exchange rate flexibility and the adoption of a reserve money targeting regime; strengthening the financial sector by implementing a dual banking system, and reforming the bank resolution regime; and strengthening governance and transparency, especially in the SOE sector.

Approved By
Subir Lall (MCD) and Gavin Gray (SPR)

A virtual mission was held during April 11–May 7, 2021. The team comprised Carol Baker (head), Qiaoe Chen, Gregorio Impavido and Atticus Weller (all MCD), Sanan Mirzayev (SPR), Jacques Charaoui (FAD), and Mohammed Zaher (Resident Representative). Mr. Ismail (OED) participated in the discussions. The mission met with Finance Minister Dr. Gibril Ibrahim Mohamed; Central Bank Governor Mohamed Elfatih Zeinelabdin Mohamed; former Acting Finance Minister Hiba Ahmed and other senior government officials.

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BACKGROUND AND CONTEXT

1. **Since the 2019 popular revolution, Sudan's transitional government has taken difficult steps to right decades of economic mismanagement.** Their home-grown policies, which have been supported by the Staff-Monitored Program, have reduced distortions and large unaffordable and regressive energy subsidies and aim to achieve economic stability, fiscal sustainability and sustained and inclusive growth that reduces poverty. Economic conditions remain challenging but, notwithstanding delays, the rollout of the Sudan Family Support Program (SFSP) on February 24 has provided support to 160,000 households through April with the aim of reaching two million by the end of the year, and easing the burden on families from these necessary policy actions.

2. **Sudan has reintegrated with the international financial and business community.** In December 2020, Sudan was removed from the U.S. list of State Sponsors of Terrorism (SSTL) while in March and May, Sudan cleared arrears respectively to the World Bank, African Development Bank (AfDB). On May 17, a development partner conference was held in Paris with a side event to promote international investment in Sudan.

3. **The authorities have established a strong track record of reform under the SMP.** The authorities have transitioned to a market-determined exchange rate, taken important steps toward greater central bank independence, and achieved 5 percentage points of GDP of fiscal adjustment in 2020. Retail gasoline and most fuel subsidies were removed in December 2020 and electricity tariffs were increased, while progress has been made on bank stress tests and AML/CFT inspections of banks. Structural reforms have also moved ahead with new legislation on anti-corruption, investment, public-private partnerships and the re-instatement of conventional banking. The ECF will build on this progress.

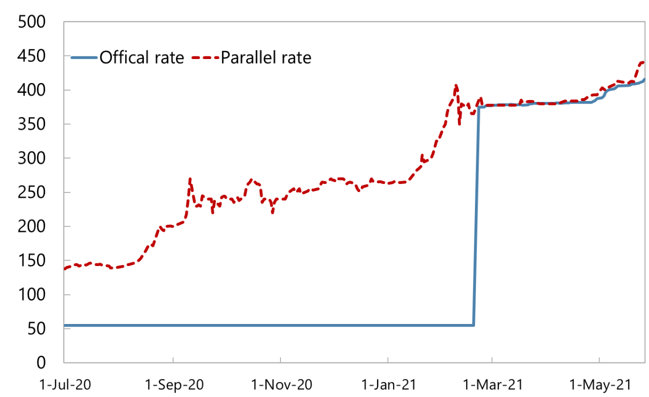
4. **Nonetheless, the situation remains fragile with significant risks.** The sources of fragility are deeply rooted in history, wide-ranging and many will persist in the period ahead as the country moves forward toward eventual elections. While financial reintegration and access to multilateral resources will help reduce the financing gap, fiscal revenue is low and energy subsidies continue to consume a large proportion of the budget. Development needs are high and Sudan will continue to rely on grants in the period ahead at a time when the availability of donor financing has been impacted by the COVID-19 pandemic. The official number of confirmed COVID cases stands at 34,889 with 2,446 deaths as of May 14, and the country may be entering a third wave. Due to the accelerating infection rate, on May 18 the government suspended studies in all universities and schools for a period of one month and banned certain mass gatherings. At the same time, shortages of food and fuel have added to inflation pressures resulting from the liberalization and adjustment of prices and international reserves are critically low, net foreign assets (NFA) are negative, while violence on the eastern border has added to the already large refugee and displaced person population of over 1 million. Institutional capacity is weak as is data collection and reporting, and work remains to be done to bring together a legislative body capable of working effectively together in support of advancing the policy agenda.

RECENT ECONOMIC DEVELOPMENTS

5. **Sudan's economy is expected to grow modestly in 2021.** In 2020, containment measures to protect human life in the wake of the pandemic reduced economic activity but agricultural production and exports held up and the services sector rebounded quickly following the lock down. GDP is estimated to have contracted by 3.6 percent. With the clearance of arrears to the World Bank, AfDB and IMF unlocking grant resources and positive policy developments such as exchange rate unification and the achievement of the HIPC Decision Point (DP), GDP growth is expected to recover to about 0.9 percent in 2021.

6. **The fiscal balance improved in the first quarter though the composition of adjustment was less than ideal.** Tax revenues in Q1 2021 outperformed the authorities' budgetary target due to improved administration, including efforts to combat smuggling, while the wage bill was lower than anticipated due to resource and administrative constraints. However, social expenditure fell below target due to the slow rollout of the SFSP while spending on fuel and wheat subsidies increased relative to the budget due to an increase in international prices and insufficient adjustment of retail fuel prices.

Sudan: Exchange Rates



Sources: National Authorities.

7. **Inflation remains high but the post-unification exchange rate has been relatively stable.** As the parallel market exchange rate was already widely used in foreign exchange (FX) transactions, the unification of the official exchange rate on February 21 had a limited impact on inflation and since then the exchange rate has been stable with daily movements well within the ±5 percent band around the indicative rate. In late May 2021, speculative attacks caused the parallel rate to depreciate but the CBoS conducted two FX auctions and confirms that the parallel rate is converging back to the official rate, although multiple currency practices persists. At the same time, inflation has remained high and continued to accelerate in the first quarter of 2021 (363 percent in April) due to the fuel price increases and their second-round impact, as well as continued shortages of food and fuel. The banking sector remains fragile, with several banks undercapitalized and/or vulnerable to exchange rate depreciation.

8. **External sector performance was robust with the current account balance turning to surplus**. The trade balance improved significantly in Q1 2021 on the back of exchange rate reforms. Exports increased a robust 54 percent, while imports contracted by 17 percent (yoy) in the first quarter following a surge in late 2020. Unification of the official and market exchange rates has reduced distortions, increasing financial flows through formal channels. With more

transactions shifting to the formal sector, recorded remittances have increased nearly five-fold. Despite lower-than-expected external grants disbursements, the current account on a cash basis registered a surplus of 0.1 percent of GDP. Gross usable international reserves improved to $327 million at end-March 2021 (the equivalent of 0.4 months of imports).

REQUEST FOR AN EXTENDED CREDIT FACILITY ARRANGEMENT AND THE OUTLOOK

With Sudan moving toward the HIPC Decision Point and re-engagement with the international financial community, the outlook has strengthened. However, work remains to be done to reduce the fiscal deficit, eliminate monetization, and strengthen governance and transparency. Stronger measures to address these challenges would enhance growth outcomes and further strengthen the external position. Near-term risks reflect the deeply fragile situation and are tilted to the downside, but broadly balanced over the medium-term contingent on sustained policy implementation.

9. The authorities have requested a new 39-month IMF financial arrangement to anchor medium-term policies in the period between HIPC Decision Point and Completion Point. The authorities have met the requirements for HIPC Decision Point including a track record of satisfactory performance under the SMP, adoption of a poverty reduction strategy (PRS), and achievement of financing assurances for arrears clearance and debt relief. Building on the current SMP reforms, the policy objectives for the new program comprise commitments to: (1) reduce distortionary and costly energy subsidies while continuing the rollout of the social safety net; (2) improve domestic revenue mobilization and MOF oversight over SOEs; (3) solidify the transition to a more flexible exchange rate and reserve money targeting regime; (4) strengthen the financial sector by developing a dual banking system, and improving bank resolution procedures; and (5) create a more enabling environment for private sector development including small and medium enterprises (SMEs) by *inter alia* strengthening governance, reducing the role of the government in the economy and fighting corruption. The reform priorities in the ECF arrangement have been closely coordinated with other donors and complement the proposed HIPC floating Completion Point (CP) triggers that will determine precisely when Sudan could reach the CP (see Box 1). Requirements for HIPC Completion Point include, among others: 1) establishing a continued track record of good performance under the ECF arrangement; 2) implementing a full PRSP for at least one year; and 3) implementing satisfactorily the reforms embodied in the CP triggers agreed at Decision Point.

10. Positive external developments and recent policy actions support an improved outlook. International efforts to support Sudan have gained momentum in recent months, while the expected pickup in external demand, policy actions and domestic activity with the recovery from the COVID-19 pandemic would help to raise growth. Arrears clearance to the IFIs will unlock multilateral resources and the recent unification of the exchange rate and fiscal policy measures to raise revenue and reorient spending will help to engender greater macroeconomic stability, while an improved business climate will attract additional FDI and support job-creating SMEs. In

staff's baseline scenario (which assumes the HIPC Decision Point is reached in June 2021), growth is expected to peak at 6.8 percent in 2025, driven by strong grant financing and FDI, before gradually settling at around 4½ percent over the long-term. Inflation would decline to double digits next year as monetization is reduced and the transitory effect of the elimination of the customs exchange rate and related reduction in ad hoc fees is passed through, before stabilizing at 8 percent over the medium-to-long-term.

11. With the fragility high, the near-term risks are still significant and tilted to the downside. A failure to implement needed policies, including energy tariff rate reform, or a reversion to past polices such as energy subsidies, multiple currency practices and lack of transparency/governance would undermine growth and macroeconomic stabilization. Insufficient provision of cash transfers could also increase poverty and undermine public support for difficult reforms, such as the reduction of fossil fuel subsidies. Such risks are non-negligible and could result from the risk that the transitional government continues to struggle to achieve consensus-based policy making. This would contribute to sustained fiscal deficits, monetization, and a delay in external financing, reigniting the inflation-depreciation spiral. A fiscal adjustment more firmly grounded on policy measures and higher identified financing would strengthen the outlook and reduce program risks, while an acceleration and expansion of the coverage under the Sudan Family Support Program (SFSP) would further ease the burden of adjustment.

12. Medium-term risks are balanced under HIPC debt relief. The sustained implementation of policies that stabilize the economy and strengthen the business climate, as well as the avoidance of non-concessional and collateralized debt, would help to stimulate a virtuous cycle of lower inflation and higher investment (including FDI) that would leave Sudan well-placed for stronger and more inclusive growth. However, the persistence of political gridlock and/or policy backsliding could lead to a prolonged period of macroeconomic instability and suboptimal growth. Should these risks materialize the authorities would need to implement more aggressive revenue and expenditure measures to avoid increasing monetization of the deficit. In the absence of measures to strengthen resilience, Sudan's undiversified economy will remain vulnerable to climate and commodity-related shocks.

Box 1. Triggers for the Floating Completion Point	
Triggers	**Reference**
Poverty reduction strategy implementation	**IDA**
Satisfactory implementation for at least one year of Sudan's full poverty reduction strategy, as evidenced by an Annual Progress Report on the implementation of the poverty reduction strategy submitted by the government to IDA and the IMF.	Monitoring framework included in PRSP
Macroeconomic stability	**IMF**
Maintain macroeconomic stability as evidenced by satisfactory implementation of the 39-month ECF-supported program.	ECF request and successive reviews documentation UK planned TA to CBOS for the analysis and interpretation of economic data ICD Developing Macroframework— training and TA MCM (planned) TA Monetary Policy Implementation and Operations
Public financial and expenditure management	**IMF**
Enact a revised Financial and Accounting Procedure Law of 2007 (budget system law) to: (i) specify the institutional coverage of the budget in line with the GFSM2014; (ii) incorporate the guiding principles for resource allocations horizontally and vertically, medium term framework, fiscal disclosure and transparency, fiscal accountability and responsibility, fiscal stability and sustainability, and accounting and reporting standards; (iii) establish a fiscal risk management function, an oversight function on SOEs, and financial oversight rules for states governments; and iv) include the budget calendar.	End-June 2022 structural benchmark #9 and MEFP policy intentions. USAID PFM TA METAC/FAD TA on cash management FAD TA on PFM law
Publish the General Government consolidated financial statement based on the GFS definition for 2021 (using available data) and annually thereafter within three months of end of the reporting period, and audited accounts within six months in accordance with international good practices.	MEFP policy intentions. FAD (planned) TA on fiscal reporting (GFS) METAC support macro fiscal planning/MTFF METAC support budget planning practices METAC (planned) LTX macro fiscal planning
Publish the complete list of SOEs, including in the intelligence sector. Also, beginning with 2020, publish on an annual basis the external audited final accounts of an increasing number of SOEs, beginning with the 10 SOEs identified and agreed with the IMF and World Bank staff and monitored under the ECF-arrangement. Publish the SOE governance strategy, medium term action plan, and annual performance report.	End-June 2022 structural benchmark #6 and #10 and MEFP policy intentions. METAC TA on fiscal risk management for SOEs METAC - publication of information SOEs.
Domestic revenue mobilization	**IMF**
Strengthen the Large Taxpayer Office (LTO) by: (i) ensuring digital encoding into the Tax Administration Core System (TACS) database of all paper-based tax returns filed by large taxpayers (from tax year 2017 onwards); (ii) revising large taxpayer criteria to include indicators sourced directly from tax returns data captured in the TACS database; (iii) compiling an analysis based on the new large taxpayer criteria	MEFP policy intentions. METAC - TA on risk management and post-clearance audit capacity METAC TA to Customs Authority on the integration of risk management into the excise duty function. FAD Import Tariffs Reform and Tax Policy Reform Support TA

Box 1. Triggers for the Floating Completion Point (continued)	
Triggers	**Reference**
and revising the large taxpayer registry to ensure that a minimum of 60 percent of total domestic tax revenues are managed through taxpayers assigned to the LTO; and iv) introducing on-demand reports for staff to monitor the near real-time status of large taxpayer filing and payment activities.	
Procurement	**IDA**
Strengthen the public procurement system by:(i) passing and enacting the revised Public Procurement Bill; and (ii) improving transparency of public procurement through the publication on a continuous and ongoing basis by at least the 10 highest spending Procurement and Contracting Units at the federal level of: (a) all notices of public procurement opportunities following open tender proceedings; and (b) all notices for contracts awarded following open tendering, restricted tendering and single-sourcing methods.	IDA 2021 TA 2021 tax administration diagnostic Policy intentions in the MEFP.
Debt management and transparency	**IMF**
Enhance debt transparency by publishing: (i) at least four consecutive quarterly external public debt reports outlining the outstanding debt stock, debt flows, and comprehensive information on new borrowing (volumes, terms and possible special clauses); and (ii) at least one annual public debt report covering all external and domestic public and publicly guaranteed debt providing comprehensive information on the outstanding debt stock, debt flows and new borrowing, as well as debt ratios and indicators and risk measures of the debt portfolio. The reports' coverage should include General Government and SOEs which are part of the general government reporting framework, including information on guaranteed loans. Their publication should take place within 3 months of the end of the reporting period.	IMF - End-June 2022 structural benchmark #11 and MEFP policy intentions. UK - (planned) TA to CBOS for the analysis and interpretation of economic data METAC TA on implementation of eGDDS
Enact a Debt Management Law that (i) clearly defines the authority to borrow and issue guarantees and on-lending and delegates debt management responsibilities; (ii) sets debt management objectives; (iii) establishes core purposes of government borrowing; (iv) mandates the adoption of documented procedures for debt management activities; (v) defines responsibilities for the formulation of a medium term debt management strategy and for the frameworks to issue guarantees and on-lending; and (vi) establishes clear reporting and auditing requirements, as well as requirements for publication of the debt data.	IMF - MEFP - Policy intentions. IMF TA (planned)

Box 1. Triggers for the Floating Completion Point (concluded)

Triggers	Reference
Social protection	**IDA**
Strengthen the social protection system by: (i) establishing a national social registry as the primary directory of poor and vulnerable households eligible for social protection support; and (ii) reaching over 50 percent of cash transfer beneficiaries via digital means.	IDA Social Protection Project
Growth and business climate	**IDA**
Improve the electricity sector's economic viability and growth prospects by (i) *adopting a roadmap/trajectory for achieving full operational cost recovery* in the medium-longer term based on officially adopted methodology to define the revenue requirement of the sector; and (ii) *achieving at least 75 percent operational cost recovery* for all electricity users except for residential uses with monthly consumption below 200 kWh, and (iii) *amending the Electricity Act* to strengthen the institutional framework to *inter alia* facilitate future private investment including in renewable energy and energy efficiency.	IDA TA and Energy Project Under Preparation MEFP policy intentions.
Improve the business and investment climate in Sudan by (i) *streamlining commercial registration* through consolidating business registration, registration for Labor and Social Insurance Fund into a single form at the One-Stop Shop with a consolidated fee and granting the Tax Chamber at One-Stop Shop the power to issue the tax identification number (TIN) and register the company for VAT, and (ii) *facilitating access to finance for SMEs* by enacting a Secured Lending Act or its operational equivalent and establishing a modern collateral registry.	IDA and IFC TA MEFP Policy intentions.
Strengthen the AML/CFT regime by: (i) completing a money laundering and terrorist financing (ML/TF) national risk assessment (NRA) and disseminating its results, in appropriate forms, to financial institutions, designated non-financial businesses and professions, and the general public; and (ii) government endorsement and adoption of a national AML/CFT strategy to mitigate the identified risks.	IMF - LEG TA on AML/CFT Handbook
Statistics	**IMF**
Produce and publish revised and rebased annual GDP time series based on updated supply and use tables (SUT) resulting from the 2020/21 comprehensive industrial survey (CIS).	METAC providing TA on CPI and national accounts. Joint IMF-World Bank Initiative EU funding LTX

POLICY DISCUSSIONS

With initial reforms under the SMP addressing some of the key distortions in the economy, the ECF-supported program will center on structural reforms required to strengthen governance and avoid a return to distortionary economic policies while bringing about sustained and inclusive private-sector-led growth in support of economic stability and durable poverty reduction. Conditionality will also support progress toward the floating HIPC Completion Point Triggers, thus helping ensure the durability of debt relief. Specific areas of focus comprise: (1) fiscal reforms to increase domestic revenue mobilization, reduce subsidies, and strengthen the social safety net; (2) solidifying the transition to a flexible exchange rate and reserve money targeting regime; (3) strengthening the financial sector by moving to a dual banking system, and reforming the resolution regime; (4) buttressing governance and transparency, especially in the SOE sector; and (5) creating a more enabling environment for private sector growth.

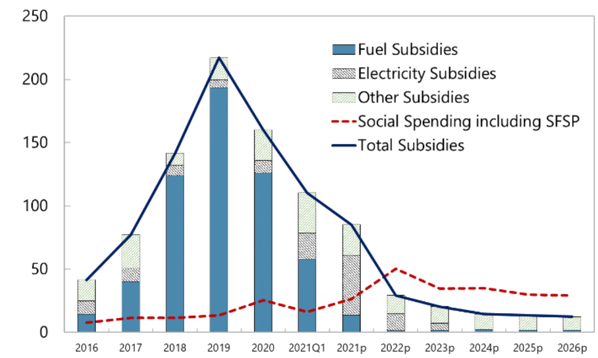
Fiscal Reforms and Strengthening the Fiscal Framework

Contributors to Fiscal Consolidation (change, % of GDP)

	2021	2022	2023	2024
Revenue (1)	1.5	2.8	0.2	0.3
Taxes	1.4	2.4	0.5	0.2
o/w VAT	1.0	1.0	0.3	0.1
Oil related revenues	0.0	0.3	-0.2	0.1
Other revenues	0.1	0.1	0.0	0.0
Grants (2)	2.8	0.7	-0.5	-0.3
o/w FSP	0.7	1.1	-1.8	0.0
Total expenditure (3)	1.2	2.1	-0.7	0.1
Wages	-1.3	0.6	0.1	0.5
Subsidies	-1.1	-1.7	-0.5	-0.4
Transfers	1.4	0.8	0.2	-0.2
Other current	0.4	2.3	-0.9	0.1
o/w social spending	0.4	2.3	-0.9	0.1
Net acquisition of NFA	1.7	0.1	0.4	-0.1
Overall balance (1+2-3)	3.0	1.4	0.4	-0.1
Overall deficit (% of GDP)	-2.9	-1.5	-1.0	-1.1

13. **Sustained efforts toward strengthening the fiscal position are crucial to stabilize the economy and reorient spending.** The program targets a medium-term overall fiscal deficit of 1 percent of GDP to support fiscal and debt sustainability with a deficit of 1½ percent of GDP planned for 2022. These are ambitious targets that can be achieved via (i) increased revenues to create fiscal space for needed social and infrastructure spending, and (ii) continued reforms in the energy sector to reduce fuel subsidies and lay the groundwork for a viable energy sector and hence lower electricity subsidies. The anchor reflects a conservative view of the outlook for foreign financing, the amount that can be comfortably financed from non-inflationary domestic sources, and the required adjustment to sustain a low public debt-to-GDP ratio after HIPC debt relief, while allowing for the needed increase in social and capital spending. If higher-than-envisaged levels of concessional external debt and (non-inflationary) domestic debt were to become available later in the program, the anchor could be revisited consistent with debt sustainability considerations and the importance of achieving a durable reduction in debt.

Sudan Subsidies: Percentage of Tax Revenue
(Percent)



Sources: National Authorities; and IMF Staff Estimates.

14. Reducing fossil fuel subsidies needs to be at the center of fiscal efforts. Though gasoline and diesel subsidies were eliminated at the end of 2020, retail prices have recently failed to keep pace with rising international prices, leading to the reemergence of partial subsidization, and threatening fiscal sustainability and the reallocation of resources to social spending. The liberalization of fuel prices is needed to avoid supply shortages and to ensure cost recovery. To accomplish this, the authorities will remove controls on retail gasoline and diesel fuel prices and allow gasoline and diesel fuel suppliers to contract at negotiated market prices *(end-December 2021 structural benchmark)*. Rising international fuel prices have also increased subsidization in the electricity sector. The authorities, with assistance from the World Bank, will develop a more rational tariff regime based on the market exchange rate to improve the reliability and viability of the sector and put the country on a path to eliminate electricity sector subsidies by 2024. A revised Electricity Act will complement this objective by creating a more effective regulatory framework for power sector development to facilitate private sector investment in power generation over the medium-term, including in regions currently off the national grid, and to encourage switching to renewable energy such as solar and wind in power generation through investment incentives. The deployment of cash transfers through the SFSP should be carried out in tandem with the reduction of energy subsidies to alleviate the impact of these reforms on vulnerable populations and to maintain public support.

15. Social spending has lagged program targets, but the authorities will take remedial measures. Social spending in the first quarter of 2021 underperformed the relevant IT floor in the SMP due to coordination and administrative challenges impacting the rollout of the SFSP, including the delay in exchange rate unification, which delayed the initial disbursement from the World Bank and administrative obstacles, and the need to recruit staff and implement reliable benefit delivery mechanisms. This risks providing inadequate support to the population impacted by the removal of subsidies and other policy reform measures and could undermine public support for such reform measures. The authorities will take remedial actions to speed up SFSP implementation, including by convening a Coordination Committee of key government agencies and international partners and appointing a director to lead the Project Implementation Unit, which should help to improve intra-government coordination and cooperation with international partners. After a slow start, the pace of local staff recruitment has also accelerated, which should allow a pickup in SFSP disbursements through the Summer with a goal of reaching two million households by the end of the year, and 4–5 million by the end of 2022, or roughly 80 percent of the eligible population.

Box 2. Energy Subsidization

According to a 2019 World Bank study, electricity and fuel prices in Sudan were among the lowest in the world due to heavy subsidization. Thermal generation of electricity is at the core of power subsidization due to the failure to recognize the full cost of the fuel used to produce electricity and low tariffs. Energy subsidization was the primary driver of macroeconomic destabilization in 2019, when the estimated cost of fuel and electricity subsidies accounted for more than half of total government spending and 217 percent of tax revenue (see chart). These subsidies are not only distortionary but regressive as the bottom income strata have limited or no access to electricity and do not consume fuel (only 51 percent of the population receives its lighting from electricity). Further, spending on subsidies crowds out vital social expenditure needed for the poor and to reduce poverty. To pay for these subsidies, the government printed money, fueling inflation which reached 270 percent in December 2020. Sudan's current fragilities are in large part a legacy of continued fuel subsidization following the secession of South Sudan in 2011.

The subsidy structure is complex with fuel subsidies not limited to the retail sector. In addition to the power sector, subsidized fuel is also provided to "strategic sectors" including agriculture, public transport, and defense. All fuels delivered to power generation companies are provided for free, courtesy of the finance ministry, with generation companies paying only for the cost of domestic transportation. The domestic oil refinery, whose cost structure is well above the international average, is also subsidized and electricity imported from other countries when the domestic supply is inadequate is sometimes paid for on an in-kind basis with domestic fuel, implying additional subsidization. As a result, cross-payment arrears and energy shortages are pervasive. Calculating the full cost of subsidies remains a challenge.

The authorities have started to take steps to address the energy sector crisis.

- ***Electricity***. In January 2021, the average electricity tariff was increased 8-fold, with a trajectory for operational cost recovery by 2024. However, the authorities' tariff plan assumed an exchange rate of SDG 55/USD making the new tariff trajectory fall well short of cost recovery. Work is ongoing with the World Bank to revise the Electricity law and develop a plan for a reliable and viable energy sector.

- ***Fuel***. Large subsidies had led to severe fuel shortages in part due to smuggling resulting in parallel market prices above international prices. In February 2020, the government introduced "commercial prices" which were multiples of official prices but still below cost-recovery for retail gasoline and diesel to enable those willing to pay to endure shorter lines. In October a decree was issued ending retail fuel price subsidies for imported gasoline and diesel and increasing official prices for domestically refined gasoline and diesel sold at the pump, while in December retail subsidies on domestically produced fuel were to be eliminated through automatic price adjustment. However, the approved adjustments were insufficient, resulting in the reemergence of subsidies in 2021 as international prices rose.

While the steps taken to date by the Sudanese government to reduce energy subsidies have been substantial, market-based, cost-recovery tariffs are needed in the fuel and electricity sectors to prevent the return of subsidization and ensure the financial viability of energy production.

16. The establishment of a national social registry of poor and vulnerable households through the SFSP will facilitate the transition to a targeted cash transfer scheme in 2023 as the SFSP is phased out. Staff encourages the authorities to undertake Public Expenditure Tracking Surveys (PETS) in the areas of education and health expenditure to support the efficiency of social spending.

Box 3. Sudan Family Support Program

The Sudan Family Support Program (SFSP) is a quasi-universal basic income scheme for Sudan supported by the donor community and World Bank. It is designed to alleviate the short-term effects of subsidy removal and exchange rate reform on the majority of the population and to help generate the political and economic space for a comprehensive program of economic reform. The program also serves as a platform for the development of a future targeted social safety net system via the provision of national unified digital identity documents (IDs).

At the core of the SFSP is the provision of cash transfers to all but the top 20 percent of the population. At the outset of the program, the Government's intention was for the SFSP to eventually provide unconditional cash transfers of US$5 per person per month to approximately 80 percent of the population for twelve months. Recipients would be validated and tracked via the National Civil Registry, which would also allow coordination with other social protection programs, minimizing overlap. However, due to an initial shortage in donor funding and to allow for flexibility in resource mobilization, the program was implemented in phases on a geographic basis (starting with a few states) and in the duration of the delivery of grants to beneficiaries (initially delivering six months of grants to families and subject to availability of resources, scaling up to twelve months). It was anticipated that investments in the delivery systems for SFSP cash transfers would contribute to the development of a sustainable and well-targeted long-term social safety net system, which could also serve as a future platform for referral and expansion of social services.

The rollout of the SFSP was significantly delayed, but is now underway albeit in a somewhat less ambitious form than originally envisioned. A pilot managed by the World Food Program was initiated in July 2020. However, the full program was initially delayed by slow delivery of pledges to the STARS trust fund and administrative challenges. As time passed and the parallel market rate continued to depreciate, the value of scarce donor resources was undermined by the use of the official exchange rate and roll out of the program was linked to the unification of the exchange rate (February 21, 2021). Phase 1 program began on February 24, 2021 after months of an inflation-depreciation spiral and reform. The program is currently targeting support to one million households by July with the aim of reaching two million households, or about one-third of the eligible population, by the end of the year. The program is expected to reach 80 percent of the eligible population by the end of 2022.

17. Additional revenue measures are needed to support fiscal adjustment and free up resources for social spending. In addition to the unification of the customs exchange rate with the market rate *(prior action for program approval)*, policy measures are required to broaden the very narrow tax base and reduce distortions, such as the widespread use of exemptions. Accordingly, the authorities have pledged to eliminate all exemptions on VAT except those related to food, and the personal income tax (PIT) exemption on people over 50 years of age in the context of a progressive PIT structure *(end-December 2021 structural benchmark)*. Other key revenue measures include: the unification of PIT rates on public and private sector wages; the simplification of corporate income tax (CIT) rates and implementation of a single-rate presumptive tax on small businesses in the 2022 budget; an increase in government fees and charges to cost recovery levels; and levying a "final tax" on artisanal gold producers at the time of payment to improve revenue collection.

18. Administrative improvements will also enhance revenue mobilization. Tax policy changes must be supported by efforts to raise the limited capacity of revenue collection

agencies. To this end, the authorities will increase the percentage of taxpayers processed electronically through the Large Taxpayer Office (LTO) from 70 percent to 75 percent through the Tax Administration Core System (TACS) database by the end of 2021, with the goal of further increasing the percentage of coverage by the end of the program. Tax revenue is expected to increase to 4½ percent of GDP in 2021, a notable increase over the 2020 tax revenue yield of 3 percent of GDP, and to 6.8 percent by the end of 2022. Further strengthening of tax collection, including the rollout of the TACS database to all taxpayers, is expected later in the program.

19. Strengthening public financial management will help to enhance fiscal control and revenue collection. The current budget law does not facilitate effective fiscal planning or assessment of risks, and its coverage is too narrowly focused on the central government, with inadequate attention to general government finances, including the large state-owned enterprise (SOEs) sector. To anchor annual budgets on a credible medium-term fiscal framework, the authorities will develop a Public Financial Management Roadmap based on the recent PEFA *(end-September 2021 structural benchmark)* and adopt a budget for 2022 that maintains their path towards the medium term fiscal anchor (*end-December 2021 structural benchmark*). Building on improvements in the Treasury Single Account (TSA), they will continue to improve cash forecasting, extending the setting of cash ceilings for ministries, departments, and agencies from one to three months, and gradually expanding TSA coverage to extrabudgetary funds. The submission for approval by Parliament of a revised Financial and Accounting Procedure Law (budget system law) which covers the entire budget cycle in line with the Fund recommendations *(end-June 2022 structural benchmark)* will facilitate fiscal sustainability via better budget planning and transparency.

20. Debt management would benefit from greater institutional capacity and data transparency to avoid a return to unsustainable borrowing. It will be critical to avoid a re-accumulation of unsustainable debt after HIPC debt relief. Accordingly, the Debt Management Office should be empowered with the mandate to manage external and domestic debt; promulgate regulations and operational procedures for the approval, issuance and monitoring of loan guarantees in line with best practice; prepare a medium-term debt strategy and annual borrowing plans; and coordinate closely with the budget process. The authorities will strengthen debt transparency via the publication of quarterly external public debt reports and annual public debt reports covering external and domestic public and publicly guaranteed debt *(end-June 2022 structural benchmark)*. The report should cover the General Government as well as SOEs with publication within 3 months of the end of the reporting period to ensure both broad and timely provision of debt data.

Box 4. Revised Budget Law

The public financial management framework in Sudan is underpinned by the *Financial and Accounting Procedures Law 2007*, and *Financial and Accounting Regulations of 2011*. A major revision of the Law is needed targeting areas including a better definition of institutional coverage, introduction of principles guiding the conduct of fiscal policy and major PFM reforms, codification of key stages of the budget process, and a clearer definition of minimum requirements of the budget documentation and the in-year and end-of-year reporting requirements. In particular, the revised Law should, among other things, specify:

- **Institutional coverage**: The Law should cover the non-financial public sector.
- **Fiscal responsibility provisions**: These should include broad principles such as transparency, accountability, and sustainability, and specify the procedural rule for determining and monitoring the fiscal objectives through the medium term in the Statement of Fiscal Policy but not necessarily in numerical terms.
- **Intergovernmental fiscal relations**: The Law should clearly indicate the mechanism/formula used to allocate or distribute resources between the central and state governments.
- **Management of natural resource revenue**: The Law should require (i) publishing, as part of the budget, a report that shows all flows of natural resource revenue (both cash and in-kind) and associated spending; and (ii) depositing any (cash) revenue from natural resources into a TSA held with CBOS.
- **Key dates and strategic phase of the budget cycle**: The Law should require the preparation of a fiscal strategy paper (FSP), a Medium-Term Fiscal Framework (MTFF) and a Medium-Term Budget Framework (MTBF) and indicate the dates of each phase (e.g., FSP to be submitted to the Parliament and published no later than nine months before the start of the fiscal year; MTBF, including budget ceilings at ministry level, to be published no later than eight months; and the Budget Circular including the budget ceilings at ministry level and the detailed calendar for preparation and submission of the budget, to be issued no later than eight months);
- **Minimum contents of the documentation to be produced and published**: The Law should prescribe the minimum contents of the documentation produced at the various stages in the budget process. This documentation comprises: (i) the Statement of Fiscal Policy to be submitted to the Parliament; (ii) the annual Fiscal Strategy Paper, to be submitted to the Parliament; (iii) the MTBF; (iv) the Budget Circular which provides guidance to entities preparing budgets for submission to the MoF; (v) the budget statement, documents, and annexes to be submitted to the Parliament annually for approval; (vi) the annual budget law; (vii) the mid-year review of the budget and other in-year reports on budget execution; and (viii) end-of-year budget execution reports and the annual final accounts.
- **Fiscal risk management function**: The responsibility of the MoF for managing fiscal risks should be specified in the Law.
- **A framework to regulate issuance of loan guarantees**: The Law should specify in the annual budget law: (a) the maximum guarantees scheduled to be issued by the federal government, region, governorates, and SOEs; and (b) the financial plan for short-term domestic and external loans and guarantees issued by the federal government, region, governorates, and SOEs, and a report on any change in the plan. the Law should also require MoF to include in its FSP a list of all guarantees issued by the federal government.
- **Accounting and auditing:** The transparency, integrity and accountability principles should be clearly defined in the Law, as well as the coverage, standards and timetable for production of accounts and a requirement to publish the final accounts and audit reports. There should be a requirement on the Auditor General to give an opinion as to whether accounts represent a "true and fair view" of government finances, and an obligation on Government to report on implementation of Auditor General recommendations.
- **Oversight function of SOEs**: The MoF should be granted the power to collect information and perform financial oversight over all public sector entities.

Exchange Rate, Monetary and Financial Sector Policies

21. The steps taken towards a market-determined exchange rate have gone smoothly so far, but the authorities should continue efforts to eliminate all multiple currency practices and exchange restrictions.[1] On February 21, 2021, the authorities unified all exchange rates (excluding the customs valuation exchange rate) at the prevailing market rate of SDG375/USD. Though a ±5 percent band was set on the daily movement of the exchange rate, most FX transactions have been performed within ±3 percent of the CBOS' indicative rate, indicating a welcome low level of volatility in the forex market. More recently, importers not on the CBoS priority list have been using the parallel market at an increasingly depreciated rate to meet their FX demand and a gap between the rates has emerged. The authorities are committed to avoiding new multi-currency practices and exchange restrictions and ongoing TA by the IMF will provide the vehicle for assessing the effectiveness of FX auctions. The authorities should continue to assess the functioning of the exchange rate band with an aim to widen and ultimately eliminate it. Intervention should be limited to mitigating disorderly market conditions and the authorities should avoid actions which may lead to market fragmentation or the emergence of a parallel exchange rate market. It is expected that the authorities will accumulate significant reserves by the end of the program, albeit from a very low level, though reserve coverage will remain below the threshold of what is considered adequate.

22. The authorities should continue to take steps to facilitate the adoption of a reserve money targeting monetary regime. In the short run, the main policy tool for reducing reserve money growth will be fiscal consolidation supplemented by required reserve ratios and use of the limited stock of central bank securities. Over the medium-term, however, the sale of CBOS equity positions in commercial and state-owned banks and conversion of claims on the government into monetary instruments will help to strengthen CBOS' monetary policy toolkit and enhance its ability to mop up liquidity. In addition, the authorities have passed legislation re-introducing conventional banking thereby establishing a dual banking system comprised of both Islamic and conventional banking. Updated regulations are expected to be completed by end-2021 that will strengthen the reserve money targeting regime and development of a government securities market. Regarding CBOS's substantial equity positions in Islamic banks, it is crucial that the authorities proceed carefully on divestment in the broad context of an adequate bank resolution framework to mitigate potential negative spillovers on the banking system.

23. Central bank independence and its supervisory capacity should be strengthened. The revised Central Bank Act aimed at strengthening Central Bank independence was approved by the CBOS Board on May 1 and has now been sent to the Justice Department. The revised Act marks an important step toward a more independent monetary policy and once adopted, it will

[1] Based on the information currently available to staff, Sudan continues to maintain the measures subject to Fund jurisdiction under Article VIII, Sections 2 (a) and 3 as set forth in the staff report for the 2019 Article IV consultation. Foreign exchange auctions recently introduced by the Central Bank of Sudan may also give rise to an MCP arising from the spread of more than 2 percent between exchange rate for transactions within the auction, and between auction and other exchange rates for spot exchange transactions.

be reviewed by staff; any critical outstanding revisions will be considered for future conditionality. Central bank independence needs to be complemented by strengthened regulatory supervision with the goal of modernizing banking regulations in line with Islamic Financial Stability Board and international standards and moving to a risk-based supervision. This is particularly important with the advent of a dual banking system. Phase 1 of the Asset Quality Review is complete, with Phase 2 underway and the authorities completed bank by bank stress tests in February to assess resilience to exchange rate shocks. As a complement to this, the authorities should enact a revised Banking Regulation Act *(end-December 2021 structural benchmark)* which includes a comprehensive resolution regime for the banking sector in line with international best practice. This will lay the groundwork for the authorities to restructure the banking sector through bank resolution, liquidation and/or merger and acquisition, and the adoption of an Action Plan for strengthening the banking sector, including operationalizing the resolution regime and divesting CBOS shares in banks *(end-June 2022 benchmark)*.

24. Strengthening the implementation of the AML/CFT regime must remain a priority. A stronger implementation of the AML/CFT regime, including via the CBOS' update of its institutional risk ratings and its issuance of comprehensive guidelines to supervised entities, is needed to prevent abuse of the financial system and to broaden the current limited network of correspondent banking relationships. The authorities have completed ten out of ten planned AML/CFT on-site inspections of the highest-risk banks as determined by the central bank's off-site assessment tool in 2019. Given that Sudan will soon undergo an AML/CFT mutual evaluation, the authorities should prioritize the completion of a National Risk Assessment (NRA) and the development of a strategy to mitigate and eliminate the identified risks.

Business Climate and Governance Reforms

25. Unlocking Sudan's private sector potential is key to robust and inclusive growth. New Investment and Public-Private Partnership (PPP) laws have recently been enacted with the goal of improving the investment climate, fostering public-private dialogue, strengthening the legal and institutional framework for PPPs, and supporting MSME development. These are prima facie positive developments, but if not structured correctly, PPPs and investment incentive regimes can carry significant fiscal risks. To mitigate these, the authorities should issue implementing regulations for the Investment Law which stipulate that all tax exemptions must have prior approval from the Ministry of Finance and must be costed *(end-December 2021 structural benchmark).* There should be a similar stipulation with respect to the PPP Law, as well as strictly defined limits on the government's total exposure to PPPs and procedures to ensure the affordability of PPP projects in the longer term.

26. Strengthening anti-corruption measures is a crucial component of improved governance and vital for mobilizing private sector investment. Sudan ranks near the bottom in international surveys on the ease of doing business in large measure due to investor concerns about governance. Accordingly, the establishment of an independent Anti-Corruption Commission with a strong mandate to prevent, detect, and investigate corruption is a key structural benchmark for end-September, which was reprogrammed from October 2020 given

delays in passing the law. Meanwhile, to improve oversight, the authorities should transfer supervision of the previous regime's ill-gotten assets from the previous regime to a government holding company overseen by the Ministry of Finance. The disposal of these assets and the use of any related proceeds should adhere to fully transparent procedures under the law. The timely completion of the delayed governance diagnostic exercise (Annex I) is needed to build a roadmap for strengthening governance across various sectors of government. Corruption vulnerabilities will also be reduced by the ongoing AML/CFT work as well as several previously-mentioned reforms, including increased electronic processing of taxpayers, exchange rate unification, the latter of which should eliminate opportunities for insiders to arbitrage across exchange rates. Finally, the justice system must be improved with better resources and protections against political interference to ensure its independence.

27. Reducing the role of the state in the economy would help mitigate fiscal risk and create a more enabling environment for private sector-led growth. The SOE sector in Sudan is large and opaque, and many companies operate outside the control of the government with a limited appreciation for their financial condition or contingent risks. It is important to have an SOE ownership strategy that sets forth the strategic purpose, oversight and management principles of the sector, including a framework for determining which SOEs should remain public, be liquidated or be privatized. The strategy should be endorsed by the Cabinet and the financial oversight of all SOEs transferred to the MOFEP by the end of December 2021 *(end-December 2021 structural benchmark).* As a complement to this and to promote transparency and accountability in the state-owned sector, the authorities should publish the end-2021 financial statements and financial audit reports of the National Audit Chamber beginning with 10 major national SOEs, selected based on their weight in the Sudanese economy and their financial relations with the government (direct budget subsidies, debts owed, tax arrears, or tax exemptions), and ensure their annual publication thereafter *(end-June 2022 structural benchmark).*

Other Policy Issues

28. Statistical capacity remains very weak despite extensive TA, undermining macroeconomic management, policy making and program monitoring. There are limited reliable data sources upon which to establish quantitative performance criteria. Critical actions include: update the System of National Account from SNA1968 to SNA 2008 and update the base year from 1981 to one within the last 5 years; improve data accuracy and collection and expand the fiscal accounts to include General Government statistics; and address the large Errors and Omissions in the BOP through better data collection and reporting. The implementation of e-GDDS would also help to improve data collection, dissemination and reporting across all sectors. The IMF stands ready to provide TA.

PROGRAM MODALITIES AND FINANCING ASSURANCES

29. To support the HIPC process as well as their policy and development efforts, the authorities have requested access under a 39-month ECF arrangement in the amount of US$2.5 billion (SDR1,733.051 million or 275 percent of quota). Staff proposes access under the ECF facility in line with Sudan's balance of payments needs. Sudan's BOP needs are protracted and the underlying reforms are medium-term in nature. The authorities intend to use a large portion (SDR 964 million, or 153 percent of quota) of the proceeds of the initial disbursement of SDR 991.55 million to repay the intraday bridge loan required to clear arrears to the IMF, with remaining access backloaded and expected to be used for reserve accumulation. In view of the monetization of the budget in the initial stages of the program, a portion of the disbursements under the ECF will constitute budget support.

30. IMF financing provides a catalytic role for support by other IFIs (Table 11). In 2021, US$248 million in IDA grants is earmarked for SFSP and an additional US$223 million is expected for investment grant projects. In addition, US$300 million is anticipated in in-kind grant assistance. In 2022, the bulk of the support from IFIs reported in the financing table is represented by IDA grants for the SFSP and investment projects.

31. The program is fully financed (Table 11). There are firm commitments for the next 12 months, with financing needs over that period met through expected grants from the World Bank and other donors, together with the recent World Bank and AfDB arrears clearance operations. Paris Club creditors have also provided official financing assurances for interim debt relief contingent on Sudan meeting the requirements to reach the DP, and some of Sudan's non-Paris Club official bilateral creditors may attend the Paris Club negotiations with Sudan scheduled for July 15, 2021. Moreover, by covering a majority of Sudan's creditor base, the Paris Club agreement, once concluded, can be considered adequately representative and arrears to non-Paris Club bilateral creditors can be deemed away under the Fund's policy on Non-Toleration of Arrears to Official Creditors. The expected continued engagement of international donors indicates good prospects for financing over the duration of the Fund-supported program.

32. Program conditionality is adapted to Sudan's fragile environment, notably the country's humanitarian, security, and political situation. Specifically, the program contains a limited number of well-targeted structural benchmarks per review. The program will also take account of the extent of reforms committed under programs with other partners, including the World Bank, AfDB, the EU and UNDP. Program monitoring is parsimonious and focused on macroeconomic criticality. The program will be monitored in semi-annual reviews, with quantitative performance criteria (QPCs), indicative targets (ITs) and structural benchmarks

initially established for the first 12 months (MEFP, Tables 1 and 2).[2] Effective implementation of the ECF-supported program is a pre-requisite for HIPC Completion Point that also requires Sudan to implement for at least one year a full Poverty Reduction Strategy and implement the floating CP triggers. Conditionality is aligned with CP floating triggers as outlined in the HIPC Decision Point document, and focuses on domestic revenue mobilization, strengthening governance, public financial and debt management, reducing the role of the state in the economy in support of private sector growth, and reforms to reduce poverty and improve social conditions.

33. Following the provision of debt relief under the HIPC framework Sudan's capacity to repay the Fund will be adequate but subject to risks. Standard indicators of Fund exposure show that credit outstanding would peak at SDR 1.362 billion (216 percent of quota) in 2023 and then decline sharply at Completion Point as HIPC and beyond-HIPC debt relief is delivered. Obligations to the Fund would peak at 5 percent of GDP and 135 percent of reserves in 2023. With these indicators Sudan is an outlier when compared to a PRGT control group, pointing to risks to the repayment capacity. Risks to debt servicing will be mitigated by HIPC debt relief, continued access over the foreseeable future to concessional financing and improved debt management capacity under the program.

34. Sudan remains in debt distress, but debt is assessed to be sustainable in a forward-looking sense (See DSA). Contingent on the full delivery of the debt relief under HIPC, MDRI, and beyond-HIPC at the Completion Point, Sudan's debt improves dramatically to manageable levels at below relevant benchmark thresholds during the forecast horizon. Under this scenario, Sudan's debt is judged as sustainable. Sudan is assessed to be at moderate risk of debt distress at post-Completion Point. In addition to full delivery of debt relief, debt sustainability is also dependent on strong fiscal performance, structural reforms, access to concessional finance and grants.

35. The authorities will abide by the requirements of the IMF's safeguards policy. The authorities have committed to undergo a safeguards assessment of the Central Bank of Sudan (CBoS) to be completed before the first review and will provide IMF staff access to the central bank's most recently completed external audit reports and authorize the central bank's external auditors to hold discussions with staff. Given that part of the financing from the IMF will facilitate budgetary financing, a framework agreement will be established between the CBoS and the Ministry of Finance and Economic Planning on respective responsibilities for servicing financial obligations to the IMF.

[2] At the first review, a QPC on a measure of the central government balance will be introduced, subject to the adequate resolution of data reporting issues.

STAFF APPRAISAL

36. International support for Sudan has gained momentum, clearing the way for HIPC Decision Point. In December 2020, Sudan was removed from the U.S. list of State Sponsors of Terrorism (SSTL) while in March and May 2021 respectively, Sudan cleared arrears to the World Bank and the African Development Bank (AfDB). The authorities have met the other requirements for HIPC Decision Point including a track record of satisfactory performance under the UCT-quality SMP and adoption of the poverty reduction strategy.

37. The authorities should be commended for their steadfast implementation of reforms, though fragility remains high and the macroeconomic situation challenging. The unification of the exchange rate, reduction of fuel subsidies and improved tax revenue yield have opened a path to economic stabilization. As a result, growth is expected to turn positive in 2021 and gain momentum through 2022, and the exchange rate has remained broadly stable following unification, though inflation remains very high, which could lead to depreciation, testing the government's resolve. Donor financing, strong domestic revenue mobilization and avoiding the re-emergence of fuel subsidies will be needed to rein in monetization and support macroeconomic stability.

38. Sustained efforts toward fiscal consolidation are crucial to stabilize the economy. The program targets a medium-term overall fiscal deficit of 1 percent of GDP achieved through enhanced domestic revenue mobilization to create fiscal space for needed social and infrastructure spending, and continued reforms in the energy sector. The authorities are committed to adopting a budget for 2022 that would maintain the fiscal path towards the medium-term goal.

39. The reduction of energy subsidies is central to reducing the deficit and creating space for social spending. To address the reemergence of fuel subsidization, it is critical for the authorities to remove controls on retail gasoline and diesel fuel prices and allow gasoline and diesel fuel suppliers to contract at negotiated market prices. In the electricity sector, a plan should be put in place to reduce electricity subsidies in the context of improving viability of the sector and eliminating all electricity subsidies by 2024. Subsidy reduction will free up fiscal space for social spending, but improvements in coordination and administration are also needed to accelerate the rollout of the Sudan Family Support Program and transition to a targeted social safety net system.

40. Additional tax measures and administrative improvements are needed to raise domestic revenue. In addition to the elimination of the customs exchange rate, the authorities should remove all exemptions on VAT except those related to food, and the personal income tax exemption on people over 50 years of age. Unifying personal income tax rates in the public and private sectors, harmonizing corporate income taxes, raising fees, and improving collection from the gold sector will also help revenue mobilization. On the administrative side, measures to strengthen the Large Taxpayer Office and PFM reforms, including the development of a Public

Financial Management Roadmap, are needed to enhance revenue collection and fiscal control. Improved debt management will help to avoid the re-accumulation of unsustainable debt.

41. The move to a market-determined exchange rate has gone smoothly and the authorities should strengthen the policy foundation for reserve money targeting. The re-introduction of conventional banking will facilitate development of effective monetary instruments. Over the medium-term, the sale of CBOS' equity in commercial and state-owned banks and conversion of claims on the government into monetary instruments will also strengthen CBOS' monetary policy toolkit and enhance its ability to mop up liquidity. Given weaknesses in the banking sector, the authorities should proceed cautiously on exiting their equity positions contingent on an effective bank resolution framework and strengthened capital adequacy.

42. Additional steps are needed to strengthen central bank independence and its supervisory capacity. The recent approval of the revised Central Bank Act is a welcome first step. The authorities should enact a revised Banking Regulation Act which includes a comprehensive resolution regime for the banking sector in line with international best practice; this will help to lay the groundwork for restructuring the banking sector through bank resolution, liquidation and/or merger and acquisition. This should be followed by an Action Plan for operationalizing the resolution regime and divesting CBOS shares in banks. Capacity to supervise the dual system should be enhanced, including through technical assistance.

43. Unlocking Sudan's private sector potential will require significant steps to improve governance, reduce the role of the state in the economy, and mobilize private investment. The establishment of an independent Anti-Corruption Commission is needed to prevent, detect, and investigate corruption, while a strategy for the SOE sector should establish oversight and management principles of the sector, set forth a framework for determining which SOEs should remain public, be liquidated or be privatized. The publication of audited statements for the largest SOEs will help to engender transparency. The authorities should ensure that implementation of the new PPP and Investment Laws are carefully monitored by the MOFEP to prevent the emergence of contingent liabilities and a proliferation of tax exemptions.

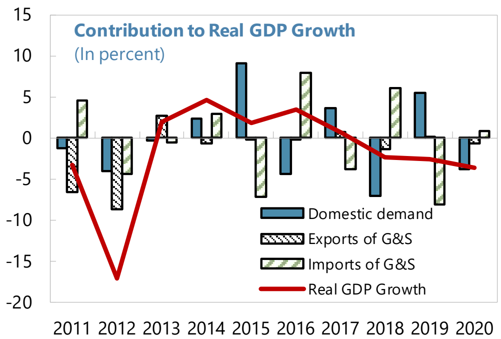
44. Debt is assessed to be sustainable in a forward-looking sense. Contingent on the full delivery of the debt relief under HIPC, MDRI, and beyond-HIPC at the Completion Point, Sudan's debt improves dramatically to manageable levels during the forecast horizon. As Decision Point is only the beginning of the HIPC process, it is crucial for the authorities to remain on track with the new Fund-supported program to reach the Completion Point and qualify for full HIPC debt relief. A strong commitment must be maintained to sustain reform momentum. Continued technical and financial support from donors will also be needed to maximize the program's success.

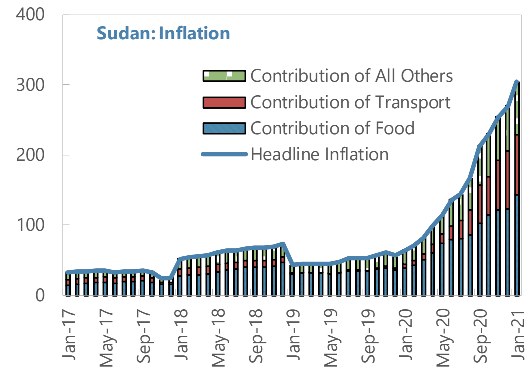
45. Staff supports the authorities' request for a new 39-month arrangement under the ECF with frontloaded access. While there are risks, the authorities' demonstrated commitment to reform and significant donor support are key considerations in staff's support for the program.

Figure 1. Sudan: Selected Economic Indicators

The economy suffered a third consecutive year of contraction in 2020

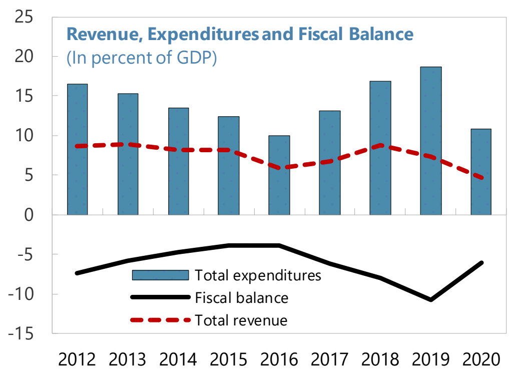
...while inflation surged due to monetary expansion, shortages of food and fuel, and adjustment of administered prices.

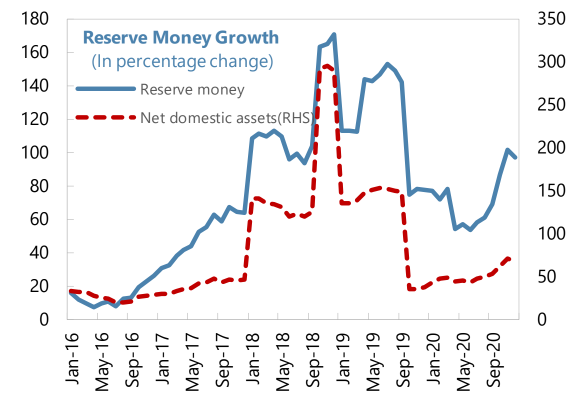




The fiscal deficit narrowed in 2020...

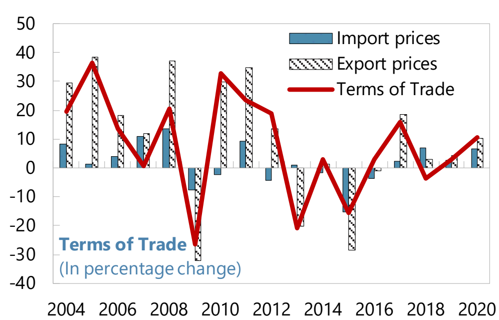
...but large monetary expansion continued due to monetization and purchases of foreign exchange.

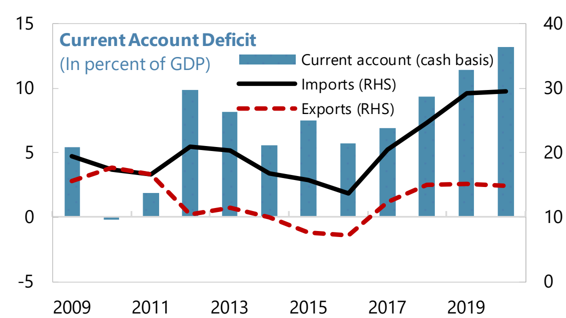




The terms of trade increased...

...while imports also grew rapidly.

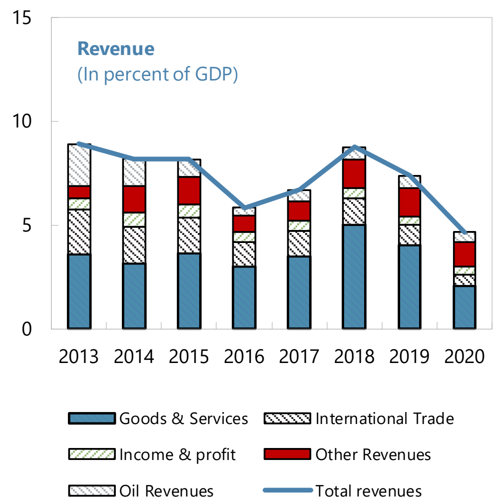




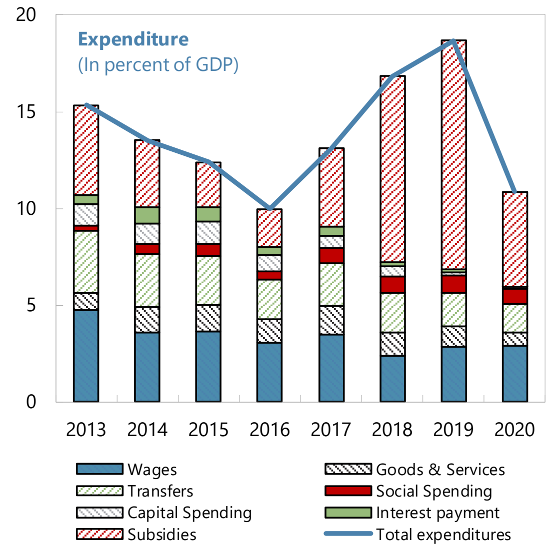
Sources: Sudanese authorities; and IMF staff calculations.

Figure 2. Sudan: Fiscal Sector

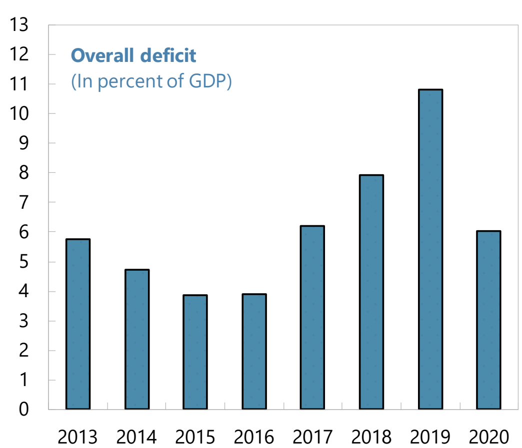
Revenue is low and declined further due to COVID-19.



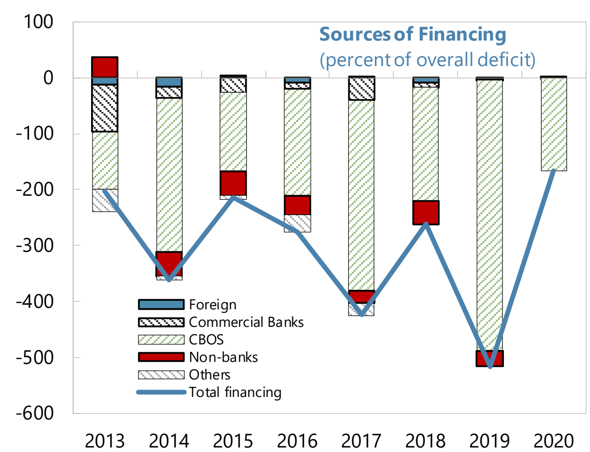
Subsidies on retail gasoline and diesel were gradually removed.



The fiscal deficit came down but remained large

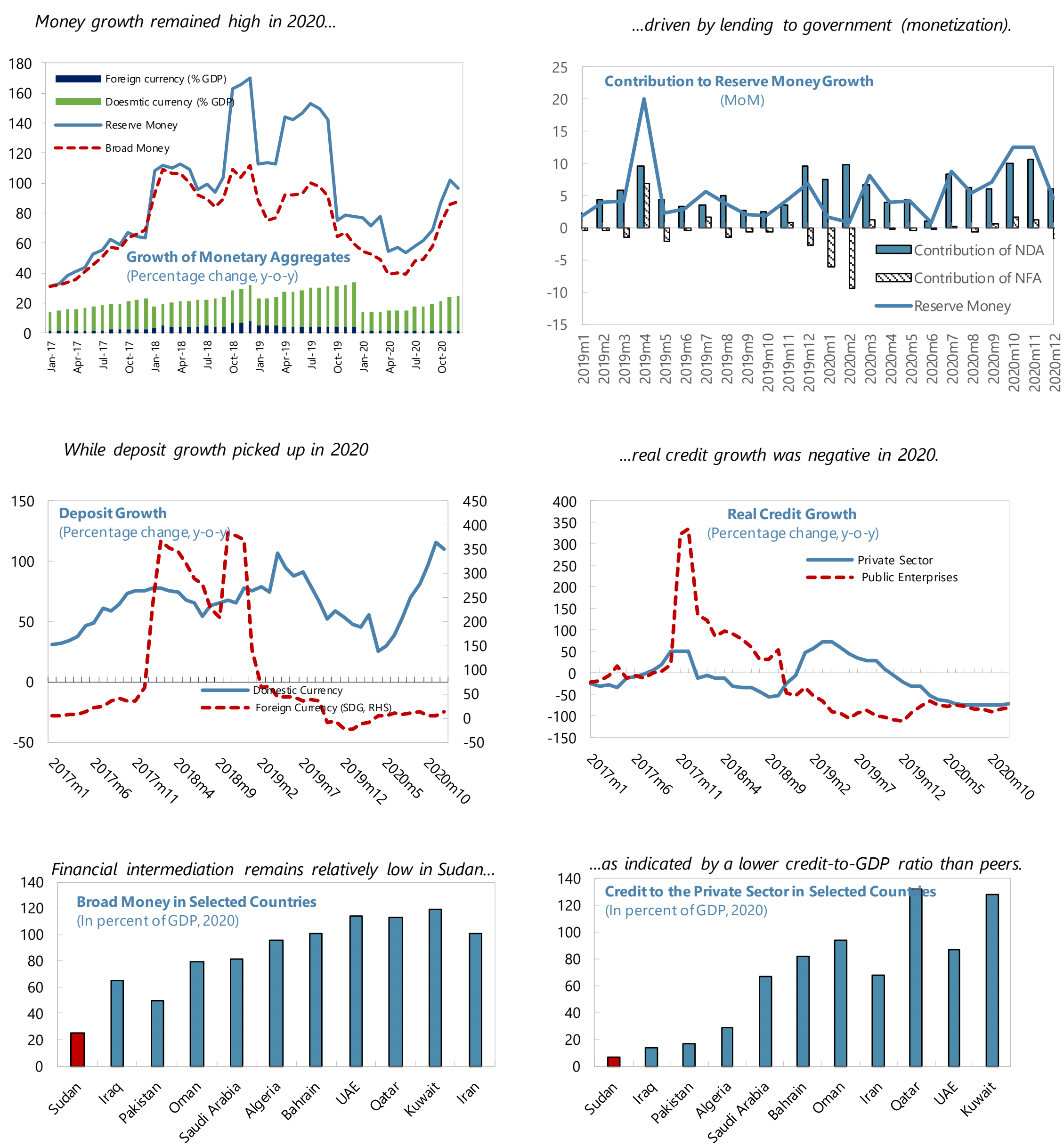


...and continued to drive monetization.



Sources: Sudanese authorities, and IMF Staff estimates.

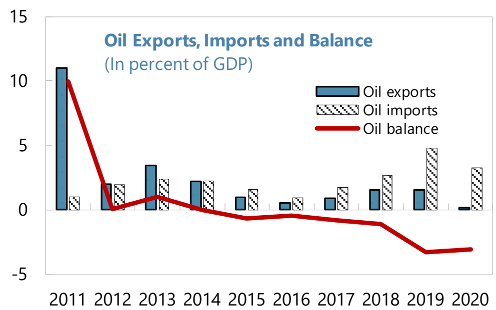
Figure 3. Sudan: Monetary Sector



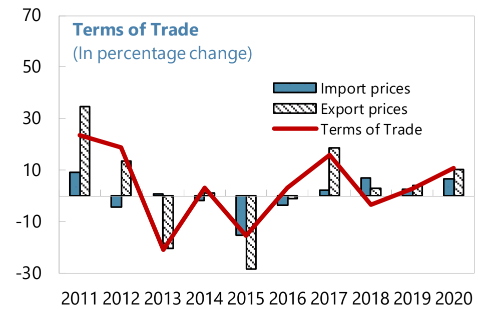
Sources: World Economic Outlook, Central Bank of Sudan, and IMF staff calculations.

Figure 4. Sudan: External Sector

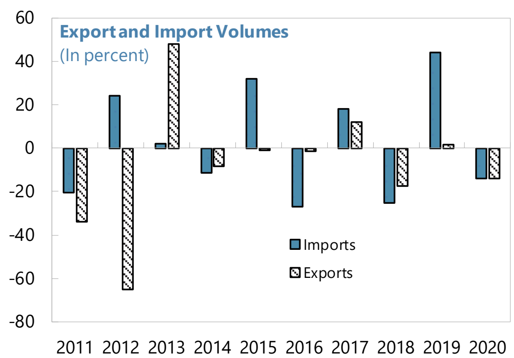
Sudan became a net oil importer shortly after the secession of South Sudan.



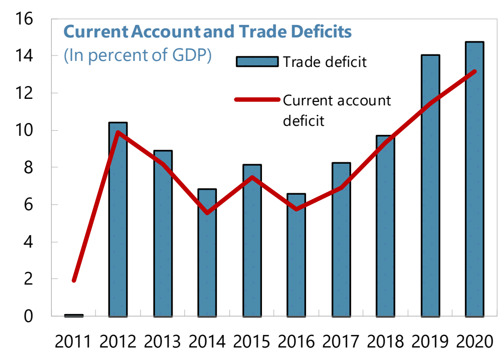
The terms of trade improved slightly in 2020...



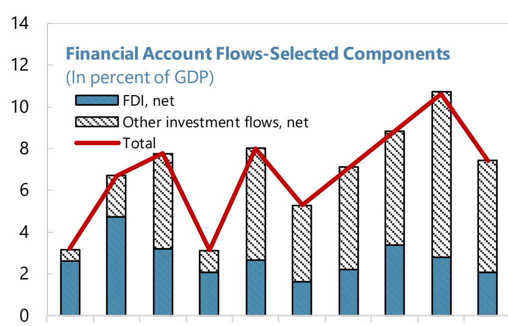
...but both import and export volumes fell...



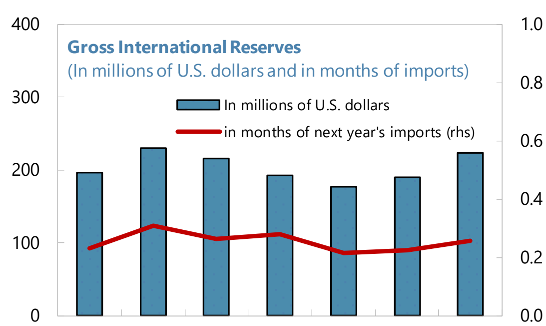
...and the current account deficit remained high.



Capital inflows decreased...



...and reserve coverage remained very low.



Sources: Central Bank of Sudan; and IMF Staff calculations.

Table 1. Sudan: Selected Economic Indicators, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.	Proj.					
Output and prices				(Annual change in percent)					
Real GDP (market prices)	-2.7	-2.2	-3.6	0.9	3.5	5.0	6.5	6.8	6.5
Consumer prices (end of period)	72.9	57.0	269.3	115.7	27.1	10.5	8.3	8.0	8.0
Consumer prices (period average)	63.3	51.0	163.3	194.8	42.0	17.6	9.3	8.2	8.0
Central government				(In percent of GDP)					
Revenue and grants	8.9	7.8	4.8	9.1	12.6	12.3	12.3	11.8	11.7
Revenue	8.8	7.4	4.7	6.2	9.0	9.2	9.5	9.6	9.7
Tax revenue	6.8	5.4	3.0	4.4	6.8	7.3	7.5	7.7	8.0
Expenditure 2/	16.8	18.7	10.8	12.0	14.1	13.4	13.4	12.8	12.6
Current 2/	16.3	18.5	10.6	10.1	12.1	11.0	11.1	10.8	10.7
Wage bill	2.4	2.9	2.9	1.6	2.2	2.3	2.8	2.9	2.9
Goods and services	1.2	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest	0.2	0.2	0.0	0.1	0.1	0.2	0.2	0.3	0.3
Subsidies 2/	9.6	11.8	4.8	3.7	2.0	1.5	1.1	1.0	1.0
Transfers	2.1	1.7	1.5	2.8	3.7	3.8	3.6	3.5	3.5
Other current	0.8	0.9	0.8	1.2	3.4	2.5	2.7	2.4	2.4
Capital	0.5	0.1	0.1	1.8	1.9	2.4	2.3	2.0	1.9
Overall balance 2/	-7.9	-10.8	-5.9	-2.9	-1.5	-1.0	-1.1	-1.0	-1.0
Monetary sector 5/				(Annual changes in percent)					
Broad money	111.8	60.1	90.6	116.8	33.3	16.2	17.0	13.0	9.5
Reserve money	170.5	77.5	119.4	304.2	23.1	12.5	12.2	8.0	8.0
Balance of payments				(In percent of GDP, unless otherwise indicated)					
Exports of goods	10.4	11.1	11.1	14.1	14.7	15.4	15.9	16.5	16.6
Imports of goods	21.1	25.0	25.9	25.1	26.3	26.7	27.0	26.8	26.9
Trade balance	-9.7	-14.0	-14.7	-10.2	-11.0	-10.6	-10.3	-9.4	-9.3
Current account balance	-14.0	-15.6	-17.5	-10.0	-9.5	-9.0	-8.6	-8.1	-8.1
Current account balance (cash basis)	-9.3	-11.4	-13.2	-5.9	-5.5	-5.2	-5.2	-5.0	-5.3
Overall balance (cash basis)	-4.7	-4.5	-9.6	0.6	0.6	0.6	0.4	0.9	0.9
PPG External debt (in billions of US$) 4/	55.1	56.3	56.6	30.5	28.3	29.0	6.2	6.3	6.4
Gross usable international reserves (in millions of US$	178	190	223	472	881	1,476	2,197	2,601	2,956
In months of imports	0.2	0.2	0.3	0.5	0.8	1.3	1.8	1.9	2.0
Memorandum items:									
Nominal GDP (in billions of SDGs)	1,362	2,030	5,168	15,493	22,690	27,964	32,509	37,505	43,088
Nominal GDP (in $US billion)1/	33.4	33.6	34.4	35.7	37.4	40.0	43.3	47.1	51.1
Exchange rate (SDG/US$, end of period) 1/	45.2	71.6	221.4	…	…	…	…	…	…
Exchange rate (SDG/US$, period average) 3/	40.7	60.5	150.4	…	…	…	…	…	…

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

1/ GDP and public debt estimated at the weighted average of the parallel and official exchange rate before the exchange rate unification in 2021.

2/ Including implicit subsidies recorded on central bank's balance sheet.

3/ Exchange rate is calculated as the weighted average of official and parallel exchange rate before the exchange rate unification in 2021.

4/ The reconcilidation of external debt begins with outstanding debt at end-2019. Debt figures are drawn from DRA exrcise

5/ Monetary data has structural break in 2020 due to reclassification following IMF TA.

Table 2. Sudan: Medium-Term Macroeconomic Outlook, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.	Proj.					
Output and prices				(Annual change in percent)					
Real GDP (at market prices)	-2.7	-2.2	-3.6	0.9	3.5	5.0	6.5	6.8	6.5
Consumer prices (end of period)	72.9	57.0	269.3	115.7	27.1	10.5	8.3	8.0	8.0
Consumer prices (period average)	63.3	51.0	163.3	194.8	42.0	17.6	9.3	8.2	8.0
GDP deflator	70.3	45.7	164.2	197.1	41.5	17.4	9.2	8.0	7.9
Investment and savings				(In percent of GDP)					
Gross domestic expenditure	109.7	114.0	114.7	110.2	111.0	110.6	110.3	109.4	109.3
Final consumption	96.1	104.2	104.7	99.9	100.3	99.7	99.3	98.3	98.1
Gross capital formation	13.6	9.9	10.0	10.4	10.8	10.9	11.0	11.1	11.2
Gross Savings	-0.4	-5.8	-7.5	0.3	1.3	1.9	2.4	3.0	3.1
Central government operations									
Revenue and grants	8.9	7.8	4.8	9.1	12.6	12.3	12.3	11.8	11.7
Revenue	8.8	7.4	4.7	6.2	9.0	9.2	9.5	9.6	9.7
Of which: Oil revenues 1/	1.3	1.3	1.2	1.3	1.6	1.3	1.4	1.2	1.1
Taxes	6.8	5.4	3.0	4.4	6.8	7.3	7.5	7.7	8.0
Expenditure 2/	16.8	18.7	10.8	12.0	14.1	13.4	13.4	12.8	12.6
Current 2/	16.3	18.5	10.6	10.1	12.1	11.0	11.1	10.8	10.7
Wages	2.4	2.9	2.9	1.6	2.2	2.3	2.8	2.9	2.9
Subsidies 2/	9.6	11.8	4.8	3.7	2.0	1.5	1.1	1.0	1.0
Transfers	2.1	1.7	1.5	2.8	3.7	3.8	3.6	3.5	3.5
Capital	0.5	0.1	0.1	1.8	1.9	2.4	2.3	2.0	1.9
Overall balance	-7.9	-10.8	-5.9	-2.9	-1.5	-1.0	-1.1	-1.0	-1.0
Monetary sector 4/				(Annual change in percent, unless otherwise indicated)					
Broad money	111.8	60.1	90.6	116.8	33.3	16.2	17.0	13.0	9.5
Reserve money	170.5	77.5	119.4	304.2	23.1	12.5	12.2	8.0	8.0
Credit to the private sector	69.3	45.8	78.8	80.0	70.0	50.0	40.0	50.0	50.0
Broad money (percent of GDP)	31.6	34.0	25.4	18.4	16.7	15.8	15.9	15.6	14.8
Net claims on government (percent of GDP)	20.4	23.2	13.6	16.6	13.1	13.9	11.7	10.3	9.3
Credit to the private sector (percent of GDP)	9.0	8.8	6.2	3.7	4.3	5.3	6.3	8.2	10.8
External sector				(In percent of GDP, unless otherwise indicated)					
Exports of goods (in US$, annual percent change)	-15.0	7.4	1.6	32.3	9.5	11.8	12.0	12.9	9.1
Imports of goods (in US$, annual percent change)	-14.1	18.8	6.0	0.7	10.0	8.3	9.7	8.1	8.6
Merchandise trade balance	-9.7	-14.0	-14.7	-10.2	-11.0	-10.6	-10.3	-9.4	-9.3
Current account balance (cash basis)	-9.3	-11.4	-13.2	-5.9	-5.5	-5.2	-5.2	-5.0	-5.3
External debt (in billions of US$) 3/	55.1	56.3	56.6	30.5	28.3	29.0	6.2	6.3	6.4
Gross international reserves (in billions of US$)	178	190	223	472	881	1,476	2,197	2,601	2,956
In months of next year's imports of G&S	0.2	0.2	0.3	0.5	0.8	1.3	1.8	1.9	2.0
Memorandum items:									
Nominal GDP (in billions of SDG)	1,362	2,030	5,168	15,493	22,690	27,964	32,509	37,505	43,088
Exchange rate (SDG/US$, period average)	40.7	60.5	150.4	…	…	…	…	…	…

Sources: Central Bank of Sudan and Ministry of Finance and Economic Planning; and IMF staff estimates and projections.
1/ Oil sales, oil transit fees, and Transitional Financial Arrangement.
2/ Including implicit subsidies recorded on central bank's balance sheet.
3/ The reconcilidation of external debt begins with outstanding debt at end-2019. Debt figures are drawn from DRA exercise.
4/ Monetary data has structural break in 2020 due to reclassification following IMF TA.

Table 3a. Sudan: Balance of Payments, 2018–26

(In millions of US dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.	Proj.					
Current account balance	-4,679	-5,244	-6,004	-3,572	-3,541	-3,592	-3,746	-3,811	-4,134
Current account balance (cash basis)	-3,118	-3,841	-4,531	-2,090	-2,045	-2,097	-2,273	-2,368	-2,691
Trade balance	-3,242	-4,708	-5,068	-3,640	-4,121	-4,222	-4,468	-4,413	-4,765
Exports, f.o.b.	3,485	3,741	3,802	5,031	5,507	6,157	6,894	7,782	8,486
Of which: Gold	832	989	1,481	1,930	1,996	2,069	2,131	2,173	2,216
Imports, f.o.b.	7,065	8,393	8,894	8,956	9,853	10,668	11,704	12,652	13,742
Services (net)	339	-57	23	285	225	289	341	458	491
Payments	1,172	1,425	1,260	1,581	1,739	1,883	2,065	2,233	2,425
Primary income (net)	-1,812	-1,620	-1,472	-1,666	-1,674	-1,652	-1,667	-1,710	-1,727
Receipts	127	102	61	59	71	84	75	70	72
Payments	1,939	1,722	1,533	1,725	1,745	1,736	1,742	1,780	1,799
Of which: Public interest due	1,596	1,438	1,506	1,506	1,506	1,506	1,506	1,506	1,506
Secondary income (net)	375	1,084	536	1,734	2,254	2,282	2,389	2,312	2,358
Private	24	174	255	681	937	1,080	1,193	1,316	1,427
Official	351	910	281	1,052	1,318	1,203	1,196	996	931
of which payments for the victims of terrorism	0	0	356	0	0	0	0	0	0
Capital and financial account	3,123	3,742	2,690	3,782	3,771	3,830	3,932	4,215	4,588
Capital account	163	180	144	162	162	162	162	162	162
Financial account (net)	-2,960	-3,562	-2,547	-3,620	-3,609	-3,668	-3,770	-4,053	-4,426
Direct Investment (net)	1,136	945	717	1,288	1,448	1,629	1,936	2,118	2,317
Portfolio Investment (net)	-3	36	11	12	12	13	14	14	15
Other investment (net)	-1,822	-2,653	-1,841	-2,344	-2,173	-2,052	-1,847	-1,950	-2,124
Errors and omissions	1,534	1,502	3,307	0	0	0	0	0	0
Overall balance	-1,555	-1,502	-3,314	210	230	238	185	404	454
Financing	1,555	1,502	3,314	-210	-230	-238	-185	-404	-454
Change in Reserves (+ increase)	-21	12	33	249	409	595	721	404	355
Use of Fund resources (net)				1,431	179	357	536	0	-99
Purchase and loans				1,431	179	357	536	0	0
Repayment				1,392	0	0	1,431	0	-99
Transfers (includes HIPC interim assistance)				0	0	0	0	0	0
Arrears, new change (+ accumulation)				-25,690	0	0	-23,011	0	0
Prospective debt relief and rescheduling				25,690	0	0	23,011	0	0
of which IMF beyond-HIPC debt relief				0	0	0	1,431	0	0
Memorandum items:									
PPG External debt 1/	55,084	56,309	56,578	30,548	28,349	28,967	6,178	6,320	6,446
Gross usable international reserves	178	190	223	472	881	1,476	2,197	2,601	2,956
Imports coverage (in months)	0.2	0.2	0.3	0.5	0.8	1.3	1.8	1.9	2.0
Nominal GDP (USD million)	33,432	33,564	34,370	35,664	37,440	39,959	43,330	47,133	51,129

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

1/ The reconcilidation of external debt begins with outstanding debt at end-2020. External debt figures are derived from DRA exercise and reflect existing debt.

Table 3b. Sudan: Balance of Payments, 2018–26
(In percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.	Proj.					
Current account balance	-14.0	-15.6	-17.5	-10.0	-9.5	-9.0	-8.6	-8.1	-8.1
Current account balance (cash basis)	-9.3	-11.4	-13.2	-5.9	-5.5	-5.2	-5.2	-5.0	-5.3
Trade balance	-9.7	-14.0	-14.7	-10.2	-11.0	-10.6	-10.3	-9.4	-9.3
Oil	-1.1	-3.2	-3.1	-2.5	-3.0	-3.0	-3.0	-2.9	-2.9
Non-oil	-8.6	-10.8	-11.6	-7.7	-8.0	-7.5	-7.3	-6.4	-6.4
Exports, f.o.b.	10.4	11.1	11.1	14.1	14.7	15.4	15.9	16.5	16.6
Oil	1.6	1.6	0.2	0.4	0.5	0.5	0.5	0.6	0.7
Non-oil	8.9	9.6	10.9	13.7	14.2	14.9	15.4	15.9	15.9
Imports, f.o.b.	21.1	25.0	25.9	25.1	26.3	26.7	27.0	26.8	26.9
Oil	2.7	4.8	3.3	2.9	3.5	3.5	3.6	3.6	3.6
Non-oil	18.4	20.2	22.6	22.2	22.8	23.2	23.4	23.3	23.3
Services (net)	1.0	-0.2	0.1	0.8	0.6	0.7	0.8	1.0	1.0
Primary income (net)	-5.4	-4.8	-4.3	-4.7	-4.5	-4.1	-3.8	-3.6	-3.4
Receipts	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.1	0.1
Payments	5.8	5.1	4.5	4.8	4.7	4.3	4.0	3.8	3.5
Secondary income (net)	1.1	3.2	1.6	4.9	6.0	5.7	5.5	4.9	4.6
Private	0.1	0.5	0.7	1.9	2.5	2.7	2.8	2.8	2.8
Official	1.1	2.7	0.8	3.0	3.5	3.0	2.8	2.1	1.8
Capital and financial account	0.5	0.5	0.4	0.5	0.4	0.4	0.4	0.3	0.3
Financial account (net)	-8.9	-10.6	-7.4	-10.1	-9.6	-9.2	-8.7	-8.6	-8.7
Direct Investment (net)	3.4	2.8	2.1	3.6	3.9	4.1	4.5	4.5	4.5
Portfolio Investment (net)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-5.4	-7.9	-5.4	-6.6	-5.8	-5.1	-4.3	-4.1	-4.2
Reserve assets	-0.1	0.0	0.1	0.7	1.1	1.5	1.7	0.9	0.7
Errors and omission	4.6	4.5	9.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.7	-4.5	-9.6	0.6	0.6	0.6	0.4	0.9	0.9

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

Table 4a. Sudan: Central Government Operations, 2018–26
(In billions of Sudanese pounds)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.	Proj.					
Revenue and grants	121.4	159.2	249.3	1,407.8	2,859.1	3,452.9	4,013.0	4,431.0	5,026.7
Revenue	119.3	149.8	241.3	953.1	2,033.6	2,575.5	3,077.1	3,597.1	4,198.2
Of which: Nonoil revenue	101.5	123.1	177.1	753.0	1,681.0	2,207.6	2,632.5	3,129.0	3,703.6
Taxes	92.4	110.5	154.9	677.6	1,543.9	2,031.2	2,431.0	2,896.6	3,436.6
Goods and services	68.2	82.4	106.7	402.9	853.0	1,146.8	1,374.6	1,618.2	1,910.0
International trade and transactions	17.4	19.4	27.8	209.0	549.5	690.2	812.2	978.0	1,181.2
Income, profits, property and others	6.8	8.7	20.4	65.6	141.4	194.3	244.2	300.4	345.4
Oil revenue	17.8	26.7	64.2	200.1	352.6	367.9	444.6	468.0	494.6
Oil sales	8.2	11.8	23.7	148.4	203.5	226.3	292.6	306.8	323.8
Transitional Financial Arrangement	3.7	5.8	17.2	19.3	26.9	0.0	0.0	0.0	0.0
Oil transit fees	5.9	9.0	23.3	32.5	122.1	141.7	152.0	161.2	170.7
Other revenue	9.1	12.7	22.2	75.4	137.1	176.4	201.5	232.4	267.0
Of which: Property income	5.8	8.9	16.3	52.4	95.2	117.4	136.5	157.4	180.9
Administrative fees	3.2	3.7	5.1	23.0	41.9	59.0	65.0	75.0	86.2
Grants	2.1	9.4	8.1	454.7	825.5	877.3	935.9	833.9	828.5
of which: Family support program	-	-	-	101.9	398.3	0.0	0.0	0.0	0.0
Total expenditure 1/	229.3	378.8	556.0	1,855.1	3,190.5	3,745.3	4,362.4	4,789.9	5,448.7
Expense (current expenditure) 1/	222.3	375.9	550.1	1,569.9	2,750.0	3,078.2	3,607.8	4,038.5	4,619.0
Wages	32.8	58.4	149.4	249.3	499.2	643.2	910.2	1,087.6	1,249.5
Goods and services	16.1	20.7	36.3	108.7	159.2	196.2	228.1	263.1	302.3
Interest	3.2	3.6	0.4	14.8	32.2	51.0	69.5	106.1	115.3
Foreign	0.0	0.4	0.1	9.8	6.0	7.6	24.6	49.9	53.3
Domestic	3.2	3.1	0.3	5.0	26.2	43.4	45.0	56.2	62.0
Subsidies 2/	130.9	239.9	247.8	576.3	450.3	414.3	351.5	387.7	425.9
of which: Fuel	114.4	214.0	195.0	92.6	20.5	33.3	50.0	53.0	56.2
Wheat	8.6	19.5	34.0	137.5	188.9	224.0	249.0	274.2	300.2
Electricity	7.8	6.4	15.8	321.1	204.2	111.9	0.0	0.0	0.0
Transfers	28.1	35.1	76.0	440.9	828.4	1,068.3	1,183.7	1,310.0	1,487.1
of which: States (current)	18.3	22.8	68.9	235.9	444.8	623.2	774.4	956.8	1,176.5
States (capital)	9.6	11.7	2.7	129.7	244.1	343.6	349.2	283.8	231.0
Other transfers	0.3	0.6	4.4	75.3	139.4	101.5	60.1	69.3	79.7
Other current	11.3	18.3	39.3	179.8	780.8	705.3	864.7	883.9	1,038.8
Of which: Social spending	10.5	15.0	39.3	179.8	780.8	705.3	849.7	883.9	1,038.8
FSP				110.1	488.5				
Net acquisition of nonfinancial assets	7.0	2.9	6.0	285.2	440.5	667.1	754.6	751.4	829.8
Budget overall balance	-39.2	-41.3	-239.9	-455.7	-588.9	-647.9	-689.6	-741.7	-900.5
Budget overall balance 1/	-107.9	-219.2	-306.7	-447.3	-331.3	-292.5	-349.4	-358.9	-422.0
Financing	107.9	219.2	306.7	447.3	331.3	292.5	349.4	358.9	422.0
Foreign financing	3.4	1.6	-0.6	7.0	23.7	25.3	55.5	111.9	137.3
Disbursements for projects	3.9	5.6	1.0	38.7	64.1	69.8	112.3	162.8	203.8
Principal repayments	0.5	4.0	1.6	31.7	40.4	44.5	56.8	50.9	66.5
Domestic financing	98.7	211.3	307.4	440.3	307.6	267.2	293.8	247.0	284.8
Sale of government recovered assets	0.0	0.0	0.0	0.0	50.0	100.0	125.0	100.0	75.0
CBOS	79.5	200.0	395.9	409.3	121.5	0.0	0.0	0.0	0.0
Commercial banks	3.4	0.4	1.2	31.0	90.8	111.3	71.3	34.5	80.5
Nonbanks	16.1	11.2	0.0	0.0	45.4	55.9	97.5	112.5	129.3
Change in net domestic arrears	-0.3	-0.3	-3.3	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears	0.3	0.3	3.3	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:									
Nominal GDP	1,361.9	2,029.8	5,168.2	15,493.3	22,690.2	27,963.7	32,508.9	37,504.8	43,087.7

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

1/ Including implicit subsidies recorded on central bank's balance sheet.

2/ 2021 Budget was prepared with official exchange rate at 55 SDG/$.

Table 4b. Sudan: Central Government Operations 2018–26
(In percent of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.	Proj.					
Revenue and grants	8.9	7.8	4.8	9.1	12.6	12.3	12.3	11.8	11.7
Revenue	8.8	7.4	4.7	6.2	9.0	9.2	9.5	9.6	9.7
Of which : Nonoil revenue	7.5	6.1	3.4	4.9	7.4	7.9	8.1	8.3	8.6
Taxes	6.8	5.4	3.0	4.4	6.8	7.3	7.5	7.7	8.0
Goods and services	5.0	4.1	2.1	2.6	3.8	4.1	4.2	4.3	4.4
International trade and transactions	1.3	1.0	0.5	1.3	2.4	2.5	2.5	2.6	2.7
Income, profits, property and others	0.5	0.4	0.4	0.4	0.6	0.7	0.8	0.8	0.8
Oil revenue	1.3	1.3	1.2	1.3	1.6	1.3	1.4	1.2	1.1
Oil sales	0.6	0.6	0.5	1.0	0.9	0.8	0.9	0.8	0.8
Transitional Financial Arrangement	0.3	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0
Oil transit fees	0.4	0.4	0.5	0.2	0.5	0.5	0.5	0.4	0.4
Other revenue	0.7	0.6	0.4	0.5	0.6	0.6	0.6	0.6	0.6
Property income	0.4	0.4	0.3	0.3	0.4	0.4	0.4	0.4	0.4
Administrative fees	0.2	0.2	0.1	0.1	0.2	0.2	0.2	0.2	0.2
Grants	0.2	0.5	0.2	2.9	3.6	3.1	2.9	2.2	1.9
of which: Family support program	-	-	0.0	0.7	1.8	0.0	0.0	0.0	0.0
Total expenditure 1/	16.8	18.7	10.8	12.0	14.1	13.4	13.4	12.8	12.6
Expense (current expenditure) 1/	16.3	18.5	10.6	10.1	12.1	11.0	11.1	10.8	10.7
Wages	2.4	2.9	2.9	1.6	2.2	2.3	2.8	2.9	2.9
Goods and services	1.2	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest	0.2	0.2	0.0	0.1	0.1	0.2	0.2	0.3	0.3
Foreign	0.0	0.0	0.0	0.1	0.0	0.0	0.1	0.1	0.1
Domestic	0.2	0.2	0.0	0.0	0.1	0.2	0.1	0.1	0.1
Subsidies 2/	9.6	11.8	4.8	3.7	2.0	1.5	1.1	1.0	1.0
of which : Fuel	8.4	10.5	3.8	0.6	0.1	0.1	0.2	0.1	0.1
Wheat	0.6	1.0	0.7	0.9	0.8	0.8	0.8	0.7	0.7
Electricity	0.6	0.3	0.3	2.1	0.9	0.4	0.0	0.0	0.0
Transfers	2.1	1.7	1.5	2.8	3.7	3.8	3.6	3.5	3.5
States (current)	1.3	1.1	1.3	1.5	2.0	2.2	2.4	2.6	2.7
States (capital)	0.7	0.6	0.1	0.8	1.1	1.2	1.1	0.8	0.5
Other transfers	0.0	0.0	0.1	0.5	0.6	0.4	0.2	0.2	0.2
Other current	0.8	0.9	0.8	1.2	3.4	2.5	2.7	2.4	2.4
Of which : Social spending	0.8	0.7	0.8	1.2	3.4	2.5	2.6	2.4	2.4
Net acquisition of nonfinancial assets (capital exp.)	0.5	0.1	0.1	1.8	1.9	2.4	2.3	2.0	1.9
Budget overall balance	-2.9	-2.0	-4.6	-2.9	-2.6	-2.3	-2.1	-2.0	-2.1
Overall balance 1/	-7.9	-10.8	-5.9	-2.9	-1.5	-1.0	-1.1	-1.0	-1.0
Financing	7.9	10.8	5.9	2.9	1.5	1.0	1.1	1.0	1.0
Foreign financing	0.3	0.1	0.0	0.0	0.1	0.1	0.2	0.3	0.3
Domestic financing	7.2	10.4	5.9	2.8	1.4	1.0	0.9	0.7	0.7
Sale of government recovered assets	0.0	0.0	0.0	0.0	0.2	0.4	0.4	0.3	0.2
CBOS	5.8	9.9	7.7	2.6	0.5	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.0	0.0	0.2	0.4	0.4	0.2	0.1	0.2
Nonbanks	1.2	0.6	0.0	0.0	0.2	0.2	0.3	0.3	0.3
Change in net domestic arrears	0.0	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayment of arrears	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Ministry of Finance and Economic Planning; and IMF staff estimates and projections.
1/ Includes implicit subsidies noted on central bank's balance sheet.
2/ The reconcilidation of external debt begins with outstanding debt at end-2019.

Table 5. Sudan: Monetary Survey, 2018–22 1/
(In millions of Sudanese pounds)

	2018	2019	2020	2021	2022
			Est.	Proj.	
Net foreign assets	-290	-297	-436	-3,971	-4,714
Central Bank of Sudan	-300	-313	-473	-4,347	-5,202
Commercial banks	10	17	37	376	488
Net domestic assets	721	986	1,750	6,820	8,512
Net domestic credit	438	687	1,097	3,220	4,053
Net claims on general government (NCGG)	278	470	704	2,565	2,963
Claims on Nongovernment sectors	161	217	393	654	1,090
Other items (net)	283	299	653	3,600	4,459
Broad money (M2)	431	690	1,314	2,849	3,798
Reserve money	264	473	927	1,813	2,012
Currency in circulation	113	281	557	1,001	1,160
Demand deposits	151	192	370	812	852
Quasi-money	167	216	388	1,035	1,786
	(Change in percent, end of period)				
Broad money (M2)	111.8	60.1	90.6	116.8	33.3
Reserve money	105.3	79.5	95.7	95.7	11.0
Currency in circulation	83.6	149.3	97.9	79.8	15.9
Demand deposits	125.2	27.3	92.6	119.7	4.8
Quasi-money	123.0	29.4	79.4	167.0	72.5
Net foreign assets	611.8	2.3	46.9	810.5	18.7
Net domestic assets	195.3	36.8	77.4	289.6	24.8
	(Percent)				
Broad money to GDP	31.6	34.0	25.4	18.4	16.7
Money to broad money	61.2	68.6	70.5	63.7	53.0
Currency in circulation to M2	26.2	40.8	42.4	35.1	30.6
Net credit to the government to GDP	20.4	23.2	13.6	16.6	13.1
Credit to the economy to GDP	11.8	10.7	7.6	4.2	4.8
Velocity (GDP/M2, eop)	3.2	2.9	3.9	5.4	6.0
Money multiplier (M2/reserve money, eop)	1.5	1.3	1.2	0.6	0.7

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

1/ Monetary data has structural break in 2020 due to reclassification following IMF TA.

Table 6. Sudan: Summary Accounts of the Central Bank of Sudan, 2018–22 1/

(In millions of Sudanese pounds)

	2018	2019	2020	2021	2022
			Est.	Proj.	
Net foreign assets	-300	-313	-473	-4,347	-5,202
Foreign assets	52	67	105	1,169	1,772
Foreign liabilities	353	381	578	5,515	6,974
Net domestic assets	591	830	1,606	8,923	10,837
Net domestic credit	268	468	734	2,769	3,080
Net claims on the central government	244	431	662	2,529	2,835
Claims on public enterprises	5	5	20	141	141
Claims on banks	20	33	52	99	104
Other items (net) 2/	323	361	872	6,155	7,757
Reserve money	291	516	1,132	4,577	5,635
Currency outside banks	114	295	589	1,043	1,202
Reserves of commercial banks	161	174	473	3,190	3,950
Required reserves	26	46	101	277	396
Excess reserves	136	127	372	2,913	3,555
Cash in vault	1	14	32	42	42
Excess reserves	134	113	340	2,871	3,513
Deposits at CBOS included in broad money	16	47	70	344	482
	(Change in percent, end of period)				
Net foreign assets	577.1	4.3	51.0	818.2	19.7
Foreign assets	665.0	28.8	56.0	1,016.0	51.6
Foreign liabilities	588.8	8.0	51.9	854.0	26.5
Net domestic assets	289.3	40.3	93.6	455.7	21.4
Net domestic credit	77.3	74.6	56.7	277.3	11.3
Other items (net)	55,919.3	11.9	141.4	605.9	26.0
Reserve money	170.5	77.5	119.4	304.2	23.1
Memorandum items:					
Gross usable international reserves (in millions of US$)	0.2	0.2	0.2	0.5	0.9

Sources: Central Bank of Sudan; and IMF staff estimates and projections.
1/ Monetary data has structural break in 2020 due to reclassification following IMF TA.
2/ Changes are due to valuation adjustment resulting from exchange rate devaluation and loss in FX transactions.

Table 7. Sudan: Summary Accounts of Commercial Banks, 2018–22
(In millions of Sudanese pounds)

	2018	2019	2020	2021	2022
			Est.	Proj.	
Net foreign assets	10	17	37	376	488
Foreign assets	28	33	59	585	752
Foreign liabilities	18	17	21	209	263
Net domestic assets	302	365	703	2,448	4,453
Reserves	182	197	417	1,824	3,404
Cash in vaults	1	14	32	42	42
Required reserves	26	46	101	277	396
Other reserves	155	137	32	1,505	2,967
Net claims on central government	22	27	32	25	116
Claims on state & local government	12	13	11	11	11
Claims on non-government sectors	156	212	373	711	1,161
Non-bank financial institutions	4	6	9	14	18
Other items, net	-69	-83	-130	-124	-239
Deposits	313	382	740	1,946	2,741
Demand deposits	147	185	337	812	852
Domestic currency	116	151	298	595	580
Foreign currency	31	34	39	217	271
Quasi-money deposits (time & saving)	155	176	351	1,035	1,786
Domestic currency	81	128	296	534	1,160
Foreign currency	74	48	54	501	625
Liabilities to CBOS 1/	10	21	52	99	104
	(In percent of deposits)				
Credit to deposits	60.7	65.9	56.2	38.4	47.0
Reserves to deposits	58.1	51.6	56.4	93.7	124.2
Required reserves to deposits	8.2	12.1	13.7	14.2	14.4
Excess reserves to deposits	49.5	35.9	4.3	77.3	108.2
Cash to deposits	0.3	3.6	4.3	2.1	1.5
Claims on government to reserves	18.6	20.0	10.3	2.0	3.7

Sources: Central Bank of Sudan; and IMF staff estimates and projections.
1/ The difference between commercial banks' liabilities to CBOS and CBOS's claims on banks (Table 6) before 2020 is due to misclassification of government guarantees.

Table 8. Sudan: Financial Soundness Indicators
(In percent)

	2016	2017	2018	2019	2020
Capital Adequacy					
Regulatory capital to risk-weighted assets	18.7	16.2	9.9	15.4	11.0
Regulatory Tier I capital to risk-weighted assets	16.2	12.9	7.3	9.9	6.5
Asset composition and quality					
Gross NPLs to gross loans	5.2	3.3	3.2	3.5	3.3
NPLs net of provisions to core capital 1/	13.0	4.8	8.7	6.6	15.0
NPLs net of provisions to gross loans 1/	2.1	0.6	0.7	0.7	1.5
Loans' provision to NPLs	60.0	81.3	72.1	78.5	55.0
Gross NPLs to gross loans	5.2	3.3	3.2	3.5	3.3
Foreign currency loans to total loans	4.4	3.8	17.9	6.2	4.3
Deposits and investment accounts to total asset	63.0	71.5	n.a.	73.0	76.5
Foreign currency deposits to total deposits	19.0	18.2	39.9	24.8	15.2
Off-balance sheet commitments to total assets	22.6	21.2	n.a.	19.2	15.2
Earnings and Profitability					
ROA (before tax)	4.7	3.8	4.9	3.4	3.3
ROE(before tax)	46.1	48.0	95.0	42.9	64.2
Liquidity					
Cash in vault to total assets	2.1	2.1	1.0	3.4	3.8
Liquid assets to total assets	35.1	37.3	51.6	49.5	53.7
Liquid assets to total short-term liabilities	88.0	82.2	112.0	103.3	91.9

Source: Central Bank of Sudan.

1/ In the Islamic finance system only the portion of the loan service that is overdue is defined as an NPL.

Table 9. Sudan: Proposed Schedule of Reviews and Disbursements Under ECF Arrangements

Availability date	Amount of Disbursements		Conditions
	Millions of SDR	Percent of quota 1/	
Date of approval of ECF Arrangement	991.551	157.3	Approval of arrangement
March 30, 2022	61.792	9.8	First review and end-December 2021 performance criteria
September 30, 2022	61.792	9.8	Second review and end-June 2022 performance criteria
March 30, 2023	123.583	19.61	Third review and end-December 2022 performance criteria
September 30, 2023	123.583	19.61	Fourth review and end-June 2023 performance criteria
March 30, 2024	185.375	29.4	Fifth review and end-December 2023 performance criteria
August 30, 2024	185.375	29.4	Sixth review and end-June 2024 performance criteria
Total	1733.051	275.0	

Source: International Monetary Fund
1/ New quota of SDR630.2 million

Table 10. Sudan: Projected Payments and Indicators of Capacity to Repay to the Fund
(In millions of SDRs)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	Total
Obligations from prospective drawings 1/															
1. Princial															
Repurchases	0.0	0.0	0.0	0.0	0.0	0.0	6.2	37.1	92.7	148.3	148.3	142.1	111.2	55.6	741.5
2. Charges and interest 2/															0.0
Charges	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
SDR related charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.4
Total obligations	0.4	0.0	0.0	0.0	0.0	0.0	6.2	37.1	92.7	148.3	148.3	142.2	111.3	55.6	742.3
Outstanding Fund credit, end of period	991.6	1115.1	1362.3	741.5	741.5	741.5	735.3	698.3	605.6	457.3	309.0	166.8	55.6	0.0	...
Memorandum items:															
Total obligations, in percent of															
Gross international reserves	0.1	0.0	0.0	0.0	0.0	0.0	0.2	1.2	2.6	3.5	3.2	2.8	2.0	0.9	...
Goods and services	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.4	1.0	1.5	1.4	1.2	0.9	0.4	...
GDP	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.3	0.3	0.2	0.1	...
Quota	0.1	0.0	0.0	0.0	0.0	0.0	1.0	5.9	14.7	23.5	23.5	22.6	17.7	8.8	...
Outstanding Fund credit, in percent of															
International reserves	303.5	184.5	135.2	49.6	42.0	34.2	27.8	22.4	16.9	10.9	6.6	3.2	1.0	0.0	...
Goods and services	20.8	21.8	24.0	11.7	10.4	9.6	8.8	7.8	6.3	4.5	2.9	1.4	0.5	0.0	...
GDP	4.0	4.3	5.0	2.5	2.3	2.1	2.0	1.7	1.4	1.0	0.6	0.3	0.1	0.0	...
Quota	157.3	177.0	216.2	117.7	117.7	117.7	116.7	110.8	96.1	72.6	49.0	26.5	8.8	0.0	...
Quota (millions of SDR)	630	630	630	630	630	630	630	630	630	630	630	630	630	630	...

Source: Fund staff estimates.

1/ Assumes HIPC CP in mid-2024 (gray shading). Based on the proposed level and phasing of access, and subject to the approval of the IMF's Executive Board

2/ Projections are based on current IMF charges

Table 11. Sudan: External Financing Needs and Resources, 2021–2024
(Millions of U.S. dollars)

	2021	2022	2023	2024
1 **External financing needs**	**31072**	**4607**	**4892**	**28309**
Trade deficit	3640	4121	4222	4468
Interim debt service (net of grants)	101	77	75	109
Traditional Debt Relief operations	25690	0	0	0
IMF arrears clearance	1392	0	0	0
HIPC Debt Relief operations	0	0	0	23011
of which: IMF	0	0	0	1044
Change in reserves (increase=+)	249	409	595	721
2 ***Available financing*** *1/*	**3951**	**4429**	**4535**	**4762**
External grants and private remittance (net)	1734	2254	2282	2389
Foreign direct investment (net)	1288	1448	1629	1936
Official medium-and long-term loans	75	65	100	150
Other private flows (net)	855	662	524	288
3 ***Financing gap (1-2)***	**27121**	**178**	**357**	**23547**
4 ***Exceptional Financing***	25690	0	0	23011
Traditional Debt Relief	25690	0	0	0
HIPC Debt Relief	0	0	0	23011
of which: IMF	0	0	0	1044
5 ***Remaining gap (3-4)***	1431	178	357	536
Identified financing	1431	178	357	536
of which: IMF 1/ 2/	1431	178	357	536
percent of new IMF Quota	157.3	19.6	39.2	58.9

Source: Sudanese authorities, and Fund staff estimates and projections.
1/ IMF disbursements in 2021-2024 are conditional on the board approval of ECF reviews.
2/ The IMF is expected to provide HIPC interim assistance for the 12-month period after the HIPC Decision Point date, to cover Trust Fund Interest and GRA charges on pre-arrears clearance debt, falling due after the HIPC Decision Point. Paris Club would provide HIPC interim assistance in Cologne flow terms to its outstanding debt falling due between Decision and Completion Points. The IDA is also expected to provide HIPC interim assistance.

Annex I. Ongoing Governance Diagnostic Exercise for Sudan and Preliminary Findings

A governance diagnostic exercise is being undertaken remotely to take stock of macro-critical corruption vulnerabilities and identify key reform measures as inputs into a roadmap on governance reforms. Given widespread governance weaknesses in many state functions, the diagnostic covers the areas of: (i) fiscal governance; (ii) the anti-corruption framework; (iii) enforcement of contract and property rights; (iv) anti-money laundering and combating the financing of terrorism (AML/CFT); (v) financial sector oversight; and (vi) central bank governance. While the exercise is in progress, preliminary findings suggest that governance vulnerabilities permeate across multiple areas, calling for stepped up efforts for governance reforms based on the forthcoming roadmap.[1]

- *Fiscal transparency* is limited. There are serious flaws in data on revenues, spending, and financing, while transparency in SOEs, states' operations and subsidies (electricity, wheat, and fuel) is limited. The 2018 audit report identified multiple irregularities (on both revenue and spending items) but was not published.

- *The SOE sector* raises concerns on weak governance, as highlighted in Auditor-General reports. In particular, SOEs in the defense sector (including those involved in the production and export of gold, oil, gum Arabic, sesame) lack transparency and are not overseen by the MoFEP.

- *The procurement system* lacks independence in regulation, monitoring and complaints management. In the legal framework, there remain several obstacles to effective transparency.

- *Natural resource management* is opaque. While mining and petroleum contracts cover fiscal arrangements, these contracts are considered confidential.

- *Tax exemptions and incentives* are widely used. Sudan's income tax has a plethora of exemptions and incentives aimed at serving a wide range of purposes, which are granted at ministerial discretion. The MoFEP is conducting a stocktaking exercise to determine which exemptions can be eliminated.

- *Tax and Customs Administrations* contain multiple gaps in their key functions. These include the absence of a reliable taxpayer registration database, the lack of a dedicated Code of Conduct and appropriate governance framework to deal with corruption issues, and limited monitoring of tax compliance by large taxpayers and SOEs.

- *The Central Bank of Sudan* faces autonomy and governance vulnerabilities. Governance arrangements lack oversight and allow for government influence on the CBoS' Board, while transparency and accountability mechanisms are undermined by weaknesses in financial reporting and external audit practices. The CBoS is in a negative financial position and its autonomy is

[1] This governance diagnostic, initiated in March 2021, is taking longer than planned and is now expected to be completed in the coming months, owing to unforeseen delays and the constraints associated with a remote mission. As such, progress in data collection and technical discussions has been limited in some areas (e.g., anti-corruption framework, AML/CFT).

compromised by sizable monetary financing, as well as quasi-fiscal activities.

- *On financial sector oversight*, though reforms have recently begun, governance weaknesses in CBoS's supervisory function have contributed to vulnerabilities in the Sudanese banking sector.

- *The contract enforcement legal framework* is ineffective, inefficient and not easily accessible to businesspersons outside of urban areas. There are also important governance weaknesses in land administration.

- *The Anticorruption Legal and Organization framework* is opaque and does not meet international standards regarding the manner in which corruption is defined, criminalized, investigated, sanctioned or prevented. Responsibility and authority for developing and implementing anticorruption actions and strategies is uncertain, as are the mechanisms for distinguishing between corruption undertaken under the old regime and present acts of corruption.

- *Rule of Law* in Sudan is undermined by a lack of independence of the judiciary, an opaque and uncertain legal framework, limited capacity, and issues relating to integrity and corruption among legal personnel. The provision of credit and the willingness to undertake capital investments are diminished due to widespread lack of trust in the enforcement of contracts and the protection of property rights.

Appendix I. Letter of Intent

Khartoum, June 10, 2021

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W.
Washington, D.C. 20431

Dear Ms. Georgieva:

Over the past two years, the transitional government of Sudan has worked to right three decades of economic mismanagement and poor governance. Our work was made even more difficult by the COVID-19 pandemic and historic flooding in 2020, but we continue to push ahead in our commitment to address the adverse social and economic legacies and meet the aspirations of the Sudanese people to build a democratic and prosperous society. The difficult but necessary reforms that we have taken under the Staff Monitored Program have gone some way in correcting economic distortions and, together with our re-engagement with the international community, provide the basis to reap the benefits of our ambitious reform program in the period ahead. Much remains to be done to bring back macroeconomic stability and growth, improve our policy frameworks, strengthening governance and transparency, and reverse the rise in poverty but we are certain that with our steadfast resolve and the sustained support of the international community we can deliver.

We are requesting an IMF arrangement under the Extended Credit Facility (ECF) to support our structural reform program as we seek to reach the HIPC Completion Point and to provide a framework for inclusive growth that underpins our recently-approved Poverty Reduction Strategy Paper (PRSP) over the next three years (2021–2024). The government of Sudan's reform plan contains five pillars which focus on: i) promoting economic stability through improving domestic revenue and reallocating public resources away from subsidies towards social spending and key infrastructure investments; ii) fostering inclusive and sustainable economic growth by improving the business environment and strengthening energy, transport, and infrastructure services; iii) boosting human and social development through investing in education and health and reducing inequality between states and regions and gender; iv) promoting peace and providing equal opportunities for all Sudanese; and v) strengthening governance and institutional capacity through effective public financial management and decentralization, fighting corruption and improving justice.

To achieve economic stability and more sustainable and inclusive growth, we will give priority to the mobilization of domestic tax revenue, including by unifying the reference exchange rate for customs duties, and eliminating non-food tax exemptions. On the expenditure side, it will be vital to phaseout the controls on retail fuel prices that lead to shortages and subsidization, put the electricity sector on a path to cost recovery, and use resultant savings to reorient spending toward

strengthening the frayed social safety net. Fiscal consolidation will allow an end to the monetization that has fueled inflation before the adoption of a reserve money targeting regime. To this end, we remain committed to strengthening central bank independence and to a market-determined exchange rate, and will accelerate efforts to assess and resolve vulnerabilities in the banking sector, including those related to the implementation of the AML/CFT controls.

Therefore, we request a 39-month ECF arrangement with access equal to SDR1,733.051 million (275 percent of quota), of which more than half (SDR964 million, 153 percent of quota) will be used to repay the intra-day bridge loan which made it possible for us to clear our arrears to the IMF and at long last once again be a member in good standing. Given we expect monetization of the budget under the ECF arrangement, a portion of the first disbursement of SDR 991.55 million will go towards budget support. Therefore, the Ministry of Finance and Economic Planning (MOFEP) and the Central Bank of Sudan (CBOS) will sign a memorandum of understanding detailing their respective responsibilities associated with the support provided by the IMF under the ECF arrangement. In line with the IMF's Safeguards Policy, the CBoS will undergo a safeguards assessment which should be completed before the first review. It will provide IMF staff with access to its most recently completed external audit reports and authorize its external auditors to hold discussions with IMF staff.

The Government believes that the policies described in the attached Memorandum of Economic and Financial Policies (MEFP, Attachment I) are adequate to achieve the program's objectives. They reflect the understandings reached with IMF staff during the April 14 – May 5, 2021 mission and have been developed to ensure continuity with the policies supported under the SMP during 2021. If necessary, the Government stands ready to take any additional measures that may be required to ensure the success of our economic program. The Government will consult with the Fund on the adoption of these measures and in advance of any revision to the policies contained in the MEFP, in accordance with the Fund's policies. The Government will also continue to share with the Fund staff the data described in the attached Technical Memorandum of Understanding (TMU, Attachment II) and all the relevant information required to complete program reviews and monitor performance on a timely basis.

As part of our communication policy and our full commitment to transparency, we intend to publish this letter on the websites of the MOFEP and CBOS to keep Sudanese and international agents informed about our policy actions and intentions. We also authorize the Fund to publish this letter, together with the Staff Report and its attachments.

Very truly yours,

/s/
Gibril Ibrahim Mohamed
Minister, Ministry of Finance and Economic Planning

/s/
Mohamed Elfatih Zeinelabdin Mohamed
Governor, Central Bank of Sudan

Attachment I. Memorandum of Economic and Financial Policies

This Memorandum of Economic and Financial Policies (MEFP) reviews economic developments and describes policies that the Government of Sudan plans to implement under the program supported by the Extended Credit Facility (ECF).

Background and Context

1. **Over the past two years, the transitional government of Sudan has taken difficult steps to right decades of economic mismanagement**. Our home-grown policies, which have been supported by the Staff Monitored Program, have removed distortions and large unaffordable subsidies in support of economic stability, fiscal sustainability and sustained and inclusive growth that reduces poverty. We have taken steps to reduce unaffordable and distortionary fuel subsidies and passed various new laws and regulations (Investment Act, PPP Act, Central Bank Act, Anti-Corruption National Commission Act, and re-instatement of conventional banking). On February 21, we unified the official exchange rate (SDG55/USD) with the prevailing parallel market rate at a level of SDG375/USD and issued regulations to banks and foreign exchange bureaus to establish a band of ±5 percent around the indicative rate equivalent to the weighted average of the previous day's transactions. Since the change in the exchange rate regime, volatility has declined, the rate has remained broadly stable, and banks report an increase in foreign exchange inflows through official channels. To help the people of Sudan offset some of the impact of reform and high inflation, on February 24, we launched the Sudan Family Support Program (SFSP). By end-March, we had already provided support to 80,000 households and aim of reaching half of the targeted families by end-2021 and easing the burden on families of these necessary policy actions.

2. **We have also made strong efforts to reintegrate with the international financial community and resolve the unsustainable debt burden.** In December 2020, the U.S. removed Sudan from its list of State Sponsors of Terrorism (SSTL). On March 26, 2021 we cleared our arrears to the World Bank, regaining access to multilateral funding through IDA's various facilities and windows. On May 12 we cleared our arrears to the African Development Bank (AfDB). A financing package for the clearance of arrears to the IMF has been identified and work is ongoing to secure formal pledges for the IMF's participation in HIPC. On May 17, 2021 an investment conference hosted by President Macron was held in Paris to bolster momentum and mobilize international investment to help us advance on our path to economic and social recovery. We have met the minimum requirements for HIPC Decision Point including a track record of satisfactory performance under the SMP arrangement, adoption of a poverty reduction strategy, and financing assurances for the clearance of arrears to the IFIs. We look forward to the World Bank and IMF Boards' consideration of the HIPC Decision Point document and will work closely with the Fund under the ECF-supported program to guide the needed reforms for eventual debt relief.

3. **However, the macroeconomic situation remains fragile.** Violence on both the eastern and western borders has added to the number of internally displaced people and refugees which number well over 1 million. As the developed world begins to emerge from the COVID-19

pandemic, our people continue to suffer from increasing infections with only limited vaccination doses received to date. Shortages of necessities, such as medicine, food and fuel have added to inflation pressures and are exacerbated by a weak external position. Tax revenue is very low and development needs are high. Without sufficient grant financing during the first two years of our economic program, we expect that deficits will continue to be financed mainly by the Central Bank of Sudan. In the absence of adequate instruments to mop up liquidity, this would fuel inflation and threaten recent the exchange rate stabilization. The banking sector remains fragile with a few banks undercapitalized.

4. **We have made progress on several key initiatives**. We have unified the official and parallel exchange rates (see the section on Monetary and Exchange Rate Polices). As noted above, the Joint Committee of the Sovereign Council and the Cabinet passed key legislative initiatives including laws on investment, public-private partnerships, and anti-corruption. The Board of the Central Bank of Sudan has approved an amended Central Bank Bill to, inter alia: (i) establish a central bank mandate focusing on price stability; (ii) strengthen the Central Bank institutional, functional, personal, and financial autonomy, including by limiting monetary financing of the Government and prohibiting the central bank to conduct quasi-fiscal operations; (iii) improve its decision-making structure, by ensuring collegial decision-making, providing for effective oversight over executive; and (iv) enhance transparency and accountability provisions. These will address governance weaknesses, facilitate an increase in private investment and create a banking system that is better suited to the needs of a modern economy and a reserve targeting monetary policy. The Central Bank Bill has been submitted to the Ministry of Justice for review and the Government we will endeavor to accelerate its approval in consultation with IMF staff.

5. **Positive external developments and recent policy actions support an improved outlook, provided reform momentum is maintained and the international community provides sufficient support.** We have gained more support from international partners over recent months, and expect a positive boost following the Paris Investment Conference, a pickup in external demand and an acceleration of domestic activity with the recovery from the COVID-19 pandemic, all of which would help to raise growth. Arrears clearance would unlock multilateral resources and the recent unification of the exchange rate and fiscal policy measures to raise revenue and reorient spending will help to engender greater macroeconomic stability, while governance and business climate reforms will attract FDI, support development investment and support job-creating small and medium enterprises (SMEs). Driven by these measures, we expect growth to peak at around 7 percent in 2025 before gradually settling at around 4½ percent over the long-term. Inflation is expected to decline to the double digits in 2022 as monetization is reduced and the transitory effect of the customs exchange rate unification and tariff reform is passed through, before settling in the single digits in the medium term.

Economic and Financial Policies

6. **We are committed to stabilizing the economy and creating conditions for robust and inclusive growth.** We will focus on structural reforms to strengthen governance and avoid re-emergence of distortionary economic policies while bringing about sustained and inclusive private-

sector-led growth. Macroeconomic stabilization will provide a foundation for this growth via measures to increase domestic revenue mobilization and to reduce wasteful and distortionary spending on fuel and electricity subsidies. At the same time, we will endeavor to accelerate implementation of the SFSP to mitigate the impact of adjustment on the population as we work to transform social development expenditure into a well-targeted social safety net, and substantially expand other social expenditure to improve the capacity of our people. We will continue our extensive consultation and communication campaign to strengthen public buy-in for the reform process.

A. Fiscal Policies

7. We will target a medium-term overall fiscal deficit of 1 percent of GDP. This anchor reflects a cautious view of the outlook for foreign financing, the amount that can be comfortably financed from non-inflationary domestic sources, and the required adjustment to sustain a low public debt-to-GDP ratio after HIPC debt relief, while allowing for the needed increase in social and capital spending. We will adopt a 2022 budget with an overall deficit of around 1½ percent of GDP, consistent with a fiscal path towards this goal and with program priorities *(end-December 2021 structural benchmark)*. We would note, however, that the outlook is subject to uncertainty including the timing of the full effect of the identified revenue measures, political risks associated with the removal of energy subsidies, and external financing. In the event of a significant change in the financing envelope and other changes, we will revisit the anchor together with IMF staff to maintain the debt-to-GDP ratio on a sustainable trajectory.

8. We will enhance domestic revenue mobilization so as to create fiscal space for needed social and infrastructure spending. Revenue is expected to increase by about 1½ percent of GDP in 2021 as a result of more progressive income tax rates, higher VAT rates on tobacco and telecom companies, and expected customs exchange rate reform. However, revenue-to-GDP will remain well below other countries that have reached the HIPC Decision Point and will be largely consumed by subsidies and wage bills (central government and through transfers to the states), leaving insufficient space for development needs. Before the full effect of revenue measures materialize, we will need larger and more sustained grant financing from international partners to fund critical social and capital spending. In particular, we will put in place the following revenue measures:

- Implement the customs exchange rate unification (i.e., eliminate the "customs dollar"): publish a decree indicating that all imports to be henceforth valued at the indicative exchange rate published by the CBOS (*end-June 2021 prior action*).

- Eliminate (i) all exemptions on VAT except those related to food and (ii) the personal income tax exemption on people over 50 years of age in the context of a progressive PIT structure (*end-June 2021 structural benchmark*);

- Unify PIT rates on public and private sector wages to improve equity and revenue yield. In the 2022 budget, in order to reduce opportunities for abuse and improve revenue collection and fairness, we will simplify the corporate income tax (CIT) rates, implement a 15 percent rate on

profits for the industrial sector, bring the tax rates of the trading, service, and insurance sectors in line with those levied on banking, tobacco, telecommunications and exploration/extraction companies, and maintain the 2 percent tax rate on revenues in the agricultural sector;

- Strengthen the Large Taxpayer Office by increasing the percentage of taxpayers processed electronically to 75 percent through the Tax Administration Core System (TACS) database;
- Increase transparency of the gold sector to support revenue collection by requiring publication of audited financial statements by related state-owned enterprises and request technical assistance to design and implement a "final tax" on artisanal gold producers at the time of payment; and
- Raise administrative fees and charges to the cost of service delivered by government entities.

9. We will reduce current expenditure by continuing reforms in the energy sector to avoid the re-emergence of fuel subsidies and to facilitate the gradual removal of electricity subsidies. We will eliminate government price controls on retail gasoline and diesel fuel prices and allow gasoline and diesel fuel suppliers to contract at market prices (*end-December 2021 structural benchmark*). In the electricity sector, we will gradually reduce electricity subsidies by increasing electricity tariff rates on high-end consumers and by improving efficiency in power generation. We will conduct a cost of service study in the electricity sector with the aim to formalize a new tariff adjustment methodology and new tariff structure while protecting vulnerable groups through continued strengthening of the social safety net. We will adopt a revised Electricity Act to create a more effective regulatory framework for power sector development, to facilitate private sector investment in power generation, and to encourage switching to renewable energy such as solar and wind in power generation. Lower spending on subsidies will help to free up fiscal space for social spending and infrastructure development.

10. We will prepare to transfer the current quasi-universal basic income scheme (SFSP) to a well-targeted cash transfer scheme. Although the SFSP is a temporary program, its implementation will help us to strengthen our targeted cash transfer scheme by widening citizen registration coverage and establishing digital payments systems. To sharpen targeting, we will conduct household and poverty surveys and seek to implement Public Expenditure Tracking Surveys (PETS) in the areas of education and health expenditure at the federal and state levels. Sustained technical assistance from development partners will be essential to the continued strengthening of the social safety net.

11. We will strengthen public financial management. We have made good progress in establishing a Treasury Single Account and by consolidating all bank accounts of ministries held at the CBOS into the TSA, and will continue to improve cash forecasting, extending the setting of cash ceilings for ministries, departments, and agencies from one to three months, improving management of payments, and gradually extending coverage to extrabudgetary funds. At the same time, significant improvements are needed in the budget process to align it with best practice. In particular, we will:

- Develop and adopt a Public Financial Management Roadmap based on the recent PEFA (*end-September 2021 structural benchmark*). The roadmap will be implemented in 2022.

- Submit for approval by Parliament a revised Financial and Accounting Procedure Law of 2007 which covers the entire budget cycle including: the annual budget, which will be guided by a credible medium-term fiscal framework that clearly identifies short- and medium-term policy tradeoffs, financing constraints, and fiscal risks; budget preparation and approval; budget execution and treasury management; accounting and reporting; financial oversight of extrabudgetary units; and enforcement mechanisms and sanctions (*end-June 2022 structural benchmark*).

- Continue technical work to incorporate a medium-term fiscal framework into budget planning by strengthening the macro-fiscal unit to enhance policy formulation. As part of our ongoing efforts to enhance the transparency of budget execution, the Ministry of Finance and Economic Planning (MOFEP) will continue publishing on its website monthly budget execution reports consistent with GFSM2001. We will also strengthen public procurement rules with technical assistance from the World Bank.

12. We will improve transparency of fiscal reporting. The current system of central government reporting omits key information needed in fiscal policy-making. Therefore, we will publish the end-2021 financial statement and the financial audit reports by the National Audit Chamber for 10 SOEs (see text table) and a calendar for their annual publication thereafter (*end-June 2022 structural benchmark*). We will also request technical assistance to provide transparent reporting of spending on subsidies. We will coordinate with the Supreme Audit Institution to enhance audits of SOEs in line with international best practice.

Sudan: SOEs' Financial Statements and Audits
Zadna International Investment Co. Ltd
Giad holding + all related companies
Sudatel Telecom Group, Ltd
SUDAPET Co. Ltd
Sudan Gold Refinery. Co. Ltd.
Sudan Khartoum Refinery Company (KRC)
Multiple Directions Company
Sudan Sea Ports Corporation
Sudan Financial Services Company Ltd.
Sudan Electricity Holding Company

13. We will strengthen out debt management practices and increase debt transparency. We will request TA to strengthen our debt management capacity and regulatory framework. In particular, we will enact a Debt Management Law that (i) clearly defines the authority to borrow and issue guarantees and on-lending and delegates debt management responsibilities; (ii) sets debt management objectives; (iii) establishes core purposes of government borrowing; (iv) mandates the adoption of documented procedures for debt management activities; (v) defines responsibilities for the formulation of a medium term debt management strategy and for the frameworks to issue guarantees and on-lending; and (vi) establishes clear reporting and auditing requirements, as well as requirements for publication of the debt data. We will start publishing quarterly external public debt reports covering the outstanding debt stock, debt flows, and comprehensive information on new

borrowing, and annual public debt reports covering external and domestic public and publicly guaranteed debt (*end-June 2022 structural benchmark*).

B. Monetary Policy and Exchange Rate Policies

14. We will continue to adhere to the market-determined exchange rate and widen the band over time with the goal of eventual elimination. Recent unification of the official exchange rate at the market exchange rate has reduced distortions, including multiple exchange rates used for wheat imports and implicit subsidies created by different exchange rates used by CBOS for buying and selling forex, helping to facilitate fiscal consolidation and increasing financial flows through formal channels. We will continue to assess the functioning of the current exchange rate band and pledge to limit interventions only to mitigate disorderly market conditions while avoiding actions which will lead to market fragmentation or re-emergence of a parallel market. In particular, in line with the recent exchange reform, we have made significant progress toward removing all multiple currency practices (MCPs) and commit to not introduce any new MCPs or exchange restrictions. In particular we have introduced FX auctions in 2021 and we will work with the IMF to review existing regulations, infrastructure and CBOS policies for the FX market.

15. We will strengthen central bank independence. The revised Central Bank Act to strengthen Central Bank independence was approved by the CBOS Board on May 1 and has now been sent to the Justice Department. Though the amendments are still subject to IMF staff's review, they mark an important step toward a more independent monetary policy. The new Central Bank Act will focus the central bank's mandate on price stability; strengthen its institutional, functional, personal and financial autonomy, including by limiting monetary financing of the government and prohibiting the conduct of quasi-fiscal operations; improve its decision making structure by ensuring collegial decision-making; and provide for effective oversight over executive functions and enhance transparency and accountability.

16. We will continue to take steps to improve commercial bank's soundness and to strengthen their governance structures. We will enact a revised Banking Regulation Act which includes a comprehensive resolution regime for the banking sector, in line with international best practice (*end-December 2021 structural benchmark*). To this end, we have completed the second phase of bank-by-bank stress tests to assess the impact of exchange rate shocks and recommended remedial measures, where needed, to strengthen commercial bank capital, including recapitalization and restraining dividends payout. We have also issued new regulations to reduce net foreign exchange long positions to 1–5 percent of regulatory capital, and carefully manage net open positions going forward. We will take measures to ensure that banks comply with the corporate governance standards in line with the Basel Committee on Banking Supervision Corporate Governance Principles, including conflicts of interest and related party transactions.

17. We have recently completed phase one of the Asset Quality Review (AQR) with the assistance of external partners. In addition to the eight banks in phase one, phase two comprising nine banks is underway with a potential phase three AQR on the remaining banks by end-2021

pending available funding. The bank resolution framework in the new Banking Regulation Act will allow for restructuring the banking sector through bank resolution, liquidation and/or merger & acquisition. With the completion of the AQR, we will adopt an action plan for strengthening the banking sector including operationalizing the resolution regime and divesting CBOS shares in banks (*end-June 2022 structural benchmark*), microfinance institutions, and other companies.

18. We will operationalize a dual system of conventional and Islamic banking to expand access to credit. We adopted the dual banking system in April and will update relevant regulations to adapt to the new banking business model. The dual banking system will help attract both foreign and domestic investment in the banking sector to improve financial inclusion, introduce advanced corporate governance into Sudan financial market and facilitate foreign/domestic investments.

19. We will transit to a reserve-money targeting regime facilitated by the dual banking system. The Treasury committee will establish a regular meeting mechanism to enhance coordination between CBOS and the MOFEP to improve liquidity management and forecasting to strengthen monetary control and FX management. In the short run, the main policy tool for reducing reserve money growth is fiscal consolidation to reduce monetization. We also stand ready to use existing instruments, including reserve requirements and the limited stock of central bank securities, to tighten monetary policy as needed to meet reserve money targets under the ECF. To strengthen our monetary toolkit over the medium term, while also helping to eliminate deficit monetization, we will strive to progressively build a strong and liquid government securities market, with the active participation of banks, nonbanks, and the public, supported by IMF technical assistance. The MOFEP and CBOS will adopt a plan to reduce central bank's stock of claims on the central government. To facilitate the transition to a dual banking system, technical assistance will be needed to train CBOS staff in conventional banking regulation and supervision, and monetary policy operations.

20. Addressing current weaknesses including strengthening the implementation of the AML/CFT framework remain a priority. We have completed AML/CFT on-site inspections of the ten highest-risk banks determined by the central bank's off-site assessment tool, focusing on politically exposed persons (PEPs), suspicious transaction reporting, and higher-risk customers and transactions in the real estate sector, and will provide aggregate data to the IMF by July on any related violations found and sanctions levied by the CBOS in line with the existing legal framework. We will work toward completing a money laundering and terrorist financing National Risk Assessment (NRA). Improved implementation of the AML/CFT regime and the return of conventional banking should support the return of correspondent banks and ease the challenges faced in effecting transactions.

C. Other Structural Reforms

21. Unlocking Sudan's private sector potential is key to robust and inclusive growth. The IFC and the World Bank, together with donors, have been supporting our efforts to improve the investment climate, foster Public-Private Dialogue, strengthen the legal and institutional framework

for Public-Private Partnerships (PPPs), and support Micro Small and Medium Enterprise (MSME) development, focusing on access to finance, business entry and taxation, innovation and entrepreneurship. The IFC intends to scale up its advisory services to support the establishment of the new Investment and Private Sector Development Authority and assess our investment projects. The Investment Law and the PPP Law have been recently enacted. We will establish a PPP unit within MOFEP and we will issue implementing regulations for the PPP Law which define overall limits on the government's total exposure on PPPs, and procedures to ensure the affordability of PPP projects in the longer term. These regulations will also stipulate that all PPP contracts must have prior approval from the Ministry of Finance. Finally, we will issue implementing regulations for the Investment Law which stipulate that all tax exemptions must have prior approval from the Ministry of Finance and must be costed (*end-December 2021 structural benchmark*).

22. Combating corruption and improving governance are key priorities of the transitional government. This has been enshrined in the Constitutional Declaration governing the transitional period. In this context, we will:

- Establish an independent Anti-Corruption Commission and appoint the Commissioners in accordance with the provisions of the Anti-Corruption Commission Law (*end-September 2021 structural benchmark*) with a strong mandate to prevent, detect, and investigate corruption. The law also aims to strengthen the role of civil society and journalism in combating corruption.

- Implement the law—passed in December 2019—to dismantle the corrupted institutions of the former regime, recover looted assets, and bring to justice individuals associated with the former regime who obtained these assets through corrupt practices. MOFEP will control these assets under the appropriate legal structure. It will adopt a plan for their disposal and use of related resources adhering to fully transparent procedures.

- Enhance oversight over state-owned enterprises (SOEs) by updating on a regular basis the inventory of all SOEs published on MOFEP website including those supervised by MOFEP, line ministries and security sector. The Cabinet will endorse an ownership strategy setting forth the strategic purposes, oversight and management principles of SOEs including guiding principles for the review of the existing stock of SOEs (*end-December 2021 structural benchmark*). We will transfer financial oversight responsibilities of all SOEs to the SOE unit in MOFEP.

- Improve the quality and frequency of key macroeconomic statistics will help to strengthen governance and policymaking substantially. To this end, we will prioritize efforts to improve macroeconomic data quality, including national accounts, fiscal, BOP, and labor market data with technical assistance from the IMF, other International Financial Institutions, and from bilateral donors.

Complete the delayed governance diagnostic exercise and promote its publication in order to build a roadmap for strengthening governance across various sectors of government.

Table 1. Sudan: Proposed Quantitative Performance Criteria and Indicative Targets Under the ECF Supported Program 1/

	Mar-21 Actual 6/	Dec-21 Target	Jun-22 Target	Dec-22 Target
Quantitative Performance Criteria				
Floor on CBOS NIR (stock, USD million) 2/	-1111	-991	-818	-649
Ceiling on CBOS NDA (stock, SDG billion) 2/	5844	6687	7202	7415
Ceiling on banking system net credit to the CG (SDG billion) 2/	709	1574	1621	1741
Continuous Performance Criteria				
Zero ceiling on contracting or guaranteeing of external long term non-concessional debt by the CG or the CBOS (cumulative, USD million) 2/ 3/	0	0	0	0
Ceiling on contracting or guaranteeing of external long term concessional debt by the CG or the CBOS (cumulative: USD million) 2/ 3/	0	100	60	120
Zero ceiling on accumulation of external debt payment arrears by the CG (USD million) 2/ 3/ 4/	0	0	0	0
Introduction/imposition of exchange rate restrictions and MCPs	0	0	0	0
Indicative Targets				
Ceiling on reserve money (stock, SDG billion) 2/	2663	3697	3858	4197
Floor on primary balance (cumulative, SDG billion)	-33	-476	-159	-296
Floor on tax revenue (cumulative, SDG billion)	95	610	729	1544
Floor on social spending (cumulative, SDG billion)	15	162	389	778
Zero ceiling on accumulation of central government wage arrears (SDG billion)	0	0	0	0
Memorandum Items				
External budget support cash grants for Family Support Program (cumulative, USD million)	8	248	351	663
Other external budget support cash grants (cumulative, USD million) /5	0	300	79	150
Government assets sales (cumulative, SGD billion)	0	0	44	83
million)	0	121	73	159
External budget support loans (cumulative, USD million)	0	0	0	0
CBOS LT FC liabilities to non-residents (actual stock, USD million) 2/ 7/	7761	…	…	…

1/ The variables are defined according to the TMU.
2/ Evaluated using program exchange rate definet in the TMU.
3/ Flow from the beginning of the year.
4/ Excluding arrears that are subject to rescheduling.
5/ Non SFSP.
6/ Monetary data reclassified as per IMF TA.
7/ Excluding SDR allocations and use of Fund credit.

Table 2. Sudan: Proposed Prior Action and Structural Benchmarks under the ECF

	Target Date	Assessed	Area and Macroeconomic Rationale
A. Prior Action			
1) Implement customs exchange rate unification, through publication of a decree indicating that all imports will henceforth be valued at the indicative exchange rate published by CBOS.	Prior to the approval of the ECF arrangement		Tax Policy. Eliminate distortions and strengthen revenue collection.
B. Structural Benchmarks for the First Review			
1) Establish an independent anti-corruption commission and appoint the Commissioners in accordance with the provisions of the Anti-Corruption Commission Law.	End-September 2021		Governance. Strengthen governance.
2) Develop and adopt a PFM Roadmap based on the 2020 PEFA and 2021 governance diagnostic.	End-September 2021		PFM. Strengthen PFM.
3) Eliminate (i) all exemptions on VAT except those related to food, and (ii) the personal income tax exemption on people over 50 years of age.	End-December 2021		Tax Policy. Broaden the tax base.
4) Issue implementing regulations for the Investment Law which stipulate that all tax exemptions must have prior approval from the Ministry of Finance and must be costed.	End-December 2021		Tax Policy. Strengthen fiscal control; support revenue.
5) Eliminate government price controls on retail gasoline and diesel fuel prices and allow gasoline and diesel fuel suppliers to contract at market prices.	End-December 2021		Tax Policy. Remove price controls and eliminate subsidies.
6) Cabinet to endorse an ownership strategy setting forth the strategic purposes, oversight, and management principles of SOEs including guiding principles for the review of the existing stock of SOEs.	End-December 2021		Governance. Improve governance and transparency of the SOEs; mitigate contingent fiscal risks.
7) Enact a revised Banking Regulation Act which includes a comprehensive resolution regime for the banking sector, in line with international best practice.	End-December 2021		Monetary and financial policy. Strengthen the banking sector.
8) Adopt a 2022 budget consistent with program priorities and with an overall deficit of around 1½ percent of GDP including the program fiscal anchor.	End-December 2021		PFM. Strengthen PFM.

Table 2. Sudan: Proposed Prior Action and Structural Benchmarks under the ECF (concluded)			
C. Structural Benchmarks for Future Reviews			
9) Submit for approval by Parliament a revised Financial and Accounting Procedure (budget system) Law of 2007 which covers the entire budget cycle including: the annual budget is guided by a credible medium-term fiscal framework that clearly identifies short- and medium-term policy tradeoffs, financing constraints, and fiscal risks; budget preparation and approval; budget execution and treasury management; accounting and reporting; financial oversight of extrabudgetary units; and enforcement mechanisms and sanctions.	End-June 2022		PFM. Facilitate fiscal sustainability via better budget planning and transparency
10) Publish the end-2021 financial statement and financial audit report of the National Audit Chamber for 10 SOEs agreed with IMF and WB staff and a calendar for their annual publication thereafter.	End-June 2022		PFM. Governance and transparency of SOEs; mitigate fiscal risks
11) Start publishing quarterly external public debt reports covering the outstanding debt stock, debt flows, and comprehensive information on new borrowing, and annual public debt reports covering external and domestic public and publicly guaranteed debt.	End-June 2022		Debt management. Improve debt transparency
12) Adopt an Action Plan for strengthening the banking sector including operationalizing the resolution regime and divesting CBOS shares in banks.	End-June 2022		Monetary and financial policy. Strengthen the banking sector.

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 Extended Credit Facility (ECF) arrangement. It specifies the quantitative performance criteria, indicative targets, and structural benchmarks that will be the basis for monitoring the implementation of the ECF. 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 ECF will be monitored based on three semi-annual quantitative performance criteria (QPC), four continuous performance criteria and five indicative targets (IT).

3. The quantitative performance criteria, for which test dates will be end-June and end-December of each calendar year, are:

(i) floor on net international reserves (NIR) of the CBOS.

(ii) ceiling on net domestic assets (NDA) of the Central Bank of Sudan (CBOS).

(iii) ceiling on net credit to the budgetary central government (CG) by the banking system.

4. The continuous performance criteria are:

(i) zero ceiling on contracting or guaranteeing of external long-term non-concessional debt by the CG or the CBOS.

(ii) ceiling on contracting or guaranteeing of external long-term concessional debt by the CG or the CBOS.

(iii) zero ceiling on accumulation of external debt payment arrears incurred by the CG.

(iv) Introduction/imposition of exchange rate restrictions and MCPs

5. The indicative targets are:

(i) ceiling on reserve money.

(ii) floor on primary balance.

(iii) floor on tax revenue.

(iv) floor on social spending.

(v) zero ceiling on accumulation of wage arrears by the CG.

Some of these targets are subject to adjustors. The definitions of these variables and the adjustors are set out below.

6. Foreign exchange denominated items in the balance sheet of the CBOS will be evaluated at the program exchange rates defined in Table1. The monetary gold is evaluated at USD55.53 per gram.

Table1. Program Exchange Rates (03/31/2021) 1/	
Sudanese Pound to the US dollar	382.7156
Sudanese Pound to Euro	448.0681
Sudanese Pound to Saudi Riyal	102.0928
Sudanese Pound to U.A.E Dirham	104.2169
SDR per US dollar 2/	0.705613
1/ Average daily selling rates as reported by the CBOS. 2/ Reported by the IMF.	

A. Definitions

7. The central government (CG) 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), and margin deposits placed with the CBOS by the central government against letters of credit issued by the CBOS.

8. CG revenues and expenditures will cover all items included in the CG budget as approved by Parliament or equivalent body.

9. Debt is defined for program purposes in accordance with Executive Board Decision No. 16919-(20/103), adopted October 28, 2020.

- 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 several 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 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 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.

10. **The fiscal year** starts on January 1 in each calendar year and it ends on December 31 of the same year.

B. Quantitative Performance Criteria

11. **Net international reserves (NIR)** of the CBOS are defined for program purposes as the difference between gross official usable international reserves and external liabilities denominated in foreign currencies. The gross official usable international reserves are defined as the sum of monetary gold, foreign currency included in official reserve assets, and SDR holdings. Should the first two items not contain the use of fund credit under the ECF, this will be reported separately and added to the asset side. The external liabilities to nonresidents denominated in foreign currencies are defined as the sum of short-term liabilities to nonresidents denominated in foreign currency, use of fund credit, and SDR allocations. For program purposes, all items are valued at program exchange rates.

Adjustors:

- The floor on the NIR of the CBOS will be adjusted upward/downward by an amount equal to excess/shortfall repayments by the CG in foreign currency or monetary gold to the CBOS for the SSTL advances.

- This target will be adjusted upward/downward by the amount of any excess/shortfall of budgetary support external FX cash grants and loans relative to program projections.

12. **Net domestic assets (NDA) of the Central Bank of Sudan** (CBOS) are defined as the sum of the stock of Net Domestic Credit of the CBOS, excluding claims on the government corresponding

to its overdue obligations to the IMF ("IMF on-lent"), plus claims on public enterprises, claims on commercial banks, and plus other items net:

- 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.

- CBOS credit to the central government includes temporary advances, CBOS's holdings of Government Musharaka Certificates (GMCs) and Government Investment Certificates (GICs), CBOS long-term claims on the central government, central bank losses on gold purchases (devaluation in gold dealings), loans resulting from the separation of South Sudan, accumulated interest arrears, sundry debtors, payments to meet government obligations, advances to cover foreign currency obligations, Sudan Cotton Comp. Facility, other long term assets, accrued revenue Shahama Certificates, Ministry of Finance (due to commercial banks)—sugar, stock of CBOS credit to government arising from the financing of wheat subsidies (difference in wheat price), Ministry of Finance debts—ONB shares, and Sudanese Petroleum Corp. overdues and settlement of petroleum shipments value.

    - CBOS claims on public enterprises are defined as CBOS credit to public enterprises.

    - CBOS claims on commercial banks are defined as CBOS credit to commercial banks.

- Other items net is the difference between other assets and other liabilities as reported in CBOS balance sheet as reported by the IMF's Statistics Department, adjusted for exchange rate revaluations arising from the difference between current and program exchange rate(s).

For monitoring purposes, the NDA ceiling is measured as the difference between reserve money and net foreign assets (NFA) of the CBOS with foreign exchange items evaluated at program exchange rates.

Adjustors:

- The ceiling on NDA of the CBOS will be adjusted downward/upward by the amount of any excess/shortfall of budget support FX cash grants and loans relative to program projections.

- The ceiling on NDA of the CBOS will be adjusted downward/upward by the amount of any excess/shortfall of receipts from government asset sales relative to program projections.

- The ceiling on NDA of the CBOS will be adjusted downward/upward by the amount of any excess/shortfall repayments by the CG in foreign currency or monetary gold to the CBOS for the SSTL advances.

13. Net credit to the central government by the banking system is defined as the stock of net credit to the CG by the CBOS excluding the use of Fund credit and its overdue obligations to the IMF on-lent, plus net credit to the CG by commercial banks.

Adjustors:

- The ceiling on the net credit to the CG by the banking system will be adjusted downward/upward by the amount of any excess/shortfall of budget support FX cash grants and loans relative to program projections.

- The ceiling on net credit to the CG by the banking system will be adjusted downward/upward by the amount of any excess/shortfall in receipts from government asset sales.

- The ceiling on net credit to the CG by the banking system will be adjusted downward/upward by the amount of any excess/shortfall repayments by the CG in foreign currency or monetary gold to the CBOS for the SSTL advances.

C. Continuous Performance Criteria

14. A continuous ceiling applies to the contracting and guaranteeing by the central government or central bank of new non-concessional 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 central government or central bank. 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. A continuous ceiling applies to the contracting and guaranteeing by the central government or central bank of new concessional debt with nonresidents with original maturities of one year or more. 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 a 5 percent discount rate.

16. A zero ceiling on accumulation of external debt payment arrears applies to the central government. External debt payment arrears for program monitoring purposes are defined as external debt obligations (principal and interest) of the Central Government that have not been paid, considering the grace periods specified in contractual agreements. Under the definition of debt set out above, arrears, penalties and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Excluded from this definition are arrears subject to rescheduling under HIPC.

17. The performance criteria on the introduction/imposition of exchange rate restrictions and MCPs prohibits: (i) imposing or intensifying restrictions on the new making of payments and transfers for current international transactions; (ii) introducing or modifying multiple currency practices; (iii) concluding bilateral payments agreements that are inconsistent with Article VIII, and (iv) imposing or intensifying import restrictions for balance of payments reasons. Continuous compliance is assessed based on information provided by the authorities to staff with respect to such measures.

D. Indicative Targets

18. Reserve money is defined as the sum of local currency circulating outside of the banks, total reserves (required and excess) of banks, and deposits of local and state governments and non-financial public corporations at the CBOS. For program purpose, all foreign currency items are evaluated at program exchange rates.

19. Primary balance of the central government (PB) is defined as revenues minus expenditures excluding interest payments cumulatively since the beginning of the calendar year.

Adjustors:

- The floor on the PB will be adjusted upward (downward) *pro tanto* by the amount of any excess (shortfall) of project external loans relative to program projections.
- The floor on the PB will be adjusted upward (downward) pro tanto by the amount of any excess (shortfall) of budget support cash grants and loans (excluding those earmarked for the SFSP) relative to program projections.
- The floor on the PB will be adjusted downward pro tanto by the amount of any shortfall in external budget support cash grants earmarked for the SFSP.
- The floor on the PB will be adjusted downward pro tanto by the amount of repayment of SSTL by the Government to the CBOS.

20. For program purposes, the data on central government expenditure arrears and its components by creditors will be measured as cumulative over the fiscal year. The MOEFP will report relevant data on a monthly basis, with a lag of no more than four weeks from the end-of-period.

21. A floor on tax revenue will be applied to the central government. The tax revenue is defined as the sum of revenue from personal income tax, corporate income tax, value-added tax, property tax, import tariff, excise tax, and royalties on the mining sector.

22. A zero ceiling on accumulation of wage arrears by the central government. Wage arrears for program monitoring purposes are defined as wage obligation of the CG towards CG civil servants that have not been paid, beyond three months after their contractual obligation.

23. The floor on social spending of the central government is defined as the central government's spending on social benefits programs as listed in the text table.

Program Monitoring

24. The Sudanese authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Ministry of Minerals, Energy, the CBOS, the Ministry of Labor and Administrative Reforms, and other relevant agencies. The IMF Resident Representative will have observer status on this committee. The committee should be 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 materials necessary for the evaluation of benchmarks. The committee should 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 and uploaded to the IMF's Integrated Monetary Database and Balance of Payment database. Every data submission should begin with January 2020, with revision of previous months identified.

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
Central Bank of Sudan	CBOS balance sheet and CB-1SR	Detailed CBOS balance sheet	Monthly	30 days after the end of each month
	Monetary survey and ODC_2SR	Banking system balance sheet and consolidated balance sheet of commercial banks	Monthly	30 days after the end of each month
	Comprehensive lending to central government by CBOS	Details of CBOS claims on the Central Government (see attached template)	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 (see attached template)	Monthly	2 weeks after the end of each month
	Banking indicators	Capital adequacy; asset composition and quality including nonperforming loans; profitability; liquidity; open FX positions; and compliance with prudential norms	Monthly	30 days after the end of each month
	Exchange Rates	CBOS Indicative Exchange Rate (bid/ask)	Daily	2 days after the end of each week
		Black Market Exchange Rate (bid/ask)	Daily	2 days after the end of each week
	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 and the CBOS	Monthly	30 days after the end of each month
		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 Economic Planning	Central government operations	Revenues (including tax revenues), expenditures, and financing as in GFSM 2001 format	Monthly	30 days after the end of each month
	Privatization receipts	Detailed figures for each transaction and nature of the transaction	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	Monthly	30 days after the end of each month

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
		guarantee, standing orders, accounts payable (including arrears) and amortization schedule		
	Wage arrears	End-month stocks.	Monthly	30 days after the end of each month
	Social spending	Spending on direct cash transfer, 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 loans by donor, breakdown of foreign budget and project grants	Monthly	30 days after the end of each month
Central Bureau of Statistics	CPI	Including detailed data and inflation for imported products	Monthly	2 weeks after the end of each month
Ministry of Finance and Economic Planning / Ministry of Minerals, Oil and Gas	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, cost of crude oil, consumption and imports of gasoline, gasoil, fuel oil, jet oil, kerosene, and LPG	Monthly	30 days after the end of each month
	Fuel prices	Gasoline and diesel prices at the domestic market, and automatic pricing formula	Monthly	30 days after the end of each month

Statement by Ms. Mannathoko, Executive Director for Sudan and
Mr. Ismail, Senior Advisor to the Executive Director
June 28, 2021

This Board meeting marks a historic moment in Sudan's long journey towards re-engagement and normalization of relations with International Financial Institutions (IFIs) after 36 years of global financial isolation. Broad-based support from 101 member countries will enable the clearance of Sudan's arrears to the IMF and allow it to reach the HIPC Decision point, facilitating the delivery of HIPC and other debt relief to Sudan, while allowing the provision of new Fund financing. This milestone will also help unlock much needed development assistance to support Sudan's efforts to get out the COVID-19 crisis and start reversing decades of economic scarring while positioning the economy for higher and more inclusive growth. The Sudanese authorities, thank the Fund membership for the resolute support, amidst a challenging pandemic. My authorities request the support of Executive Directors for the following Decisions:

i. *Termination of Ineligibility to Use the General Resources of the Fund.*
ii. *A 39-month financial arrangement under the Extended Credit Facility (ECF) at 275 percent of quota; and*
iii. *Sudan's qualification for assistance under the HIPC Initiative and approval of the HIPC Decision Point document. This includes approval for the IMF to provide interim assistance between the HIPC Decision and Completion Points, towards reducing the NPV of the debt to exports ratio to 150 percent.*

The Sudanese government has made a sustained and concerted effort to ensure that the qualification criteria required for the above decisions are met. The SMP review submitted by staff establishes the track record required to reach Decision Point. The authorities are committed to sustained reform under the new program. The assessment of risk to the Fund shows that Sudan will be able to meet its obligations to the IMF under the above arrangement.

I. Introduction

1. Our Sudanese authorities thank the Fund Board and membership for their support in making the HIPC Decision Point a possibility for Sudan. They are also appreciative of the unflinching support from Fund management and the determined hard work of the staff teams that have helped bring Sudan to this point. It has also taken significant collective effort to mobilize the financial assurances required for arrears clearance and debt relief.

2. Since its formation in August 2019, the transitional government in Sudan has taken difficult but necessary steps to address adverse social and economic legacies and position the country to pursue the aspirations of the Sudanese people to build a democratic and prosperous society. In this context, the authorities have made significant strides in addressing legacy issues and restoring peace, while rebuilding macroeconomic stability and setting the stage to advance inclusive

development goals, all supported by ambitious reforms under the Upper Credit Tranche (UCT) SMP. This notwithstanding, the COVID-19 pandemic has exerted a significant economic toll, exacerbating pre-existing social and economic challenges. At the same time, large debt arrears accumulated by previous regimes have continued to prevent Sudan from accessing urgently needed financing to advance its development and poverty reduction agenda.

3. The clearance of Sudan's arrears to the General Department of the Fund, will eliminate its non-observance of financial obligations the led to its ineligibility to use Fund resources. Once this happens, Sudan will be able to seek critical support needed for its economic and governance transformation. Directors' support is therefore sought for the termination of Sudan's ineligibility to use the General Resources of the Fund. Against this background, the authorities also request Executive Directors' endorsement of the SMP track record, and support for the request for a 39-month arrangement under the ECF. The ECF program will help anchor medium-term policies and reforms between the HIPC Decision Point and the HIPC Completion Point. The authorities also seek Directors' confirmation of Sudan's qualification for assistance under the Enhanced HIPC Initiative, and for Interim Assistance between the HIPC Decision and Completion Points.

II. The Pandemic and Recent Economic Developments

4. The country is now experiencing its third COVID-19 wave with acceleration in the infection rates since early March. This has prompted a reinstatement of various containment measures with restrictions on large group contact. The authorities have embarked on vaccinating citizens targeting about 20 percent of the targeted populations in the first stage. To this effect, the authorities have thus far received about 1.1 million vaccine doses from the COVAX facility and China, which translates to two doses for less than 1.3 percent of the population. The government also signed an agreement with the Arab Bank for Economic Development for a grant of US$10 million to support health services. Nevertheless, the need for vaccines remains urgent and dire.

5. In the wake of the pandemic and its associated containment measures, GDP growth is estimated to have contracted by 3.6 percent in 2020. GDP growth is expected to recover to about 0.9 percent in 2021 supported by grant resources unlocked by the clearance of arrears to the IFIs, alongside the normalization of economic policies, including the unification of the exchange rate. Inflation, however, continues to accelerate reaching 363 percent in April 2021 compared to 269 percent in December 2020, and driven mainly by fuel price increases and their second-round effects following the removal of subsidies, as well as some food and fuel shortages. Inflation is expected to decline to double digits next year as monetization is reduced and pass-through effects from the unification of the customs rate dissipate. Inflation is expected to stabilize at around 8 percent over the medium-to-long-term.

6. The current account balance shifted from a deficit of 13.2 percent in 2020 to a surplus of 0.1 percent of GDP in the first quarter 2021, following the exchange rate unification and the resultant significant improvement in net exports and shifting of resources towards official markets. In the same vein, recorded remittances, through formal channels, have increased nearly five-fold on the back of the exchange rate unification.

III. Track Record Under the Staff Monitored Program

7. To qualify for HIPC assistance, Sudan had to establish a track record of economic reforms that meets the initiative's standards of upper credit tranche conditionality. Performance under the Staff Monitored Program (SMP) used to establish this track record, through to the current period, has been satisfactory and has enabled the authorities to now seek the Board's endorsement of this track record for the purposes of reaching the HIPC Decision Point.

8. Program performance remained satisfactory under the latest, second review of the SMP. The authorities thank staff for the constructive engagement during both the review and the negotiations for support under the Extended Credit Facility (ECF). They broadly agree with staff's assessment and policy recommendations under the SMP review. The authorities met almost all quantitative benchmarks (QBs). The QB on net credit to the central government, the ceiling on contracting or guaranteeing external long-term non-concessional debt and the net international reserves (NIR) floor were all met. The one exception was the ceiling on net domestic assets (NDA) that was missed mainly due to exchange rate valuation effects, and an increase in credit to the banking sector related to pandemic relief measures. In line with this, the target for the ceiling on reserve money was also missed, also reflecting unsterilized reserve accumulation and increased credit to banks amidst the pandemic. The indicative target (IT) on the non-oil primary deficit was met by a wide margin. With delayed receipt of World Bank funding for the Sudan Family Support Program (SFSP), alongside some logistical challenges, the targeted IT floor on social spending was missed due to the slower-than-planned rollout of the SFSP.

9. In the financial sector, the structural benchmark (SB) on bank stress tests was met. Despite COVID-19 mitigation measures requiring CBOS and banks to operate at 50 percent capacity, significant progress was made on on-site thematic AML/CFT inspections, with eight out of 10 inspections completed by mid-May, however the SB was still missed as all 10 were not completed by the target date. Since the Anti-Corruption National Commission Law was only approved by the Sovereign Council on April 25 this year, this delayed the establishment of the Anti-Corruption Commission (the SB), nevertheless progress has been made in identifying commissioners. The authorities are taking remedial actions to avoid missed targets. Against this background, the authorities seek Directors' endorsement of the staff's assessment that Sudan has satisfactorily established a track record of strong policy implementation under the current UCT quality SMP.

IV. Request for an Extended Credit Facility Program

10. Sudan's capacity to repay the Fund is assessed as adequate once the provision of debt relief under the HIPC framework is effective. Moreover, risks to repayment are mitigated by the fact that Sudan will now have continued access over the foreseeable future to concessional financing, and improved debt management capacity under the program. The ECF program will cement progress made under the SMP, advancing reforms needed to strengthen governance and reduce distortionary policies while laying the groundwork for economic stability and sustained, inclusive, poverty reducing, private-sector-led growth.

11. Under the program, the authorities will target a fiscal deficit of 1.5 percent of GDP in 2022 (compared to 2.9 percent in 2021 and 6 percent in 2020), which will be further reduced to 1 percent over the medium-term, to help preserve debt and fiscal sustainability after HIPC debt relief. They are already implementing revenue mobilization measures to further improve the fiscal balance while creating space for essential social and infrastructure spending. They are also eliminating all VAT exemptions, except those related to food, reforming personal income tax (PIT) and strengthening the Large Taxpayer Office.

12. To contain fiscal expenditure, the authorities plan to continue eliminating fossil fuel subsidies; abolishing government price controls on retail gasoline and diesel fuel and allowing gasoline and diesel fuel suppliers to contract at market prices. They also intend to continue the gradual reduction in electricity subsidies, allowing higher electricity tariff rates for high-end consumers. Alongside the subsidy reductions, the authorities rolled out the Sudan Family Support Program (SFSP) on February 24, 2021, to alleviate the burden of economic reforms on vulnerable households. It has provided support to 160,000 households through April and is expected to cover two million households by the end of the year. The authorities will strengthen cash transfer schemes and social safety nets. Under the ECF, deployment of cash transfers will be carried out in tandem with the reduction of energy subsidies to alleviate the impact of the reforms on vulnerable populations and sustain public support. The authorities will continue to strengthen public financial management (PFM), revamp the public procurement system, and reform the SOE sector while improving fiscal transparency.

13. Preserving debt sustainability post HIPC debt relief, will be an important consideration and with this in mind, the authorities will continue to focus on concessional financing for the foreseeable future, while strengthening debt management and transparency. They will enact a Debt Management Law that clearly identifies objectives, authority, responsibilities, and procedures, and reporting and auditing requirements of public debt operations. They also intend to start publishing quarterly external public debt reports covering the outstanding debt stock, debt flows, and new borrowing, as well as annual public debt reports covering external and domestic public and publicly guaranteed debt.

14. On monetary and exchange rate policies, the authorities transitioned to a market-determined exchange rate in February 2021 and will continue to limit their FX interventions to the mitigation of disorderly market conditions. The customs exchange rate was also unified this week on June 22, 2021. It is expected that measures to strengthen central bank independence, and the transition to a reserve money targeting regime, will reduce deficit monetization and help to contain high inflation. In addition, existing monetary policy tools, including reserve requirements and central bank securities, can also help to tighten monetary policy as the authorities pursue reserve money targets under the ECF.

15. The goal for financial market development over the medium term, is to deepen the government securities market facilitated by the recently adopted dual banking system and TA from the Fund. The authorities are also revising the Banking Regulation Act in line with best international practices, to further improve the soundness and governance of the banking sector. They are working to strengthen the implementation of the AML/CFT framework, addressing current weaknesses.

16. Structural reforms are critical in the effort to entrench good governance and position the economy for sustainable growth. In this regard, the authorities intend to intensify the fight against corruption and improve governance in line with the Constitutional Declaration. They enacted the Anti-Corruption National Commission Law in April 2021, which will lay the foundation for the establishment of an independent Anti-Corruption Commission with a strong mandate to combat corruption. They will also continue measures to recover assets that were illegally obtained by individuals associated with the former regime, in line with the law passed in December 2019 for that purpose. At the same time, scaling up of efforts to improve the business environment with help from the World Bank and IFC, including strengthening the legal and institutional PPP framework, enhancing access to finance to support financial inclusion and MSME development, and fostering public-private dialogue, will in time support faster, more sustainable private sector growth and jobs.

V. HIPC Decision Point

17. The Sudanese authorities have fulfilled the necessary conditions to reach the HIPC Decision Point. They have established a satisfactory track record of sound policy implementation under the current UCT quality SMP. They also adopted a comprehensive and widely consulted Poverty Reduction Strategy Paper (PRSP) in May 2021 and cleared their arrears to the World Bank and the African Development Bank, while securing adequate financing assurances to clear arrears to the IMF. They have also agreed on appropriate Completion Point triggers with IDA and IMF staffs, with reforms set to promote stronger public financial and debt management, improved governance, and enhanced social protection, while supporting private sector-led growth, reflected in the ECF program. The removal of Sudan from the US State Sponsors of Terrorism List (SSTL) in December 2020 has also paved the way for reintegration with the international financial system.

18. Sudan, therefore, qualifies for debt relief under the HIPC Initiative based on end-2020 data as indicated in the DRA. Creditors representing 76 percent of the net present value (NPV) of eligible debt have committed to provide their share of debt relief under the HIPC Initiative. The authorities have also fully reconciled their debt to multilateral creditors. Overall, adding bilateral debt covered so far, they have reconciled 80 percent of Sudan's total debt, with support from the World Bank and the Fund. The authorities are also beginning outreach to non-Paris Club creditors. They intend to reach out to official non-Paris Club creditors and commercial creditors to seek negotiations on equivalent terms, once this stage is complete.

19. Against this background, the Sudanese authorities seek the Executive Board's support for the proposed HIPC Decision. This will affirm Directors' endorsement and agreement that Sudan qualifies for assistance under the Enhanced HIPC Initiative, alongside approval of the provision of interim assistance between the HIPC Decision and Completion Points, with a view to helping the authorities reduce the NPV of the debt to exports, to 150 percent. The authorities request the full provision of the expected HIPC Initiative debt relief on eligible debt.

VI. Conclusion

20. With the change in government, Sudan's successful re-engagement with the IMF and other donors, and its implementation of an ambitious reform program, has placed it on a path towards normalization, peace and recovery. The Sudanese authorities are grateful for the support received from the international community and development partners, which has been instrumental in bringing them to this point and has helped them overcome critical constraints such as the overwhelming arrears inherited from previous regimes. They wish to thank all the members of the Fund who have pledged for their support and their contributions from the SCA-1 and Deferred Charge Accounts. They are also grateful to those who provided additional cash grants that have facilitated the clearing of arrears to the Fund, paving the way for Sudan to regain access to much needed financing. The authorities are mindful of the challenges ahead but are optimistic and determined to remain on track with the implementation of reforms under the ECF program and the associated floating triggers needed to reach the HIPC Completion Point.