INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2014 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAFF MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

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This debt sustainability analysis (DSA) confirms that Sudan continues to be in debt distress.[1] *Both public and external debt ratios remained high, and most of the external debt is in arrears. Consistent with the results of past DSAs, Sudan's debt is assessed to be unsustainable. All external debt indicators breach their indicative thresholds under the baseline scenario, and many of them stayed above the thresholds throughout the time horizon of the analysis. It is therefore critical for Sudan to follow sound economic policies, including a prudent borrowing strategy, and to continue garnering support for debt relief.*

[1] [This DSA update was prepared jointly by IMF and World Bank staff under the joint Fund-Bank Low-Income Country (LIC) Debt Sustainability Framework (DSF).] Sudan's Country Policy and Institutional Assessment (CPIA) Rating averaged 2.34 for 2011-13 and falls under the weak performer category. Sudan's fiscal year runs from January 1 to December 31.

BACKGROUND AND RECENT DEVELOPMENTS

1. Sudan's economy has yet to recover from the shock of South Sudan's secession in 2011. Sudan lost three-quarters of oil production, two-thirds of exports, and half of fiscal revenues in the secession. A heavy debt burden, international sanctions, and volatile domestic and regional political environments continue to weigh on economic performance. Growth has been subdued and inflation was high since the secession.

2. Economic performance in the first half of 2014 was mixed. Under a new staff-monitored program (SMP) with the IMF for the year 2014, the authorities have tightened fiscal and monetary policy stances. Government borrowings from the central bank was reduced, reserve money growth slowed (albeit higher than the program target), and international reserves increased marginally. However, inflation remains stubbornly high, affected by past energy price hikes, exchange rate devaluation, and continued supply disruptions due to conflict. There is a large gap between the parallel market rate and the official exchange rate.

3. The "zero-option" and prospects for debt relief. Debt relief prospects are predicated on reaching out to creditors, normalizing relations with international financial institutions, and establishing a track record of cooperation with the IMF on policies and payments. As for the "zero-option"[2], the Sudanese authorities have indicated that they have agreed with South Sudan to extend the deadline for another 2 years till October 2016 in order to avoid immediate apportionment of debt between the two countries. In the meantime, they will step up outreach efforts to creditors to garner support for debt relief.

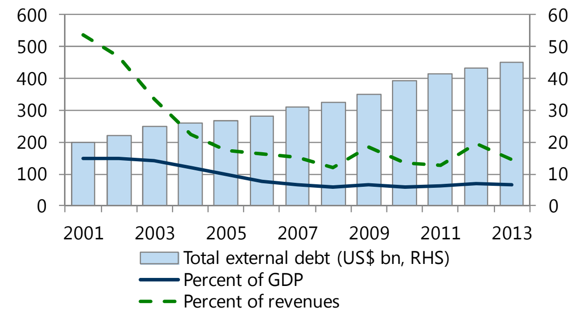
STRUCTURE OF DEBT

4. Sudan's external debt remained very high as of end-2013.[3] In nominal terms, it amounted to about US$45 billion (79 percent of GDP), of which about 85 percent was in arrears (**Error! Reference source not found.**). The structure of external debt has not changed over the last decade. The bulk is public and publicly guaranteed (PPG) debt (US$43.4 billion, of which 88 percent in arrears), mainly owed to bilateral creditors and roughly equally divided between Paris Club and non-Paris Club creditors (Figure 2). Only a small fraction is private debt owed to suppliers (US$1.6 billion).

[2] Sudan retained all the external debt under the "zero-option" following the secession of South Sudan, provided that (i) South Sudan joined Sudan in outreach efforts for debt relief, and (ii) the international community gave firm commitments to the delivery of debt relief. The deadline for these conditions to be met was set at September 2014. If the conditions are not met, Sudan's external debt would be apportioned between the two countries, based on a formula to be determined within six months from the deadline.

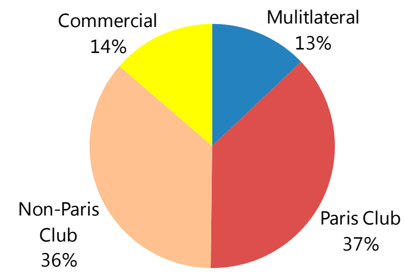
[3] Debt data were provided by the Sudanese authorities, complemented by information obtained during the 2011 external debt reconciliation exercise as well as Fund and World Bank staffs' estimates.

Figure 1. Stock of External Debt, 2001–13



Sources: Sudanese authorities, World Bank, and IMF staff estimates.

Figure 2. Structure of 2013 PPG External Debt



Sources: Sudanese authorities, World Bank, and IMF staff estimates

5. **External public borrowing has been limited in recent years** (Table 1). Sudan has been largely cut off from access to external financing due to its arrears with the creditors. It has been only able to contract new debt—below 1 percent of GDP per year in 2012-14—with a limited number of multilateral and non-Paris Club bilateral creditors. The newly contracted debt has been mainly used to finance projects in the agriculture, services and energy sectors. In the first half of 2014, some US$152 million of new debt (0.2 percent of GDP) was contracted, including US$99 million from a multilateral creditor and US$53 million from bilateral creditors. The new debt contracted is within the annual limit of US$600 million under the SMP. There has not been any new private external debt in decades.

Table 1. New External Debt Contracted (2012-14)

	2012	2013	H1 2014
Total new debt (in US$ million)	**431**	**618**	**152**
In percent of GDP	**0.7**	**0.9**	**0.2**
Of which:			
Concessional	134	16	5
Nonconcessional	296	602	147
By creditor (in percent)			
Multilateral	79	48	65
Non-Paris Club bilateral	21	52	35
Average grant element (in percent)	**30**	**28**	**27**
By sector (in percent)	**100**	**100**	**100**
Agriculture	32	38	-
Energy	7	47	33
Services	61	-	36
Industrial Development	-	6	31
Other	-	10	-

Sources: Sudanese authorities; and IMF staff calculations.

6. **Sudan's total public debt reached 91 percent of GDP by end-2013**. The bulk of the public debt is external debt. Domestic debt has been on the rise due to increased domestic financing of the budget, albeit to a still relatively low level (13 percent of GDP).

DEBT SUSTAINABILITY ANALYSIS

A. Underlying Assumptions

7. **The macroeconomic assumptions underlying this DSA have been updated based on developments in 2013 and the first half of 2014** (Box 1). The differences compared to the macroeconomic framework in 2013 DSA are driven by: (i) lower growth and higher inflation outturns in 2013 relative to previous projections; (ii) the impact of the policy measures carried out in September 2013, including a step devaluation in the official SDG/USD exchange rate and increases in domestic fuel prices; and (iii) outturns in the first half of 2014. Both the fiscal and current account deficits are projected to be lower than in the previous DSA over the medium term, reflecting improved fiscal performance as well as higher oil-related revenues from South Sudan. As in previous DSAs, this DSA update does not base its baseline or any alternative scenario projections on speculations about the timing and magnitude of arrears clearance, possible external debt relief or debt apportionment between Sudan and South Sudan.

Box 1. Sudan: Macroeconomic Assumptions 2014-34

Natural resources. The outlook is informed by discussions with the Ministries of Oil and Mining. Oil production is projected at 127 thousand barrels/day in 2014, a moderate increase from 119 thousand barrels/day in 2013. Enhanced recovery in existing fields and further exploration will likely help production to further increase over the medium term, reaching a peak of 210 thousand barrels/day in 2020 before it start to gradually decline. Meanwhile, annual production of gold is projected to increase by 3 percent per year until 2020 stable afterwards. Price projections are guided by the IMF's latest World Economic Outlook (WEO). Price for Sudan's crude oil is projected to average at US$91/barrel, and remains stable at US$87/barrel in the longer term.

Real sector. The real GDP growth rate is expected to gradually increase to 4.7 percent until 2019 and then to average 4.2 percent over 2020–34. Medium term real GDP growth mainly reflects a strengthening non-oil sector led by the agriculture and mining sectors under macroeconomic stabilization and structural reforms in the areas of business environment, education and health, and reducing unemployment[1]. Inflation, as measured by GDP deflator, is projected to be high in the near term, but will stabilize over the medium term; it averages at 15 percent in 2014-19 and 5½ percent in 2020-34.

Fiscal sector. The fiscal deficit is projected to improve over the medium term, reflecting a combination of improvements in tax revenue collection, increase in oil revenues, and containment of current spending, including a gradual phasing out of fuel subsidies. Over the long run, the fiscal d eficit is expected to average some 1 percent of GDP, reflecting (i) a gradual increase in tax revenues, against the backdrop of decreasing oil revenues and (ii) increase in capital spending. Domestic debt to GDP ratio is projected to be stable under the growth and fiscal performance assumptions.

External sector. The current account deficit is expected to improve slightly over the medium term, reaching 5 percent of GDP by end-2019, reflecting further fiscal consolidation as well as growth in oil and non-oil exports. In the long run it is expected to be stable at 5-6 percent of GDP as oil exports decline while non-oil exports continue to increase. The current account deficit will be financed by foreign direct investment and continued accumulation of external debt arrears.

External debt. Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans are expected to be limited, at about 0.4 percent of GDP during 2013–33. In line with the recent portfolio of new contracted debt, the share of new concessional loans is kept at around one third. It is assumed that Sudan will continue to fail to service obligations arising from the stock of arrears.

1/ For more information on sources of growth in Sudan, see IMF (2014), Staff Report for the 2014 Article IV Consultation and Second Review Under the Staff Monitored Program, Annex II.

B. External Debt Sustainability

8. Sudan's external debt stock remains unsustainable under the baseline scenario (Figure A1 and Table A1). All PPG external debt level ratios continue to breach their indicative thresholds throughout the 20-year projection period. The present value (PV) of PPG external debt is at 125 percent of GDP at end-2013—more than four times of the 30 percent threshold for weak policy performers—and is projected to stay above 60 percent of GDP through the projection period. Similarly, both the PV of debt-to-exports and the PV of debt-to-revenue ratios are above 1300 percent in 2014, well above their respective thresholds. Although these ratios are projected to improve based on the assumptions of robust growth and limited external borrowing over the medium to long run, such improvements are insufficient to bring debt to sustainable levels.

9. In addition, Sudan's debt outlook is vulnerable to a range of shocks (Figure A1 and Table A2). The PV of debt-to-GDP, debt-to-revenue and debt service-to-revenue ratios are most vulnerable to a one-time depreciation shock, whereas the PV of debt-to-exports and debt service-to-exports ratios are most vulnerable to an exports shock. A standard one-time 30 percent depreciation shock in 2015 would increase the PV-of-debt to more than 160 percent of GDP in that year, and result in a permanently upward shift in the debt path.

C. Public Debt Sustainability

10. Public DSA results mirrors those of the external DSA (Figure A2 and Tables A3). The debt ratios, albeit declining, converge to relatively high levels in the long term. The PV of public debt-to-GDP ratio is projected to stay well above the indicative benchmark throughout the projection period. Similar to the external DSA, the public DSA bound tests show that public debt path is most vulnerable to a one-time 30 percent real depreciation (Table A4).

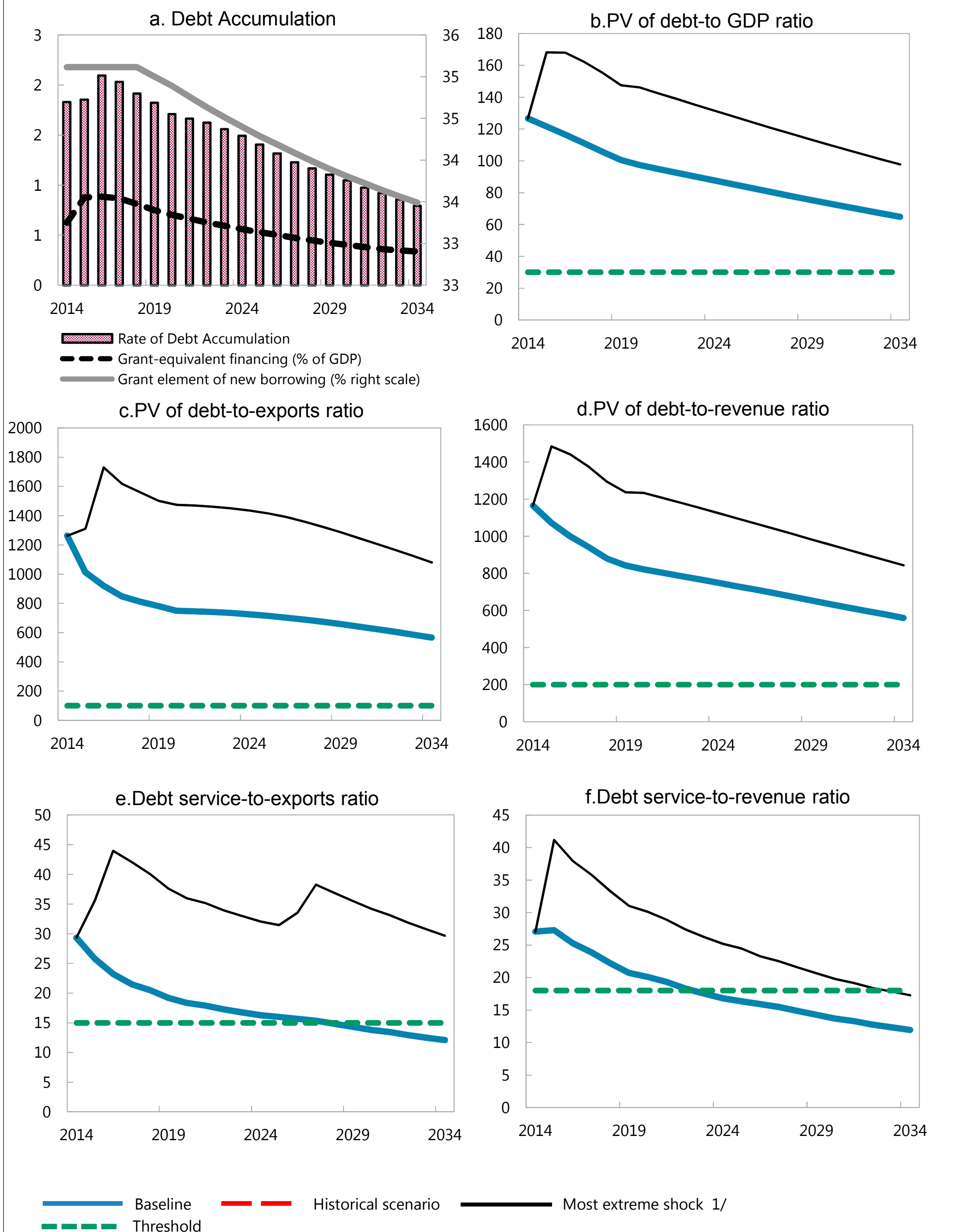
CONCLUSIONS

11. Sudan remains in debt distress. The results of this DSA are broadly unchanged from those in previous DSAs. External debt remains unsustainable. Over the long term, all public and public-guaranteed external debt burden ratios remain well above their respective indicative thresholds (except for the debt service ratios at the end of the projection horizon). Public debt is also unsustainable, driven mostly by external debt dynamics.

12. Further efforts are needed for Sudan to obtain much-needed debt relief and regain access to external financing. Sudan needs to: (i) step up outreach efforts to its creditors to garner broad support for debt relief; (ii) continue to cooperate with the IMF on economic policies and payments with a view to establish a track record of sound macro policies; and (iii) limit new borrowing on non-concessional terms as much as possible, since it further increases the future debt burden, and secure foreign support on highly concessional terms to finance necessary development and infrastructure expenditures.

13. The authorities generally agree with the results and assessments of the DSA. They agree that Sudan's external debt is at unsustainable levels, debt service burdens are beyond Sudan debt servicing capacity, and as a result Sudan continues to accumulate external debt arrears. They agree that non-concessional borrowing is costly and therefore should be minimized. They reiterated that debt relief is urgently needed for Sudan's economic development, and remain hopeful that international community will support Sudan to secure a debt relief in the near future. In this regard, the authorities will step up their efforts in reaching out to creditors.

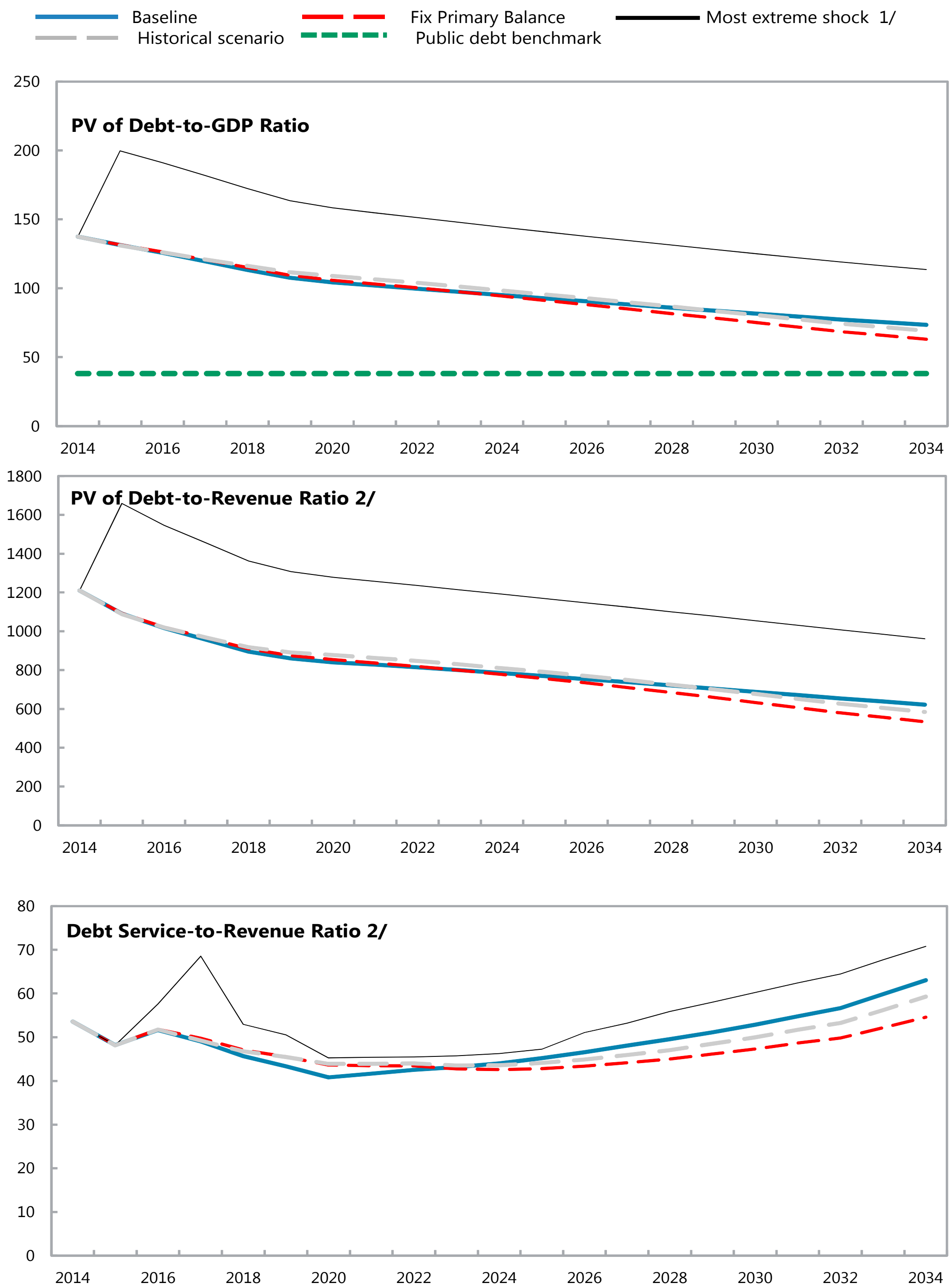
Figure A1. Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2014-34 1/



Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio on or before 2024. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock

Figure A2.Sudan: Indicators of Public Debt Under Alternative Scenarios, 2014-34 1/



Sources: Country authorities; and staff estimates and projections.
1/ The most extreme stress test is the test that yields the highest ratio on or before 2024.
2/ Revenues are defined inclusive of grants.

Table A1. External Debt Sustainability Framework, Baseline Scenario, 2011-2034 1/

(In percent of GDP, unless otherwise indicated)

	Actual			Historical Average 6/	Standard Deviation 6/	Projections									
	2011	2012	2013			2014	2015	2016	2017	2018	2019	2014-2019 Average	2024	2034	2020-2034 Average
External debt (nominal) 1/	**61.8**	**84.0**	**80.3**			**82.3**	**80.5**	**78.4**	**75.9**	**73.1**	**70.4**		**65.4**	**53.6**	
of which: public and publicly guaranteed (PPG)	59.4	81.4	77.8			79.9	77.9	75.8	73.3	70.7	68.1		63.2	51.7	
Change in external debt	-2.8	22.2	-3.7			2.0	-1.8	-2.1	-2.6	-2.7	-2.7		-1.0	-1.2	
Identified net debt-creating flows	-5.0	9.4	0.1			1.2	0.6	0.0	-0.6	-1.2	-1.1		-0.2	-0.6	
Non-interest current account deficit	**-2.1**	**6.6**	**6.1**	**2.7**	**3.6**	**4.1**	**3.7**	**3.5**	**3.0**	**2.8**	**2.8**		**3.9**	**4.7**	4.2
Deficit in balance of goods and services	-2.0	6.8	6.5			4.7	4.6	4.5	4.2	4.2	4.0		4.7	5.0	
Exports	17.6	9.9	9.5			10.0	12.0	12.7	13.1	13.0	12.9		12.1	11.4	
Imports	15.5	16.7	16.1			14.7	16.5	17.1	17.3	17.2	16.8		16.8	16.5	
Net current transfers (negative = inflow)	-1.7	-1.4	-2.1	-2.9	2.0	-2.1	-2.4	-2.6	-2.7	-2.8	-2.6		-2.2	-1.4	-1.9
of which: official	-1.0	-0.7	-0.7			-0.6	-0.7	-0.7	-0.7	-0.7	-0.6		-0.5	-0.3	
Other current account flows (negative = net inflow)	1.5	1.1	1.6			1.4	1.6	1.6	1.5	1.5	1.4		1.3	1.1	
Net FDI (negative = inflow)	**-4.0**	**-3.9**	**-4.6**	**-5.9**	**2.1**	**-3.3**	**-3.3**	**-3.1**	**-3.1**	**-3.1**	**-2.8**		**-3.3**	**-4.2**	-3.5
Endogenous debt dynamics 2/	**1.1**	**6.8**	**-1.4**			**0.5**	**0.2**	**-0.3**	**-0.6**	**-0.9**	**-1.0**		**-0.8**	**-1.1**	
Contribution from nominal interest rate	2.7	2.7	3.1			2.9	3.2	2.8	2.5	2.3	2.2		1.8	1.2	
Contribution from real GDP growth	0.2	1.4	-2.6			-2.4	-3.1	-3.1	-3.1	-3.3	-3.2		-2.6	-2.3	
Contribution from price and exchange rate changes	-1.8	2.7	-1.9			...	...	...	...	...	...		...	...	
Residual (3-4) 3/	**2.2**	**12.8**	**-3.8**			**0.8**	**-2.4**	**-2.1**	**-1.9**	**-1.6**	**-1.6**		**-0.8**	**-0.6**	
of which: exceptional financing	-2.7	-2.8	-2.8			-2.6	-2.7	-2.6	-2.5	-2.3	-2.1		-1.8	-1.1	
PV of external debt 4/	...	...	127.5			128.9	124.1	119.2	113.7	108.2	102.8		89.9	66.7	
In percent of exports	...	...	1335.3			1286.9	1035.2	941.2	868.0	831.0	799.8		743.4	583.3	
PV of PPG external debt	**...**	**...**	**125.0**			**126.6**	**121.5**	**116.6**	**111.2**	**105.8**	**100.5**		**87.7**	**64.8**	
In percent of exports	**...**	**...**	**1309.7**			**1263.3**	**1013.4**	**920.6**	**848.7**	**812.4**	**781.8**		**725.6**	**566.7**	
In percent of government revenues	**...**	**...**	**1357.6**			**1165.1**	**1072.5**	**1000.6**	**942.4**	**880.4**	**843.0**		**749.7**	**559.7**	
Debt service-to-exports ratio (in percent)	**18.3**	**33.5**	**32.5**			**29.7**	**26.2**	**23.6**	**21.9**	**20.8**	**19.6**		**16.7**	**12.7**	
PPG debt service-to-exports ratio (in percent)	**18.1**	**33.1**	**32.1**			**29.3**	**25.8**	**23.2**	**21.5**	**20.5**	**19.2**		**16.3**	**12.1**	
PPG debt service-to-revenue ratio (in percent)	**18.0**	**35.2**	**33.3**			**27.1**	**27.3**	**25.2**	**23.9**	**22.2**	**20.7**		**16.8**	**11.9**	
Total gross financing need (Billions of U.S. dollars)	-1.9	3.8	3.0			2.6	2.3	2.2	2.0	1.8	1.9		2.6	2.9	
Non-interest current account deficit that stabilizes debt ratio	0.7	-15.6	9.8			2.0	5.5	5.5	5.6	5.6	5.5		4.9	5.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	-0.3	-2.2	3.3	3.5	3.0	3.1	3.4	3.9	4.2	4.6	4.7	4.0	4.1	4.4	4.2
GDP deflator in US dollar terms (change in percent)	2.9	-4.1	2.3	10.9	11.2	1.8	-11.0	-2.0	1.1	1.6	2.3	-1.0	0.3	0.2	0.1
Effective interest rate (percent) 5/	4.4	4.1	3.9	4.9	0.5	3.7	3.6	3.5	3.4	3.3	3.2	3.4	2.8	2.3	2.6
Growth of exports of G&S (US dollar terms, in percent)	-8.7	-46.9	1.4	15.4	35.7	10.1	10.2	7.5	8.9	5.6	5.7	8.0	2.9	4.7	3.5
Growth of imports of G&S (US dollar terms, in percent)	-7.5	0.9	1.6	15.6	25.5	-4.1	3.7	5.4	6.6	5.4	4.7	3.6	4.1	4.4	4.2
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	35.1	35.1	35.1	35.1	35.1	35.0	35.1	34.4	33.5	34.1
Government revenues (excluding grants, in percent of GDP)	17.7	9.4	9.2			10.9	11.3	11.7	11.8	12.0	11.9		11.7	11.6	11.7
Aid flows (in Billions of US dollars) 7/	0.4	0.4	0.4			0.4	0.6	0.6	0.6	0.6	0.6		0.5	0.4	
of which: Grants	0.2	0.3	0.4			0.3	0.5	0.5	0.5	0.5	0.5		0.4	0.3	
of which: Concessional loans	0.2	0.1	0.0			0.1	0.1	0.1	0.1	0.1	0.1		0.1	0.1	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			0.6	0.9	0.9	0.9	0.8	0.8		0.6	0.3	0.5
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			72.1	73.6	73.8	73.4	72.1	71.1		67.5	60.8	65.3
Memorandum items:															
Nominal GDP (Billions of US dollars)	67.3	63.2	66.7			70.0	64.5	65.7	69.2	73.5	78.7		95.9	149.0	
Nominal dollar GDP growth	2.6	-6.2	5.7			4.9	-7.9	1.9	5.3	6.3	7.1	2.9	4.4	4.6	4.3
PV of PPG external debt (in Billions of US dollars)			69.7			70.9	72.2	73.6	74.9	76.2	77.6		84.4	96.8	
(PVt-PVt-1)/GDPt-1 (in percent)						1.8	1.9	2.1	2.0	1.9	1.8	1.9	1.5	0.8	1.3
Gross workers' remittances (Billions of US dollars)	1.4	1.1	1.4			1.4	1.6	1.7	1.9	2.1	2.1		2.1	2.1	
PV of PPG external debt (in percent of GDP + remittances)	...	...	122.5			124.0	118.6	113.6	108.2	102.8	97.9		85.8	63.9	
PV of PPG external debt (in percent of exports + remittances)	...	...	1077.1			1047.6	840.6	760.7	700.1	665.3	645.5		612.7	503.6	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	26.4			24.3	21.4	19.2	17.7	16.8	15.8		13.8	10.8	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

2/ Derived as [r - g - ρ(1+g)]/(1+g+ρ+gρ) times previous period debt ratio, with r = nominal interest rate; g = real GDP growth rate, and ρ = growth rate of GDP deflator in U.S. dollar terms.

3/ Includes exceptional financing (i.e., changes in arrears and debt relief); changes in gross foreign assets; and valuation adjustments. For projections also includes contribution from price and exchange rate changes.

4/ Assumes that PV of private sector debt is equivalent to its face value.

5/ Current-year interest payments divided by previous period debt stock.

6/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

7/ Defined as grants, concessional loans, and debt relief.

8/ Grant-equivalent financing includes grants provided directly to the government and through new borrowing (difference between the face value and the PV of new debt).

Table A2. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014
(In Percent)

	Projections							
	2014	2015	2016	2017	2018	2019	**2024**	2034
PV of debt-to-GDP+remittances ratio								
Baseline	124	119	114	108	103	98	**86**	64
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	124	91	74	62	53	44	**13**	-13
A2. New public sector loans on less favorable terms in 2014-2034 2	124	109	109	105	101	96	**87**	65
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	124	112	115	111	106	101	**91**	68
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	124	111	114	111	106	101	**91**	65
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	124	97	96	92	88	84	**75**	56
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	124	111	112	106	101	96	**87**	64
B5. Combination of B1-B4 using one-half standard deviation shocks	124	94	89	85	82	78	**69**	52
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	124	162	162	156	149	142	**127**	96
PV of debt-to-exports+remittances ratio								
Baseline	1048	841	761	700	665	645	**613**	504
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	1048	664	519	426	363	313	**101**	-112
A2. New public sector loans on less favorable terms in 2014-2034 2	1048	773	730	682	653	634	**619**	515
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	1048	772	727	678	648	628	**610**	503
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	1048	1021	1243	1159	1105	1078	**1068**	875
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	1048	772	727	678	648	628	**610**	503
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	1048	864	825	686	656	636	**618**	506
B5. Combination of B1-B4 using one-half standard deviation shocks	1048	881	910	837	800	775	**752**	624
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	1048	772	727	678	648	628	**610**	503
PV of debt-to-revenue ratio								
Baseline	1165	1073	1001	942	880	843	**750**	560
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	1165	818	649	538	445	378	**111**	-112
A2. New public sector loans on less favorable terms in 2014-2034 2	1165	987	961	918	864	828	**758**	573
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	1165	1013	1018	971	913	874	**794**	595
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	1165	1004	1009	964	907	869	**796**	572
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	1165	879	839	801	753	720	**655**	491
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	1165	990	967	923	868	831	**756**	562
B5. Combination of B1-B4 using one-half standard deviation shocks	1165	840	772	737	692	663	**602**	454
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	1165	1485	1442	1376	1293	1238	**1125**	844

Table A2. Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2014 (continued)

(In Percent)

	Debt service-to-exports+remittances ratio							
Baseline	24	21	19	18	17	16	**14**	11
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	24	18	14	11	10	8	**3**	-7
A2. New public sector loans on less favorable terms in 2014-2034 2	24	21	19	18	17	16	**14**	12
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	24	21	19	18	17	16	**14**	10
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	24	28	32	30	28	27	**24**	24
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	24	21	19	18	17	16	**14**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	24	24	22	18	17	16	**14**	11
B5. Combination of B1-B4 using one-half standard deviation shocks	24	25	24	22	21	19	**17**	12
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	24	21	19	18	17	16	**14**	10
	Debt service-to-revenue ratio							
Baseline	27	27	25	24	22	21	**17**	12
A. Alternative Scenarios								
A1. Key variables at their historical averages in 2014-2034 1/	27	22	17	14	12	10	**3**	-7
A2. New public sector loans on less favorable terms in 2014-2034 2	27	27	25	24	22	21	**17**	13
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2015-2016	27	28	27	25	23	22	**18**	12
B2. Export value growth at historical average minus one standard deviation in 2015-2016 3/	27	27	26	25	23	22	**18**	16
B3. US dollar GDP deflator at historical average minus one standard deviation in 2015-2016	27	24	22	21	19	18	**15**	10
B4. Net non-debt creating flows at historical average minus one standard deviation in 2015-2016 4/	27	27	25	24	22	21	**17**	12
B5. Combination of B1-B4 using one-half standard deviation shocks	27	23	20	19	18	17	**13**	9
B6. One-time 30 percent nominal depreciation relative to the baseline in 2015 5/	27	41	38	36	33	31	**25**	17
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	34	34	34	34	34	34	**34**	34

Sources: Country authorities; and staff estimates and projections.

1/ Variables include real GDP growth, growth of GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non

2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods

3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to it
an offsetting adjustment in import levels).

4/ Includes official and private transfers and FDI.

5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.

6/ Applies to all stress scenarios except for A2 (less favorable financing) in which the terms on all new financing are as specified in footnote 2

Table A3. Public Sector Debt Sustainability Framework, Baseline Scenario, 2011-2034

(In percent of GDP, unless otherwise indicated)

	Actual					Projections									
	2011	2012	2013	Average 5/	Standard Deviation 5/	2014	2015	2016	2017	2018	2019	2014-19 Average	2024	2034	2020-34 Average
Public sector debt 1/	70.5	94.3	90.3			90.8	87.6	85.0	81.7	78.3	75.1		70.5	60.4	
of which: foreign-currency denominated	59.4	81.4	77.8			79.9	77.9	75.8	73.3	70.7	68.1		63.2	51.7	
Change in public sector debt	-2.6	23.9	-4.0			0.4	-3.1	-2.7	-3.2	-3.4	-3.1		-0.9	-1.0	
Identified debt-creating flows	-7.7	20.4	-8.0			-2.2	-5.3	-4.9	-5.3	-5.6	-4.9		-2.4	-2.3	
Primary deficit	-3.9	-0.3	-1.5	-2.6	2.2	-2.2	-2.5	-2.7	-2.9	-3.1	-2.4	-2.6	-1.3	-0.9	-1.1
Revenue and grants	18.0	9.8	9.9			11.4	12.0	12.4	12.5	12.7	12.5		12.1	11.8	
of which: grants	0.3	0.4	0.7			0.5	0.7	0.7	0.7	0.6	0.6		0.4	0.2	
Primary (noninterest) expenditure	14.2	9.5	8.4			9.1	9.6	9.7	9.6	9.5	10.1		10.8	10.9	
Automatic debt dynamics	-3.7	21.1	-6.4			0.0	-2.9	-2.2	-2.4	-2.5	-2.5		-1.2	-1.4	
Contribution from interest rate/growth differential	1.2	1.9	-3.1			-3.1	-2.3	-1.9	-2.1	-2.2	-2.3		-2.8	-2.8	
of which: contribution from average real interest rate	0.9	0.4	-0.1			-0.5	0.7	1.4	1.3	1.3	1.2		0.0	-0.2	
of which: contribution from real GDP growth	0.2	1.6	-3.0			-2.7	-3.0	-3.3	-3.4	-3.6	-3.5		-2.8	-2.6	
Contribution from real exchange rate depreciation	-4.9	19.1	-3.2			3.2	-0.6	-0.2	-0.3	-0.2	-0.2		...	...	
Other identified debt-creating flows	-0.2	-0.4	-0.2			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	-0.2	-0.4	-0.2			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	5.1	3.5	4.0			2.7	2.2	2.2	2.0	2.2	1.8		1.5	1.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	137.5			137.4	131.3	125.7	119.6	113.3	107.5		95.0	73.5	
of which: foreign-currency denominated	...	...	125.0			126.6	121.5	116.6	111.2	105.8	100.5		87.7	64.8	
of which: external	...	...	125.0			126.6	121.5	116.6	111.2	105.8	100.5		87.7	64.8	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	1.6	7.6	5.3			4.8	4.2	4.5	4.1	3.4	3.7		4.7	7.3	
PV of public sector debt-to-revenue and grants ratio (in percent)	...	...	1394.7			1210.1	1090.6	1016.7	956.9	895.6	859.6		784.1	622.2	
PV of public sector debt-to-revenue ratio (in percent)	...	...	1493.6			1265.1	1158.7	1079.1	1013.5	943.3	901.9		812.2	634.4	
of which: external 3/	...	...	1357.6			1165.1	1072.5	1000.6	942.4	880.4	843.0		749.7	559.7	
Debt service-to-revenue and grants ratio (in percent) 4/	25.3	71.8	59.4			53.6	48.2	51.7	49.0	45.7	43.3		44.0	63.0	
Debt service-to-revenue ratio (in percent) 4/	25.8	75.1	63.6			56.0	51.2	54.8	51.9	48.1	45.5		45.6	64.3	
Primary deficit that stabilizes the debt-to-GDP ratio	-1.2	-24.2	2.5			-2.7	0.7	0.0	0.4	0.3	0.7		-0.4	0.0	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	-0.3	-2.2	3.3	3.5	3.0	3.1	3.4	3.9	4.2	4.6	4.7	4.0	4.1	4.4	4.2
Average nominal interest rate on forex debt (in percent)	4.5	4.2	4.0	5.0	0.6	3.8	3.7	3.6	3.4	3.3	3.2	3.5	2.8	2.2	2.6
Average real interest rate on domestic debt (in percent)	-5.6	-9.8	-16.6	-1.1	8.6	-17.7	-7.0	1.6	3.6	5.2	5.3	-1.5	1.6	2.1	1.7
Real exchange rate depreciation (in percent, + indicates depreciation)	-7.6	30.8	-4.0	-5.0	14.0	...	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	19.0	28.5	36.2	17.6	9.3	33.0	21.7	11.0	8.1	6.5	6.5	14.5	5.3	4.9	5.2
Growth of real primary spending (deflated by GDP deflator, in percent)	-8.6	-34.4	-8.4	-5.0	11.0	12.1	8.4	4.7	4.1	3.1	11.0	7.2	4.8	4.7	4.8
Grant element of new external borrowing (in percent)	...	...	...	...	...	35.1	35.1	35.1	35.1	35.1	35.0	35.1	34.4	33.5	...

Sources: Country authorities; and staff estimates and projections.

1/ General government gross debt.

2/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period.

3/ Revenues excluding grants.

4/ Debt service is defined as the sum of interest and amortization of medium and long-term debt.

5/ Historical averages and standard deviations are generally derived over the past 10 years, subject to data availability.

Table A4. Sensitivity Analysis for Key Indicators of Public Debt 2014-2034

		Projections							
	2014	2015	2016	2017	2018	2019	2024	2033	2034
PV of Debt-to-GDP Ratio									
Baseline	137	131	126	120	113	108	95	75	73
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	137	131	126	121	116	112	98	72	69
A2. Primary balance is unchanged from 2014	137	131	126	121	115	109	94	66	63
A3. Permanently lower GDP growth 1/	137	132	128	122	117	112	104	96	95
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviation	137	135	135	129	123	117	106	89	88
B2. Primary balance is at historical average minus one standard deviations	137	133	129	123	116	110	98	78	76
B3. Combination of B1-B2 using one half standard deviation shocks	137	134	132	126	119	114	102	84	82
B4. One-time 30 percent real depreciation in 2015	137	200	191	182	172	164	144	116	114
B5. 10 percent of GDP increase in other debt-creating flows in 2015	137	139	133	127	120	114	101	81	79
PV of Debt-to-Revenue Ratio 2/									
Baseline	1210	1091	1017	957	896	860	784	638	622
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	1210	1089	1020	967	918	890	810	606	584
A2. Primary balance is unchanged from 2014	1210	1092	1021	966	910	874	778	557	533
A3. Permanently lower GDP growth 1/	1210	1098	1030	977	922	893	859	807	803
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviation	1210	1123	1085	1026	966	932	874	756	742
B2. Primary balance is at historical average minus one standard deviations	1210	1105	1045	983	920	883	807	658	642
B3. Combination of B1-B2 using one half standard deviation shocks	1210	1112	1063	1003	941	906	840	707	692
B4. One-time 30 percent real depreciation in 2015	1210	1659	1545	1455	1362	1308	1191	985	961
B5. 10 percent of GDP increase in other debt-creating flows in 2015	1210	1158	1078	1014	949	911	836	683	665
Debt Service-to-Revenue Ratio 2/									
Baseline	54	48	52	49	46	43	44	60	63
A. Alternative scenarios									
A1. Real GDP growth and primary balance are at historical averages	54	48	52	49	47	45	44	56	59
A2. Primary balance is unchanged from 2014	54	48	52	50	47	46	43	52	55
A3. Permanently lower GDP growth 1/	54	48	52	50	47	45	50	76	81
B. Bound tests									
B1. Real GDP growth is at historical average minus one standard deviation	54	50	55	53	51	49	51	72	76
B2. Primary balance is at historical average minus one standard deviations	54	48	53	54	52	47	45	63	66
B3. Combination of B1-B2 using one half standard deviation shocks	54	49	54	53	51	47	48	67	71
B4. One-time 30 percent real depreciation in 2015	54	56	65	64	62	60	59	78	82
B5. 10 percent of GDP increase in other debt-creating flows in 2015	54	48	58	69	53	51	46	68	71

Sources: Country authorities; and staff estimates and projections.
1/ Assumes that real GDP growth is at baseline minus one standard deviation divided by the square root of the length of the projection.
2/ Revenues are defined inclusive of grants.

Press Release No. 14/606
FOR IMMEDIATE RELEASE
December 30, 2014

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

IMF Executive Board Concludes 2014 Article IV Consultation with Sudan and Second Review under Staff Monitored Program

On December 3, 2014, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Sudan.

Sudan's economy has yet to recover from the shock of South Sudan's secession three years ago, which took away three-quarters of oil production, half of its fiscal revenues, and two-thirds of its international payments capacity. In March 2014, Sudan reached understandings with IMF staff on a staff-monitored program (SMP) for 2014 (See Press Release No. 14/139). The program is consistent with the government's emergency three-year strategy adopted in the wake of 2011 South Sudan secession and aims to restore macroeconomic stability, strengthen social safety nets, and create condition for sustainable and inclusive growth. Macroeconomic adjustment has been complicated by structural weaknesses, a heavy debt burden, external sanctions, and volatile domestic and regional political environments, which affect confidence and investment.

Economic performance in 2014 has been mixed. Growth remains relatively low, and inflation high. The budget deficit has narrowed compared with 2013 on account of improved revenue collection and tight expenditure control. Growth in monetary aggregates has slowed significantly from the end of 2013. Following a large appreciation of the parallel market exchange rate and a small devaluation of the official exchange rate, the gap between those rates has declined considerably. The current account deficit is estimated to have narrowed to 6.5 percent of GDP on account of continued fiscal consolidation.

Implementation of the authorities' adjustment program should help restore macroeconomic stability and improve growth prospects over the medium term. Driven by agriculture, minerals, and oil, growth is expected to accelerate gradually to about 4.7 percent in 2019. With prudent macroeconomic policies, inflation is expected to fall to single digits by 2017. The external current account deficit is expected to gradually narrow toward sustainable levels. However, the external debt overhang and the large arrears, along with protracted political transition and

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

unsettled regional civil conflicts will continue to hinder access to external financing and weigh on growth prospects.

Resolving Sudan's unsustainable external debt is of paramount importance for the successful adjustment to the impact of South Sudan's secession, implementation of the government's poverty reduction policies, and for supporting inclusive growth. The key pillar of the requirements for debt relief is normalization of relations with external creditors, including the Fund, other multilateral institutions, and bilateral creditors. In this regard, it is critical for the authorities to reach out to their external creditors, including under the framework of the Joint Approach with South Sudan and the African Union High-level Implementation Panel. The recent agreement between the governments of Sudan and South Sudan to extend the "zero option" for another two years till October 2016 is a welcome step[2].

Executive Board Assessment[3]

Executive Directors noted a gradual improvement in Sudan's macroeconomic performance despite difficult economic and social conditions related to South Sudan's secession and political insecurity. Directors welcomed Sudan's continued engagement with the Fund under the staff-monitored program (SMP). They encouraged the authorities to sustain the reform momentum in order to reduce macroeconomic imbalances, foster resilience, and promote broad-based, inclusive growth.

Directors welcomed the improved fiscal performance in the first half of 2014, which helped create fiscal space for much-needed social and investment outlays. They called for a consolidation of recent gains, through a further streamlining of low-priority expenditures and enhanced revenue mobilization, and recommended cuts in tax exemptions and reform of gold-related taxation, as well as a reduction in fuel subsidies. Directors cautioned that the decline in subsidies should also be accompanied by reinforced social safety nets, to help safeguard the poor and vulnerable and enhance the success of the economic reforms. They noted that an integrated public financial management system would be critical to modernize the budgetary framework and improve fiscal governance.

Directors called for a tightening of the monetary stance and strengthening of the monetary policy framework, to contain high inflation. They encouraged continued use of reserve money as the nominal anchor, and advised that monetization of the budget deficit and unsterilized gold purchases be curtailed. Directors noted that reforms to strengthen the independence of the central bank would help bolster monetary policy credibility.

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[2]In September 2012, Sudan and South Sudan reached the so-called "zero option" agreement under which Sudan would retain all the external liabilities after the secession of South Sudan, provided that the international community gave firm commitments to the delivery of debt relief to Sudan within two years. Absent such a commitment, Sudan's external debt would be apportioned based on a formula to be determined.

[3]At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

While welcoming the recent adjustment of the official exchange rate, Directors called for enhanced exchange rate flexibility to help eliminate the parallel market rate premium and improve the availability of foreign exchange, to rebuild international reserves and promote external competitiveness. They considered remaining exchange restrictions and multiple currency practices unhelpful in addressing the underlying external imbalances, and recommended their removal.

Directors encouraged the authorities to advance structural reforms to foster sustained and inclusive growth. They supported reforms to strengthen the business environment and the legal framework for private investment, including improvements to the AML/CFT regime and implementation of other policies identified in the Interim Poverty Reduction Strategy.

Directors recognized that the external debt overhang weighs heavily on the country's development. They welcomed the recent extension to September 2016 of the "Zero Option" agreement, whereby Sudan retains all the external liabilities after South Sudan's secession conditional upon receipt of commitment to debt relief from the international community within two years. Directors supported continued joint outreach to creditors with South Sudan and the African Union High Level implementation Panel, to help garner support for debt relief. They encouraged Sudan to minimize non-concessional borrowing, avoid selective debt servicing, and continue strengthening the cooperation with the IMF on policies and payments.

Sudan: Selected Economic Indicators, 2011–14

	2011	2012	2013 Prel.	2014 Est.
Real sector				
	(Annual changes in percentage)			
Real GDP (at factor costs)	-0.3	-2.2	3.3	3.1
Oil GDP	-36.0	-59.0	15.6	6.3
Non-oil GDP	6.8	4.7	2.7	2.9
Consumer prices (period average)	18.0	35.1	37.1	38.4
Gross capital formation (in percent of GDP)	19.1	18.7	20.0	17.5
Gross Savings (in percent of GDP)	18.6	9.5	11.4	11.0
Public finance				
	(In percent of GDP)			
Revenue and Grants	18.0	9.8	9.9	11.4
Total expenditure	17.8	13.5	12.1	12.4
Overall balance	0.2	-3.7	-2.3	-1.0
Overall primary balance	1.4	-2.3	-0.9	-0.1
Non-oil primary balance	-4.1	-3.8	-2.9	-1.5
In percent of nonoil GDP	-4.7	-3.9	-3.0	-1.6
Monetary sector				
	(Annual changes in percentage)			
Reserve money	27.8	46.7	20.3	14.7
Credit to the economy	8.0	34.1	23.2	28.0
Balance of payments				
	(In percent of GDP)			
Exports of goods (in US$, annual percent change)	-12.9	-53.7	-6.4	7.6
Imports of goods (in US$, annual percent change)	-7.5	2.6	4.7	-4.1
Current account balance	-0.4	-9.2	-8.6	-6.5
Total external debt	59.4	81.4	77.8	79.9
Gross international reserves (in millions of US$)	1,317	1,693	1,619	1,716
In months of next year's imports of G&S.	1.5	1.9	1.9	1.9
Exchange rate: SDGs per U.S. dollar				
End of period	2.68	4.42	5.70	
Period average	2.67	3.57	4.71	

Sources: Sudanese authorities; and IMF Staff estimates and projections.

Press Release No. 14/549
FOR IMMEDIATE RELEASE
December 3, 2014

International Monetary Fund
Washington, D.C. 20431 USA

IMF Management Concludes the Second Review under the Staff-Monitored Program for Sudan

On November 19, the Management of the International Monetary Fund completed the second review under the Staff-Monitored Program (SMP)[1] with Sudan.

Despite the major challenges facing Sudan, performance under the SMP, which expires at end–2014, has been satisfactory. The authorities met all June quantitative targets under the SMP, except for reserve money growth, which the authorities are taking corrective measures to address. On structural reforms, the authorities adopted an amended law on Anti-Money Laundering and Combating the Financing of Terrorism and closed all government accounts in commercial banks. They continue to minimize non-concessional borrowing and maintain satisfactory track record of payments to the Fund as agreed under the SMP. Fund Management welcomes the authorities' commitment to meeting the program's objectives.

The outlook for the rest of 2014 remains favorable. Non-oil growth is projected at 2.9 percent as gold extraction is expected to be strong and agriculture to rebound due to favorable weather. Inflation is expected to drop to 29 percent by year-end from 47 percent in July as the one-off effects of the September 2013 fuel price increases dissipate, monetary policy is tightened, and food prices decline owing to the expected good harvest. The fiscal deficit is expected to narrow to about 1.0 percent of GDP. The outlook for 2015 has improved but is subject to domestic and regional risks. Real GDP growth is projected at 3.4 percent supported by a good harvest, robust gold production, and the recovery of oil production.

The authorities' medium-term program focuses on policies and reforms to reduce inflation, increase international reserves and achieve high and inclusive economic growth. The implementation of the government's medium-term program faces challenges, including a dearth of external financing, economic sanctions, and an unsustainable external debt burden.

[1] An SMP is an agreement between country authorities and Fund staff to monitor the implementation of the authorities' economic program. SMPs do not entail financial assistance or endorsement by the IMF Executive Board.

Sudan is in debt distress with most of its external debt in arrears. Debt relief prospects are predicated on normalizing relations with international creditors. In this context, Sudan has to intensify efforts, jointly with South Sudan, to secure broad support for comprehensive debt relief from Sudan's bilateral external creditors. The agreement between the governments of Sudan and South Sudan to extend the deadline for the "zero option" for two more years is positive in this regard.[2]

IMF staff will continue to provide the authorities with policy advice in implementing and monitoring their economic program. The IMF will also continue to provide technical assistance to Sudan to help strengthen institutional capacity for economic management.

[2] In September 2012, Sudan and South Sudan reached the so-called "zero option" agreement under which Sudan would retain all the external liabilities after the secession of South Sudan, provided that the international community gave firm commitments to the delivery of debt relief to Sudan within two years. Absent such a commitment, Sudan's external debt would be apportioned based on a formula to be determined.

Statement by Ms. Kapwepwe, Executive Director for Sudan, and Ms. Serero, Advisor to Executive Director for Sudan
December 3, 2014

The Sudanese economy continues to grapple with the economic shock brought about by the secession of South Sudan in 2011; and the resultant significant contraction in public finances, creating a massive fiscal imbalance and significantly reducing their capacity in international payments. In addition, the challenging domestic and regional political environment; a huge debt burden; and the protracted US and other international economic sanctions, make it even more difficult for Sudan to recover from the effects of loss of oil revenues. The authorities are implementing a Staff Monitored Program (SMP) which serves to anchor the macroeconomic framework, support their reform program, rebuild donor and investor confidence and lead to macroeconomic stability.

Sudan is one of the remaining HIPC eligible countries, which is yet to receive debt relief. The authorities anticipate that the SMP would support their efforts to fulfill conditions required to reach a decision point under the HIPC initiative, though they are greatly disappointed with the lack of progress by the international community in granting them debt relief, as part of the 'Zero Option' Agreement.

Recent Economic Developments

Inflation has dropped drastically from an average of 45 percent between May and August, to an annual rate of 39 percent in September and 28 percent in October. The significant decline in the September inflation was largely driven by the dissipation of the effects of fuel price increases a year ago. In October, the drop in inflation is attributed to an appreciation of the parallel exchange rate, and the increased foreign exchange inflows on the backdrop of higher exports of livestock and the receipt of oil transit fees from South Sudan.

Performance under the Program

The program remains on track, with all end-June quantitative targets met, while the indicative target on reserve money was missed due to excess liquidity arising from purchases of gold by the central bank. Structural benchmarks for end September are on track, and as part of the commitment to eventually align the official and the parallel exchange rate, the authorities have devalued the official rate by up to 3 percent since September, 2014. In addition, the authorities have remained committed to making payments to the Fund and minimizing non-concessional borrowing.

The Near to Medium Term Outlook

The agricultural and gold sectors are expected to continue to boom until year end, leading to a stronger recovery in the export sector. In addition, a good harvest is expected to continue to ease pressure on food prices, and drive the overall inflation further down, while the parallel exchange rate is expected to decrease further and stabilize at its normal rate The budget deficit is expected to decline from 2.3 percent of GDP in 2013 to 1 percent in 2014, in tandem with the reduction in the non-oil primary deficit, and maintain the reduction in government borrowing from the central bank. These positive developments are expected to continue in 2015, pushing growth slightly up to 3.5 percent and inflation further down to about 20 percent.

Growth is expected to continue rising gradually from about 4 percent in 2016 to nearly 5 percent in 2019 due to a combination of; retained momentum in the agriculture, mining and oil sectors and implementation of the adjustment program. However, this positive prognosis may be reversed by challenges in security and political environment both, domestically and in the region.

Fiscal Policy

Despite the improved fiscal performance in the first half of 2014, the fiscal space remains tight and macroeconomic imbalances continue. However, the authorities remain committed to applying concerted efforts, critical to restoration of fiscal stability. In this regard, the authorities will adhere to a fiscal program that promotes fiscal consolidation, mobilizes additional revenue and eases the debt burden. The program aims to narrow the budget deficit by reining in fuel subsidies, by way of gradual elimination, while at the same time, containing the wage bill. This would free up some resources to be used in increasing social sector spending in order to enhance social safety nets to protect the vulnerable and support public investment to reinvigorate inclusive economic growth and create employment.

To boost public revenues, the authorities will strengthen the tax policy and administration, and rationalize tax exemptions, with the view to improve revenue collections. This process would be guided by the recently completed recommendations of the Tax and Customs Committee Review, and would be taken into account during the formulation of the 2015 public budget. In addition, the rise in fuel prices implemented through the September 2013 reforms package will make a positive contribution to domestic revenue mobilization efforts.

The authorities are also implementing public finance management reforms which aim to improve budget classification and fiscal reporting, and develop a medium term fiscal framework to enhance budget planning and preparation. Overall, the reforms would facilitate planning, execution and monitoring of the budget, and contribute to the envisaged reduction in the overall fiscal balance.

Monetary Policy and the Exchange Rate

Despite the dramatic reductions experienced in recent months, inflation remains too high. Therefore, in line with advice from staff, the authorities have committed to a tight policy stance to mitigate any buildup of inflationary pressures. They also aim to restrict the monetization of the fiscal deficit to program targets, and mop excess liquidity arising from gold purchases by the central bank at the parallel exchange rate, and substitute reserve money growth for the official exchange rate, as a nominal anchor.

The fiscal shock and other underlying economic fundamentals necessitated the adoption of some temporary relief measures, including the subsidization of imports of basic necessities such as wheat, fuel and medical supplies. This development arose from the need to protect the poor and the most vulnerable.

The authorities agree with Staff on the need to bridge the gap between the official and the parallel rate and eventually move to a flexible exchange regime. However, the authorities are mindful of the social sensitivities around hikes in the price some imported goods. Experience has also shown that a devaluation of the official rate could lead to further depreciation of the parallel exchange rate. Under these circumstances, the authorities are more comfortable with a cautious and gradual closure of the gap between the two rates, at a pace commensurate with conducive domestic economic conditions.

Structural Reforms

The authorities are implementing a number of structural reforms to help stimulate the economy. Reforms to the business climate are expected to promote private sector investment, job creation and growth of the economy. In addition, banking sector reforms will improve financial intermediation and access to commercial bank lending by the private sector. With respect to poverty alleviation, the authorities are implementing policies included in the Interim Poverty Reduction Strategy Paper, while the preparation of a full Poverty Reduction Strategy Paper is in progress. The authorities will continue to implement reforms in areas of human capital development in order to improve labor productivity.

Public Debt and Debt Relief

Sudan's public debt levels have reached unsustainable levels, and the debt burden continues to rise with the accumulation of arrears and the need for credit to fund development expenditure and the provision of social safety nets. Under the SMP, the authorities have committed to a limited nonconcessional external borrowing, though prospects for concessional borrowing remain low, and access to credit remains tight. As extensively discussed in our previous Buff Statements, the high debt burden is exerting a toll on government and its citizenry. Therefore, the need for debt relief in Sudan remains urgent and critical to restore macroeconomic stability.

The authorities have expressed dissatisfaction with the fact that the original deadline for the 'Zero Option' elapsed without debt relief for Sudan. It is regrettable that the 14 satisfactory

SMPs, the implementation of policies of the Interim Poverty Reduction Strategy (I-PRSP), external debt reconciliation, and adherence to repayment to the Fund, have all failed to advance the process of achieving debt relief. Nevertheless, the authorities have agreed with South Sudan, to extend the deadline for the 'Zero Option' to September 2016, in part, to allow time for South Sudan to address the ongoing internal challenges. Both countries will step up efforts in outreach to Sudan's creditors.

Article VIII Proposed Decision

Staff has determined that some aspects of Sudan's exchange rate policy are subject to approval under Article VIII, Sections 2(a) and 3(i) of the Fund's Articles of Agreement. Sudan is still suffering from the debilitating effects of oil revenue loss, due to the secession of South Sudan. As a result, the central bank still faces shortages of foreign exchange, hence the capacity to make international repayments remains limited. Therefore, the short term measures implemented to address the balance of payments problems are still relevant.

To this effect, my Sudanese authorities request the support of the Executive Board in approving the 'Proposed Decision' on page 26 of the Staff Report. This would allow them the necessary time to devise an appropriate strategy to phase out the interventions.

Conclusion

The authorities broadly agree with staff that a combination of tight monetary and fiscal policies, and the move towards a single flexible exchange rate, could go a long way in correcting the prevailing macroeconomic imbalances. At the same time, the authorities recognize that reforms to the exchange rate policy should be undertaken within the context of a framework that simultaneously addresses reforms to both fiscal and monetary policies. To this end, they are committed to implementing prudential macroeconomic policies and structural reforms to foster macroeconomic stability, sustain the growth momentum and reduce poverty.

The authorities are also committed to normalize relations with the development partners and expect to be accorded debt relief as other countries which have benefited from the HIPC initiative.