INTERNATIONAL MONETARY FUND

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SUDAN

April 2021

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR SUDAN

In the context of the First Review Under the Staff-Monitored Program, 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 March 24, 2021, following discussions that ended on February 16, 2021, with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 8, 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

PR21/63

IMF Management Completes First Review of Staff-Monitored Program with Sudan

FOR IMMEDIATE RELEASE

- The IMF Managing Director approved the first review of Sudan's Staff-Monitored Program (SMP), which supports the government's home-grown program of reforms aimed at stabilizing the economy, strengthening social protection, boosting the private sector, and strengthening governance.
- The Sudanese authorities have made tangible progress toward establishing a strong track record of policy and reform implementation—a key requirement for eventual debt relief.
- It will be important to make sustained progress under the SMP over the coming months, and for donors to provide Sudan with sufficient support through its transition.

Washington, DC – March 8, 2021: The Managing Director of the IMF, Kristalina Georgieva, approved the first review of Sudan's Staff-Monitored Program on March 5, 2021 and issued the following statement:[1]

"The Sudanese authorities have made tangible progress on their IMF-supported reform program despite difficult economic conditions compounded by the COVID-19 pandemic, and a challenging humanitarian situation.

The recent exchange rate unification, removal of fuel subsidies, tax measures taken as part of the 2021 budget, and increase in electricity tariffs will reduce distortions in the economy and facilitate fiscal consolidation. This should reduce monetization, help bring down the current high rate of inflation, and create fiscal space for much-needed social spending. Such measures should also boost central bank independence by reducing fiscal dominance, incentivize financial flows through the financial system, and minimize opportunities for rent-seeking activities.

The economic situation in Sudan still remains extremely fragile, with low growth, high inflation and a weak external position posing a threat to macroeconomic stability and poverty reduction. To sustain progress and fulfill the requirements for HIPC debt relief, the authorities should implement the reform of the customs exchange rate in a timely fashion to lift revenue and competitiveness, and avoid a return to distortionary policy measures, including multiple currency practices and fiscal subsidies. Enhanced transparency and management of State-Owned Enterprises operations is vital to mitigate fiscal risks and bring more revenue on-budget. The timely adoption of the Central Bank Act and establishment of an independent anti-corruption commission will help strengthen institutional independence and governance.

Significant financial assistance from the international community will be needed to incentivize reform and to support the Sudanese population through the difficult transition to a well-

[1] An SMP is an informal 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.

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functioning market-based economy. This must be accompanied by strong coordination among donors and IFIs on financial and technical assistance."

INTERNATIONAL MONETARY FUND

SUDAN

FIRST REVIEW UNDER THE STAFF-MONITORED PROGRAM

March 8, 2021

EXECUTIVE SUMMARY

Context: The transitional government embarked on an IMF-supported Staff-Monitored Program (SMP) in 2020 to help address major macroeconomic imbalances caused by decades of mismanagement, lay the groundwork for inclusive growth, and establish a track record of sound policies required for eventual HIPC debt relief. The challenges facing the authorities remain significant, but there have been improvements in both the domestic and external environment. International efforts to support Sudan have gained momentum and were bolstered by the removal of Sudan from the U.S. list of State Sponsors of Terrorism (SSTL), and the identification of bridge financiers for Sudan's arrears clearance to IDA and the African Development Bank (AfDB). Meanwhile, the government has moved forward on important structural reforms, and on February 8, 2021 the signatories to the October peace agreement were brought into a newly formed cabinet which reaffirmed its commitment to the economic reform program.

Recent developments and outlook: Economic conditions remain extremely challenging and the environment is very fragile, but the authorities have made tangible progress on their reform program. The economy contracted for the third straight year in 2020, although less than expected, and is projected to return to positive growth in 2021. The recent exchange rate unification, the removal of fuel subsidies, tax measures taken as part of the 2021 budget, and the increase in electricity tariffs will reduce distortions in the economy and facilitate fiscal consolidation. This should reduce monetization and help to bring down the current high rate of inflation. The recorded current account deficit widened notably in 2020, in large part reflecting a late-2020 surge in imports and the increasing use of informal remittances channels given the gap between the official and parallel exchange rates, but is projected to narrow significantly in the year ahead on strong export growth and exchange rate unification. The financial sector remains fragile with non-performing loans increasing due to the COVID-19 crisis and stress tests pointing to vulnerability to the exchange rate; the CBOS met with banks to develop remedial plans.

Program performance: Despite relatively weak performance early in the program, policy action has strengthened significantly since December and staff consider that macroeconomic and structural policies under the SMP as revised in the context of the first review remain consistent with UCT quality. Two of the four end-December

quantitative benchmarks were met, namely the ceiling on the banking system's net credit to the government and the ceiling on the contracting or guaranteeing of long-term external loans. The breach of the benchmarks on the Central Bank of Sudan's (CBOS) NDA and NIR reflects the sale of monetary gold and purchase of foreign exchange to fund the payment to the victims of terrorist attacks, which in the absence of monetary instruments contributed to a significant increase in the money supply, inflation and exchange rate depreciation. However, all three indicative targets were missed, with the delayed launch of the social safety net leading to shortfalls in social spending. The indicative target on the non-oil primary deficit was missed after taking into account the payment related to the USS Cole, which previously had not been included on budget.

One (1) of 6 structural benchmarks was met but significant progress was made on the remaining measures. Long-delayed exchange rate unification and the move to a market exchange rate—a prior action for the review—was implemented February 21, 2021. Retail prices of imported and domestically produced gasoline and diesel have been liberalized and a pricing mechanism put in place, with diesel subsidies to the agricultural sector eliminated as of March 1. The Central Bank Act and The Anti-Corruption National Commission Law have been submitted for approval to the CBOS Board and Sovereign Council, respectively, while the authorities will update the partial list of SOEs published on its website once the ownership of certain SOEs owned by the security industry is clarified.

HIPC: Work toward Decision Point under the Enhanced HIPC Initiative is underway, but there is more to be done. The authorities must continue to demonstrate strong performance under the SMP, including improved quantitative performance in order to establish a satisfactory track record; reach out to creditors to reconcile the end-2020 debt stock; and adopt a poverty reduction strategy. In addition, the financing of arrears clearance to the IMF must be identified and financing assurances for HIPC debt relief must be received from creditors. The Decision Point can be reached only once all conditions have been met.

Board engagement. In staff's view, the SMP continues to contain forward-looking policy commitments and conditionality of UCT quality. Staff will seek Directors' endorsement of this view at a Board meeting tentatively planned for March 24, 2021.

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

A virtual mission was held during February 7–16, 2021. The team comprised Carol Baker (head), Qiaoe Chen, Atticus Weller, Atif Chaudry (all MCD), Tryggvi Gudmundsson, 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. **International efforts to support Sudan have gained momentum over recent months in the hope of seizing the window of opportunity that opened when the transitional government was formed.** A *Friends of Sudan* conference in June 2020 received pledges of humanitarian, project and financial support amounting to nearly $2 billion, and on September 23, 2020 the 12-month SMP (July 2020 – June 2021) was endorsed by the IMF Executive Board to meet the UCT-conditionality standard, paving a path to a six-month minimum satisfactory performance track record and possible HIPC debt relief. In the period since, a comprehensive peace agreement was signed with all but two rebel groups; the World Bank signed a $400 million Development Policy Operation (DPO) to launch the Sudan Family Support Program (SFSP);[1] the U.S. removed Sudan from the list of State Sponsors of Terrorism (SSTL); and Sudan signed an MOU with the U.S. Treasury and the U.K. for the bridge financing operations related to Sudan's arrears clearance to IDA and the African Development Bank (AfDB), respectively. On February 8, a new cabinet was formed incorporating the signatories to the peace agreement and vowing to move the country forward.

2. **Economic conditions are extremely challenging, but the authorities have made progress on their reform program to address their long legacy of economic distortions.** The recent exchange rate unification, as well as policy actions to reduce unsustainable subsidies and improve the business climate will help to advance fiscal consolidation, economic stabilization, and sustained, inclusive growth.

3. **Yet, the situation on the ground remains very fragile, and the risks to the program remain sizable.** Financing needs are very large and unlikely to be met without Sudan's reintegration into the international financial community and access to multilateral funding.

- *Financial*: The broader economic program remains underfunded. Early clearance of IDA arrears would unlock Sudan's IDA19 allocation and other financing windows (grants) and, together with additional donor grants, may be sufficient to fill the SFSP funding gap (approximately $1 billion). However, even with revenue measures and a reduction in fuel subsidies, monetization of the fiscal deficit will continue, while international reserves will remain critically low. Staff estimate a financing need on the order of $7¼ billion over the next two years to eliminate monetization and bring reserves to 3 months of imports, and a gap of $4.1 billion.[2]

[1] Rollout of the October DPO ($200 million pre-arrears clearance grants (PACG) and $200 million in donor funds) got underway February 24 (registration opened) following exchange rate unification. A pilot led by the World Food program reached 140,000 families beginning in late 2020. Prior to arrears clearance, a DPO for an additional $200 million in PACGs is planned to finance the SFSP.

[2] The gap is state contingent, as in the absence of financing it is unlikely that the authorities will be able to expand the SFSP or fully implement the agreed transfers to states under the peace agreement.

Sudan: External Financing Needs 2020–2022

	SMP (No.20/289)		Current Projection	
	2020	2021	2021	2022
	(million dollars)			
1. NEEDS 1/	**7185**		**7136**	
External financing required for fiscal financing needs	**3299**	**1744**	**2659**	**2001**
of which: to eliminate CBOS monetization	2510	723	1105	552
FX accumiation needed to cover 3-months of imports	**2142**	**0**	**2476**	**0**
2. SOURCES	**1798**		**3070**	
Identified grants				
Project grants	120	290	335	435
In-kind grants	0	0	100	0
COVID-19 grants	202	0	0	0
WB PACGs ($200 million approved; additional $200 assumed)	128	300	400	0
Friends of Sudan pledges ($250 deposited at end-January)	200	300	500	0
Assumed/unidentified grants				
WB Post-DP IDA19 grants	0	0	200	810
External loans	**127**	**131**	**18**	**272**
3. EXTERNAL FINANCING GAP (3=1-2)	**5387**		**4066**	
Memo items:				
Sudan Family Support Program 2/	328	600	1256	810
Social Spending (in billon SDG)	99	402	553	924

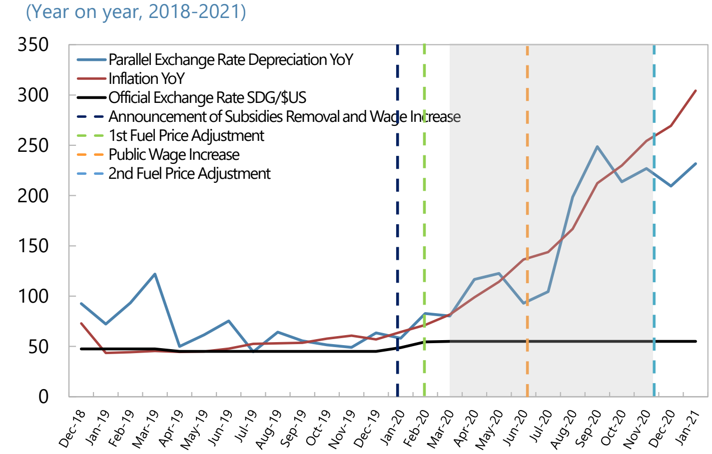
1. Under the current projection, expenditure inlcudes the full $1.9 billion cost of the Sudan Family Support Program over 2021-22 as per the World Bank DPO ($5 monthly per person); the SMP assumed SDG 500 monthly per person.

2. The SFSP are state contingent. Without identified foreign financing the full amount is unlikely to be executed. Figure for 2022 SFSP includes $810 million for which financing is not identified.

- *Economic stability:* Following three decades of economic mis-management, the transition to a market-based economy has only just begun, and inflation is high. An expected third year of contraction in 2020 was exacerbated by the COVID-19 pandemic. Triple-digit inflation reflects a confluence of factors: sustained monetary financing of fiscal deficits; the level shift up in administered prices (gasoline, diesel and, on January 1, 2021, electricity tariffs) and knock-on effects (transportation); severe shortages of goods in the middle of the year due to both a shortage of foreign exchange and the lock down as part of COVID-19 mitigation measures; and rapid exchange rate depreciation. Staff estimates that inflation will fall back to double digits in 2022.

Parallel Exchange Rate Depreciation and Inflation

(Year on year, 2018-2021)



Sources: National Authorities; and IMF Staff Estimates.

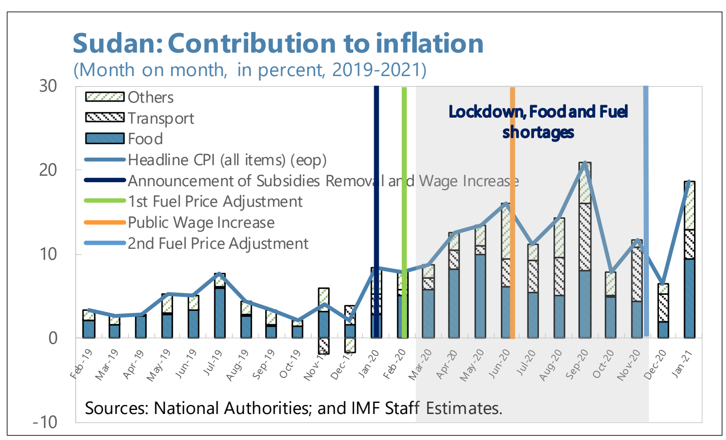
- *Social:* The removal of subsidies, high inflation and shortages of basic commodities have inflicted significant pain on the average Sudanese who are now starting to receive benefits under the SFSP. The World Bank estimates that over 50 percent of the population is experiencing severe food insecurity. Off-budget humanitarian aid has increased to the most vulnerable, but the impact of the reforms extend beyond this group, including to those who use public transportation and buy subsidized bread to make ends meet. Demonstrations have increased in protest of the difficult economic conditions. At the same time, Sudan has received over 60,000 refugees as a result of the violence in the Tigray region of Ethiopia.

- *Political*: While there is agreement that peace is key to progress, ideological and regional divides run deep across the various civilian and military groups. It will take time for the executive body, cabinet and soon-to-be-formed legislative body to learn to work effectively together in support of a common set of policies to address long-standing distortions. Institutional capacity remains exceptionally weak and could impact reform implementation.

RECENT ECONOMIC DEVELOPMENTS

4. **Economic activity appears to have held up better than expected** at the time of the SMP negotiations in June, despite the strong mitigation measures put in place to contain COVID-19 and historic flooding. While 2020 recorded a third consecutive year of contraction, staff estimate growth of -3.6 percent (-8.4 percent in the SMP) with rain-fed agriculture showing better than anticipated results, and gold production rising by 37 percent; the services sector rebounded quickly following the lock-down, while anecdotal evidence suggests profiteering (administered prices, food and fuel shortages) also sustained economic activity.

5. **Headline inflation remains high, with some signs of stabilization as monthly inflation began coming down at end-2020.** Annual inflation tracks closely that of food and the transport sector, albeit of a different magnitude. With retail gasoline and diesel prices now liberalized, month-on-month inflation had been ticking down, with recent jumps associated with administered price increases. The uptick in January is at least in part the result of annual tariff adjustments, but also food and fuel shortages. Customs rate unification may have a significant impact on the cost of imports that are not zero-rated, though the inflationary impact is expected to be transitory.[3]



Sudan: Contribution to inflation
(Month on month, in percent, 2019-2021)
Sources: National Authorities; and IMF Staff Estimates.

[3] The customs exchange rate (SDG15/USD) is used to value imports for tax purposes.

6. The fiscal consolidation in 2020 was in line with the SMP but implementation was mixed, with lower social spending offsetting the delayed removal of fuel subsidies and tax policy reforms. Tax policy measures passed as part of the revised 2020 budget (increase in corporate income tax and VAT on telecoms) were not implemented, the customs exchange rate reform was not initiated, and envisioned grants (SFSP) were held back, leaving total revenue and grants 2 percentage points lower than projected under the SMP. However, expenditure was nearly 3 percentage points lower than under the SMP, reflecting lower spending on social services, wages, and capital projects, which was partially offset by higher transfers to states and fuel subsidies as a result of the delay in increasing domestic fuel prices.

7. Monetary aggregates continued to grow strongly. Monetization of the deficit and the need to purchase foreign exchange for fiscal operations contributed to reserve money growth of 97 percent given the absence of monetary instruments for liquidity management.[4] To support reserve money targeting, the CBOS is exploring introduction of a dual banking system of Islamic as well as conventional banking, including development of traditional monetary instruments.

8. Vulnerabilities in the banking system increased. Commercial banks' capital adequacy ratio declined but remained above the legal minimum of 12 percent. However, disruption to the transportation and service industries due to COVID-19 caused non-performing loans to increase, with the NPLs to gross loans nearly doubling from 2.7 percent in March to 5.4 percent in August. The liquidity coverage ratio declined but remains close to 100 percent.

9. Exports held up but a surge in end-year imports and weak net financial flows limited reserve accumulation. Exports and imports were broadly unchanged in the first three quarters of 2020 relative to 2019, however, imports picked up significantly in the last quarter. The recorded current account deficit is estimated at 13.2 percent of GDP, but is likely overstated as remittances through official channels declined prior to exchange rate unification due to the significant gap between the official and parallel market rates.[5] Limited external financing, selective debt payments which resulted in net outflows,[6] and official outflows related to the agreed payments to the victims of terrorism weighed on reserves.

PERFORMANCE UNDER THE SMP

While early program performance was weak, recent policy actions and commitments suggest that the authorities are making progress toward broadly satisfactory performance which could lead to the minimum six-month track record required to reach the HIPC Decision Point. Staff considers that

[4] Prior to unification, the CBOS sold foreign exchange to government entities at the official rate but purchased dollars from the market. Rapid currency depreciation further increased money creation.

[5] Errors and omissions more than doubled to 9.6 percent of GDP. On February 21, 2021 the official exchange rate (SDG55/USD) was unified at the market rate of SDG375/USD.

[6] In 2020 Sudan made payments mostly to regional development partner creditors of $29.6 million while receiving disbursements of $18 million.

the program continues to meet the UCT conditionality standard, and proposes to introduce quarterly targets in support of the authorities' strategy to secure debt relief.

10. Program performance at end-December was mixed, but the authorities have taken corrective measures and are now on a path toward broadly satisfactory performance.

- *Quantitative and indicative targets*: Two (2) of the four end-December quantitative targets were met, namely the ceiling on the banking system's net credit to the government and the ceiling on the contracting or guaranteeing of long-term external loans. However, the authorities missed all three indicative targets. The delayed start to the SFSP led to shortfalls in social spending while the breach in the indicative target on the non-oil primary deficit occurred as a result of payments to the victims of the USS Cole bombing, which were not contemplated at the time of the SMP negotiation; without this payment, the target would have been met. The breach of the targets on CBOS' NDA and NIR broadly reflects the sale of monetary gold and purchase of foreign exchange to fund the payment to the victims of terrorism attacks[7] which in the absence of monetary instruments contributed to a significant increase in the money supply, inflation and exchange rate depreciation.

- *Structural benchmarks*: One (1) of 6 structural benchmarks was met (table below) with significant progress being made on remaining measures. Retail prices of imported and domestically produced gasoline and diesel have been liberalized and a pricing mechanism put in place (Ministerial Decree 94), and diesel subsidies to the agricultural sector were eliminated March 1.[8] The Central Bank Act and The Anti-Corruption National Commission Law have been submitted to the CBOS Board and Sovereign Council, respectively, for approval, while the authorities pledged to update the partial list of SOEs published on their website once the ownership of certain SOEs owned by the security sector is clarified.[9] Long-delayed exchange rate unification and the move to a market exchange rate was implemented February 21, 2021 as a prior action.

- *Prior action on exchange rate unification*: The widening gap between the official exchange rate and market rate led to increasing economic distortions and inefficient and unsustainable subsidies, disincentives for capital flows to be channeled through the official financial system, opportunities for corruption, and a large and informal currency market. It was also detrimental to donor support, as aid flows were converted at the official rate providing little funding for humanitarian and development programs. As a result, donor funding—including for the SFSP—was held back. Given the critical nature of the reform and the risks to the SMP due to

[7] In the second half of 2020, Sudan transferred $335 million to pay the victims of terrorism financed via the sale of monetary gold and the purchase of foreign exchange by the CBOS (on behalf of the government). Sudan was removed from the U.S. State Sponsors of Terrorism List (SSTL) in December 2020.

[8] Avoiding the reemergence of retail subsidies will require frequent meetings of the price setting commission (currently only monthly) and the eventual move to fully automated updating of prices. Diesel subsidies remain on priority sectors i.e., electricity and government run public transportation.

[9] Some military SOE registries indicate ownership by individuals.

the widening financing gap, staff set a prior action for the first review on exchange rate unification and the move to a market rate.

Sudan: Summary of Structural Benchmark Performance 1/

Date	Description	Status	
September	Adopt an automatic fuel pricing mechanism; eliminate subsidies on retail gasoline and diesel	**Not met**	Implemented with delay. Ministerial Decree 94 (12/3/2020) and removal of diesel subsidy to agricultural sector March 1, 2021.
	Unify all but the customs exchange rate	**Not met**	Implemented with delay February 21, 2021.
	Gradually begin to adjust customs exchange rate (to begin in September, full unification end-June)		*Authorities are studying unification modalities (gradual versus one-time adjustment)*
October	Pass a new anti-corruption law which creates an independent anti-corruption commission	**Not met**	Received; Sent to Sovereign Council for consideration.
December	Publication of monthly budget execution reports for central government relative to budget	**Met**	2020 budget and monthly data posted http://mof.gov.sd/تقارير/ملفات-الموازنة/موازنة-العام http://mof.gov.sd/تقارير/التقارير-الشهرية
	Publish an inventory of all State-Owned Enterprises including security sector	**Not met**	Partial list of 58 companies; staff was provided with full list; upload of full list pending clarification of ownership of certain security sector SOEs. http://mof.gov.sd/تقارير/التقارير-السنوية
	Finalize Central Bank Law in line with IMF recommendations	**Not met**	Received; submitted to CBOS Board of Directors.

1/ Complete Structural Benchmark Table see Table 10

11. With reforms moving ahead, staff proposes to revise the program structure to have quarterly reviews in support of debt relief.[10] Setting an end-March 2021 test date would open the possibility of the authorities demonstrating a six-month track record at the earliest possible date. If the authorities need longer than six-months to establish a satisfactory track record, the end-June test date remains appropriate.

OUTLOOK AND RISKS

Successful implementation of policy measures will lay the foundation for sustained, inclusive growth. The outlook is positive, but subject to significant risks. Near-term risks are tilted to the downside. The outlook would be strengthened by reaching the HIPC Decision Point.

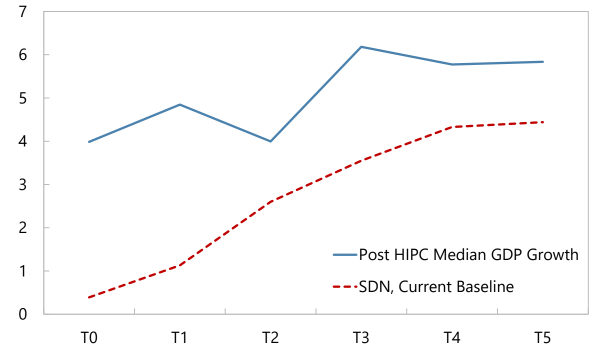
12. The positive external developments noted above and recent policy actions support an improved outlook. Following three years of contraction, growth is expected to pick up gradually despite the still unsettled economic and political environment, increasing to 4½ percent over the medium term as the business climate improves. The reduction in subsidies and customs rate unification would provide fiscal space for much needed social spending which would be

[10] The definition of NIR was also adjusted in the TMU to be neutral to any deposit received by the CBOS, and incentivize the authorities to use any such resources to accumulate gross reserves.

supported by donor grants in the near- to medium-term. As a result, monetization of the deficit would be significantly reduced, bringing inflation below 20 percent over the medium term. Given sizable investment needs, the current account would remain in significant deficit financed by FDI and public and private investment flows, but over time as competitiveness improves, the external position is expected to strengthen somewhat with a decline in the (cash) current account deficit to around 5 percent of GDP.

Sudan: GDP Growth 2021–2026

(In percent, T0=2021)



Sources: IMF Staff Estimates.

13. Medium-term risks are broadly balanced, but the very fragile situation means that near-term risks are significant and tilted to the downside. In addition to the risks to the program described in paragraph 3 above, failure to implement needed policy measures or a reversion to past policies (subsidies, multiple currency practices, lack of transparency/governance) would hinder growth and macroeconomic stabilization, with sustained fiscal deficits and insufficient financing further fueling the inflation/depreciation spiral. The risk that the transitional government will be unable to reach consensus is non-negligible and would prolong economic hardship and socio-political instability. It is imperative that the international community both support the authorities but also provide strong incentives to remain on track. The window of opportunity is narrow but successful implementation of policies that stabilize the economy and strengthen the business climate would leave Sudan well placed for strong and inclusive growth.

POLICY DISCUSSIONS

Policy discussions centered around removing remaining distortions in the economy; the 2021 budget and CBOS policies; and, strengthening policy coordination. Discussions also focused on strengthening program performance and other near-term policy priorities including: (1) exchange rate unification and the move to a market exchange rate; (2) maintaining reform momentum and resisting calls to adopt administered prices and/or to resume fuel subsidies; (3) improving domestic revenue mobilization and MOF oversight over SOEs (PFM); and (4) strengthening the financial sector and regaining correspondent banking relationships, including by improving the implementation of the AML/CFT regime.

A. Exchange Rate Reforms and Enhancing Exchange Rate Flexibility

14. The recent implementation of exchange rate unification is a crucial step in the reform process and underpins the UCT quality of the program. The move to a market rate will bolster competitiveness and transparency, boost central bank independence by reducing fiscal dominance, increase the use of the financial system for foreign currency operations, and minimize rent-seeking activities that increase risks of corruption, contributing to efforts to restore macro stability and kickstart growth. The unification of the customs exchange rate by end-June (structural benchmark), would provide a much-needed boost to revenue and strengthen competitiveness of domestically produced goods.

15. The authorities have put in place financial sector and monetary measures to underpin the move to a market-based exchange rate. Stress tests were conducted to assess banks' vulnerability to exchange rate shocks and action plans were submitted to the CBOS by identified problem banks to strengthen their resilience to exchange rate movements. The MOF and CBOS stressed that the budget targets a significant reduction in monetization, while the CBOS plans to sell its shares in state-owned banks, commercial banks, micro-finance agencies, reduce lending to the commercial banks to mop up excess liquidity and limit CBOS issuance of new letters of guarantee in 2021. The CBOS also raised the reserve requirement ratio to 22 percent from 20 percent. The CBOS pointed to short term measures to reduce the demand for foreign exchange such as restrictions on the imports of luxury cars. Staff welcomed the intention to reduce monetization, but cautioned against undue restrictions on government finance and any measures that would limit current account transactions.

16. The market should be allowed to determine the exchange rate based on market conditions, with any intervention limited to addressing disorderly market conditions. Staff stressed the need to avoid backtracking on the move to a market rate. The authorities reaffirmed their commitment to a market-determined exchange rate but expressed concern regarding potentially high volatility in the initial period of the reform. They have put in place regulations allowing banks and forex bureaus to set rates, but with a daily limit of ±5 percent of the indicative rate of the previous day. Such a mechanism would place a cap on daily exchange rate changes but would not prevent large cumulative appreciation or depreciation over time. If warranted, and in consultation with Fund staff, the width of the band could be adjusted to ensure that it does not cause market segmentation by excessively restraining commercial banks and FX bureaus from adapting to market conditions. Staff and the authorities agreed to take stock of the daily limit after end-March 2021, and the authorities committed not to impose administrative restrictions on current account transactions as a means of constraining exchange rate movements.

B. Policy Coordination—The 2021 Budget and CBOS Policies

17. The fiscal policy measures adopted as part of the 2021 budget are consistent with the goals and targets of the SMP, and seek to stabilize the macroeconomy by continuing fiscal consolidation begun in 2020 while protecting vulnerable groups. The budget targets a significant adjustment[11] by increasing tax revenue and reducing subsidies to make space for higher development and social spending outside of Khartoum (state transfers) as part of the peace process. Customs exchange rate unification is expected to boost tax revenue collection by about 1.5 percent of GDP in 2021 including by collecting at the port of entry (i.e., reducing evasion), while

[11] The budget was passed prior to exchange rate unification and assumes a budget exchange rate of SDG55/USD.

the removal of most fuel subsidies removes a distortion and provides space for federal investment and social spending. An unchanged wage bill of 2.9 percent of GDP should also help to contain current spending. At the end of February, the World Bank began rolling out the SFSP to help poor families cope with the impact of subsidy removal and inflation. As a result of such measures, the overall fiscal balance is expected to decline from –5.9 percent of GDP in 2020 to –3.1 percent in 2021. The authorities noted that the 2021 budget is the first to have education spending that exceeds spending on security forces. Given the acute shortages of bread and other subsidized goods, they would step up efforts to receive in-kind donor support to reduce pressure on the budget, while re-doubling efforts to reduce tax evasion and avoidance.

18. Fiscal consolidation will reduce fiscal dominance, but additional steps are needed to strengthen central bank independence. Reducing the need for central banking financing is critical to containing inflation. Monetization has led not only to a loss of monetary control by the central bank but severely weakened its balance sheet. Yet, reducing the deficit is a necessary but not sufficient condition for strengthening central bank independence. Staff welcomed the joint IMF-CBOS work on incorporating comments to the revised Central Bank Act (a delayed end-December 2020 structural benchmark) and encouraged the CBOS Board to approve it as soon as possible in order for the bill to be enacted in accordance with the end-June structural benchmark. Strong communication between the Central Bank and Ministry of Finance is also needed to ensure consistency of data and avoid uncoordinated actions which could undermine de-monetization. The authorities noted that the treasury committee has begun to meet again regularly (following a hiatus due to COVID-19) to enhance coordination between CBOS and the Ministry of Finance to improve liquidity management and forecasting to strengthen monetary control.

19 The lack of monetary instruments could be addressed through building a government securities market. Confidence in existing securities is weak due to past forced rollover, while negative real interest rates further limits demand. The authorities intend to progressively increase sales of government securities over the near to medium term, supported by IMF TA, with the objective of establishing a government securities market with active participation of banks, nonbanks and the general public. In addition, they plan to begin converting large long-term claims of the central bank on the government (SDG 624 billion, about 12 percent of GDP in 2020) into government securities, thus increasing the available stock of securities for monetary policy with the support of IMF TA.

C. Domestic Revenue Mobilization and Oversight of SOEs

20. While Sudan has one of the lowest tax revenue-to-GDP ratios in the world, domestic revenue mobilization has recently improved. Several important reforms were enacted in 2020 and early 2021 that are expected to improve revenue yield. A more progressive income tax was introduced, the VAT rate for the telecommunications sectors was raised from 25 to 40 percent, and tax exemptions were frozen until end-2021. Staff noted that despite these measures, tax revenue would remain in the single digits, and measures passed as part of the

2020 revised budget should be enacted without delay. The authorities explained that the increase in corporate income tax would be applied starting in 2022 based on 2021 profits but agreed that further efforts were needed to strengthen collection and reduce tax avoidance. Future efforts would focus on rationalizing tax exemptions, notably those embedded in the Investment Law, and applying a progressive personal income tax.

21. Enhanced oversight of state-owned enterprises (SOEs) is critical to improving fiscal management and transparency. 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. Significant progress has been made in compiling a list of all SOEs, with work ongoing to clarify ownership. The authorities noted that they have already begun to close small SOEs that were no longer operating, and that consultants have been identified to help develop an SOE strategy. There was broad agreement that the SOE sector will remain a challenge over the medium term, and staff encouraged the authorities to transfer financial oversight responsibilities of all SOEs to the MOF as soon as possible, while increasing transparency by publishing their financial accounts.

D. Financial Sector Policies

22. Reforms to divest central bank ownership of state banks and develop a dual banking system will strengthen central bank independence. The CBOS should liquidate its positions in state-owned banks (originally planned February 2021) and commercial banks (December 2021) with the help of TA. The authorities noted that this work has begun but has suffered some delays, and committed to finishing this work by end-2021. Staff also look forward to discussing preparations underway to move to a dual banking system once their authorities have received initial surveys and information from local banks, which will facilitate the development of traditional monetary policy instruments.

23. Increasing vulnerabilities in the domestic banking system underscore the need for timely implementation of supervisory and risk mitigation measures. As CBOS continues to strengthen its capacity to supervise and mitigate financial stability risks, measures are needed to modernize banking regulations in line with Islamic Financial Stability Board standards and boost supervisory vigilance to ensure that banks comply with prudential regulations—notably limits on net open foreign currency position and on-lending in foreign currency. Staff stressed the importance of establishing regular communication procedures between banking supervision and regulation departments and conducting semi-annual stress tests to identify and address vulnerabilities of individual banks (end-March structural benchmark).

24. Over time, banking supervision should be strengthened by moving toward a fully risk-based supervisory regime. Staff welcomed the asset quality reviews of systemically important banks based on international standards that are currently underway (June 2021) and encouraged the authorities to strengthen the bank recovery and resolution framework based on international good practice by September 2021.

25. The implementation of Sudan's AML/CFT regime must be strengthened as a matter of urgency including so as to support the establishment of new—and maintenance of existing—correspondent banking relationships. To this end, the authorities aim to complete a national ML/TF risk assessment, increase the capacity of the Financial Intelligence Unit (FIU), fully implement risk-based AML/CFT supervision, and improve the process of freezing terrorist assets. Staff noted the low incidence of suspicious transaction reporting, and stressed the importance of completing thematic inspections of the 10 highest-risk banks and providing aggregate data to the Fund on any related violations found and sanctions levied by the CBOS, in line with the existing legal framework (structural benchmark). The authorities agreed on the importance of such inspections, but lamented that more time—as well as a reduction in the number of inspections to be conducted—may be required as its AML-CFT on-site inspection program is geared toward general, full scope (vs. thematic) inspections; it continues to be negatively impacted by COVID-19 mitigation measures (both government and banks are working at 50 percent staffing); and an update to the CBOS' ML/TF risk ratings, which was due in 2020, had to be postponed and would need to be completed as a priority so as to drive the selection of the banks that should be subject to a first round of thematic inspections.

E. Heavily Indebted Poor Countries (HIPC)

26. Reaching the Decision Point under the Enhanced HIPC Initiative has four requirements all of which must be met. In additional to (i) establishing a six-month minimum track record of satisfactory performance under a UCT-quality program, the authorities together with the IMF and World Bank must (ii) reconcile the outstanding debt stock[12], (iii) clear arrears to the IMF, IDA and AFDB and receive financing assurances from creditors for HIPC debt relief, and (iv) adopt at least an interim PRS. All of these actions are underway, but work remains on all fronts. The authorities must continue to demonstrate strong performance under the SMP, including on quantitative targets; further outreach to creditors is required to reconcile the end-2020 debt stock; and the authorities need to wrap up their work on their PRS, which is being supported by the World Bank and AfDB. In terms of arrears clearance, while the World Bank and AfDB[13] have financing available for arrears clearance, the financing of arrears to the IMF has yet to be determined and the process of obtaining financing assurances from creditors has yet to begin. Sudan is also expected to demonstrate cooperation on payments with the Fund under the HIPC initiative while avoiding making selective payments to other creditors. The HIPC Decision Point will only be reached once all requirements have been met.

[12] The external debt in the attached tables will be revised upon conclusion of the debt reconciliation excise.

[13] The World Bank plans to move forward with early arrears clearance in late-March; arrears clearance to the AfDB may take place in April.

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27. International efforts to support Sudan have gained momentum over recent months, and after a slow start the implementation of reform measures under the SMP has accelerated. The modified program remains consistent with the UCT-designation of the SMP. Sustained implementation of the authorities' reform program would help Sudan to exit from the current difficult economic situation, strengthen the credibility of the transitional government, and take a major step toward fulfilling the requirements for eventual clearance of arrears, HIPC debt relief, and the resumption of much-needed financing from IFIs. Substantial additional support will be needed from donors in the months ahead to incentivize reform and address the authorities' sizable financing needs.

28. The recent implementation of exchange rate unification is a crucial step in the reform process. The authorities' unification of the exchange rate at the end of February will bolster competitiveness and transparency, reduce implicit subsidies, boost central bank independence by reducing fiscal dominance, incentivize financial flows to occur through the financial system and minimize rent-seeking activities that increase risks of corruption, contributing to efforts to restore macro stability and kickstart growth. It is vital to avoid backtracking on the move to a market rate.

29. Recent fiscal measures will help to support needed consolidation. The approved budget for 2021 contains measures that support the goals of the SMP and seek to stabilize the macroeconomy by continuing fiscal consolidation begun in 2020 while protecting vulnerable groups, with targets under the SMP set in line with the projected 3.1 percent of GDP deficit. A reduction in fuel subsidies and customs rate unification are expected to provide fiscal space for much needed social spending which would be supported by donor grants in the near- to medium-term. To sustain the current progress, the authorities must avoid a return to distortionary fiscal measures (multiple currency practices and subsidies). Enhanced transparency and management of SOE operations is vital to mitigate fiscal risks and bring more revenue on-budget.

30. Fiscal consolidation will reduce fiscal dominance, but additional steps are needed to bring down inflation and strengthen central bank independence. Monetization of the fiscal deficit has not only led to a loss of monetary control by the central bank but severely weakened its balance sheet. Yet, efforts beyond fiscal consolidation are needed. In addition to swift adoption of the revised Central Bank Act, enhanced communication between the CBOS and MOF is needed to avoid uncoordinated actions, while development of a government securities market would not only increase financing but augment the stock of securities available for central bank monetary operations.

31. With Sudan re-engaging with the international financial community, there is a premium on strengthening the domestic financial sector and reestablishing correspondent

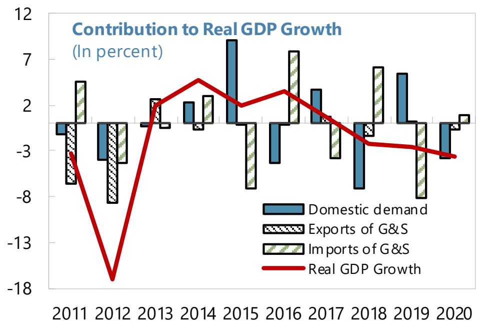
banking relationships. Strengthening governance is critical. The CBOS should exit its equity positions in commercial and state-owned banks and address supervisory and AML/CFT weaknesses as a priority. The bank recovery and resolution framework should be strengthened, and the implementation of a new regulation requiring banks to employ electronic monitoring of transactions should be actively monitored and enforced, including via thematic AML/CFT on-site inspections. To reduce vulnerabilities, regular communication procedures between banking supervision and regulation departments should be established and biannual stress tests conducted.

32. Work toward Decision Point under the Enhanced HIPC Initiative is underway, but there is more to be done. The authorities must continue to demonstrate strong performance under the SMP, including improved quantitative performance in order to establish a satisfactory track record; reach out to creditors to reconcile the end-2020 debt stock; and adopt a poverty reduction strategy. In addition, the financing of arrears clearance to the IMF must be identified and financing assurances for HIPC debt relief must be received from creditors; and Sudan should continue to cooperate on payments to the Fund and avoid making selective payments. The Decision Point can be reached only once all conditions have been met.

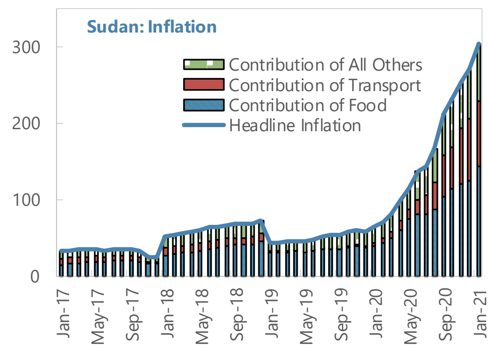
33. Staff supports the proposed modifications to the phasing and conditionality of the SMP, and assesses that the program continues to meet the UCT standard. Successful implementation of the modified SMP would restore a viable external position and support sustainable inclusive growth over the medium term if combined with sufficient program financing and debt relief. Notwithstanding constraints, the authorities have the commitment and capacity to implement the proposed policies, as illustrated by their design of an ambitious adjustment program and adoption of a prior action in a critical area. Moreover, conditionality design remains consistent with applicable policies for a UCT program, and thus the program continues to meet the UCT standard.

Figure 1. Sudan: Selected Economic Indicators

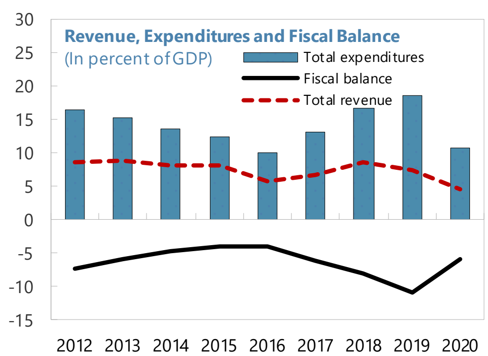
The economy suffered a third consecutive year of contraction in 2020



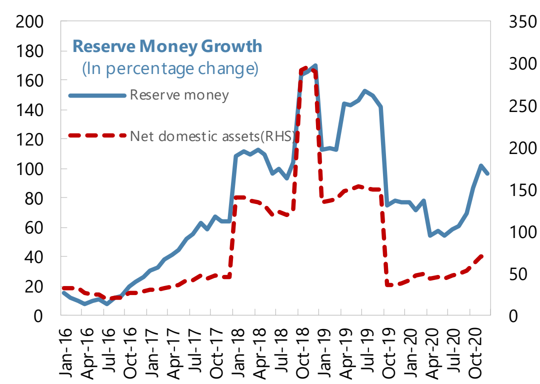
...while inflation continued to rise as administered prices were liberalized and fiscal deficits continued.



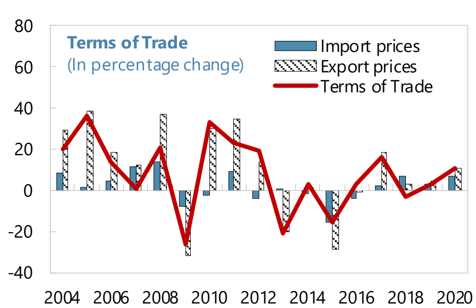
The fiscal deficit narrowed in 2020...



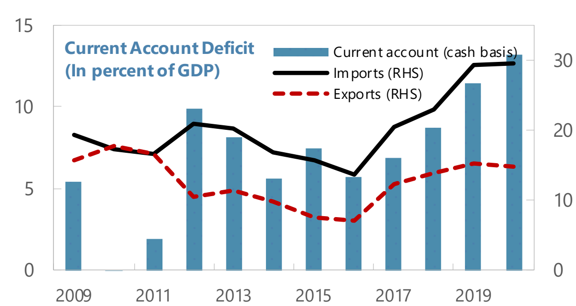
...but monetization continued.



Terms of trade increased...



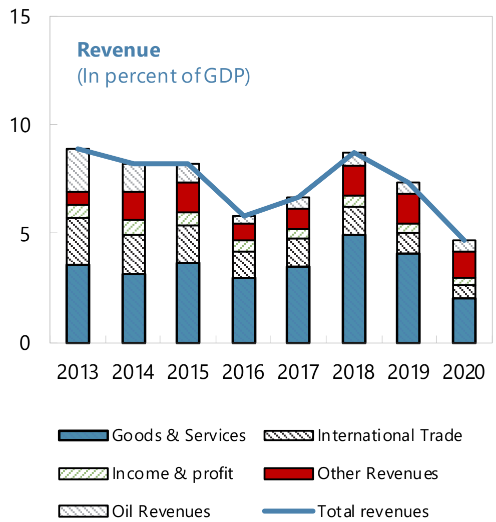
...while import also grew rapidly.



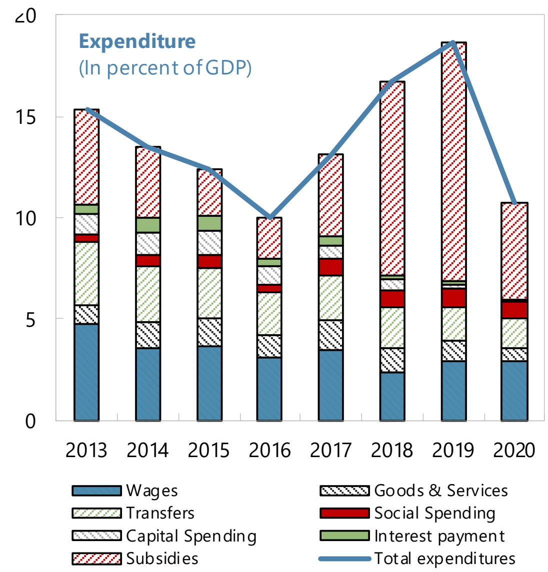
Sources: Sudanese authorities; and IMF staff calculations.

Figure 2. Sudan: Fiscal Sector

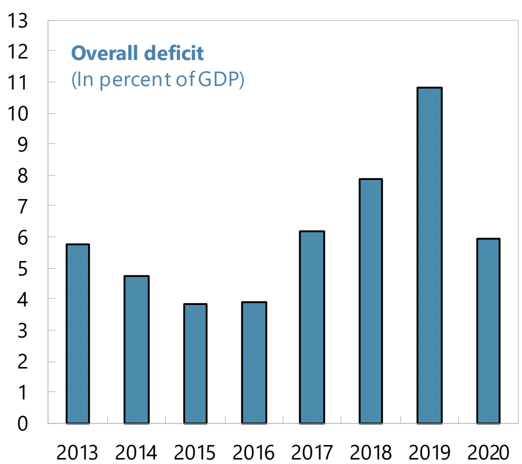
Revenue is low and declined further due to COVID-19…



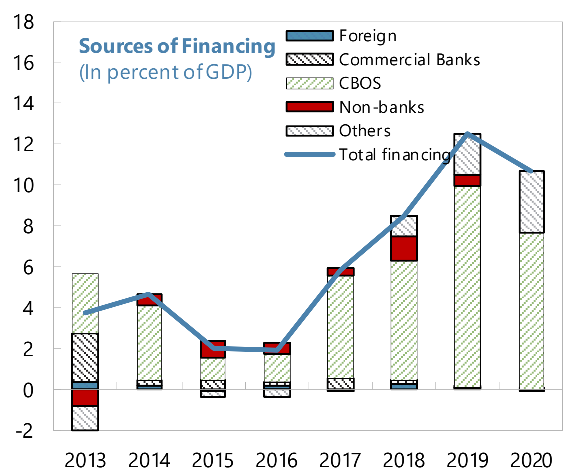
and subsidies on retail gasoline and diesel were gradually removed.



The fiscal deficit has come down but remains large



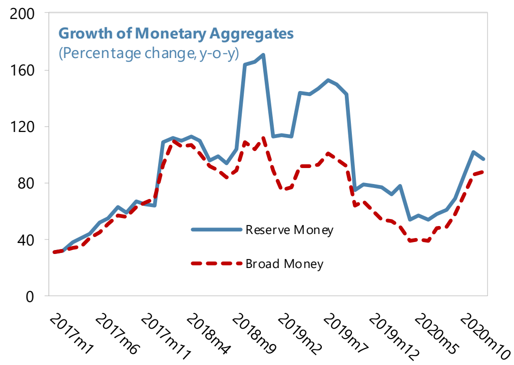
…and continues to drive monetization.



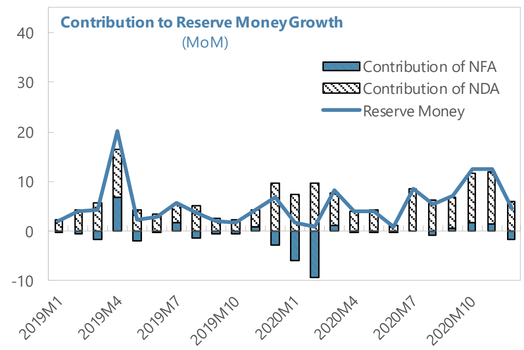
Sources: Sudanese authorities, and IMF Staff estimates.

Figure 3. Sudan: Monetary Sector

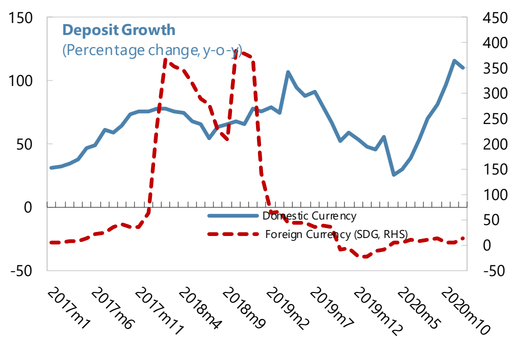
Money growth remained high in 2020…



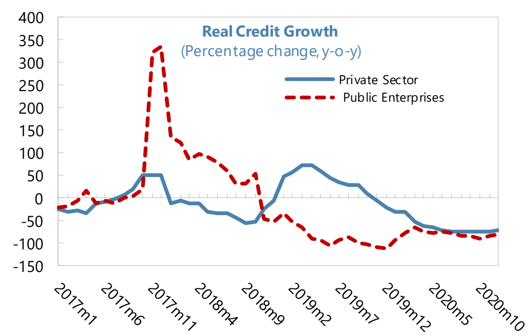
…driven by lending to government (monetization).



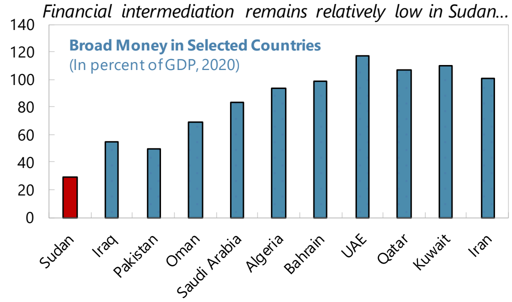
While deposit growth picked up in 2020



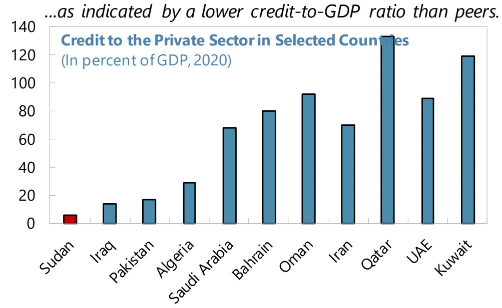
…real credit growth was negative in 2020.



Financial intermediation remains relatively low in Sudan…



…as indicated by a lower credit-to-GDP ratio than peers.

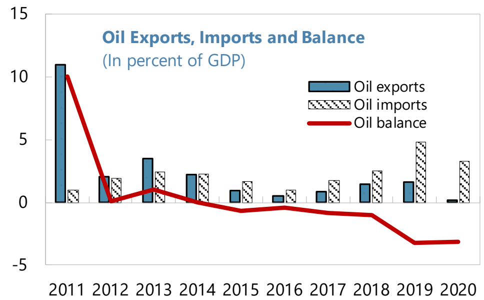


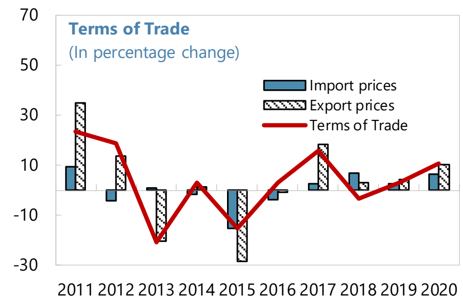
Sources: World Economic Outlook, Central Bank of Sudan, and IMF staff calculations.

Figure 4. Sudan: External Sector

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

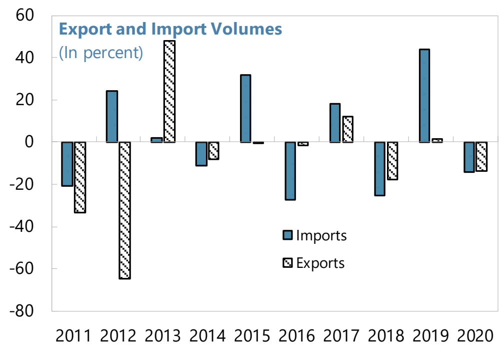
The terms of trade improved slightly in 2020...

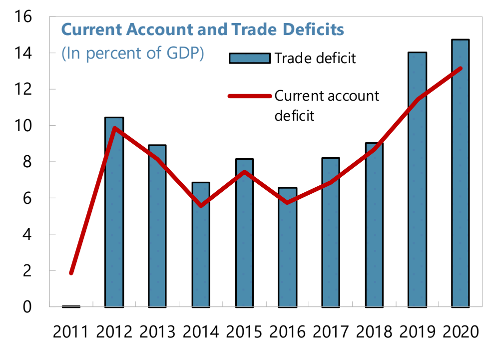




...but both import and export volumes fell...

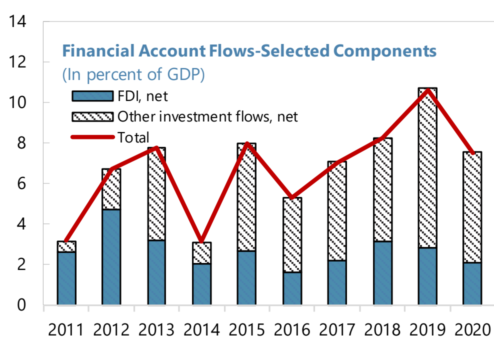
...and the current account deficit remained high.

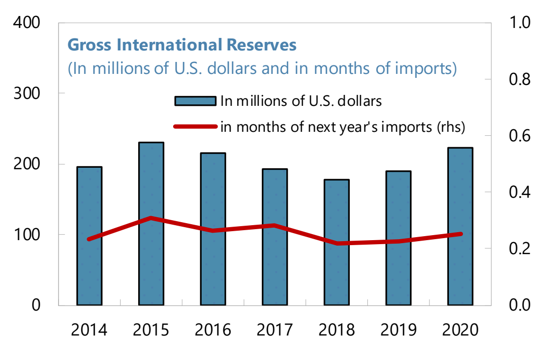




Capital inflows decreased...

...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 SMP	2020 Act.	2021 Proj.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Output and prices					(Annual change in percent)					
Real GDP (market prices)	-2.3	-2.5	-8.4	-3.6	0.4	1.1	2.6	3.6	4.3	4.4
Consumer prices (end of period)	72.9	57.0	198.0	269.3	119.6	28.8	14.6	11.5	10.7	10.2
Consumer prices (period average)	63.3	51.0	141.6	163.3	197.1	44.5	20.7	12.9	11.0	10.4
Central government					(In percent of GDP)					
Revenue and grants	8.9	7.8	6.8	4.8	11.1	9.8	9.6	9.2	9.1	8.9
Revenue	8.7	7.4	5.3	4.7	7.1	8.6	8.4	8.3	8.4	8.3
Tax revenue	6.7	5.4	3.5	3.0	4.5	5.9	6.0	5.9	5.8	5.7
Expenditure 2/	16.7	18.7	13.7	10.8	14.2	12.3	12.0	11.6	11.5	11.3
Current 2/	16.2	18.5	13.3	10.7	12.7	10.6	10.3	10.1	10.1	10.0
Wage bill	2.4	2.9	5.1	2.9	2.9	2.9	2.8	2.8	2.8	2.7
Goods and services	1.2	1.0	1.0	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest	0.2	0.2	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.4
Subsidies 2/	9.6	11.8	3.8	4.8	2.0	2.2	2.2	2.1	2.0	1.9
Transfers	2.1	1.7	1.2	1.5	3.4	2.9	2.9	2.7	2.7	2.6
Other current	0.8	0.9	2.2	0.8	3.6	1.8	1.7	1.6	1.6	1.7
Capital	0.5	0.1	0.4	0.1	1.5	1.7	1.7	1.5	1.4	1.2
Overall balance 2/	-7.9	-10.8	-6.9	-5.9	-3.1	-2.5	-2.4	-2.4	-2.4	-2.4
Public debt 1/	185.6	200.3	259.4	249.1	208.6	191.9	184.0	181.0	178.1	175.5
Monetary sector					(Annual changes in percent)					
Broad money	111.8	60.1	88.2	88.0	80.5	38.6	23.0	16.8	19.0	14.9
Reserve money	170.5	77.5	94.5	97.0	112.6	31.1	29.7	20.5	18.2	16.3
Balance of payments					(In percent of GDP, unless otherwise indicated)					
Exports of goods	9.7	11.1	14.2	11.1	12.0	14.0	15.5	16.1	16.6	16.8
Imports of goods	19.7	25.0	25.0	25.9	25.3	26.3	26.5	26.5	26.5	26.4
Trade balance	-9.0	-14.0	-11.1	-14.7	-13.2	-11.6	-9.9	-9.1	-8.4	-8.1
Current account balance (cash basis)	-8.7	-11.4	-8.4	-13.2	-7.1	-9.8	-7.5	-6.2	-5.7	-4.9
External debt	176.0	167.8	176.1	167.4	164.0	162.8	160.7	158.9	155.8	152.6
External debt (in billions of US$)	55.1	56.3	57.4	57.5	58.8	58.5	59.0	60.3	61.6	62.9
Gross usable international reserves (in millions of US$	178	190	324	223	301	480	690	920	1,290	1,860
In months of imports	0.2	0.2	0.4	0.3	0.3	0.5	0.7	0.9	1.2	1.7
Memorandum items:										
Nominal GDP (in billions of SDGs)	1,370	2,030	4,481	5,168	15,531	22,629	27,965	32,632	37,742	43,458
Nominal GDP (in $US billion)1/	35.9	33.6	32.6	34.4	35.8	35.9	36.7	38.0	39.6	41.2
Exchange rate (SDG/US$, end of period) 1/	45.2	71.6	…	221.4	…	…	…	…	…	…
Exchange rate (SDG/US$, period average) 3/	38.2	60.5	…	150.4	…	…	…	…	…	…
NEER (2007=100, percent change, period average)	-52.2	-40.7	…	-79.6	…	…	…	…	…	…
REER (2007=100, percent change, period average)	-24.5	-12.5	…	5.9	…	…	…	…	…	…

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.

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

3/ Exchange rate is calcuated as the weighted average of offical and parallel exchange rate.

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.			
Output and prices				(Annual change in percent)					
Real GDP (at market prices)	-2.3	-2.5	-3.6	0.4	1.1	2.6	3.6	4.3	4.4
Consumer prices (end of period)	72.9	57.0	269.3	119.6	28.8	14.6	11.5	10.7	10.2
Consumer prices (period average)	63.3	51.0	163.3	197.1	44.5	20.7	12.9	11.0	10.4
GDP deflator	69.8	46.0	164.2	199.4	44.1	20.5	12.7	10.9	10.3
Investment and savings				(In percent of GDP)					
Gross domestic expenditure	109.0	114.0	114.7	113.2	111.6	109.9	109.1	108.4	108.1
Final consumption	95.5	104.2	104.7	102.5	100.4	98.4	97.3	96.6	96.2
Gross capital formation	13.5	9.9	10.0	10.7	11.2	11.5	11.8	11.8	11.9
Gross Savings	0.5	-5.8	-7.5	-0.5	-2.3	0.1	1.6	2.4	3.4
Central government operations									
Revenue and grants	8.9	7.8	4.8	11.1	9.8	9.6	9.2	9.1	8.9
Revenue	8.7	7.4	4.7	7.1	8.6	8.4	8.3	8.4	8.3
Of which: Oil revenues 1/	1.3	1.3	1.2	2.1	2.1	1.9	1.8	2.0	2.0
Taxes	6.7	5.4	3.0	4.5	5.9	6.0	5.9	5.8	5.7
Expenditure 2/	16.7	18.7	10.8	14.2	12.3	12.0	11.6	11.5	11.3
Current 2/	16.2	18.5	10.7	12.7	10.6	10.3	10.1	10.1	10.0
Wages	2.4	2.9	2.9	2.9	2.9	2.8	2.8	2.8	2.7
Subsidies 2/	9.6	11.8	4.8	2.0	2.2	2.2	2.1	2.0	1.9
Transfers	2.1	1.7	1.5	3.4	2.9	2.9	2.7	2.7	2.6
Capital	0.5	0.1	0.1	1.5	1.7	1.7	1.5	1.4	1.2
Overall balance	-7.9	-10.8	-5.9	-3.1	-2.5	-2.4	-2.4	-2.4	-2.4
Primary balance	-7.6	-10.6	-5.9	-3.0	-2.4	-2.3	-2.3	-2.2	-2.1
Public debt 3/	185.6	200.3	249.1	208.6	191.9	184.0	181.0	178.1	175.5
Monetary sector				(Annual change in percent, unless otherwise indicated)					
Broad money	111.8	60.1	88.0	80.5	38.6	23.0	16.8	19.0	14.9
Reserve money	170.5	77.5	97.0	112.6	31.1	29.7	20.5	18.2	16.3
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)	31.4	34.0	25.1	15.1	14.3	14.3	14.3	14.7	14.7
Net claims on government (percent of GDP)	20.3	22.6	11.0	12.2	10.9	10.8	11.2	11.6	12.0
Credit to the private sector (percent of GDP)	9.0	8.8	6.2	3.7	4.3	5.3	6.3	8.2	10.7
External sector				(In percent of GDP, unless otherwise indicated)					
Exports of goods (in US$, annual percent change)	-15.0	7.4	1.6	13.3	17.1	12.7	7.5	7.6	5.6
Imports of goods (in US$, annual percent change)	-14.1	18.8	6.0	2.1	4.0	3.0	3.4	4.2	4.1
Merchandise trade balance	-9.0	-14.0	-14.7	-13.2	-11.6	-9.9	-9.1	-8.4	-8.1
Current account balance (cash basis)	-8.7	-11.4	-13.2	-7.1	-9.8	-7.5	-6.2	-5.7	-4.9
External debt 3/	176.0	167.8	167.4	164.0	162.8	160.7	158.9	155.8	152.6
External debt (in billions of US$)	55.1	56.3	57.5	58.8	58.5	59.0	60.3	61.6	62.9
Gross usable international reserves (in millions of US	178	190	223	301	480	690	920	1,290	1,860
In months of next year's imports of G&S	0.2	0.2	0.3	0.3	0.5	0.7	0.9	1.2	1.7
Memorandum items:									
Nominal GDP (in billions of SDG)	1,370	2,030	5,168	15,531	22,629	27,965	32,632	37,742	43,458
Exchange rate (SDG/US$, weighted average)	38.2	60.5	150.4	…	…	…	…	…	…
NEER (2007=100, percent change, period average)	-52.2	-40.7	-79.6	…	…	…	…	…	…
REER (2007=100, percent change, period average)	-24.5	-12.5	5.9	…	…	…	…	…	…

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/ GDP estimated at the weighted average of the parallel and official exchange rate.

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

(In millions of US dollars)

	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Proj.			
Current account balance	-4,679	-5,244	-6,004	-4,003	-4,847	-4,191	-3,845	-3,736	-3,518
Current account balance (cash basis)	-3,118	-3,841	-4,531	-2,528	-3,514	-2,770	-2,365	-2,254	-2,011
Trade balance	-3,242	-4,708	-5,068	-4,718	-4,159	-3,636	-3,451	-3,326	-3,335
Oil	-377	-1,089	-1,065	-911	-1,076	-1,092	-1,097	-1,097	-1,095
Non-oil	-2,864	-3,619	-4,003	-3,807	-3,083	-2,544	-2,354	-2,228	-2,240
Exports, f.o.b.	3,485	3,741	3,802	4,307	5,045	5,685	6,109	6,571	6,942
Oil	520	532	65	154	174	195	233	288	348
Non-oil	2,965	3,209	3,737	4,153	4,871	5,490	5,876	6,283	6,594
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	9,079	9,443	9,726	10,052	10,470	10,899
Oil	897	1,621	1,130	1,065	1,250	1,287	1,330	1,386	1,443
Non-oil	6,168	6,771	7,763	8,014	8,193	8,439	8,721	9,084	9,456
Services (net)	339	-57	23	54	239	405	491	573	622
Receipts	1,511	1,368	1,283	1,657	1,905	2,122	2,265	2,421	2,546
Payments	1,172	1,425	1,260	1,602	1,666	1,716	1,774	1,848	1,923
Primary income (net)	-1,812	-1,620	-1,472	-1,739	-2,196	-1,903	-1,711	-1,718	-1,498
Receipts	127	102	61	59	71	84	75	70	72
Payments	1,939	1,722	1,533	1,798	2,267	1,987	1,786	1,788	1,570
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	2,454	1,509	1,348	1,317	1,308	1,315
Private	24	174	255	512	782	917	981	1,021	1,026
Official	351	910	281	1,942	726	431	336	286	289
of which: transfer for payment to victims of terrorism	0	0	427	0	0	0	0	0	0
Capital account	163	180	144	200	200	200	200	200	200
Financial account (net)	-2,981	-3,550	-2,554	-3,803	-4,671	-4,014	-3,725	-3,597	-3,361
Direct Investment (net)	-1,136	-945	-717	-1,748	-1,427	-1,470	-1,381	-1,295	-1,348
Portfolio Investment (net)	-3	36	11	12	12	13	14	14	15
Other investment (net)	-1,822	-2,653	-1,881	-2,145	-3,435	-2,767	-2,588	-2,686	-2,598
Reserve assets	-21	12	33	78	179	210	230	370	570
Overall balance	-1,534	-1,515	-3,307	0	24	23	80	61	43
Errors and omissions	1,534	1,515	3,307	0	0	0	0	0	0
Memorandum:									
Terms of trade (percentage change)	-3.6	2.9	10.7	-0.3	-1.6	-1.8	-1.9	-1.9	-1.9
Terms of trade	224.4	230.9	255.7	255.0	250.9	246.3	241.5	236.9	232.4
Import prices	142.1	145.9	155.5	166.2	168.0	170.8	174.0	177.2	180.6
Export prices	318.9	332.1	366.6	417.2	407.9	405.6	406.3	407.7	409.5
External debt	55,084	56,309	57,544	58,772	58,473	59,047	60,329	61,621	62,924
External debt (percent of GDP)	176.0	167.8	167.4	164.0	162.8	160.7	158.9	155.8	152.6
Arrears:	48,128	49,702	51,279	52,858	54,441	56,027	57,616	59,209	60,806
Of which: Arrears to the IMF	1,341	1,329	1,362	1,369	1,371	1,370	1,368	1,364	0
Interest	1,596	1,438	1,506	1,506	1,506	1,506	1,506	1,506	1,506
Total donor grants under the SMP	…	…	650	890	…	…	…	…	…
Gross usable international reserves	178	190	223	301	480	690	920	1,290	1,860
Imports coverage (in months)	0.2	0.2	0.3	0.3	0.5	0.7	0.9	1.2	1.7
Nominal GDP	35,891	33,564	34,370	35,827	35,917	36,745	37,976	39,556	41,245

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

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

	2018	2019	2020	2021	2022	2023	2024	2025	2026
				Proj.					
Current account balance	-13.0	-15.6	-17.5	-11.2	-13.5	-11.4	-10.1	-9.4	-8.5
Current account balance (cash basis)	-8.7	-11.4	-13.2	-7.1	-9.8	-7.5	-6.2	-5.7	-4.9
Trade balance	-9.0	-14.0	-14.7	-13.2	-11.6	-9.9	-9.1	-8.4	-8.1
Oil	-1.1	-3.2	-3.1	-2.5	-3.0	-3.0	-2.9	-2.8	-2.7
Non-oil	-8.0	-10.8	-11.6	-10.6	-8.6	-6.9	-6.2	-5.6	-5.4
Exports, f.o.b.	9.7	11.1	11.1	12.0	14.0	15.5	16.1	16.6	16.8
Oil	1.4	1.6	0.2	0.4	0.5	0.5	0.6	0.7	0.8
Non-oil	8.3	9.6	10.9	11.6	13.6	14.9	15.5	15.9	16.0
Of which: Gold	2.3	2.9	4.3	5.4	5.6	5.6	5.6	5.5	5.4
Imports, f.o.b.	19.7	25.0	25.9	25.3	26.3	26.5	26.5	26.5	26.4
Oil	2.5	4.8	3.3	3.0	3.5	3.5	3.5	3.5	3.5
Non-oil	17.2	20.2	22.6	22.4	22.8	23.0	23.0	23.0	22.9
Services (net)	0.9	-0.2	0.1	0.2	0.7	1.1	1.3	1.4	1.5
Primary income (net)	-5.0	-4.8	-4.3	-4.9	-6.1	-5.2	-4.5	-4.3	-3.6
Receipts	0.4	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Payments	5.4	5.1	4.5	5.0	6.3	5.4	4.7	4.5	3.8
Secondary income (net)	1.0	3.2	1.6	6.8	4.2	3.7	3.5	3.3	3.2
Private	0.1	0.5	0.7	1.4	2.2	2.5	2.6	2.6	2.5
Official	1.0	2.7	0.8	5.4	2.0	1.2	0.9	0.7	0.7
of which: transfer for payment to victims of terrorism	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.0	0.0
Capital account	0.5	0.5	0.4	0.6	0.6	0.5	0.5	0.5	0.5
Financial account (net)	-8.3	-10.6	-7.4	-10.6	-13.0	-10.9	-9.8	-9.1	-8.1
Direct Investment (net)	-3.2	-2.8	-2.1	-4.9	-4.0	-4.0	-3.6	-3.3	-3.3
Portfolio Investment (net)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other investment (net)	-5.1	-7.9	-5.5	-6.0	-9.6	-7.5	-6.8	-6.8	-6.3
Reserve assets	-0.1	0.0	0.1	0.2	0.5	0.6	0.6	0.9	1.4
Errors and omission	4.3	4.5	9.6	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	-4.3	-4.5	-9.6	0.0	0.1	0.1	0.2	0.2	0.1

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
			SMP proj.	Act.	Budget	Proj.			Proj.		
Revenue and grants	121.4	159.2	304.7	249.3	938.2	1,729.9	2,235.4	2,738.3	3,088.3	3,580.3	4,084.0
Revenue	119.3	149.8	238.3	241.3	731.4	1,100.7	1,963.6	2,408.8	2,797.2	3,304.6	3,805.7
Of which: Nonoil revenue	101.5	123.1	178.6	177.1	584.7	781.8	1,477.4	1,871.8	2,176.3	2,512.2	2,890.2
Taxes	92.4	110.5	157.8	154.9	254.6	706.2	1,349.4	1,710.2	1,991.2	2,298.1	2,643.8
Goods and services	68.2	82.4	109.2	106.7	182.0	432.6	714.6	862.8	1,001.8	1,153.5	1,327.1
International trade and transactions	17.4	19.4	31.8	27.8	50.5	212.8	546.0	682.0	796.5	921.4	1,059.4
Income, profits, property and others	6.8	8.7	18.7	20.4	22.1	60.8	88.8	165.4	193.0	223.2	257.3
Oil revenue	17.8	26.7	59.7	64.2	353.5	318.8	486.2	537.0	620.9	792.4	915.4
Oil sales	8.2	11.8	21.0	23.7	296.7	267.1	381.4	443.2	517.1	679.4	782.2
Transitional Financial Arrangement	3.7	5.8	26.9	17.2	19.3	19.3	28.0	0.0	0.0	0.0	0.0
Oil transit fees	5.9	9.0	11.8	23.3	37.5	32.5	76.8	93.8	103.8	113.0	133.2
Other revenue	9.1	12.7	20.8	22.2	123.3	75.6	128.0	161.6	185.0	214.0	246.4
Of which: Property income	5.8	8.9	11.0	16.3	107.3	52.5	86.4	102.6	119.8	138.5	159.5
Administrative fees	3.2	3.7	4.8	5.1	15.9	23.1	41.7	59.0	65.3	75.5	86.9
Grants	2.1	9.4	66.4	8.1	206.8	629.2	271.8	329.6	291.1	275.8	278.3
of which: Family support program	-	-	42.7	-		450.9	0.0	0.0	0.0	0.0	0.0
Total expenditure 1/	229.3	378.8	612.7	556.6	1,021.7	2,206.0	2,804.6	3,418.5	3,903.9	4,543.8	5,180.3
Expense (current expenditure) 1/	222.3	375.9	596.7	550.6	908.1	1,966.5	2,419.8	2,946.1	3,399.4	3,990.7	4,606.6
Wages	32.8	58.4	226.8	149.4	252.0	449.0	654.1	808.4	943.3	1,091.0	1,256.3
Goods and services	16.1	20.7	45.0	36.3	101.8	109.0	158.7	196.2	228.9	264.8	304.9
Interest	3.2	3.6	3.6	0.4	1.2	5.1	22.7	37.1	64.0	115.6	188.2
Foreign	0.0	0.4	0.4	0.1	0.5	0.0	2.4	12.6	25.1	39.1	54.7
Domestic	3.2	3.1		0.3	0.8	5.1	20.4	24.5	38.9	76.5	133.5
Subsidies 2/	130.9	239.9	168.2	247.8	207.8	315.3	500.4	613.1	703.6	808.0	876.1
of which: Fuel	114.4	214.0	100.6	195.0	20.0	40.0	85.4	103.5	117.0	142.9	157.8
Wheat	8.6	19.5	54.1	34.0	61.7	129.2	184.1	228.6	267.4	308.1	321.1
Electricity	7.8	6.4	0.0	15.8	101.1	121.1	194.6	236.0	266.7	296.2	327.1
Transfers	28.1	35.1	55.6	76.5	192.7	535.4	665.5	814.3	917.8	1,063.2	1,211.9
of which: States (current)	18.3	22.8	34.7	68.9	89.9	271.0	466.2	572.7	686.2	826.4	960.8
States (capital)	9.6	11.7	12.8	2.7	87.9	87.1	159.7	194.0	178.5	176.1	182.7
Other transfers	0.3	0.6	4.1	4.9	1.6	177.3	39.6	47.6	53.1	60.7	68.4
of which: Transfer of payment to victims of terrorism				3.9		146.0					
Other current	11.3	18.3	100.7	39.3	152.6	552.8	418.3	476.9	541.8	648.1	769.3
Of which: Social spending	10.5	15.0	98.7	39.3	137.9	552.8	418.3	476.9	541.8	648.1	769.3
FSP						482.9	144.9				
Net acquisition of nonfinancial assets	7.0	2.9	16.0	6.0	113.6	239.5	384.8	472.4	504.5	553.0	573.7
Budget overall balance	-39.2	-41.3	-271.4	-239.9	-83.5	-455.7	-588.9	-647.9	-689.6	-741.7	-900.5
Overall balance 1/	-107.9	-219.2	-308.1	-307.2	-83.5	-476.1	-569.2	-680.1	-815.6	-963.5	-1,096.4
Non-oil Primary balance 1/	-122.5	-242.3	-367.3	-370.1	-271.2	-789.8	-1,032.7	-1,180.0	-1,372.6	-1,640.2	-1,823.6
Financing	107.9	219.2	308.1	307.2	82.9	476.1	569.2	680.1	815.6	963.5	1,096.4
Foreign financing	3.4	1.6	7.0	-0.6	28.0	7.5	170.0	206.2	233.0	258.8	285.8
Disbursements for projects	3.9	5.6	7.0	1.0	39.9	30.7	205.3	249.0	281.4	312.5	345.2
Principal repayments	0.5	4.0	0.0	1.6	11.9	23.2	35.3	42.8	48.4	53.7	59.3
Domestic financing	98.7	211.3	301.1	307.9	52.9	468.6	399.2	473.9	582.6	704.7	810.6
CBOS	79.5	200.0	217.1	395.9	52.0	453.1	344.9	320.1	253.0	248.0	241.3
Commercial banks	3.4	0.4	50.0	2.0	1.2	15.5	22.6	83.9	261.1	377.4	478.0
Nonbanks	16.1	11.2	0.0	0.0	-0.3	0.0	31.7	69.9	68.5	79.3	91.3
Change in net domestic arrears	-0.3	-0.3	-1.0	-3.3	-2.0	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	0.0
Repayment of arrears	0.3	0.3	1.0	3.3		0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Nominal GDP			4,481.3	5,168.2	5,958.2	15,531.5	22,628.5	27,965.4	32,631.5	37,741.9	43,457.5
Public debt	2,543.3	4,066.6	11,624	12,876.5		32,398.5	43,724.9	52,463.3	61,026.7	70,359.0	80,782.9
External	2,411.8	3,906.0	11,097	12,345.1		31,196.7	40,421.4	47,452.0	54,780.3	62,689.9	71,342.9
Domestic 2/	131.5	160.6	526.6	531.3		1,201.9	3,303.5	5,011.3	6,246.4	7,669.1	9,440.0

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/ Staff estimates and projections.

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

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			SMP	Act.	Bud.	Proj.			Proj.		
Revenue and grants	8.9	7.8	6.8	4.8	15.7	11.1	9.8	9.6	9.2	9.1	8.9
Revenue	8.7	7.4	5.3	4.7	12.3	7.1	8.6	8.4	8.3	8.4	8.3
Of which: Nonoil revenue	7.4	6.1	4.0	3.4	9.8	5.0	6.5	6.6	6.5	6.4	6.3
Taxes	6.7	5.4	3.5	3.0	4.3	4.5	5.9	6.0	5.9	5.8	5.7
Goods and services	5.0	4.1	2.4	2.1	3.1	2.8	3.1	3.0	3.0	2.9	2.9
International trade and transactions	1.3	1.0	0.7	0.5	0.8	1.4	2.4	2.4	2.4	2.3	2.3
Income, profits, property and others	0.5	0.4	0.4	0.4	0.4	0.4	0.4	0.6	0.6	0.6	0.6
Oil revenue	1.3	1.3	1.3	1.2	5.9	2.1	2.1	1.9	1.8	2.0	2.0
Oil sales	0.6	0.6	0.5	0.5	5.0	1.7	1.7	1.6	1.5	1.7	1.7
Transitional Financial Arrangement	0.3	0.3	0.6	0.3	0.3	0.1	0.1	0.0	0.0	0.0	0.0
Oil transit fees	0.4	0.4	0.3	0.5	0.6	0.2	0.3	0.3	0.3	0.3	0.3
Other revenue	0.7	0.6	0.5	0.4	2.1	0.5	0.6	0.6	0.5	0.5	0.5
Property income	0.4	0.4	0.2	0.3	1.8	0.3	0.4	0.4	0.4	0.4	0.3
Administrative fees	0.2	0.2	0.1	0.1	0.3	0.1	0.2	0.2	0.2	0.2	0.2
Grants	0.2	0.5	1.5	0.2	3.5	4.1	1.2	1.2	0.9	0.7	0.6
of which: Family support program	-	-	1.0	0.0		2.9	0.0	0.0	-	-	-
Total expenditure 1/	16.7	18.7	13.7	10.8	17.1	14.2	12.3	12.0	11.6	11.5	11.3
Expense (current expenditure) 1/	16.2	18.5	13.3	10.7	15.2	12.7	10.6	10.3	10.1	10.1	10.0
Wages	2.4	2.9	5.1	2.9	4.2	2.9	2.9	2.8	2.8	2.8	2.7
Goods and services	1.2	1.0	1.0	0.7	1.7	0.7	0.7	0.7	0.7	0.7	0.7
Interest	0.2	0.2	0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.4
Foreign	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Domestic	0.2	0.2	0.0	0.0		0.0	0.1	0.1	0.1	0.2	0.3
Subsidies 2/	9.6	11.8	3.8	4.8	3.5	2.0	2.2	2.2	2.1	2.0	1.9
of which: Fuel	8.4	10.5	2.2	3.8	0.3	0.3	0.4	0.4	0.3	0.4	0.3
Wheat	0.6	1.0	1.2	0.7	1.0	0.8	0.8	0.8	0.8	0.8	0.7
Electricity	0.6	0.3	0.0	0.3	1.7	0.8	0.9	0.8	0.8	0.7	0.7
Transfers	2.1	1.7	1.2	1.5	3.2	3.4	2.9	2.9	2.7	2.7	2.6
States (current)	1.3	1.1	0.8	1.3	1.5	1.7	2.0	2.0	2.0	2.1	2.1
States (capital)	0.7	0.6	0.3	0.1	1.5	0.6	0.7	0.7	0.5	0.4	0.4
Other transfers	0.0	0.0	0.1	0.1	0.0	1.1	0.2	0.2	0.2	0.2	0.1
of which: Transfer of payments to victims of terrorism				0.1		0.9					
Other current	0.8	0.9	0.0	0.8	2.6	3.6	1.8	1.7	1.6	1.6	1.7
Of which: Social spending	0.8	0.7	2.2	0.8	2.3	3.6	1.8	1.7	1.6	1.6	1.7
Net acquisition of nonfinancial assets	0.5	0.1	2.2	0.1	1.9	1.5	1.7	1.7	1.5	1.4	1.2
Budget overall balance	-2.9	-2.0	-6.1	-4.6	-1.4	-2.9	-2.6	-2.3	-2.0	-1.9	-2.0
Overall balance 1/	-7.9	-10.8	-6.9	-5.9	-1.4	-3.1	-2.5	-2.4	-2.4	-2.4	-2.4
Non-oil primary balance	-8.9	-11.9	-8.2	-7.2	-4.6	-5.1	-4.5	-4.1	-4.1	-4.2	-4.0
Financing	7.9	10.8	6.9	5.9	1.4	3.1	2.5	2.4	2.4	2.4	2.4
Foreign financing	0.3	0.1	0.2	0.0	0.5	0.0	0.7	0.7	0.7	0.7	0.6
Disbursements for projects	0.3	0.3	0.2	0.0	0.7	0.2	0.9	0.9	0.8	0.8	0.7
Principal repayments	0.0	0.2	0.0	0.0	0.2	0.1	0.2	0.2	0.1	0.1	0.1
Domestic financing	7.2	10.4	6.7	6.0	0.9	3.0	1.8	1.7	1.7	1.8	1.8
Sale of government recovered assets	0.0	0.0	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.0
CBOS	5.8	9.9	4.8	7.7	0.9	2.9	1.5	1.1	0.8	0.6	0.5
Of which: Wheat subsidies	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Commercial banks	0.2	0.0	1.1	0.0	0.0	0.1	0.1	0.3	0.8	1.0	1.0
Nonbanks	1.2	0.6	0.0	0.0	0.0	0.0	0.1	0.2	0.2	0.2	0.2
Change in net domestic arrears	0.0	0.0	0.0	-0.1	0.0	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	0.0	0.0
Repayment of arrears	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Discrepancy	0.4	0.3	0.0	-1.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Public debt	185.6	200.3	259.4	249.1		208.6	191.9	184.0	181.0	178.1	175.5
External	176.0	192.4	247.6	238.9		200.8	177.4	166.4	162.4	158.7	155.0
Domestic 2/	9.6	7.9	11.8	10.3		7.7	14.5	17.6	18.5	19.4	20.5

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

1/ Primary balance minus oil revenue.

2/ Fuel subsidies minus fuel stabilization fees.

Table 5. Sudan: Monetary Survey, 2015–22

(In millions of Sudanese pounds)

	2015	2016	2017	2018	2019	2020	2021	2022
							Proj.	
Net foreign assets	-26,599	-36,788	-40,746	-290,044	-284,132	-319,615	-3,528,857	-3,974,776
Central Bank of Sudan	-28,520	-38,344	-44,370	-300,410	-300,709	-356,922	-4,140,761	-5,223,014
Commercial banks	1,921	1,556	3,624	10,366	16,577	37,307	611,904	1,248,238
Net domestic assets	120,541	157,277	244,114	720,830	973,730	1,615,999	5,869,350	7,218,670
Net domestic credit	132,916	170,738	255,030	438,221	674,472	948,717	2,544,026	3,572,500
Net claims on general government (NCGG)	80,336	104,992	155,417	277,512	457,743	570,322	1,887,349	2,473,848
Central Bank of Sudan	67,177	89,285	133,159	277,512	418,406	527,886	1,829,381	2,393,252
Commercial banks	13,159	15,707	22,257	33,829	39,337	42,436	57,967	80,596
Claims on Nongovernment sectors	52,581	65,746	99,614	160,710	216,729	378,395	656,678	1,098,652
Public enterprises	9,071	11,736	24,554	33,294	31,032	49,034	65,169	96,745
Private sector	41,606	52,561	72,735	123,107	179,478	320,844	577,519	981,782
Other	1,903	1,449	2,325	4,308	6,219	8,518	13,990	20,126
Other items (net)	-12,375	-13,461	-10,917	282,608	299,258	667,282	3,325,323	3,646,170
Broad money (M2)	93,942	120,489	203,368	430,786	689,598	1,296,384	2,340,493	3,243,894
Money	57,939	77,163	128,462	263,727	473,389	909,264	1,413,902	1,732,192
Currency in circulation	27,495	38,712	61,455	112,832	281,336	556,671	658,558	823,812
Demand deposits	30,443	38,451	67,007	150,895	192,053	391,616	755,344	908,380
Domestic currency	25,776	33,461	59,546	119,612	157,948	352,592	370,961	411,906
Foreign currency	4,668	4,990	7,462	31,283	34,105	39,023	384,383	496,474
Quasi-money	36,004	43,327	74,905	167,059	216,209	387,120	926,590	1,511,701
Domestic currency	27,639	34,420	59,840	92,647	167,877	333,051	394,009	823,812
Foreign currency	8,364	8,907	15,065	74,412	48,332	54,069	532,581	687,889
	(Change in percent, end of period)							
Broad money	20.9	28.3	68.8	111.8	60.1	88.0	80.5	38.6
Money	20.8	33.2	66.5	105.3	79.5	92.1	55.5	22.5
Currency in circulation	17.8	40.8	58.7	83.6	149.3	97.9	18.3	25.1
Demand deposits	23.6	26.3	74.3	125.2	27.3	103.9	92.9	20.3
Quasi-money	21.1	20.3	72.9	123.0	29.4	79.0	139.4	63.1
Savings Deposits	22.2	23.1	73.5	124.0	28.4	90.7	116.0	43.9
Domestic currency	30.7	24.5	73.9	54.8	81.2	98.4	11.6	61.5
Foreign currency	-2.6	6.5	69.1	393.9	-35.0	11.9	102.3	103.3
Net foreign assets	111.9	38.3	10.8	611.8	-2.0	12.5	1,004.1	12.6
Net domestic assets	33.5	30.5	55.2	195.3	35.1	66.0	263.2	23.0
Net claims on government	34.9	30.7	48.0	78.6	64.9	24.6	230.9	31.1
Credit to the nongovernment sectors	21.5	25.0	51.5	61.3	34.9	74.6	73.5	67.3
Claim on public enterprises	51.0	29.4	109.2	35.6	-6.8	58.0	32.9	48.5
Claim on private sector	15.8	26.3	38.4	69.3	45.8	78.8	80.0	70.0
Broad money to GDP	18.6	16.2	23.5	31.4	34.0	25.1	15.1	14.3
Money to broad money	61.7	64.0	63.2	61.2	68.6	70.2	70.2	71.2
Currency in circulation to M2	29.3	32.1	30.2	26.2	40.8	42.9	28.1	25.4
Net claims on government to GDP	15.9	14.1	17.9	20.3	22.6	11.0	12.2	10.9
Credit to the economy to GDP	10.4	8.8	11.5	11.7	10.7	7.3	4.2	4.9
Velocity (GDP/M2, eop)	5.4	6.2	4.3	3.2	2.9	4.0	6.6	7.0
Foreign currency deposits to M2	13.9	11.5	11.1	24.5	12.0	7.2	39.2	36.5
Reserve money growth (annual changes, end of pe	22.5	26.5	63.8	170.5	77.5	97.0	112.6	31.1
Money multiplier (M2/reserve money, eop)	1.8	1.8	1.9	1.5	1.3	1.3	1.1	1.1

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

Table 6. Sudan: Summary Accounts of the Central Bank of Sudan, 2015–22
(In millions of Sudanese pounds)

	2015	2016	2017	2018	2019	2020	2021	2022
							Proj.	
Net foreign assets	-28,520	-38,344	-44,370	-300,410	-300,709	-356,922	-4,140,761	-5,223,014
Foreign assets	6,401	6,110	6,813	52,115	67,137	104,724	736,625	1,076,689
Of which: Gross usable international reserves (exclude SDI	343	313	164	213	840	2,463	58,293	200,545
SDR holdings	1,057	1,110	1,189	8,222	7,729	9,825	103,759	134,016
Foreign liabilities	34,921	44,454	51,182	352,525	367,846	461,646	4,877,386	6,299,703
Of which: Short-term foreign liabilities	2,436	4,448	5,335	35,552	41,321	54,420	577,020	745,288
Net domestic assets	80,384	103,957	151,867	591,216	816,873	1,373,821	6,302,484	8,056,183
Net domestic credit	79,312	101,310	151,290	268,282	455,658	583,877	1,880,914	2,447,043
Net claims on general government (NCGG)	67,177	89,285	133,159	243,683	418,406	527,886	1,829,381	2,393,252
of which: IMF-onlent	8,217	8,581	9,186	63,978	60,141	76,594	808,846	1,044,718
Claims on public enterprises	1,170	1,400	1,480	4,707	4,554	5,528	6,357	6,357
Claims on banks	10,965	10,625	16,651	19,892	32,698	50,463	45,175	47,434
Other items (net)	1,072	2,648	576	322,934	361,215	789,944	4,421,571	5,609,140
Reserve money	51,864	65,613	107,497	290,806	516,165	1,016,899	2,161,723	2,833,168
Currency outside banks	29,340	40,904	65,241	113,922	295,274	588,829	690,716	855,969
Reserves of commercial banks	19,143	21,623	38,990	161,214	173,720	375,520	1,409,625	1,717,155
Required reserves	5,244	6,164	11,427	25,588	46,253	101,151	252,290	363,012
Excess reserves	13,886	15,445	27,549	135,528	127,374	274,256	1,157,335	1,354,143
Cash in vault	1,845	2,192	3,786	1,089	13,939	32,157	32,157	32,157
Excess reserves	12,041	13,253	23,763	134,438	113,436	242,099	1,125,177	1,321,985
of which: in foreign currency	10,749	11,569	14,820	96,716	76,243	92,371	975,449	1,172,257
Deposits at CBOS included in broad money	3,380	3,086	3,266	15,671	47,170	52,550	61,383	260,044
	(Change in percent, end of period)							
Net foreign assets	81.6	34.4	15.7	577.1	0.1	18.7	-1,277.0	-1,363.3
Foreign assets	-29.1	-4.6	11.5	665.0	28.8	56.0	997.2	928.1
Gross international reserve	295.3	-8.8	-47.7	30.3	294.3	193.1	6,836.7	8,041.4
Foreign liabilities	41.2	27.3	15.1	588.8	4.3	25.5	1,225.9	1,264.6
Net domestic assets	38.5	29.3	46.1	289.3	38.2	68.2	671.5	486.4
Net domestic credit	39.4	27.7	49.3	77.3	69.8	28.1	312.8	319.1
Net claims on general government	37.3	32.9	49.1	83.0	71.7	26.2	337.2	353.4
Other items (net)	-8.2	147.0	-78.2	55,919.3	11.9	118.7	1,124.1	610.1
Reserve money	22.5	26.5	63.8	170.5	77.5	97.0	112.6	31.1
Memorandum items:								
Gross usable international reserves (in millions of US$)	230.4	216.2	193.3	177.6	190.4	223.2	301.0	480.0

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

Table 7. Sudan: Summary Accounts of the Commercial Banks, 2015–22
(In millions of Sudanese pounds)

	2015	2016	2017	2018	2019	2020	2021	2022
							Proj.	
Net foreign assets	1,921	1,556	3,624	10,366	16,577	37,307	611,904	1,248,238
Foreign assets	3,859	3,724	6,747	28,138	33,405	58,673	830,532	1,541,581
Foreign liabilities	1,937	2,168	3,123	17,772	16,828	21,366	218,627	293,343
Net domestic assets	65,471	79,847	142,959	302,381	365,366	702,831	2,193,575	2,987,529
Reserves	21,819	26,320	48,974	181,609	197,138	416,993	1,383,582	1,758,971
Cash in vaults	1,845	2,192	3,786	1,089	13,939	32,157	32,157	32,157
Required reserves	5,244	6,164	11,427	25,588	46,253	101,151	252,290	363,012
Other reserves	14,730	17,964	33,761	154,931	136,946	31,949	1,099,135	1,363,802
Net claims on central government	11,113	12,365	17,463	22,128	26,752	31,949	46,860	69,489
Claims on state & local government	2,046	3,342	4,794	11,701	12,585	11,107	11,107	11,107
Claims on non-government sectors	51,410	64,347	98,134	156,002	212,174	372,867	714,467	1,173,218
Non-bank financial institutions	1,903	1,449	2,325	4,308	6,219	8,518	13,990	20,126
Other items, net	-20,917	-26,526	-26,406	-69,058	-83,284	-130,085	37,559	-25,257
Deposits	67,392	81,403	146,583	312,748	381,943	739,518	1,727,110	2,467,516
Demand deposits	29,115	37,236	65,436	147,012	184,771	336,624	755,344	908,380
Domestic currency	24,448	32,246	57,974	115,729	150,666	297,601	370,961	411,906
Foreign currency	4,668	4,990	7,462	31,283	34,105	39,023	384,383	496,474
Quasi-money deposits (time & saving)	33,951	41,455	73,210	155,271	176,321	350,538	926,590	1,511,701
Domestic currency	25,587	32,548	58,145	80,859	127,989	296,470	394,009	823,812
Foreign currency	8,364	8,907	15,065	74,412	48,332	54,069	532,581	687,889
Liabilities to CBOS 1/	4,326	2,712	7,937	10,465	20,851	52,355	45,175	47,434
Memorandum items:								
			(In percent)					
Credit to deposits	95.8	98.3	82.1	60.7	65.9	56.2	44.7	50.8
Reserves to deposits	32.4	32.3	33.4	58.1	51.6	56.4	80.1	71.3
Required reserves to deposits	7.8	7.6	7.8	8.2	12.1	13.7	14.6	14.7
Excess reserves to deposits	21.9	22.1	23.0	49.5	35.9	4.3	63.6	55.3
Cash to deposits	2.7	2.7	2.6	0.3	3.6	4.3	1.9	1.3
Claims on government to reserves	60.3	59.7	45.4	18.6	20.0	10.3	4.2	4.6

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) is due to misclassification of government guarantees.

Table 8. Sudan: Financial Soundness Indicators

(In percent)

	2016	2017	2018	2019	2020 1/
Capital Adequacy					
Regulatory capital to risk-weighted assets	18.7	16.2	9.9	15.4	n.a
Regulatory Tier I capital to risk-weighted assets	16.2	12.9	7.3	9.9	n.a.
Asset composition and quality					
Gross NPLs to gross loans	5.2	3.3	3.2	3.5	5.1
NPLs net of provisions to core capital	13.0	4.8	8.7	6.6	22.0
NPLs net of provisions to gross loans	2.1	0.6	0.7	0.7	2.9
Loans' provision to NPLs	60.0	81.3	72.1	78.5	42.0
Gross NPLs to gross loans	5.2	3	3.2	3.5	5.1
Foreign currency loans to total loans	4.4	3.8	17.9	6.2	8.5
Deposits and investment accounts to total asset	63.0	71.5	n.a.	73.0	73.6
Foreign currency deposits to total deposits	19.0	18.2	39.9	24.8	21.5
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	2.5
ROE(before tax)	46.1	48.0	95.0	42.9	41.6
Liquidity					
Cash in vault to total assets	2.1	2.1	1.0	3.4	4.3
Liquid assets to total assets	35.1	37.3	51.6	49.5	51.9
Liquid assets to total short-term liabilities	88.0	82.2	112.0	103.3	95.5

Source: Central Bank of Sudan.

1/Data for 2020 is up to October.

Table 9. Sudan: Quantitative Targets, 2020–2021 1/

	Dec-19	Dec-20			Mar-21	Jun-21
	Benchmark	Target	Adjusted Target 4/	Actual	Target	Target
Quantitative Benchmarks						
Banking system net credit to the central government (ceiling: in SDG billion) 2/	386	672	709	655	758	871
CBOS net domestic assets (ceiling: in SDG billion) 2/	817	1,083	1,120	1,277	1,380	1,473
Net international reserves (floor: in millions of U.S. dollars) 2/	(728)	(594)	(594)	(803)	(6,552)	(6,539)
Contracting or guaranteeing of external long term non-concessional debt by the government or the central bank(ceiling: in millions of U.S. dollars) 3/	230	300	300	18	75	150
Indicative Targets						
Social spending (floor: in SDG billion)	15	99	99	39	53	112
Nonoil primary deficit (ceiling: in SDG billion) 2/	242	367	355	370	312	510
Reserve money (ceiling: in SDG million) 2/	516	766	766	1,000	1,094	1,204
Memorandum items:						
External non-project grants for Family Support Program (in millions of U.S. doll	0	328		0	92	274
Other external non-project grants (in millions of U.S. dollars) 3/	0	212		161	25	50
Transfer payment to the US for victims of terrorism (in millions of US dollars)3/	0	0		71	356	356
Government asset sales (in SGD billion) 3/	0	35		0	0	0
External non-project loans (in millions of U.S. dollars) 3/	91	127		18	0	0

1/ The variables are defined according to the TMU.

2/ Evaluated using program exchange rate of 45 SDG per U.S. dollar. For March and June targets the definition of net international reserves is updated to include all external liabilities denominated in foreign currency. See TMU paragraph 7 for the updated definition.

3/ Continuous benchmark; flow from the beginning of the year.

4/ Targets are adjusted according to the relevant adjustors as defined in TMU, paragraph 6, 8 and 9.

Table 10. Sudan: Prior Actions and Structural Benchmarks Under the SMP		
Benchmarks	**Target Date**	**Macroeconomic Rationale**
Prior Actions		
1. Complete the stress testing of individual bank resilience to exchange rate movements and prepare appropriate measures to mitigate risks in each problem bank ahead of exchange rate reform, in consultation with the IMF.	Completed PA for SMP request	Prepare for the exchange rate reform
2. Legislative council to pass a revised 2020 budget consistent with program objectives, including incorporating a substantial expansion of the social safety net under the Sudan Family Support Program, increased health expenditure to address COVID-19 needs, and revenue mobilization through customs exchange rate reform and expansion of the tax base.	Completed PA for SMP request	Fiscal consolidation
3. Announce the unification of the official exchange rate (excluding the customs valuation exchange rate) with the market rate at the prevailing market rate and issue regulations to banks and forex bureaus indicating that trading can take place in a +/-5 percent band around the indicative rate announced by the central bank prior to the opening of trading which is calculated as the weighted average of the previous day's trading excluding CBOS sales/purchases from government.	Completed February 21, 2021	Remove distortions and raise revenue
Structural Measures		
Public financial management		
1. The MOFEP to publish on its website monthly budget execution reports that show actual revenue and expenditure for budgetary central government in comparison with original and revised budget, consistent with the GFSM2001.	Dec. 2020 Met	Improve budget classification and fiscal reporting
Expenditure policy		
2. Adopt automatic fuel pricing mechanism to ensure that retail diesel and gasoline prices reflect all costs, thus eliminating subsidization.	Sept. 2020 Not Met	Support fiscal consolidation
Governance		
3. Prepare and publish an inventory of all state-owned enterprises including those supervised by ministry of finance, line ministries and security sector.	Dec. 2020 Not met	Improve fiscal transparency
4. Pass a new anti-corruption law, in line with international best practices as agreed in consultation with the IMF, that clearly defines what actions constitute corrupt practices and creates an independent anti-corruption commission.	Oct. 2020 Not Met	Fight corruption and improve governance
5. Establish an independent anti-corruption commission, consistent with the provisions of the new anti-corruption law.	March. 2021	Fight corruption and improve governance
Monetary and Financial Sector		
6. Finalize an amended Central Bank Law in consultation with IMF staff 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.	Dec. 2020 Not Met	Enhance central bank independence and improve governance
7. Enact a new Central Bank Law in consultation with IMF staff that, inter alia, (i) establishes a proper central bank mandate focusing on price stability; (ii) strengthens the Central Bank institutional, functional, personal, and financial autonomy, including by limiting monetary financing of the Government and	Jun. 2021	Enhance central bank independence and improve governance
prohibiting the central bank to conduct quasi-fiscal operations; (iii) improves its decision-making structure, by ensuring collegial decision-making, providing		

Table 10. Sudan: Prior Actions and Structural Benchmarks Under the SMP (concluded)		
Benchmarks	**Target Date**	**Macroeconomic Rationale**
for effective oversight over executive; and (iv) enhances transparency and accountability provisions.		
8. Unify all but the customs exchange rate and allow commercial banks and FX bureaus to set exchange rates in line with market conditions, but subject to an adjustable band around the daily official exchange rate. Central Bank sets daily official exchange rate based on market average exchange rate.	Not met Prior Action for Second Review (above).	Strengthen competitiveness and reduce distortions
9. Gradually adjust customs exchange rate towards market exchange rate and fully unify by June 2021.	Jun. 2021	Eliminate distortion in the exchange rate market
10. Establish regular procedures for communication between banking supervision and regulation departments; and conduct semi-annual stress tests to identify and address vulnerabilities of individual banks to exchange rate movements.	Mar. 2021	Strengthen financial sector soundness
11. (i) Conduct thematic AML/CFT on-site inspections of the ten highest-risk banks as determined by the CBOS off-site tool, focusing on politically exposed persons (PEPs), suspicious transaction reporting, and higher-risk customers and transactions in the real estate sector; and (ii) provide aggregate data to the Fund on any related violations found and sanctions levied by the CBOS, in line with the existing legal framework.	Mar. 2021	Reduce vulnerabilities to corruption and related money laundering

Appendix I. Letter of Intent

Khartoum, March 5, 2021

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

Dear Ms. Georgieva:

The transitional government of Sudan formed a new cabinet on February 8, 2021 in line with agreements contained in the Comprehensive Peace Agreement signed October 3, 2020. Let us assure you of the government of Sudan's continued and unwavering commitment to the Staff Monitored Program. Based on the strength of policies outlined in this letter, and considering our performance thus far under the program including recent corrective measures, we are requesting the completion of the first review.

Sudan's economy has suffered significant setbacks over the past several decades. Three decades of economic mismanagement and poor governance have put our country and its people in a very difficult social and economic predicament. Incomes have been falling, poverty has been increasing and is widespread, fiscal and external imbalances are large, inflation is high, and competitiveness is weak. The COVID-19 pandemic and associated health and economic challenges have exacerbated the situation. The transitional government is committed to addressing the adverse social and economic legacies, and to meeting the aspirations of the Sudanese people to build a democratic and prosperous society. It is these principles that underlie our three-year Poverty Reduction Strategy which is soon to be adopted.

Our home-grown reform program which is the basis of the Staff Monitored Program remains our guiding principle, and we trust that with the support of the international community we can build on the reforms taken to date to restore macroeconomic stability, strengthen governance and the business environment, and respond appropriately to the economic and health fallout from COVID-19. The road ahead is difficult, but we are firmly committed to these reforms. We also hope that strong policy implementation would catalyze additional support from the international community and lead to reaching the HIPC Decision Point.

The year 2020 was challenging for the world, but a particularly difficult year for Sudan, exacerbated by the COVID-19 pandemic and historic flooding. Notwithstanding, 2020 also brought a Comprehensive Peace Agreement and removal from the U.S. State Sponsor of Terrorism list which paves a way forward to reintegration with the international community. While reforms took time to gain momentum, structural reforms are now firmly on track including those planned to be adopted by end-March. Tax revenues were deeply impacted by the COVID-19 pandemic and monetary expansion and international reserves were impacted by one-time payments made to the victims of terrorism, but our policies for 2021 are firmly in line with IMF recommendations and the Sudanese government is committed to implementing an economic reform program during 2021 to stabilize the economy, accelerate structural reforms, and fight corruption.

To this end, we have adopted a comprehensive set of policies in line with our reform priorities, including a budget for 2021 that reduces wasteful subsidies and increases tax revenue in support of additional social spending, and an ambitious structural reform agenda in support of private-sector led growth. Retail fuel subsidies on gasoline and diesel have been eliminated for all but the strategic publicly-owned public transportation sector through application of a fuel pricing mechanism and the planned unification of the customs rate will raise much needed revenue to expand the social safety net, improve the healthcare system and mitigate adjustment pains and the negative impact of COVID-19. Reforms in the foreign exchange rate system removed multiple distortions, which together with the ambitious legal reform agenda will restore the competitiveness of the economy. Major improvements in governance and anti-corruption measures, and measures strengthening the independence of the Central Bank of Sudan are also underway to further support inclusive economic growth.

Given our progress to date, policies and commitment to quantitative targets for the period ahead, we would propose to revise the program structure to have quarterly reviews in support of moving toward the HIPC Decision Point at the earliest possible date. We believe that the policies and conditionality under the SMP remain of Upper Credit Tranche (UCT) quality and look forward to the IMF Executive Board's confirmation of this assessment in due course. We continue to seek the support of our international partners, including for near-term assistance to boost the low level of reserves and agree to adjust related targets accordingly should such support be received.

The policies and measures set forth in the attached Memorandum of Economic and Financial Policies (MEFP; Attachment I) reflect the understandings reached with IMF staff during the February 2021 mission, which we believe can achieve the objectives of the program. We will, however, take any additional measures that may become necessary for this purpose. We will remain in close consultation with IMF staff on the adoption of such measures, and in advance of any revisions to the policies contained in the MEFP and its annexes. The government will provide IMF staff with all information that it requests to assess the implementation of the staff-monitored program. In line with our commitment to transparency, we authorize the IMF to publish this letter, the MEFP and its attachments, and the accompanying staff report in accordance with the Fund's transparency policy.

Very truly yours,

/s/	/s/
Gibril Ibrahim Mohamed	Mohamed Elfatih Zeinelabdin Mohamed
Minister, Ministry of Finance and National Economy	Governor, Central Bank of Sudan

Attachment I. Memorandum of Economic and Financial Policies for 2020–21

1. This memorandum sets out the economic and financial policies and objectives of the Government of Sudan for July 1, 2020–June 30, 2021. These policies will be implemented in the context of an IMF staff-monitored program (SMP) to help restore macroeconomic stability and support higher and inclusive growth. The government remains determined to implement bold, home-grown structural reforms that have emerged from substantive economic and political dialogue at all levels of government and with domestic stakeholders. We have been making strong efforts to obtain donor financing and hope that credible reforms would catalyze additional donor support and help us progress towards the HIPC decision point.

2. We appeal to the international community to support our ongoing reform efforts and work toward a rapid resolution of Sudan's debt and arrears problem. Because of the latter, Sudan continues to suffer from limited access to concessional loans. As a low-income and fragile country, it needs concessional lending to develop and diversify its economy. Our infrastructure, reconstruction, and social development projects, which require critical external funding, are an essential component of our strategy to boost economic growth. In recent years, we have had to resort to non-concessional financing, but remain mindful of the risks to debt sustainability and to the concerns of other creditors. We will continue to limit the contracting of such borrowing to an annual amount of $300 million (quantitative benchmark, QB #4) for specific, high reward and well-identified projects.

3. Stabilizing the economy calls for bold reforms to address deep seated structural distortions. Recovery from years of economic mismanagement, neglect of basic services and distortions of the civil service requires reshaping the public-policy framework with focus on public service delivery, improving quality of institutions, and progressing toward the sustainable development goals (SDGs). Addressing past inequities and investing in peace, notably in long-neglected and marginalized states, is also critical. To accomplish these objectives while containing the large and rising fiscal deficit and its monetization, we will continue our vigorous efforts to (a) reform subsidies, (b) substantially raise non-oil revenues, (c) strengthen and expand the social safety net; and (d) enhance the oversight and accountability of state enterprises, and strengthen governance. Prudent monetary and financial policies by the Central Bank of Sudan (CBOS) are also important and complementary pillars of our reforms. These policies include reforming the exchange rate system, tightening monetary policy, boosting the resilience of the financial sector, and strengthening the central bank's independence.

4. Social mitigation of the impact of reforms is critical. The planned and ongoing reforms have reduced the purchasing power of citizens, including through rising prices, before a supply response has materialized. To mitigate this impact, we have introduced the Sudan Family Support Program (SFSP), a quasi-universal basic income scheme, which was piloted in June 2020, and was launched on February 22 with the goal of initially reaching at least 80,000 families in this first phase and 1 million families by end-2021. It is notable that for the first time the 2021 budget includes a larger allocation for education than for the security sector; overall, over 40 percent of the 2021 budget is allocated to social protection, education and health. We regret that the implementation of the program was delayed due to both slower than anticipated implementation of policy reforms and the arrival of donor financing with the result that the social spending target in 2020 was missed (indicative target, IT #1), but we are committed to now moving ahead fully with the program. Reforms to counter corruption, strengthen governance, and streamline the business environment are also underway.

5. The COVID-19 health and economic fallout has added considerably to our challenges. Given the fragility of the neglected health system, we introduced in 2020 a range of restrictions on movement and public gatherings, a curfew, and port and airport closures for six months, while also increasing the budget for the Ministry of Health. The containment measures impacted economic activity and affected livelihoods. In response we introduced measures to protect jobs and families during this economic crisis. Sudan is experiencing a second wave of the COVID-19 pandemic and to this day, government offices and businesses continue to work at 50 percent capacity. While the pandemic has added to our challenges, it has not reduced our resolve and the government remains committed to the reform effort. We are counting on continued support from our international development partners, not only financial support but also for technical assistance and debt relief in support of attaining debt sustainability and self-reliance.

A. Recent Macroeconomic Developments

6. Sudan's economy has contracted for the last three consecutive years, but the economy held up somewhat better in 2020 than initially anticipated. Reflecting weak competitiveness, poor business environment, and social turmoil, GDP is estimated to have contracted by 2½ percent in 2019, on top of a 2¼ percent contraction in 2018. In 2020 the containment measures to protect human life in the wake of the pandemic reduced economic activity but rain-fed agricultural production and exports held up and the service sector rebounded quickly following the lock down. GDP is estimated to have contracted by -3.6 percent compared with a projected –8.4 percent at the time of the SMP negotiation.

7. Macroeconomic imbalances are large, and sustained shortages of goods coupled with policy measures to remove distortions have added to inflation. The gradual removal of fuel subsidies, food and fuel shortages, and excessive money creation due to monetization and purchases of foreign exchange to pay the victims of terrorism contributed to rising inflation and depreciation, with inflation and the parallel rate reaching 269 percent and SDG273/$ at end-2020, respectively. A late-2020 surge in imports kept the recorded current account deficit (cash basis) in double digits (13.2 percent of GDP in 2020), although this likely overstates the deficit as the steep gap between the parallel and official exchange rates pushed transactions outside of the financial sector, including remittances. Gross usable international reserves remained at a very low level of $223 million at end-2020 (the equivalent of 0.3 months of imports). Despite our fiscal adjustment efforts, the end-December target for the non-oil primary balance was missed (IT#2) as a result of payments to the victims of the USS Cole bombing, which were not contemplated at the time of the SMP negotiation;

without this payment, the target would have been met. The banking sector remains fragile, with several banks undercapitalized and/or vulnerable to exchange rate depreciation; in August the CBOS agreed with banks identified through stress tests on action plans to reduce vulnerabilities.

B. The Economic Program for July 2020–June 2021

8. We remain committed to stabilize the economy and create conditions for robust and inclusive growth. We have reformed the exchange rate (prior action, previously SB #8), will further reduce fiscal imbalances, work to strengthen the monetary policy framework and bolster the resilience of the banking system. At the same time, we will ensure that fuel prices are adjusted in a timely manner to prevent the reemergence of retail fuel subsidies, strengthen revenue collection including through the forthcoming unification of the customs exchange rate, implement the SFSP and strengthen social spending to mitigate the impact of adjustment on the population, and substantially expand health expenditure to address the COVID-19 health related challenges. We will implement structural reforms to improve public financial management and governance, fight corruption, and strengthen the business environment to support higher and more inclusive growth. We will continue our extensive consultation and communication campaign to strengthen public buy-in of the reforms.

9. Policy adjustment and reforms, and external financing and debt relief, are critical to reducing macroeconomic imbalances and supporting robust and inclusive growth in the medium term. We target to reduce the fiscal deficit by a cumulative 7.5 percent of GDP over 2020-21, with a further reduction in 2022 following the planned exit from the SFSP to a targeted social safety net. Exchange rate and structural reforms would strengthen competitiveness, significantly narrow the external current account deficit and increase GDP growth to 4½ percent over the medium term. Inflation is currently high, but we would expect it to fall as the impact of fuel subsidy and exchange rate reforms are fully passed through.

10. While the availability of greater external financing would reduce program-implementation risks, we are determined to press on with the reforms even with limited financing. We estimate an overall external financing need of $7¼ billion over 2021–22 to eliminate fiscal deficit monetization, finance the SFSP, and support the accumulation of international reserves. However, new donor pledges thus far have been well short of the financing needs (about $3.1 billion for fiscal financing, with no pledges for augmenting international reserves). To partially fill the remaining financing gap, we will aggressively pursue the recovery of domestic assets illegally amassed by the previous regime. As market conditions permit and in line with maintaining debt sustainability, we will also progressively expand the sales of government securities to banks and nonbanks within the limits of the program (QB #1), thus minimizing deficit monetization by the CBOS (QB #2). The implementation of a dual banking system in late-2021 will help in this regard.

Exchange Rate, Monetary, and Financial Sector Policies

11. We have taken significant steps to reform the exchange rate system to bolster competitiveness and transparency. On February 21, 2021 we unified all exchange rates (excluding the customs valuation exchange rate) at the prevailing market rate of SDG375/USD and issued regulations to commercial banks and FX bureaus to set exchange rates in line with market conditions (prior action). These regulations stipulate that the central bank will set the daily official exchange rate as the weighted average market exchange rate of the previous day. However, to help manage potentially high volatility in the initial period of the reform we have established a ±5 percent band on the exchange rates set by commercial banks and FX bureaus. Over time the band may be adjusted to reflect market conditions. We will consult regularly with IMF staff about the width of the band and stand ready to adjust it as needed to ensure that it does not cause market segmentation by excessively restraining commercial banks and FX bureaus from adapting to market conditions. After end-March 2021, we will take stock, jointly with IMF staff, of the economic context and experience under the reformed policy with a view toward reassessing the necessity of the band. We also remain committed to unifying the customs exchange rate, which is used to value imports for taxation purposes (SB #9), by end-June. To limit the price impact of this measure, we plan to reduce the average import tariff rate from 20 percent to 10 percent. We will refrain from imposing any administrative restrictions on current account transactions as a means of constraining exchange rate movements.

12. We have taken financial sector and monetary measures to underpin exchange rate reform. To this end, (i) we completed bank by bank stress tests (March and June 2020) to exchange rate shocks and developed remedial measures to strengthen resilience to exchange rate movements in identified problem banks, including through recapitalization and temporary regulatory forbearance, prior to the exchange rate reform (SB #8, *prior action first review*); and (ii) we have anchored our monetary policy framework to adhere to the reserve money targets under the SMP to help contain inflation. On the latter, we regret that the end-December IT on reserve money (IT #3) was missed in part due to the purchase of foreign exchange to fund the payment to the victims of terrorism attacks, the magnitude of which was larger than our very limited mitigating monetary instruments. Given that these transactions have been completed and our commitment to reduce the fiscal deficit this year, monetization will be significantly reduced (QB #2) going forward.

13. We remain committed to a reserve-money targeting framework with effective monetary instruments. An active treasury committee was established in 2018 to enhance coordination between the central bank and the Ministry of Finance and Economic Planning (MFEP) to improve liquidity management and forecasting to strengthen monetary control; its work was temporarily suspended due to COVID, but activities resumed in January 2021. 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 SMP (IT #3). For instance, we have announced to increase the required reserve ratios from 20 percent to 22 percent. We will mop-up liquidity in the financial system by selling CBOS's shares in the state-owned banks, commercial banks, micro-finance agencies and other companies by December 2021 and have suspended the extension of CBOS's investment deposits in commercial banks falling due. To strengthen our monetary toolkit over the medium term, while also helping to eliminate deficit monetization, we will progressively build a strong and liquid government securities market, with active participation of banks, nonbanks, and the general public, supported by IMF TA. Alongside, we will take concrete steps over the remainder of the program to begin to convert the substantial claims of the central bank on the government (SDG 624 billion, 12 percent of GDP) into Musharaka and other Sharia compliant securities, thus considerably increasing the available stock of securities at the disposal of the central bank for managing liquidity. To make government securities more attractive to the private sector, we will seek to increase the real rate of return through market mechanisms. Moreover, groundwork is being laid to move to a dual banking system comprised of both Islamic and conventional banking; this work is expected to be completed by end 2021 and will facilitate the sale of government securities.

14. We continue to work to strengthen central bank independence. The Central Bank Law has been revised following receipt of comments from the IMF and other stakeholders, and is currently with the CBOS Board of Directors for approval (SB #6). The law strengthens the central bank's mandate on price and financial stability, limits monetary financing of the government, and strengthens central bank governance. Once approved it will be sent to the Ministry of Justice and will be implemented before June 2021 (SB #7).

15. We will continue to upgrade the central bank's capacity to supervise and mitigate financial stability risks. We will modernize banking regulations in line with Islamic Financial Stability Board standards, strengthen coordination between banking regulation and supervision departments, and boost supervisory vigilance to ensure that banks comply with prudential regulations—notably limits on net open foreign currency position and on lending in foreign currency. Also, we will establish by end-March 2021 regular communication procedures between banking supervision and regulation departments and conduct semi-annual stress tests to identify and address vulnerabilities of individual banks (SB #10). Over time, we will strengthen the supervision regime for the banking sector by moving toward a risk-based supervisory regime. These steps would be supported by TA from various IFIs, including from METAC.

16. We will strengthen our bank recovery and resolution framework, based on international good practice. We will adopt legal amendments to introduce processes for the recovery and resolution of weak banks in line with good practices and in view of past TA advice adjusting these standards to Sudan, to be able to deal with banks high nonperforming loans, and particularly those classified as systemic by September 2021. This will include guidance on loan restructuring and risk management policies. By June 2021, CBOS will complete the asset quality reviews of systemically important banks based on international standards currently underway to obtain a true picture of the health of the banking sector as a basis for future policymaking.

17. CBOS will work to strengthen corporate governance in the banking sector. Measures will be in line with the Basel Committee on Banking Supervision Corporate Governance Principles, and address conflicts of interest and related party transactions and ensure that banks comply with the corporate governance regulations. Notably, CBOS will exit its positions in state-owned banks, commercial banks, microfinance institutions, and other companies by December 2021.

18. Addressing AML/CFT deficiencies remains a priority. We will complete a national ML/TF risk assessment, increase the capacity of the Financial Intelligence Unit (FIU), fully implement risk-based AML/CFT supervision, and improve the process of freezing terrorist assets. We will also begin to conduct by end-March 2021 thematic AML/CFT on-site inspections of the 10 highest-risk banks as determined by the CBOS off-site tool, and provide aggregate data to the Fund on any related violations found and sanctions levied by the CBOS, in line with the existing legal framework. In pursuit of these objectives, a new regulation requires all banks to implement electronic monitoring of suspicious transactions by end-June and risk ratings are being updated (delayed due to COVID-19). We will strive to conduct the 10 on-site thematic inspections by end-March (SB #11) but completing all may require slightly more time as government and banks are currently working at 50 percent staffing due to the COVID-19 pandemic.

Fiscal Policy

19. Sustaining our efforts on fiscal consolidation is vital to stabilizing the economy. Therefore, our fiscal consolidation plan over 2021 focuses on (i) preventing the recurrence of fuel subsidies on retail gasoline and diesel via timely fuel price adjustment to create space for the SFSP, larger health expenditure to address the COVID-19 related spending, higher education expenditure, and transfers to states for both current and development expenditure to advance the peace process; and (ii) fiscal revenue mobilization through customs exchange rate reform and measures to expand the tax base. The 2021 budget contains measures that we assess will reduce the deficit by 2.8 percent of GDP to achieve a target of 3.1 percent of GDP, and meet the targets under our program including significantly reducing the need for monetization (IT #3). [1]

20. Reducing fossil fuel subsidies, which accounted for 79 percent of total subsidies in 2020, is at the center of our fiscal consolidation efforts. We completed the removal of all retail diesel and gasoline subsidies on imported fuel as of September 23, 2020 and on domestically produced retail gasoline and diesel when one of the refineries was closed for maintenance in late-December. Residential electricity rates on large consumers were also increased by around 500 percent on January 1, 2021 as part of a four-year program to stabilize electricity subsidies.

21. Social spending will rise considerably to mitigate adjustment pain and respond to COVID-19. We estimate the cost of the SFSP and additional health expenditure, including measures to treat and mitigate the spread of COVID-19, at about 3½ percent of GDP in 2021 (IT #1). In line with our fiscal federalism rules, transfers to the states are expected to increase by 0.9 percent of GDP in 2021 and will help fund much needed development expenditure envisioned under the peace agreement.

22. Domestic revenue mobilization and donor financing are important for restoring fiscal sustainability. We will continue to expand the tax base by streamlining tax exemptions and rationalizing corporate taxation while improving tax administration. Driven by the unification of the

[1] The approved 2021 budget was constructed using the then-applicable official rate of SDG55/$; the fiscal numbers reported in this MEFP represent our assessment of the 2021 budget using the market exchange rate.

exchange rate, we expect tax revenue to be 4.5 percent of GDP in 2021, a notable increase over the 2020 tax revenue yield of 3 percent of GDP. Based on donor pledges at the Sudan Partnership Conference on June 25, 2020, and prior assistance for our COVID-19 response, we anticipate donor support of $1.5 billion in 2021, including the 2.9 percent of GDP in grants for the SFSP in 2021. In addition, project grants are expected to increase by one percent of GDP in 2021, after the impact of COVID-19 on project implementation disappears. The revenue measures in the 2021 budget include:

- the introduction of a progressive personal income tax;
- the advancement of the base year for calculating capital gains and profit taxes to 2020, thereby increasing 2021 revenues;
- a higher rate of VAT on telecommunications;
- liberalization of the exchange rate on oil revenue and grants leading to improved revenue via valuation effects;
- the removal of income tax exemptions for all the companies that currently benefit from these exemptions; and
- improvements in tax administration to widen the tax base and curb tax evasion.

23. The budget financing need is estimated at SDG 476 billion (3.1 percent of GDP) in 2021. In 2021, expected net external financing is projected at about SDG 7.5 billion ($18 million or 0.2 percent of GDP), with the remaining balance SDG 469 billion (3 percent of GDP) covered by domestic bank financing. In case external financing exceeds the programmed amounts, government borrowing from the banking system will be reduced by the excess.

24. We will continue efforts to strengthen public financial management (PFM). Key areas include budget planning, fiscal reporting, fiscal risk management, and the treasury single account (TSA). We will continue technical work to incorporate a medium-term fiscal framework into budget planning by 2022 and strengthen the macro-fiscal unit to enhance policy formulation. We have made good progress in establishing the TSA and will work to ensure its use by all entities, and will continue to improve cash forecasting and management of payments, and gradually extend its use to extrabudgetary funds. We have also consolidated all bank accounts of ministries held at the CBOS into a single treasury account. To enhance transparency of budget execution, in late-2020 the government started to publish on its website monthly budget execution reports consistent with the GFSM2001 (*SB #1*) and will continue to improve this data over time. We will also strengthen public procurement system with technical assistance from the World Bank. We will develop a PFM Roadmap as a follow-up to PEFA, identifying key milestones in the key areas of budget planning, budget execution and fiscal transparency.

Other Structural Reforms

25. 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 MSME development, focusing on access to finance, business entry and taxation, innovation and entrepreneurship. The IFC will also prepare a private sector diagnostic to provide the analytical underpinning for prioritizing economy-wide and sector-specific interventions. In addition, a new Ministry of Investment was established by the government and will be supported by the IFC.

26. Combating corruption and improving governance are key priorities of the transitional government. This has been enshrined in the Constitutional Declaration governing the transitional period. Ongoing and planned reforms include:

- The Anti-Corruption National Commission Law has been drafted with broad consultation (including the IMF) and despite a few months delay is with the Sovereign Council for approval (SB #4). The law establishes an independent Anti-Corruption Commission (as tasked by the Constitutional Declaration) with strong mandate to prevent, detect, and investigate (SB #5). The law also aims to strengthen the role of civil society and journalism in combating corruption;

- Full implementation of 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. Oversight of these assets will be transferred to the MFEP, and their disposal and use of related resources will adhere to fully transparent procedures;

- Enhancing oversight over state-owned enterprises (SOEs) by preparing and publishing an inventory of all SOEs including those supervised by MFEP, line ministries and security sector. The inventory has been completed, and the revised list will be published once ownership of certain military SOEs is clarified (SB #3). Over the medium run we will assess the strategic objectives of SOEs and the role of government, with the aim to determine those that should remain public and those to be privatized; consultants have been identified to assist us with preparing an SOE strategy.

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

C. External Debt and Relief Prospects

27. Sudan is in debt distress. Based on the preliminary information gathered during our debt reconciliation exercise, our end-2019 external public and publicly-guaranteed debt stock is estimated to amounted to about $59 billion, or 201 percent of GDP.[2] About 85 percent of the external debt was in arrears in 2019. The bulk is owed to bilateral creditors and roughly equally divided between Paris Club and non-Paris Club creditors. Resolving the unsustainable debt burden is critical to our development efforts, especially those associated with our poverty reduction and SDG targets. Currently, we continue to accumulate arrears.

28. Our debt strategy is to assure the flow of financing for critical development projects. We intend to limit payments only to those creditors who provide net positive flows to Sudan. We strive to secure this financing at the most concessional terms possible, while recognizing that any new borrowing will eventually need to be treated as part of any comprehensive debt relief workout. We commit to limit new non-concessional borrowing in line with program targets (QB #4) and use the proceeds to finance critical public services in physical infrastructure and social programs. We will regularly report information on debt service payments to creditors—including the amounts of inflows and outflows, the credit outstanding and how much of it is in arrears, and the amount of the debt falling due each year—starting with data from January 2020, to IMF staff.

29. We will continue to intensify outreach to international partners to secure debt relief. This will entail: (i) reaching out to creditors with a view to seek a fast-track debt relief process; (ii) minimizing non-concessional borrowing; and (iii) strengthening cooperation with the IMF. We understand that building a track record of performance is only one of four conditions that must be met to reach the HIPC Decisions Point. In this regard, the government will work with the IMF and World Bank to complete the joint debt reconciliation exercise; will consult with the multilateral institutions, including the IMF, World Bank, and African Development Bank on modalities for eliminating arrears with those institutions and reach out to creditors for the needed financing assurances for eventual comprehensive debt relief through the HIPC process; and adopt a full poverty reduction strategy (PRS), which is about to be finalized.

30. We are hopeful that the international community will recognize our track record and provide debt relief comparable to that provided to other countries. Prior to the secession, we agreed with South Sudan on a "zero option" clause, under which we would shoulder the entire external debt, provided that the international community provides firm commitments to the delivery of debt relief within two years. We have agreed to extend this agreement on several occasions since 2014. Absent timely progress in debt relief, Sudan's external debt will need to be apportioned with South Sudan based on a formula to be determined, which could undermine recent progress in peace building in the region.

[2] The size of external debt will be revised upon conclusion of the debt reconciliation excise.

D. Program Modalities and Monitoring

31. Performance under the program will be monitored through quarterly reviews. The first review under the SMP has one prior action (completed February 21, 2021), four quantitative benchmarks, and three indicative targets; six of eleven structural benchmarks were to be completed on or before the December 31 test date. New quantitative targets have also been set for the second (end-March) and third (end-June) reviews under the SMP. The quantitative benchmarks and indicative targets are described in Table 1, and the prior actions and structural benchmarks in Table 2. The Technical Memorandum of Understanding (TMU) contains definitions of the quantitative benchmarks, indicative targets and structural benchmarks. It also specifies data required to monitor the program that the government will need to provide to Fund staff on a timely basis.

32. In September 2020 we set up an institutional framework to monitor program execution and improve data collection. The institutional framework comprised key decision makers on economic and financial matters, notably the Finance Minister, the Petroleum and Mining Minister and the Governor of CBOS. They are assisted by the SMP Monitoring Committee comprised of senior officials from the Finance and Mining and Petroleum Ministries, the Central Bank of Sudan, the Statistics Office, and other institutions that are key to ensuring adequate execution of the program. We will strive to ensure the SMP Monitoring Committee meets in a frequent and timely manner to ensure adequate program monitoring.

33. We reaffirm our commitment to cooperate with the IMF on both policies and payments. The exceptional circumstances of the COVID-19 pandemic have had a detrimental impact on our capacity to pay. We welcome staff's assessment which supports a reduced annual payment to the Fund starting in 2021, and the IMF Board decision to reduce payments to $2.5 million annually. We are committed to make regular monthly payments at least sufficient to cover our obligations falling due, and to increase them as our capacity to repay improves; monthly payments have been made to the IMF in January and February 2021 in the amount of $210,000 amounting to approximately one-twelfth of the expected annual payment. There is also a need to mobilize resources for the IMF's share of debt relief given that the original financing of the HIPC Initiative did not include the cost of debt relief to Sudan.

Table 1. Sudan: Quantitative Targets, 2020–2021 1/

	Dec-19	Dec-20			Mar-21	Jun-21
	Benchmark	Target	Adjusted Target 4/	Actual	Target	Target
Quantitative Benchmarks						
Banking system net credit to the central government (ceiling: in SDG billion) 2/	386	672	709	655	758	871
CBOS net domestic assets (ceiling: in SDG billion) 2/	817	1,083	1,120	1,277	1,380	1,473
Net international reserves (floor: in millions of U.S. dollars) 2/	(728)	(594)	(594)	(803)	(6,552)	(6,539)
Contracting or guaranteeing of external long term non-concessional debt by the government or the central bank(ceiling: in millions of U.S. dollars) 3/	230	300	300	18	75	150
Indicative Targets						
Social spending (floor: in SDG billion)	15	99	99	39	53	112
Nonoil primary deficit (ceiling: in SDG billion) 2/	242	367	355	370	312	510
Reserve money (ceiling: in SDG million) 2/	516	766	766	1,000	1,094	1,204
Memorandum items:						
External non-project grants for Family Support Program (in millions of U.S. doll	0	328		0	92	274
Other external non-project grants (in millions of U.S. dollars) 3/	0	212		161	25	50
Transfer payment to the US for victims of terrorism (in millions of US dollars)3/	0	0		71	356	356
Government asset sales (in SGD billion) 3/	0	35		0	0	0
External non-project loans (in millions of U.S. dollars) 3/	91	127		18	0	0

1/ The variables are defined according to the TMU.

2/ Evaluated using program exchange rate of 45 SDG per U.S. dollar. For March and June targets the definition of net international reserves is updated to include all external liabilities denominated in foreign currency. See TMU paragraph 7 for the updated definition.

3/ Continuous benchmark; flow from the beginning of the year.

4/ Targets are adjusted according to the relevant adjustors as defined in TMU, paragraph 6, 8 and 9.

Table 2. Sudan: Prior Actions and Structural Benchmarks Under the SMP		
Benchmarks	**Target Date**	**Macroeconomic Rationale**
Prior Actions		
1. Complete the stress testing of individual bank resilience to exchange rate movements and prepare appropriate measures to mitigate risks in each problem bank ahead of exchange rate reform, in consultation with the IMF.	Completed PA for SMP request	Prepare for the exchange rate reform
2. Legislative council to pass a revised 2020 budget consistent with program objectives, including incorporating a substantial expansion of the social safety net under the Sudan Family Support Program, increased health expenditure to address COVID-19 needs, and revenue mobilization through customs exchange rate reform and expansion of the tax base.	Completed PA for SMP request	Fiscal consolidation
3. Announce the unification of the official exchange rate (excluding the customs valuation exchange rate) with the market rate at the prevailing market rate and issue regulations to banks and forex bureaus indicating that trading can take place in a +/-5 percent band around the indicative rate announced by the central bank prior to the opening of trading which is calculated as the weighted average of the previous day's trading excluding CBOS sales/purchases from government.	Completed February 21, 2021	Remove distortions and raise revenue
Structural Measures		
Public financial management		
1. The MOFEP to publish on its website monthly budget execution reports that show actual revenue and expenditure for budgetary central government in comparison with original and revised budget, consistent with the GFSM2001.	Dec. 2020 Met	Improve budget classification and fiscal reporting
Expenditure policy		
2. Adopt automatic fuel pricing mechanism to ensure that retail diesel and gasoline prices reflect all costs, thus eliminating subsidization.	Sept. 2020 Not Met	Support fiscal consolidation
Governance		
3. Prepare and publish an inventory of all state-owned enterprises including those supervised by ministry of finance, line ministries and security sector.	Dec. 2020 Not met	Improve fiscal transparency
4. Pass a new anti-corruption law, in line with international best practices as agreed in consultation with the IMF, that clearly defines what actions constitute corrupt practices and creates an independent anti-corruption commission.	Oct. 2020 Not Met	Fight corruption and improve governance
5. Establish an independent anti-corruption commission, consistent with the provisions of the new anti-corruption law.	March. 2021	Fight corruption and improve governance
Monetary and Financial Sector		
6. Finalize an amended Central Bank Law in consultation with IMF staff 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.	Dec. 2020 Not Met	Enhance central bank independence and improve governance
7. Enact a new Central Bank Law in consultation with IMF staff that, inter alia, (i) establishes a proper central bank mandate focusing on price stability; (ii) strengthens 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) improves its decision-making structure, by ensuring collegial decision-making, providing	Jun. 2021	Enhance central bank independence and improve governance

Table 2. Sudan: Prior Actions and Structural Benchmarks Under the SMP (concluded)		
Benchmarks	**Target Date**	**Macroeconomic Rationale**
for effective oversight over executive; and (iv) enhances transparency and accountability provisions.		
8. Unify all but the customs exchange rate and allow commercial banks and FX bureaus to set exchange rates in line with market conditions, but subject to an adjustable band around the daily official exchange rate. Central Bank sets daily official exchange rate based on market average exchange rate.	Not met Prior Action for Second Review (above).	Strengthen competitiveness and reduce distortions
9. Gradually adjust customs exchange rate towards market exchange rate and fully unify by June 2021.	Jun. 2021	Eliminate distortion in the exchange rate market
10. Establish regular procedures for communication between banking supervision and regulation departments; and conduct semi-annual stress tests to identify and address vulnerabilities of individual banks to exchange rate movements.	Mar. 2021	Strengthen financial sector soundness
11. (i) Conduct thematic AML/CFT on-site inspections of the ten highest-risk banks as determined by the CBOS off-site tool, focusing on politically exposed persons (PEPs), suspicious transaction reporting, and higher-risk customers and transactions in the real estate sector; and (ii) provide aggregate data to the Fund on any related violations found and sanctions levied by the CBOS, in line with the existing legal framework.	Mar. 2021	Reduce vulnerabilities to corruption and related money laundering

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 2020–21 Staff-Monitored Program (SMP). It specifies the quantitative benchmarks, indicative targets, and structural benchmarks that will be the basis for monitoring the implementation of the SMP. In addition, the TMU establishes the terms and timeframe for transmitting the data that will enable Fund staff to assess program implementation and performance.

2. The SMP will be monitored based on four quarterly quantitative benchmarks and three indicative targets for end-December 2020, end-March and end-June 2021.

3. The quantitative benchmarks are:

(i) ceiling on net credit to the central government by the banking system;

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

(iii) floor on the stock of net international reserves of the CBOS; and

(iv) ceiling on new non-concessional external loans contracted or guaranteed by the government or the central bank.

4. The indicative targets are:

(i) floor on social spending;

(ii) ceiling on reserve money; and

(iii) ceiling on non-oil primary deficit.

Some of these targets are subject to adjustors. The definitions of these variables and the adjustors are set out below. All the quantitative targets, indicate targets, and structural benchmarks are displayed in Tables 1 and 2 of the MEFP.

5. To evaluate program targets, the local currency equivalent values of foreign exchange denominated items in the balance sheet of the CBOS will be calculated at the program exchange rates of SDG 45.0 per U.S. dollar and SDG 62.2 per SDR, and the program monetary gold price of $70.73 per gram.

Definitions

6. 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 advance, 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), loan resulted from 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); and

- The central government comprises all accounts of line ministries and agencies controlled by the government (corresponding to Group no. 11, Group no. 12, and some accounts of the Group no. 19 in the CBOS general ledger), and margin deposits placed with the CBOS by the central government against letters of credit issued by the CBOS.

  Adjustors:

  - The ceiling on net domestic assets of the CBOS set in Table 1 will be adjusted downward *pro tanto* by the amount of any excess of non-project external grants and loans relative to program projections. The ceiling will be adjusted upward pro tanto by the amount of any shortfall in non-project external grants and loans (excluding those for the Sudan Family Support Program (SFSP)) relative to program projections.

  - The ceiling on net domestic assets of the CBOS will be adjusted downward pro tanto by the amount of any excess of receipts from government asset sales. The ceiling will be adjusted upward pro tanto by the amount of any shortfall in receipts from government asset sales.

  - The ceiling on net domestic assets of the CBOS will be adjusted downward pro tanto by the amount of receipts from the Government for SSTL repayment to the central bank.

7. Net international reserves (NIR) of the CBOS are the stock of gross official usable international reserves *minus* external liabilities denominated in foreign currencies. The gross official usable international reserves assets comprise foreign exchange banknotes in the vaults of the central bank, monetary gold, and SDR holdings. External liabilities comprise external liabilities in foreign currency as reported in the balance sheet of the CBOS, including the following: short-term foreign liabilities, other deposits from non-residents in foreign currencies, long-term loans from non-residents in foreign currency, and accounts payable from nonresidents in foreign currency.

Adjustors:

- The floor on the NIR of the CBOS will be adjusted upward by the amount equal to receipts from the Government for SSTL repayment to the CBOS in foreign currency or monetary gold that would increase gross official usable reserves assets.

8. Net credit to the central government by the banking system is defined as the stock of net credit to the central government by the CBOS plus net credit to the central government by commercial banks. The definition of central government for the purpose of this benchmark is the same as the one applied for the NDA of the central bank.

Adjustors:

- The ceiling on the net credit to government by the banking system set in Table 1 will be adjusted downward *pro tanto* by the amount of any excess of non-project external grants and loans (excluding that for the SFSP) relative to program projections. The ceiling will be adjusted upward pro tanto by the amount of any shortfall in non-project external grants and loans relative to program projections.

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

- The ceiling on net credit to government by the banking system will be adjusted downward pro tanto by the amount of receipts from the Government for SSTL repayment.

9. Non-oil primary balance of the central government (NOPB) is defined as non-oil revenues[1] minus expenditures excluding interest payments cumulatively since the beginning of the calendar year.

[1] Oil revenues are receipts from sales of the government's share of domestic oil production *plus* receipts from the transitional financial arrangement paid by South Sudan *plus* oil-transit fees paid by South Sudan to export its oil through Sudan's oil pipeline *plus* receipts from granting exploration rights, and signature bonuses.

Adjustors:

- The ceiling on the NOPB deficit set in Table 1 will be adjusted downward (upward) *pro tanto* by the amount of any excess (shortfall) of project external loans relative to program projections.

- The ceiling on the NOPB deficit set in Table 1 will be adjusted upward (downward) pro tanto by the amount of any excess (shortfall) of non-project grants (excluding those earmarked for the SFSP) relative to program projections.

- The ceiling on the NOPB deficit will be adjusted downward pro tanto by the amount of any shortfall in external non-project grants earmarked for the SFSP.

- The ceiling on the NOPB deficit will be adjusted downwards(upwards) pro tanto by any excess (shortfall) amount of SSTL payment.

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

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take 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 in point (a) above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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

12. 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.

13. 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 .

14. Priority social spending of the central government is defined as the central government's spending on social benefits program that includes cash transfer, spending on health insurance, on primary health care, students support, unemployment benefits and other social programs to cope with COVID-19 in 2020.

The List of Social Benefits
National fund for sponsorship for students
Support social activities
Support for medical treatment abroad
Support medical treatment domestic
Support for life saving medicine
Support for hospital surgery
Support for treatment of accident
Food for prisoners
Medical treatment of prisoners
Health insurance for poor families
Special support for cardio hospital
Salaries of island Al Jazeera
Salary of social insurance
Removing wage gaps
Family Support Program

Program Monitoring

15. The Sudanese authorities shall maintain a program-monitoring committee composed of senior officials from the Ministry of Finance, the Ministry of Minerals, Oil and Gas, the CBOS, 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

16. 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	Official Exchange Rate (bid/ask)	Daily	2 days after the end of each week
		Average of exchange rates used to calculate the bid and ask rates of official exchange rate	Daily	2 days after the end of each week
		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, the CBOS, and state-owned companies	Quarterly	1 month after the end of each quarter

Reporting Agency	Type of Data	Description of Data	Frequency	Timing (within period specified)
		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, expenditures, and financing as in GFSM 2001 format	Monthly	45 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 ban king system, sanadat, letters of guarantee, standing orders, accounts payable (including arrears) and amortization schedule	Monthly	30 days after the end of each month
	Social spending	Spending on direct cash transfer, education, health and training	Monthly	45 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

Templates for Data Reporting Under the SMP

Claims on Central Government (comprehencive concept)

In SDG Thousand

Currency	Item	01/01/20	02/01/20	03/01/20	04/01/20
	Temporary Advances				
	Government Musharka Certificates (GMCs)				
	Government Investment Certificates (GICs)				
	Loan Resulted From Separation				
	Devaluation in Gold Dealings				
	Long-term Claims				
	Accumulated interest arrears				
	Sundry Debtors				
	Payment to meet Gov. obligation				
	Advances covered in foreign currency				
	Sudan Cotton Comp. Facility				
	Other assets long-term				
	Accrued Revenue SHAHAMA certificates				
	Ministry of Finance (Due to commercial.Banks)-Suguar				
	Difference in wheat price				
	MOF debts- ONB shares				
	Sudanese Petroleum Corp-overdues				
	Settlement of petroleum shippment value				
	Claims on Central Government	0.0			
	Claims on MOF (under unclassified assets)	0.0			
	Total claims on central government	0.0			

Central Bank of Sudan Foreign Exchange Monthly Cash Flow

(US$ M)

	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
RESOURCES												
Balance in the beginning period (cash and balance in the deposit account)												
Oil Proceeds												
Invisibles*1												
Dealing Room Purchases(=1+2+3)												
1. Purchase from military												
2. Purchase from commercial banks												
3.Purchase from others												
Gold Proceeds												
Loans or deposits from foreign residents												
Cotton Revenues												
Return on investment												
Facilities with Correspondents												
Others												
Total cash in-flows												
	JAN	**FEB**	**MAR**	**APR**	**MAY**	**JUN**	**JUL**	**AUG**	**SEP**	**OCT**	**NOV**	**DEC**
USES												
Sales to Government for petroleum												
Sales to Government for eletricity												
Sales to public entities												
Sales to commericial banks												
CBOS Operations												
Repayment of short-term liabilities												
Others												
Total cash outflows												-
Balance in the end_period (balance in the beginng_period+cash inflows-cash outflows)												-

Sudan: Financial Soundness Indicators for the Banking Sector

Capital Adequacy	2020M1	2020M2	2020M3	2020M4	2020M5	2020M6	2020M7	2020M8	2020M9	2020M10	2020M11	2020M12
Regulatory capital to risk-weighted assets												
Regulatory Tier I capital to risk-weighted assets												
Asset composition and quality												
Gross NPLs to gross loans												
NPLs net of provisions to core capital												
NPLs net of provisions to gross loans												
loans' provision to NPLs												
Gross NPLs to assets												
Finance to total assets												
Off- balance sheet to capital												
Foreign currency loans to total loans												
Deposits and investment accounts to total assets												
Foreign currency deposits to total deposits												
Off- balance sheet commitments to assets												
Foreign finance to foreign deposits												
Earnings and Profitability												
ROA (before tax)												
ROE(before tax)												
Liquidity												
BOS deposits to total assets												
Required reserves to total assets												
Required reserves to total reserves												
Cash in vault to total assets												
Liquid assets to total assets												
Liquid assets to total short-term liabilities												

Statement by Ms. Mannathoko, Executive Director for Sudan
and Mr. Ismail, Senior Advisor to Executive Director
March 24, 2021

I. Introduction

1. Our Sudanese authorities wish to thank staff for the constructive engagement during the virtual mission on the First Review under the Staff Monitored Program (SMP). They broadly agree with staff's appraisal and key policy recommendations.

2. The new Cabinet that assumed office in February 8, 2021, in line with the Juba Peace Agreement signed in October 2020, has reaffirmed its commitment to the SMP, which is aligned with the homegrown economic reform agenda. The Sudanese authorities have continued to implement difficult reforms under very challenging circumstances amplified by the COVID-19 pandemic and historic floods in 2020. In addition, the large inflow of refugees into Sudan from neighboring countries with conflicts, has exerted further pressure on the already constrained fiscus. Despite these challenges, the authorities are determined to build on reforms undertaken thus far, in addressing the legacy of economic distortions, restoring macroeconomic stability, and laying the foundations for strong inclusive growth, in the pursuit of a prosperous and democratic society.

II. Program Review Request and Program Performance

3. Our authorities request Directors' support to complete the first review under the SMP, given the overall satisfactory performance notwithstanding the exceptionally difficult context, and corrective measures put in place to address shortfalls. They ask the IMF Executive Board to endorse staff's assessment that the revised policies and conditionality under the SMP continue to meet Upper Credit Tranche (UCT) standards. The authorities propose adjusting the program structure to enable quarterly reviews that will support establishing a six-month track record at the earliest possible date. This is critical to unlocking urgently needed IDA19 resources from the World Bank including financing for the Sudan Family Support Program (SFSP) and development expenditures needed to advance stability and peace and in line with the three-year Poverty Reduction Strategy that is being finalized.

4. The authorities are reaching out to creditors and international development partners and hope that successful implementation of reforms under the SMP and the recent removal of Sudan from the US State Sponsors of Terrorism list (SSTL) will catalyze donor support and reinforce the country's efforts to reach the HIPC Decision Point. They appeal to the international community and donors to support their reform efforts and work with Sudan towards arrears clearance and debt relief under the HIPC initiative.

5. The authorities have made good progress in meeting program objectives and targets, despite the very challenging circumstances occasioned by the pandemic. They met 2 end-December

quantitative targets (QTs) out of 4. The slippage on the QTs for central bank net domestic assets (NDA) and net international reserves (NIR) resulted from the need to sell gold reserves to fund the settlement payment to the victims of terrorism attacks, absent adequate instruments or options to do otherwise. The indicative target (IT) on social spending was missed due to the delayed start of the SFSP owing to delayed disbursement of donor financing, following the decision by donors to disburse only after exchange rate unification.

6. In addition to implementing the very difficult prior action on exchange rate unification, the authorities met one structural benchmark (SB) on time and implemented a second socially challenging one with a delay; namely the removal of fuel subsidies. The remaining SBs are in-train with significant progress made. Specifically, (i) the new Central Bank Act and the Anti-Corruption National Commission Law were submitted to the relevant authorities for approval after incorporating comments from Fund staff; and (ii) a partial list of 58 state-owned enterprises (SOEs) was published, while the full SOEs list has been provided to staff and will be updated and published on the website of the Ministry of Finance and Economic Planning (MOFEP) once the ownership of specific SOEs in the security sector is clarified.

III. Economic Developments and Outlook

7. Output is estimated to have declined further with -3.6 percent GDP growth in 2020 compared to -2.5 percent in 2019, due to pandemic related containment measures, and economic and social legacy challenges. This notwithstanding, the faster-than-expected rebound in the service sector and better than expected exports in 2020, helped to prevent an even deeper recession. Looking ahead, economic growth is expected to turn positive in 2021, supported by domestic policy actions and positive global developments.

8. In the monetary sector, substantial exchange rate depreciation alongside monetization of the fiscal deficit and a surge in administered prices for fuel following fuel price reforms, led to inflation rising from 57 percent in December 2019 to 269 percent in December 2020. Inflation is expected to return to double digits in 2022, benefitting from the authorities' efforts to restore macroeconomic stability.

9. The external sector deteriorated further in 2020, with the current account deficit widening from -11.4 percent of GDP in 2019 to -13.2 percent of GDP in 2020, reflecting imported inflation and increased informal remittances in the monetary system, in the context of the wide parallel market premium in 2020. Going forward, the current account deficit is expected to narrow on the back of exchange rate unification and improved export performance.

IV. Macroeconomic Policies

Fiscal Policy and Debt Management

10. The authorities are committed to sustaining fiscal consolidation efforts that were initiated in 2020 to restore macroeconomic stability, eliminate economic distortions, and create fiscal space to

finance priority social and development spending. To this effect, the 2021 budget targets a reduction in the fiscal deficit of 2.8 percent of GDP through a combination of revenue and expenditure measures. On revenue, the authorities plan to enhance revenue mobilization by adopting comprehensive tax reforms aimed at expanding the tax base, reducing tax exemptions, and improving tax administration. The planned tax measures include introducing a progressive personal income tax, increasing VAT on telecommunication, eliminating income tax exemptions for businesses, and updating the base year for calculating capital gains and profit taxes. At the same time, the authorities envisage positive revaluation effects on revenues from exchange rate unification.

11. On expenditure, the authorities plan to freeze the wage bill to contain recurrent spending in 2021. They have also increased residential electricity rates on large consumers by around 500 percent and plan to prevent the recurrence of fuel subsidies through the timely adoption of a price adjustment mechanism. To help mitigate the adverse impact of the pandemic alongside subsidy and exchange rate reforms, on vulnerable households, the authorities will increase social spending significantly in line with the SMP objectives, including expanding the coverage of the SFSP once the World Bank disbursement is secured after this review, and augmenting health and education expenditures.

12. The authorities intend to step up reform efforts aimed at improving public financial management and fiscal governance. They will continue to publish monthly budget execution reports on the MOFEP website while improving fiscal data over time. They have also consolidated all bank accounts of ministries held at the central bank into one account and plan to fully operationalize the Treasury Single Account (TSA) by all government entities. Furthermore, technical work to incorporate a medium-term fiscal framework into budget planning is expected to be finalized by 2022, while TA from the World Bank is expected to help strengthen the public procurement system.

13. As debt is unsustainable, the authorities will rely mostly on grants, committing to limit new non-concessional borrowing as agreed under the SMP. These resources will finance critical infrastructure and social projects. A prudent debt strategy will be pursued, centered around critical development projects, and limiting payments only to creditors who provide net positive flows. The authorities commit to providing regular reports to staff on debt service payments and will continue working with the IMF and World Bank to complete the joint debt reconciliation exercise that has been progressing well thus far.

Monetary and Exchange Rate Policies

14. The recent exchange rate unification has started to bear fruit as evidenced by the shifting of foreign exchange from the parallel to the official market. Going forward, the authorities expect that adoption of a market clearing rate alongside reduced monetization of the deficit, will help restore macroeconomic stability and strengthen central bank independence. Since the exchange rate unification on February 21, the market-determined exchange rate has been broadly stable well within the established band limits. In line with the program objectives, the authorities have also started a gradual unification of the customs valuation exchange rate. Concurrently, they plan to reduce the

average import tariff from 20 percent to 10 percent to minimize associated inflationary effects. They will also refrain from imposing administrative restrictions on current account transactions to support free exchange rate movements.

15. A tightened monetary policy stance with adherence to reserve money targets under the SMP, has been adopted to help contain high inflation. The central bank also increased reserve requirements to 22 percent and plans mop-up liquidity in the financial system by selling CBOS's shares in the state-owned banks, commercial banks, micro-finance agencies and other companies. The central bank has suspended the extension of CBOS's investment deposits in commercial banks falling due. The CBOS is also exploring the introduction of a dual banking system, which will facilitate the development of conventional monetary policy instruments.

16. Supported by TA from the Fund, the government plans to gradually develop a strong and liquid government securities market with active participation of banks, non-banks, and the general public. The securities market will support the shift from monetization to non-inflationary deficit financing. To this end, the recent agreement between the MOFEP and CBOS to convert long-term claims of the central bank on the government into government securities, will help deepen the government securities market and augment the stock of securities available for the central bank's monetary operations.

Financial System Policies

17. The new Central Bank Law, which aims to strengthen the central bank's mandate on price stability by limiting the financing of fiscal deficits, has been submitted to the relevant authorities for approval after incorporating comments from Fund staff. At the same time, the authorities will continue efforts to enhance central bank efficiency and supervisory capacity, by modernizing banking regulations and strengthening coordination between banking regulation and supervision departments. Concurrently, they plan to move towards a risk-based supervisory regime to strengthen banking supervision and preserve financial stability.

18. The CBOS plans to complete asset quality reviews of systemically important banks in line with international standards by June 2021. They also intend to introduce processes for the recovery and resolution of weak banks including guidance on loan restructuring and risk management policies. To address AML/CFT deficiencies, the authorities plan to conduct thematic AML/CFT inspections of the 10 highest-risk banks, and complete a national ML/TF risk assessment. In addition, they plan to enhance the capacity of the Financial Intelligence Unit, and fully implement risk-based AML/CFT supervision, while strengthening the process of freezing terrorist assets.

V. Structural Reforms

19. The government prioritizes improving governance and combating corruption in line with the Constitutional Declaration and program objectives. To this end, the authorities have finalized the Anti-Corruption National Commission Law after broad consultation with stakeholders, including the IMF. The new law, which establishes an independent Anti-Corruption Commission, has been

submitted to the legislative body for approval. Concurrently, the authorities are pressing ahead with efforts to recover illegally obtained assets under the former regime and bring justice to individuals who corruptly acquired these assets. The recovered assets are being transparently transferred to the MOFEP.

20. To enhance SOE oversight, the authorities have completed a stock-taking exercise of all SOEs and will publish a revised full list of all SOEs, including those supervised by the MOFEP, line ministries, and the security sector. Over the medium term, the strategic objectives of all SOEs and the role of government will be assessed to identify viable SOEs that should remain public and those to be privatized.

21. The authorities are accelerating efforts to improve the business environment to help unlock private sector potential and bolster growth, with support from the International Finance Corporation and the World Bank. They are fostering public-private dialogue, strengthening the legal and institutional framework for public private partnerships (PPPs), improving access to finance, and supporting MSME development. Work is also underway to improve data quality and availability, helping to better inform policymaking and strengthen governance.

VI. Overdue Financial Obligations

22. The authorities remain committed to cooperating with the Fund on policies and payments. In this vein, they have made monthly token payment of US$210,000 to the Fund in January and February 2021 despite significant resource constraints. Going forward, the authorities remain committed to continue making these monthly payments and to increase payments to the Fund as capacity to repay improves.

VII. Conclusion

23. Our Sudanese authorities reaffirm their commitment to implementing reforms under the SMP to lay the foundation for macroeconomic stability and debt relief under the HIPC initiative. They appeal to the IMF Executive Board and the international community to support their reform efforts needed to address adverse social and economic legacies and to meet the aspirations of the Sudanese people who aspiration is to build a peaceful, prosperous and democratic society. The authorities appreciate the Fund’s policy advice and technical assistance and look forward to additional support in the implementation of their ongoing reform agenda.