INTERNATIONAL MONETARY FUND

IMF Country Report No. 22/266

REPUBLIC OF SOUTH SUDAN

July 2022

2022 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM

In the context of the 2022 Article IV Consultation and Second Review Under the Staff-Monitored Program, requests for modification of quantitative performance criteria, and waiver of applicability for performance criteria, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chairman of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on July 29, 2022, following discussions that ended on March 25, 2022, with the officials of Republic of South Sudan on economic developments and policies underpinning the IMF arrangements under the Requests for an Extended Arrangement Under the Extended Fund Facility and an Arrangement Under the Extended Credit Facility. Based on information available at the time of these discussions, the Staff Report was completed on July 19, 2022.
- A **Debt Sustainability Analysis Update** prepared by the Staffs of the IMF and the International Development Association (IDA).
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Republic South 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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International Monetary Fund
Washington, D.C.

IMF Executive Board Concludes 2022 Article IV Consultation and IMF Management Completes Second Review Under Staff-Monitored Program with Republic of South Sudan

FOR IMMEDIATE RELEASE

- *Despite a challenging economic environment, South Sudan has implemented many of the recommendations of the 2019 Article IV.*
- *The authorities have taken encouraging steps to improve macroeconomic governance and liberalize the foreign exchange market. Public Financial Management reforms have been initiated and continue to progress. Subject to continued implementation of the R-ACRSS and prudent fiscal and monetary policies, the medium-term outlook is for economic recovery and contained inflation.*
- *However, in the short term the impact of historic flooding will continue to exert a drag on economic activity while inflation is likely to rise due to the global commodity price shock.*

Washington, DC – **August 2, 2022:** On July 29, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with the Republic of South Sudan. On July 18, 2022, IMF Management also approved the completion of the second review as well as an extension of South Sudan's Staff Monitored Program[2] (SMP) which was approved on March 17, 2021.

Under the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS), the peace process to end South Sudan's civil war has achieved some notable milestones since 2018. However, progress has been slower than anticipated, and the global pandemic and devastating floods have further impeded the recovery from the sharp contraction of the economy during the civil war years. South Sudan remains highly dependent on oil, which accounts for nearly all of exports and 90 percent of government revenue. This leaves the country exceptionally exposed to oil price fluctuations. Moreover, the population is critically reliant on international humanitarian aid. Off-budget support from international donors provides for most of South Sudan's social spending but is set to decline amid shrinking aid budgets and the rising cost of providing such aid.

The authorities have taken encouraging steps to reform macroeconomic governance, liberalize the foreign exchange (FX) market and restore price stability. The removal of most FX restrictions and the authorities' tight control of the money supply have made it possible for

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

[2] 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.

individuals and firms to buy and sell foreign currency at predictable and competitive rates since the start of the SMP in March 2021. This led to a dramatic reduction in inflation, at a time when inflation was rising in many other countries. Public Finance Management and governance reforms have also progressed, albeit slowly. As a result, many of the recommendations of the 2019 Article IV consultation have been implemented, demonstrating traction with respect to IMF 's advice, despite the challenging economic environment.

In the short term, the continuing fallout of flooding on oil production will cause a further contraction of output, while inflation is likely to rise temporarily due to the commodity shock from the war in Ukraine and a recent depreciation of the South Sudanese pound. However, the medium-term outlook is for economic recovery and contained inflation. This outlook is predicated on continued implementation of the R-ARCSS, which should deliver peace dividends to the non-oil sector, and prudent fiscal and monetary policies that keep the growth of money and prices in check. The authorities will also need to find ways to close the sizeable medium-term fiscal and BOP gaps that arise from the need to expand development and social spending, service a large volume of highly non-concessional debts, and tackle a legacy of payment arrears.

Executive Board Assessment[3]

"Executive Directors agreed with the thrust of the staff appraisal. While welcoming the projected medium-term economic recovery, they noted the negative short-term outlook and large downside risks due to external shocks and Russia's invasion of Ukraine, political uncertainty, and extreme flooding that is exacerbating an already high level of food insecurity. In this context, they underscored the importance of advancing the implementation of the 2018 peace agreement as well as of continuing prudent macroeconomic policies to maintain economic stability and debt sustainability while enhancing social spending, implementing governance and transparency reforms, and building resilience.

"Directors welcomed the reforms implemented under the Staff Monitored Program (SMP) including improvements in macroeconomic management and the exchange market liberalization reforms, which have led to the unification of exchange rates and restored price stability. To sustain these reforms, they encouraged the authorities to establish the needed safeguards including replenishment of international reserves, maintaining steady reserve money growth, and gradually expanding the central bank's toolkit and capacity. Furthermore, Directors encouraged the authorities to press ahead with their plan to address the issue of undercapitalized, non-systemic, banks. AML/CFT reforms in coordination with the Financial Action Task Force are also important.

"Directors encouraged the authorities to consolidate the gains under the SMP by keeping money growth stable and managing public finances prudently. They noted the delays in the implementation of public finance management reforms and encouraged the authorities to re double efforts to safeguard the integrity of the budget process and debt management, including avoiding the recurrent accumulation of salary arrears. To that end, Directors urged the authorities to enhance transparency and accountability in the management of public finances, especially in relation to the use of oil revenues. These include publishing regularly

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

budget implementation reports, establishing mechanisms to ensure that spending is consistent with the approved budget, and protecting budgeted expenditures—most notably public sector salaries. Directors also urged the authorities to complete the audit of all outstanding external loan agreements and guarantees and to publish the results of the audit as targeted under the SMP. Directors noted that the authorities have indicated their intention to apply for an ECF alongside the final review of the SMP. While some Directors welcomed such a request, most Directors agreed that discussions about such a program would require satisfactory completion of the SMP and demonstrated capacity to implement a UCT-quality program, with a few Directors emphasizing the need for further progress on governance safeguards to monitor the use of funds.

"Directors agreed on the importance of financial and capacity development support from the international community and development partners in light of the very difficult humanitarian situation, significant fiscal gaps to address the country's development needs, and limited implementation capacity. They welcomed the closer IMF engagement, particularly through IMF capacity development support. Directors were also encouraged by the authorities' commitment to pursue economic reforms with a view to unlocking further support from donors and the international community."

Table 6. Republic of South Sudan: Selected Economic Indicators, 2019/20–2024/25[1]

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Act.	Projections					
Output, prices, and exchange rate								
Real GDP growth	13.2	-5.0	-2.8	-0.3	4.6	4.8	5.2	5.3
Non-oil	0.5	-11.8	6.3	7.3	7.0	7.5	8.4	8.3
Prices								
Inflation (%)	33.6	43.5	2.1	11.5	16.8	10.2	8.3	8.0
Central government budget								
Revenue (%GDP)	29.5	34.6	29.6	31.1	30.0	28.9	27.5	26.2
Of which: Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Oil	25.5	29.8	27.0	28.5	27.0	25.9	24.2	22.7
Expenditures (% GDP)	39.5	38.3	30.0	31.7	29.9	28.9	27.7	26.9
Fiscal balance (% GDP)	-10.0	-3.7	-0.4	-0.6	0.1	0.0	-0.2	-0.7
Non-oil [2]:	-17.8	-10.0	-9.7	-10.3	-15.4	-15.1	-13.6	-12.8
Public debt (% GDP) [3]	51.3	61.9	42.1	34.7	33.0	33.4	32.5	31.6
Balance of payments								
Current account (% GDP)	-17.4	-4.2	4.5	1.2	0.1	-3.1	-3.2	-4.1
FDI (% GDP)	0.1	0.1	0.1	0.1	0.4	0.4	0.3	0.4
Reserves (in months of imports)	0.3	0.5	0.4	0.7	0.9	1.0	1.1	1.2
External debt (% GDP) [3]	39.8	45.9	33.4	28.8	27.5	27.4	26.2	24.9

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees).

[3] Consistently with the DSA, debt projections assume that financing gaps from FY2022/23 onwards are closed with non-concessional borrowing (DSA paragraph 9). However, this is not to prejudge the use of non-concessional borrowing to close financing gaps, given the authorities' commitment to refrain from doing so.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

July 19, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM

EXECUTIVE SUMMARY

Context. South Sudan is a very fragile post-conflict state and one of the most vulnerable countries in the world to climate-driven disasters. The pandemic reversed the economic recovery that followed the 2018 peace agreement. The oil price shock from the pandemic resulted in a massive loss of revenue, causing the government to run up expenditure arrears and resume monetary financing. This led to sharp exchange rate depreciation and runaway inflation. The policies implemented under a Staff Monitored Program (SMP) that was approved in March 2021 and supported by two disbursements under the RCF (in November 2020 and March 2021) have helped restore macroeconomic stability and eliminate a long-standing system of multiple exchange rates. Higher oil prices have dampened the effects of floods on lower oil production and sustained international reserves in the face of a rising import bill. The sharp rise in global food prices risks is exacerbating the dire humanitarian situation in South Sudan, where 70 percent of the population suffers from acute food insecurity, at a time when aid budgets are being cut.

Article IV focus. As elaborated in the Summary Country Engagement Strategy (Annex I), policies to address the manifold sources of fragility in South Sudan should aim to maintain macro stability; increase agricultural production (a sector that provides the livelihoods for 80 percent of the population); enhance social spending; and foster private-sector investment. These policies interact with, depend upon, and need to be complemented with institutional reforms to strengthen governance and transparency. To that end, discussions focused on: (i) continuing prudent macroeconomic policies to maintain economic stability and debt sustainability; (ii) laying the foundations for enhancing social spending; (iii) implementing governance and transparency reforms to reduce corruption and increase efficiency; and (iv) building resilience by investing in infrastructure that mitigates the impact of natural disasters and encourages economic diversification.

SMP review. Staff recommends completion of the second SMP review (presented to the Board for information) based on policies implemented by the authorities since the first SMP review in November 2021. In particular, the authorities have continued to refrain from monetary financing and new external borrowing. All but two end-October quantitative targets were met, with the target on central bank net credit breached for

technical reasons, and only the clearance of salary arrears falling short. In addition, the authorities have taken promising steps towards increasing transparency including by (i) preparing the audit report for the spending financed by the second RCF disbursement; and (ii) publishing the stock of external debt as of December 2021. To allow the completion of an external audit of the debt stock, the SMP is extended to end-November 2022. The discovery of another previously undisclosed loan incurred prior to the start of the SMP (this one to the National Development and Investment Bank), highlights the continued need to improve debt management and oversight. The authorities' public disclosure of their external debt stock, and the recent signing of the contract with a reputable external auditor to conduct the audit of this debt report, mark an important step in this direction. The track record being built under the SMP is helping the authorities restore credibility with donors and improve prospects for concessional financing to help close large BOP gaps.

Approved By
Catherine Pattillo (AFR) and Guillaume Chabert (SPR)

An IMF team conducted a hybrid mission during March 11–25, 2022. The mission team visiting Juba in person comprised Mr. Hobdari (head), Ms. Abomwesigwa, Ms. Ferrero, Mr. Zymek (all AFR); Mr. Jenkinson (Resident Representative, Juba office), and Mr. Chany (local economist, Juba office). Mr. Alfi, Mr. Yamada (both AFR), and Mr. Atashbar (SPR) participated in the mission remotely from headquarters. The team met with President Salva Kiir, First Vice President Riek Machar, First Deputy Speaker of Parliament Nathaniel Perieno, Minister of Finance and Planning Mr. Agak Achuil Lual, Bank of South Sudan, Governor Mr. Moses Makur Deng, and other high-level government officials and members of Parliament. Staff also had productive discussions with representatives of the donor and business communities as well as civil society. Mr. Garang (OED) participated remotely in policy discussions. Mr. Rogelio Celaya, Mr. Fernando Morán Arce, Ms. Valentine Joseph, and Ms. Richa Kumar (all AFR) contributed to the preparation of this report.

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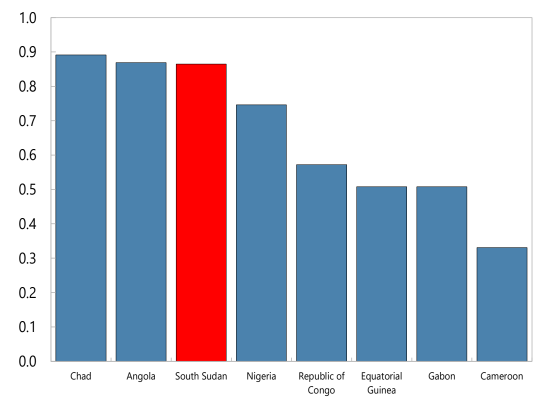
CONTEXT

1. **South Sudan's peace process has achieved significant progress, but the election timeline is slipping.** After five years of conflict, the government and opposition signed in September 2018 the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS). The formation of a unity government (February 2020), the reconstitution of the Transitional National Legislative Assembly (August 2021), and the unification of the army's command structure (April 2022) represent significant steps towards its implementation, but progress has been slower than expected. With a population census and the drafting of a constitution still outstanding, it is uncertain whether planned elections can be held in 2023.

2. **The economy remains exceptionally reliant on oil.** Oil accounts for nearly all of exports, and over 90 percent of government revenue. The country has a very high export concentration (one of the highest amongst the oil exporters in SSA; Text Figure 1), which renders its economy highly exposed to oil price fluctuations. In the absence of adequate reserve buffers, macroeconomic policy management has been poor: past declines in oil prices have triggered drastic spending cuts and bouts of monetary financing.

Text Figure 1. Export Concentration Index in 2020 for Republic of South Sudan and Other Countries

(Oil Exporters in SSA)



Source: United Nations Conference on Trade and Development.

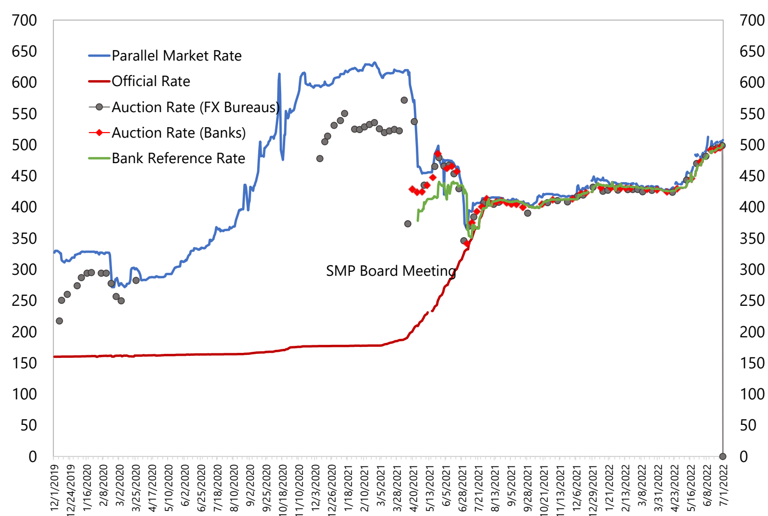
3. **Since independence, South Sudan's GDP has been mostly on a downward trend, with the global pandemic and devastating floods representing the most recent setbacks.** The civil war saw a cumulative contraction of the economy by over 20 percent between 2013 and 2018 (Text Figure 2). Although conflict continues locally to varying degrees, the R-ARCSS paved the way for a modest recovery of economic activity, including in oil production. However, the global pandemic and collapse in oil prices, alongside historic flooding, caused further economic setbacks. The resulting loss of revenue led the government to run up arrears and to resume monetary financing, which led to sharp exchange rate depreciation and runaway inflation.

Text Figure 2. Republic of South Sudan: Real GDP Over Time

Source: IMF staff calculations.

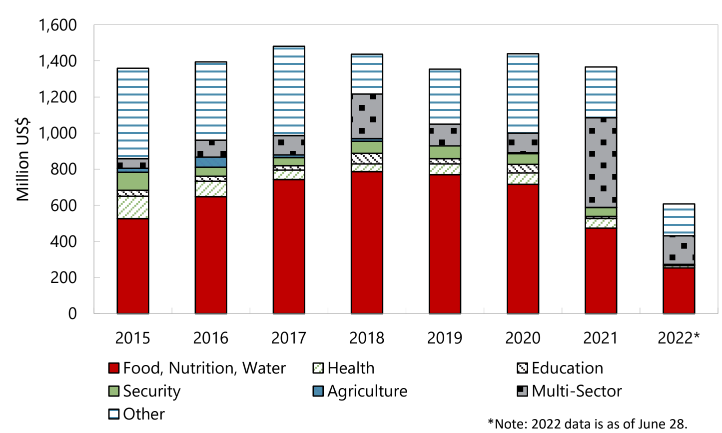
4. Two disbursements under the Rapid Credit Facility (RCF) in November 2020 and April 2021 and policies supported by a Staff Monitored Program (SMP), adopted together with the second RCF, helped restore macroeconomic stability and unify exchange rates. Under the SMP, monetary financing was discontinued, public spending and revenue brought into alignment, and an FX reform successfully abolished by August 2021 a long-standing system of multiple exchange rates (Text Figure 3). The latter was achieved by: (i) opening FX auctions to banks; (ii) permitting the trade of FX at market-determined rates; and (iii) adjusting the official exchange rate by 1 percent per day until convergence with the parallel market rate was achieved. Many of the 2019 Article IV recommendations have been implemented, despite the challenging economic environment (Annex VII).

Text Figure 3. Republic of South Sudan: Exchange Rates
(SSP/US$)



Source: BoSS, and IMF staff calculations.

Text Figure 4. Republican of South Sudan: Humanitarian Aid Received



Source: UN OCHA Financial Tracking Service, and IMF staff calculations.

5. South Sudan's population remains critically reliant on international humanitarian aid. About 70 percent of the population is severely food insecure in 2022 according to *World Food Programme* (WFP) statistics.[1] Moreover, nearly 2 million people are displaced within the country, and over 2 million live as refugees abroad. This is the result of several compounding factors, including continued subnational and localized conflict and climate shocks in the form of severe flooding. The international community provides for most of South Sudan's social spending through US$1.4 billion in off-budget humanitarian aid (about 25 percent of South Sudan's GDP), most of which is for food and nutrition. This leaves little support for development purposes such as investment in agricultural productivity and education (Text Figure 4).

[1] See WFP South Sudan Country Brief (February 2022).

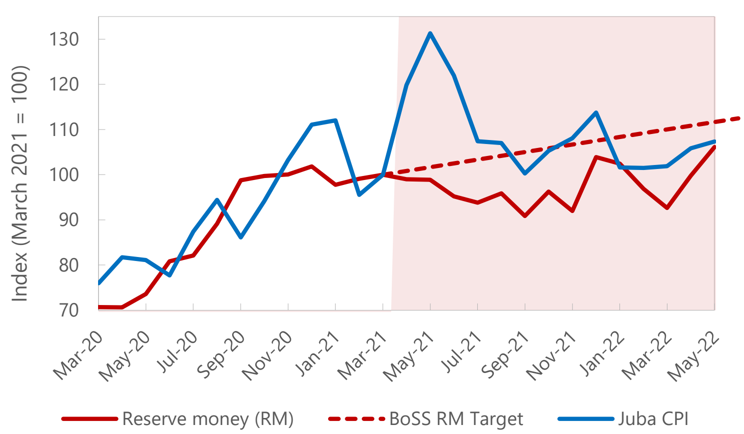
It also exposes the country to the risk of shrinking donor support, amid declining aid budgets and the rising cost of providing such aid. While a full picture of donor support to South Sudan for 2022 is not yet available, preliminary information suggests that commitments for WFP operations in the country could be as little as half as that in previous years.[2]

RECENT DEVELOPMENTS

6. **The COVID–19 pandemic and floods reversed the economic recovery that was ignited by the 2018 peace agreement.** Real GDP is estimated to have declined by 5 percent in FY2020/21, after growing by 13.2 percent in FY2019/2020. Economic activity was disrupted by the fallout from lower oil prices, and restrictions on movement and business operating hours to contain the spread of COVID-19. South Sudan is also battling floods for the third year in a row (the worst in 60 years) affecting nearly 10 percent of the population, damaging agricultural output and severely impacting people's access to essential services. Among a range of fallouts, flooding hampered oil production, which declined from 169 thousand barrels/day in FY2020/21 to 156 thousand barrels/day in FY2021/22.

7. **Restored monetary discipline has stabilized prices.** The authorities have kept money growth tightly controlled and, following the convergence of official and parallel exchange rates in August 2021, the unified exchange rate has remained relatively stable. Importantly, the spread between the reference and parallel market rates have remained mostly within the 2 percent band. Monetary discipline and the stable exchange rate have also arrested inflation: after recording 91 percent in January 2021, the Juba CPI (y-o-y) rose by only 2 percent between March 2021 and March 2022, despite an increase in global food prices during that period (Text Figure 5).[3]

Text Figure 5. Republic of South Sudan: Reserve Money and Juba CPI



Source: BoSS, and IMF staff calculations.

8. **Structural reforms under the SMP have made satisfactory progress.** All but two end-October 2021 quantitative targets have been met, with the clearance of salary arrears lagging

[2] In June 2022, WFP announced a suspension of food assistance to nearly one third of intended food aid recipients this year due to critical funding shortages.

[3] The aggregate CPI compiled by authorities combines data from Juba with data from two other large cities, Malakal and Wau. Since Juba makes up about half of the aggregate index and price information has been collected more reliably in the capital over time, staff analysis focuses on the Juba index.

behind target and a technical breach of the ceiling on net credit to the central government (Table 5). The latter does not imply monetary financing as it was due to the authorities' use of government FX deposits to pay salaries, and staff is satisfied that there was no increase in the government overdraft. Despite delays, some public finance management (PFM) reforms have been initiated (Table 6): the Ministry of Finance and Planning (MoFP) issued a circular instructing MDAs to make payment of salaries of their staff through bank accounts as of July 1, 2022; and the Cash Management Unit (CMU) is developing a preliminary annual cash plan on monthly basis for FY2022/23 based on the resource envelope approved by the Council of Ministers with assistance from TA by the Fund. In addition, the country has been approved as an observer of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and submitted a membership application for it with a view to attaining membership by end-September. Two important structural benchmarks are in progress. In June 2022 the MoFP published on its website the stock of all external debt and guarantees as of December 2021 and a contract with an internationally reputable external independent auditor to review and verify all underlying contracts and documentation was signed in July 2022. The Auditor General has prepared a draft audit report of government spending on salaries financed by the second RCF that was disbursed in April 2021, with the report expected to be finalized and published on the MoFP website in August 2022.

OUTLOOK AND RISKS

9. The medium-term outlook is for economic recovery and contained inflation while the short-term outlook expects negative growth and high inflation (Text Table 1 and Table 1). This medium-term outlook is predicated on continued implementation of the R-ARCSS, and supportive economic policies as discussed below, including prudent fiscal and monetary policies and structural reforms to unlock private sector activity. The non-oil economy will benefit from peace dividends as agricultural activity recovers from civil-war damage. Oil production, however, is projected to contract in FY2021/22 and FY2022/23 due to flooding damage of some oil fields, resulting in the projected negative growth in both years, before starting to recover over the medium term. After falling to 2 percent by end-March 2022, inflation is projected to rise in the coming months, owing to a recent depreciation of the South Sudanese pound against the US dollar as well as to the global commodity shock from the war in Ukraine: South Sudan's food prices tend to track global food prices with a lag (Box 1) and the country depends on imports of refined petroleum products. In the medium term, inflation is projected to decline into single digits, provided money growth remains prudent.

10. Sizeable BOP gaps remain in the medium term. The objectives of reducing poverty and supporting inclusive growth through gradual expansions of social and development spending, in addition to the debt service obligations on a large volume of external debts on highly non-concessional terms, and the need to tackle a legacy of payment arrears, create substantial fiscal gaps in the short and medium term. The increase in oil prices from US$55.9 in FY2020/21 to US$84.5 in FY2021/22 has improved the trade balance despite a rising import bill. However, the trade balance is expected to turn negative in FY2024/25, once oil prices pass their projected peak, given persistently elevated import prices and a slower path for international aid. Moreover, further reserve accumulation is required to achieve adequate coverage (Annex IV). While foreign exchange reserves have been supported by the SDR allocation in August 2021 and the higher oil prices, the level of gross international reserves at end-June 2022––US$192 million, or less than 2 weeks of imports––is considered to be inadequate. Considering the reliance of South Sudan on oil prices, and the high import bill, in the medium and long term, a level of reserves closer to the average of LIC oil exporters (4 months of imports cover) would be adequate. Together, these factors imply large medium-term BOP gaps even if oil production reverses its recent downward trend.

Text Table 1. Republic of South Sudan: Medium-Term Macroeconomic Projections, 2019/20–2026/27[1]

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Act.	Projections					
Output, prices, and exchange rate								
Real GDP growth	13.2	-5.0	-2.8	-0.3	4.6	4.8	5.2	5.3
Non-oil	0.5	-11.8	6.3	7.3	7.0	7.5	8.4	8.3
Prices								
Inflation (%)	33.6	43.5	2.1	11.5	16.8	10.2	8.3	8.0
Central government budget								
Revenue (%GDP)	29.5	34.6	29.6	31.1	30.0	28.9	27.5	26.2
Of which: Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Of which: Oil	25.5	29.8	27.0	28.5	27.0	25.9	24.2	22.7
Expenditures (% GDP)	39.5	38.3	30.0	31.7	29.9	28.9	27.7	26.9
Fiscal balance (% GDP)	-10.0	-3.7	-0.4	-0.6	0.1	0.0	-0.2	-0.7
Non-oil [2]:	-17.8	-10.0	-9.7	-10.3	-15.4	-15.1	-13.6	-12.8
Public debt (% GDP) [3]	51.3	61.9	42.1	34.7	33.0	33.4	32.5	31.6
Balance of payments								
Current account (% GDP)	-17.4	-4.2	4.5	1.2	0.1	-3.1	-3.2	-4.1
FDI (% GDP)	0.1	0.1	0.1	0.1	0.4	0.4	0.3	0.4
Reserves (in months of imports)	0.3	0.5	0.4	0.7	0.9	1.0	1.1	1.2
External debt (% GDP) [3]	39.8	45.9	33.4	28.8	27.5	27.4	26.2	24.9

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees)

[3] Consistently with the DSA, debt projections assume that financing gaps from FY2022/23 onwards are closed with non-concessional borrowing (DSA paragraph 9). However, this is not to prejudge the use of non-concessional borrowing to close financing gaps, given the authorities' commitment to refrain from doing so.

Box 1. Impact of the War in Ukraine on Food Prices

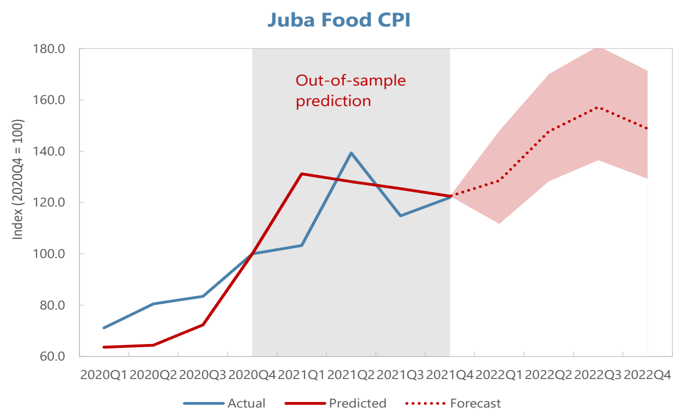
A large rise in food prices risks exacerbating South Sudan's already-dire humanitarian situation. Even before the rise in commodity prices due to the war in Ukraine, significantly more than half of South Sudan's population was predicted to experience hunger in 2022. According to official statistics, food makes up 71 percent of the average consumption basket and cereals, in turn, account for 32 percent of food consumption. The latest statistics from the FAO/WFP Crop and Food Security Assessment[1] estimate that only around 60 percent of the cereal required is produced domestically, with the remainder imported from abroad. Domestic production provides some initial buffer against global market shocks. However, given South Sudan's still-heavy reliance on imported food, the surge in the price of wheat and other staples in global markets will eventually trigger a rise in the cost of living for those households that purchase food in the market, and increased shortages for large parts of the rural population that depend on humanitarian assistance.

Historical evidence suggests that global food-price changes tend to impact prices in South Sudan with a one-quarter lag. Annex II of IMF Country Report 21/246 estimated a model of pass-through from the exchange rate and global prices into Juba food prices using monthly data. Here, this model is re-estimated using quarterly data, which gives:

$$\begin{array}{cccccccccc} \Delta \ln CPI_t & = & \underset{(.095)}{.569} & \Delta \ln ER_t & + & \underset{(.097)}{.350} & \Delta \ln ER_{t-1} & + & \underset{(.516)}{1.378} & \Delta \ln P_{t-1} \end{array}$$

where CPI_t is the Juba Food CPI in quarter t; ER_t is the SSP/USD exchange rate in quarter t; P_t is the GAS global food price index in quarter t; and the model is estimated using data for the period 2011Q4-2020Q4. The estimated model has a high R^2 (= .77); and predicts the behavior of prices well out-of-sample. Between 2020Q4 and 2021Q4, Juba food prices rose by 22 percent and the model predicts a 23 percent rise (Box Figure 1). The estimates suggest that changes in global food prices typically translate into more than one-for-one changes in Juba food prices, but that this effect only manifests itself with a one-quarter lag.

Box Figure 1. Expected Impact of Global Food Price Rises



Out-of-sample prediction and forecast of Juba food prices based on the pass-through model described in text and assuming a constant exchange rate. Shaded area represents the 90% confidence interval of the forecast.
Source: IMF staff calculations.

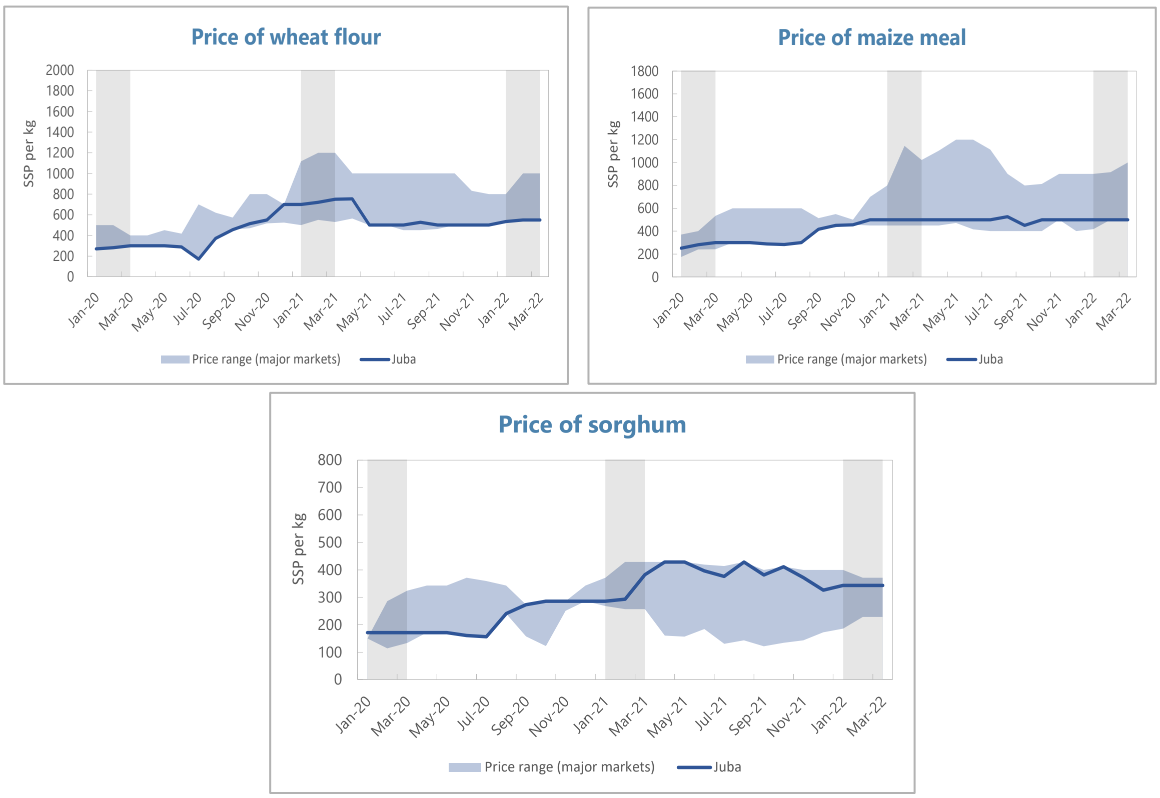
In line with this evidence, price data from different local markets had not yet registered a discernible impact of the global commodity-price shock in March. The World Food Program (WFP) collects monthly data on the price of key commodities in Juba and other markets around the country. This data is more consistently collected, and covers a broader set of markets, than official statistics. It shows that the price of staple cereals varies dramatically across different markets, with Juba prices generally at the low end of the distribution (Box Figure 2). This reflects the lack of integration between different markets due to South Sudan's poor transport and communications infrastructure. Juba prices of wheat, maize and sorghum held steady between December 2021 and March 2022. There is some indication that other markets' price gaps with Juba widened for wheat and maize in March. However, such widening is consistent with regular seasonal patterns in the first quarter of the year.

[1] Special Report –– 2021 FAO/WFP Crop and Food Security Assessment Mission (CFSAM) to South Sudan

Box 1. Impact of the War in Ukraine on Food Prices (concluded)

Staff analysis shows that, even with an unchanged exchange rate, Juba food prices should be expected to rise by 21 percent in 2022. For a given path of the exchange rate, the pass-through model above can be used to forecast changes in Juba food prices, given GAS assumptions about the change in global food prices over the four quarters of 2022. The central expectation from a forecast scenario holding the exchange rate constant is that Juba food prices would increase by 21 percent between 2021Q4 and 2022Q4. The 90 percent confidence interval ranges from a 6 percent to a 40 percent increase in prices. (Box Figure 1) The model forecast points to a likely steep rise in prices by the middle of the year. A depreciation of the exchange rate over the course of the year would add to rise in food prices, while an appreciation would mitigate it.

Box Figure 2. Price of Wheat, Maize, and Sorghum in Major Markets Across the Republic of South Sudan



Grey-shaded areas highlight Q1 of the calendar year. Major markets covered: Juba, Malakal, Aweil, Kuajok, Rumbek.
Source: WFP, and IMF staff calculations.

11. Potential risks skew to the downside (Annex II). The primary risk is internal: a breakdown in the peace process and the resumption of large-scale civil conflict. This could be triggered by the soaring food and fuel prices in the wake of the war in Ukraine that will be felt acutely by the most vulnerable and threatens to exacerbate an already dire humanitarian situation. In addition, South

Sudan is highly exposed to oil price volatility, so another reversal of oil prices would weigh on the economic recovery and fiscal revenues. A severe turn in the COVID-19 pandemic could have devastating consequences in a country in which the vaccination rate is below 5 percent.[4] South Sudan is also one of the most vulnerable countries in the world to climate change effects (Annex III), and further large-scale flooding could impede the recovery of agriculture from the losses suffered during the civil war. The realization of such shocks beyond the authorities' control, in tandem with weak governance, could undermine their recent gains in restoring macroeconomic stability.

POLICY DISCUSSIONS

12. Article IV and SMP-related policy discussions focused on measures to help South Sudan tackle the causes of fragility.[5] This includes: (i) continuing the implementation of prudent macroeconomic policies to maintain economic stability and debt sustainability; (ii) laying the foundations for enhanced social spending that would cover some of the support for nutrition, health and education currently provided by international donors; (iii) implementing governance and transparency reforms to reduce corruption and increase efficiency; and (iv) building resilience by strengthening safety nets and investing in infrastructure that mitigates the impact of natural disasters and encourages diversification of the economic base, especially in the agricultural sector that provides the livelihood for 80 percent of the population.

A. Fiscal Policy

Background

13. Fiscal revenue has improved. The overall deficit narrowed to 3.7 percent of GDP in FY2020/2021, with oil prices recovering from their historic low in the first half of 2020. Oil revenue during the first half of FY2021/22 outperformed projections. This reflects the continuing climb of oil prices, which more than offset the decline in South Sudan's oil production. Non-oil revenue collection improved in line with expectations, due to strengthened collection efficiency. Overall, revenues are estimated to have reached SSP 907.7 billion (29.6 percent of GDP) for FY2021/22, compared to SSP 602.4 billion originally envisaged in the authorities' budget.

14. However, demands on the budget also proved greater than anticipated. The authorities exceeded their allocation for capital spending by SSP 153.6 billion (5 percent of GDP) in FY2021/22, as oil resources earmarked for infrastructure projects were doubled during the second half of the fiscal year, from 10,000 to 20,000 barrels per day. Budget outturns also showed higher than

[4] The authorities have targeted a vaccination rate of 40 percent, but severe logistical constraints have hampered the distribution of even the limited number of vaccine doses allocated through the COVAX initiative. At end-May 2020, 2.1 million doses had been allocated to South Sudan (enough to vaccinate 13% of the population), but only 730,000 have so far been administered. At 4.7 percent, the share of fully vaccinated individuals in South Sudan is significantly lower than in other East African countries (WHO Africa Covid-19 Vaccination Dashboard, May 2022). However, South Sudan has also reported much lower-case numbers and fatality rates so far.

[5] See the Annex I for a summary version of the Country Engagement Strategy for the main drivers of fragility in South Sudan and the recommended strategy for the Fund's involvement to help the country escape fragility.

anticipated capital spending for FY2020/21. This reflects a continued drive to undertake investments in South Sudan's road infrastructure. In addition, the Government of South Sudan (GoSS) was required to undertake greater-than-anticipated debt repayment in FY2021/22 as a result of the discovery of an outstanding loan to the National Investment and Development Bank (NIDB) that was incurred prior to the start of the SMP. The public wage bill in FY2021/22 has also grown to accommodate a salary increase of members of the Reconstituted Transitional National Legislative Assembly (RNTLA). Moreover, additional fiscal space from the end of the Transitional Financial Arrangement (TFA) with Sudan in February 2022 did not materialize as the authorities remain locked in negotiations with Khartoum over the size of future oil transit fees. Without a resolution, oil shipments to Sudan have continued at the original TFA rate in excess of transit fees, resulting in a large and growing credit owed by Sudan to South Sudan that stood at USD 136.1 million (around 1.8 percent of GDP) at end-March.[6]

15. Unanticipated fiscal pressures and limited cash planning led to a temporary resurgence of domestic salary arrears. The government has continued to refrain from monetary financing of the deficit and non-concessional borrowing. With higher spending needs offsetting the rise in revenues, fiscal spending has been tightly constrained month-to-month. In this environment, limited cash planning led to a resurgence of domestic salary arrears from SSP 4 billion at end-June 2021 to SSP 20 billion at end-September 2021. MoFP took steps to reduce this to SSP 8 billion by end-October. Subsequently, arrears have periodically risen and then been reduced again, with the latest round of payments in June leaving arrears on domestic salaries at an estimated SSP 24 billion as of end-June (about 0.8 percent of GDP). Arrears on the salaries of the staff employed in foreign missions are estimated to stand at USD 150 million (about 2 percent of GDP).

16. South Sudan's share from SDR allocation was US$335 million (6.4 percent of GDP), which was used to bolster foreign exchange reserves and support the FY2021/22 budget. In line with the understanding reached under the SMP, US$185 million was used to strengthen the external reserve position of the central bank. The remainder of the allocation (US$150 million) was used mostly to reduce salary arrears and partly to reduce arrears on purchases of goods and services (MEFP ¶3).

17. Despite a very small projected cash deficit (0.6 percent of GDP) in FY2022/23, fiscal financing gap is projected at SSP 235 billion (5.2 percent of GDP). Although the authorities expect a further decline in oil production due to the continuing fallout from flooding (to 150 thousand barrels/day in FY2022/23), the impact is projected to be offset by higher oil prices and continued improvements in the collection of non-oil revenues. Overall, revenue looks set to expand further to SSP 1,398.9 billion (31 percent of GDP). However, spending pressures are also rising. The unification of the armed forces will increase the government's military and security payroll by two thirds. In addition, the authorities' draft budget envisages a 20 percent increase in domestic salaries to protect the purchasing power of public sector from expected inflation. Meanwhile, significant oil

[6] Overall, South Sudan's payments to Sudan under the TFA amounted to 3.5 percent of GDP in FY2021/22.

payments to Sudan are likely to continue.[7] Combined with continuing debt service and pressure from remaining arrears, this creates a financing gap of over 5 percent of GDP, even without much-needed increases in social spending (Table 2b).

Staff Recommendations

18. The authorities' efforts to keep domestic salary arrears in check and to grow salaries sustainably are commendable, but better cash planning is needed to avoid the recurrence of arrears. Public salaries in South Sudan are very low and, absent other transfer mechanisms, the only poverty-reducing tool at the government's disposal.[8] As such, it is vital that the authorities remain current on salaries and protect or expand their purchasing power sustainably. The proposed increase in salaries of 20 percent in FY2022/23 is appropriate given expected inflation in South Sudan over the coming year, and consistent with the authorities' budget envelope. To avoid the periodic recurrence of arrears on domestic salaries, the authorities need to ensure that all expected salary expenses are accounted for in their budget and strengthen expenditure controls and cash management in line with recommendations from TA provided by AFRITAC East. They should also develop a realistic plan for reducing their large arrears on foreign-mission salaries.

19. Without relief from a significant reduction in transfers to Sudan, the authorities will need to explore other avenues to close the projected fiscal gap for FY2022/23. Significant measures are needed to close the fiscal financing gap so to avoid new non-concessional borrowing or the resumption of monetary financing. Moreover, the authorities should seek to create room to raise social spending––starting with health and education––to protect against the risk of declining donor support. Possible measures include:

- **Revenue mobilization.** The authorities should continue to improve revenue collection, including by: (i) phasing out tax exemptions, (ii) adjusting gradually the exchange rate used for customs valuation (currently 90 SSP/US$ compared to a market rate of 480 SSP/US$ currently); (iii) digitalization of tax collection; and (iv) adjusting tariff rates in line with EAC levels.
- **Spending efficiency.** There is room to reduce operating expenses by around 1 percent of GDP. This should be feasible with increased control and scrutiny of budget execution. Moreover, the planned establishment of a Public Procurement and Asset Disposal Authority (PPADA), one of the Government's prioritized PFM reform areas, will also support spending efficiency.

[7] Staff projections assume that TFA payments are discontinued but oil transit fees increase significantly. This will increase fiscal space relative to a situation in which TFA payments continue, but less so than if these payments had been discontinued at current transit fees. There is a downside risk that negotiations with Sudan drag on while South Sudan continues TFA payments, accumulating further credit with Sudan at the cost of near-term fiscal space. On the upside, it is possible that Sudan may permit South Sudan to use its balance to offset some future fee payments.

[8] As discussed in IMF Country Report No. 21/246, prior to the doubling of wages in the FY2021/22 budget, more than half of South Sudan's government workers received less than 5 US$/month, which is well below the international poverty line.

20. Spending on South Sudan's road infrastructure program should be reviewed, to ensure it delivers value for money and is commensurate with other development and social priorities. South Sudan's road infrastructure is in urgent need of investment to improve quality and coverage. The government has directed significant financial resources towards addressing this issue, and these have further increased during FY2021/22. Despite this, road construction and upgrading appears to have progressed slowly. Staff encourages the authorities to seek technical assistance from the IMF and World Bank to improving public investment management and oversight. This would help ensure that public investments deliver value for money. Given the pressing need for other investment (e.g., in water management and irrigation to support agricultural productivity) and more spending on health and education, the authorities should explore if there is room to re-prioritize some resources earmarked for road investment without jeopardizing needed improvements in transport infrastructure, especially in the event that a decline in oil prices reduces the revenue forecast.

21. Further steps are urgently needed to strengthen the institutional framework for debt management. During the first SMP review, the stock of external debt was revised up reflecting oil advances in the amount of US$539 million that were signed before the SMP but not previously reported. During the second SMP review, staff learned of a further external loan, channeled through NIDB, that was signed before the SMP. These discoveries are symptomatic of a weak debt management framework, with limited central oversight and information sharing between different government agencies. Staff welcomes the publication by the authorities of a report on their known external debts as of December 2021, to be validated by an independent international auditor. They should also disclose as soon as possible any additional external obligations through NIDB. Staff supports the authorities' priority request for Fund TA to improve institutional decision making in relation to debt, debt recording and debt management strategy, which is expected to commence in September 2022. With a view to a supporting conditionality under a possible ECF, staff also recommends that the authorities to undertake appropriately phased legal reforms that would bring the institutional scope for public debt management and the legal classification of public sector entities in line with international standards.

22. The government should establish a fiscal anchor to guide fiscal policy. The attached DSA places South Sudan at a high risk of debt distress in the near term. Over the medium term, the government should target a fiscal balance that gradually reduces this risk. The proposed fiscal path in the attached macroeconomic framework (Tables 1-4) is consistent with this objective. As shown in the DSA, the ratio of public debt to GDP dips in FY2022/23 due to a rise in nominal GDP, but then rises again slightly before gradually improving from FY2026/27 onwards. On this basis, South Sudan's debt is assessed to be sustainable. Given the heavy reliance on oil, revenues from which are highly volatile, and a level of international reserves that is low by any measure (Annex IV), the authorities should look to develop robust mechanisms to build fiscal and reserve buffers from oil revenue windfalls.

Authorities' Views

23. The authorities agree with the need to keep debt in check, protect salaries and increase social spending, but emphasize that debt service costs are leaving them with limited

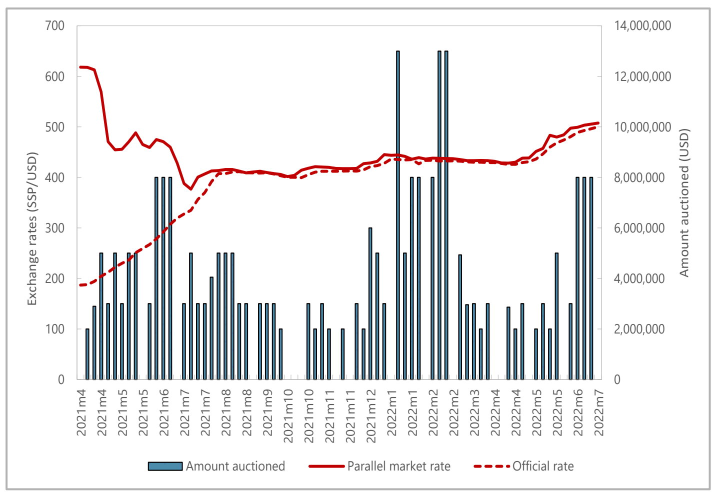
room to maneuver. They intend for fiscal policy to be guided by the requirements of macroeconomic and debt stability (MEFP ¶19). In this spirit, the proposed salary increase of 20 percent balances the ambition to protect the real purchasing power of recipients with ability-to-pay considerations. The authorities also point out that the combined allocation for health and education in their draft FY2022/23 budget is SSP 141.5 billion, an 84 percent increase relative to the previous fiscal year. The authorities emphasize the high cost of servicing their debts as a significant constraint on their policy space. Their preferred route to address this issue is by replacing South Sudan's existing non-concessional debt gradually with new borrowing incurred on more favorable terms.

B. Monetary, Financial Sector and Exchange Rate Policy

Background

24. The authorities have kept money growth under control, which has supported exchange rate stability. Reserve money, which grew by 41 percent in the 12 months before the start of the SMP, declined by 7 percent between March 2021 and March 2022, undershooting the Bank of South Sudan's (BoSS) target of 10 percent reserve money growth. This has contributed to the rapid fall in inflation and is consistent with reports that liquidity had become too tight in 2021Q4. While the central bank's toolkit contains an instrument for draining liquidity in the form of FX auctions, it currently lacks the means to inject liquidity when needed. Currency in circulation only rose as a result of MoFP clearing salary arrears in December and has been rising again, for the same reason, since April. Both rounds of MoFP salary payments put upwards pressure on the exchange rate, requiring BoSS to respond by increasing the amount of FX sold in auctions temporarily (Text Figure 6). This highlights the need for BoSS and MoFP to coordinate closely in the current setting to achieve a stable path for reserve money and the exchange rate.

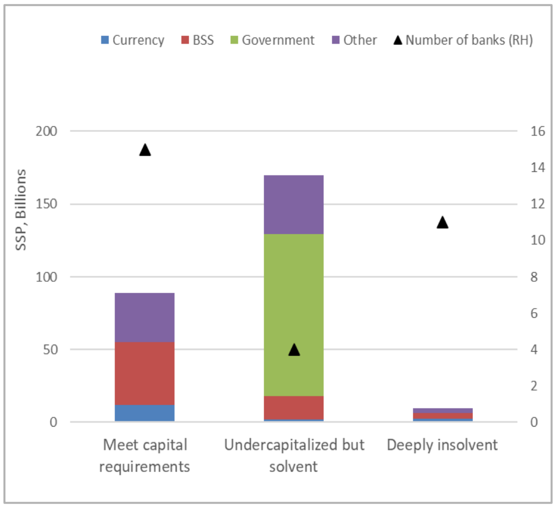
Text Figure 6. Republic of South Sudan: Exchange Rates and FX Auctions



Source: BoSS, and IMF staff calculations.

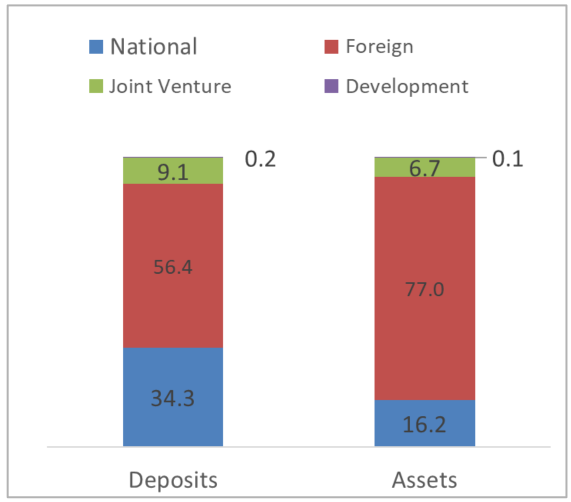
25. The undercapitalization of the small banking sector remains unresolved, while most of the population has no access to formal financial services. The BoSS has been attempting to strike a balance between shielding the banking sector from the pandemic and increasing its resilience to future shocks. A scheduled rise of the minimum capital requirement to SSP 5 billion was postponed from July 2020 to January 2021 and remains pending to date. Most domestic banks are undercapitalized, and 11 were deemed deeply insolvent in 2019. However, the widespread undercapitalization of domestic banks does not pose a systemic risk. Deeply insolvent banks hold less than SSP 10 billion in assets (about 0.3 percent of GDP) (Text Figure 7), and domestic banks overall hold only 16 percent of total banking assets (Text Figure 8). Moreover, less than 10 percent of the population have access to formal financial services with cash remaining by far the dominant means of payment (Annex V).

Text Figure 7. Republic of South Sudan: Banking System Assets, September 2019



Source: BoSS, and IMF staff calculations.

Text Figure 8. Republic of South Sudan: Banks' Market Share by Ownership, September 2019



Source: BoSS, and IMF staff calculations.

26. A few multiple currency practices (MCPs) and an exchange restriction have been eliminated. At the time of the 2019 Article IV Consultation, South Sudan maintained exchange restrictions and a MCP under the transitional arrangements of Article XIV, and also maintained MCPs and an exchange restriction under Article VIII.[9] The Fund adopted a revised policy on MCPs on July 1, 2022.[10] While the revised MCP policy enters into force nine months from its date of approval, under transitional arrangements two of South Sudan's MCPs maintained under Article VIII and Article XIV, respectively, arising from spreads with the parallel market have been eliminated given that the parallel market in South Sudan is illegal. An exchange restriction under Article XIV, in connection with the extra burden arising from the spread between the parallel market exchange rate and the formal commercial exchange market rate has also been eliminated. In addition, as the official (indicative) rate has been discontinued and replaced with the reference rate,[11] the MCP arising from spreads between the official (indicative) rate and the commercial banks' (market) rate has also been eliminated. All other exchange measures maintained by South Sudan remain unchanged.

[9] Please refer to the Informational Annex for South Sudan's 2019 Article IV Consultation (Country Report No. 19/153) for a full description of the exchange restrictions and MCPs.

[10] See IMF Policy Paper No. 2022/036.

[11] Please see paragraph 3 in Annex IV and paragraph 5 of IMF Country Report No. 21/246.

Staff Recommendations

27. Reserve money targeting remains appropriate for South Sudan for the time being. Under the SMP, the authorities committed to target an annual reserve money growth rate of 10 percent or below, and to let the exchange rate be determined by the market. This remains the appropriate monetary framework for South Sudan for now because it is transparent, can be implemented with the tools at the disposal of BoSS and, absent other shocks, and would sustainably place South Sudan's inflation in the single digits for the first time. However, further steps are needed to improve the implementation of the framework. In particular, BoSS needs to improve its liquidity monitoring and forecasting capabilities by investing in capacity, operationalizing the Liquidity Working Group, and institutionalizing data sharing with MoFP to better anticipate government cash operations. This would allow BoSS to calibrate reserve money growth more precisely, and to respond to market developments more nimbly. Alongside these steps, BoSS should continue to expand its schedule of regular data publications, and to communicate its policy steps clearly to the broader public.

28. As part of its investment into the sustainability of this framework, BoSS should expand its monetary toolkit. Dollar auctions have helped price discovery in the FX market and should continue. BoSS should also consider buying dollars through auctions, when it perceives there to be a shortage of local currency. Staff encourages BoSS to continue seeking IMF advice and technical assistance in its efforts to expand its set of monetary policy instruments, including the possible introduction of central bank bills.

29. The undercapitalization of the banking sector should be addressed promptly, followed by steps to improve bank supervision and financial inclusion. The improved economic climate allows for the undercapitalization of domestic banks to be addressed more determinedly. The gradual unfreezing of commercial bank's locked deposits with BoSS, which now affects only two institutions, should continue. Staff is encouraged by BoSS commitments to begin regular publication of Financial Soundness Indicators (FSIs), enforce bank reporting requirements more stringently, and progress the development of a risk-based supervision policy at pace.

Authorities' Views

30. The authorities share the staff assessment of the monetary framework (MEFP ¶8), and the need to resolve the long-standing issue of banking sector undercapitalization (MEFP ¶9). In the authorities' view, dollar auctions have played an important role in bringing stability and predictability to the FX market. However, any move to purchase dollars, in the face of a rising demand for local currency, would need to be carefully planned, given the continuing need to reassure market participants that the new exchange-rate regime is sustainable. The authorities have experimented with introducing a short-term deposit facility to complement FX auctions as a monetary tool and will continue efforts to operationalize it effectively. The authorities intend to merge or liquidate undercapitalized domestic banks and have requested IMF TA on bank resolution to this end.

C. Strengthening Governance

Background

31. Governance reforms remain urgent. South Sudan's relative position in the Corruption Perception Index compiled by Transparency International has deteriorated since the 2019 Article IV consultation. Poor governance (i.e., weak laws and under-resourced institutions with low capacity amid political instability) impairs the provision of goods and services, distorts the allocation of resources, erodes trust in the ability of the state to run the economy effectively, weakens the business climate, encourages rent-seeking, and leads to state capture.

32. There has been progress in initiating governance reforms, especially relating to PFM. Areas of progress include: establishing the Cash Management Unit (CMU) at MoFP; recording of expenditures using IFMIS with TA from the IMF; starting the implementation of a Treasury Single Account with TA from the IMF; discontinuing the use of nontransparent oil advances for budget financing; publishing the budget for FY2021/22; and initiating reforms to strengthen the AML/CFT framework, such as establishing the Financial Intelligence Unit (FIU).

Staff Recommendations

33. The authorities need to build on the above progress and keep up the pace of reform. Strengthening governance and enhancing transparency are key for South Sudan to improve economic management and attract investment and financial support from abroad. The authorities should develop a plan for addressing recommendations in the audit report of the second RCF once it is published. The authorities established the Financial Intelligence Unit (FIU) with intention to strengthen its functions and expertise to deal with AML/CFT issues. While this itself is part of implementation of the action plan to which the authorities have committed with FATF,[12] the FIU is marginally operational and severely under-resourced. The continuation of this status quo will decrease the FIU's chances of joining the Egmont Group of Financial Intelligence Units. Other items in the action plan related to the legal and institutional frameworks have seen little progress. The authorities have requested TA from the IMF, but a first mission to define the scope of the TA has not yet been scheduled. Another TA provider have ceased participation due to lack of traction. The authorities need to engage fully with TA providers to maximize the benefits of such efforts to exit the FATF's grey listing as soon as possible. Current engagement with ESAAMLG is focused on meeting membership requirements to that body, and not capacity development.

34. Lack of transparency on financial flows from the oil sector creates opportunities for corruption and rent seeking. The authorities' commitment to refrain from contracting oil advances is a positive step towards enhancing governance, because oil advances are non-transparent, excessively costly, encourage misuse of funds, and complicate fiscal management and monitoring.

[12] The FATF action plan comprises 8 detailed items including undergoing a mutual evaluation, the review of legislation, adoption of AML/CFT international instruments, the development of risk-based supervision regimes, beneficial ownership transparency and regimes for targeted financial sanctions and risk-based supervision of NPOs.

To strengthen transparency in the management of oil revenues, staff welcomes the commitment made by the authorities to publish all signed oil production sharing agreements between the government and commercial companies on a government website by end-September 2022; submit a membership application to the EITI by end-December; and to begin quarterly publication of a report on the oil sector starting from the first quarter of FY2022/23. Staff also welcomes the authorities' intention to implement all recommendations made by the IMF's safeguard assessment at pace. The authorities should also proceed to implement all recommendations arising from the Auditor General's audit of the expenditures financed by the first RCF, including the strengthening of internal controls at ministries and MDAs to ensure better monitoring of disbursed funds.

35. Staff urges the authorities to expedite implementation of safeguards recommendations, whose progress has been slow and elevates safeguard risks at the BoSS. The safeguard assessment identified high risks of the BoSS in its internal control, compliance with laws and regulations, its quality of financial reporting, and internal audit effectiveness. The BoSS adopted an action plan to implement by end-2021 the key recommendations stemming from the assessment. However, except some progress in completing an audit of the internal control by an external auditor and formalizing procedures for the compiling and reporting monetary data, little progress has been made to date. As such, the authorities have now committed to implement prioritized measures under the SMP during the second half of 2022 for: (i) finalizing and publishing the FY2021/22 audited financial statements; (ii) signing a MoU with the Auditor General to ensure the timely appointment of an international external audit firm for the audits of FY2022/23 onwards; (iii) co-sourcing of internal audit; and (iv) strengthening currency operations, including through conducting a cost-benefit analysis of replacing low denomination banknotes with coins, as well as engaging a reputable currency manufacturer through a competitive tender process.

Authorities' Views

36. The authorities concur with staff recommendations on governance and transparency reforms. They reiterate their commitment to continue strengthening their expenditure controls such as: recording all infrastructure spending in IFMIS; publishing quarterly budget execution reports; and producing monthly updates of the cash plans (MEFP ¶12). They also stress that they are proceeding with the implementation of the remaining recommendations made by the IMF's safeguard assessment (MEFP ¶14). They recognize the importance of addressing the legal issues on AML/CFT specified in the action plan through working closely with the IMF TA team and to have its diagnostic mission by the end of September 2022 (MEFP ¶15) and are ready to publish quarterly reports on the oil sector, including reconciliation of oil output and revenues, on a government website (MEFP ¶10).

D. Dealing with Climate Change

37. South Sudan should enhance its resilience through structural transformation while consolidating recent gains in macroeconomic stability. In the long term, increasing the resilience of South Sudan's economy and dealing effectively with climate change requires structural transformation that includes a path towards diversification away from oil-related revenues.

Macroeconomic stability is a necessary precondition to that end. The near-term focus should therefore be to consolidate South Sudan's recent gains by securing debt on a sustainable path and building reserve buffers, to create the fiscal and monetary space to adapt proactively and cushion volatility from natural disasters or commodity shocks.

38. Adaptation to climate change requires investments to increase resilience to floods and other natural disasters. Floods and variations in rainfall patterns have emerged as the main climate-related risk facing South Sudan. The lack of basic infrastructure such as roads, bridges, and dikes make the effects of floods on livelihoods and food security much more severe (Annex III). Public investment in these areas needs to complement private investment to support agriculture and market access in the face of changing environmental conditions.

39. Diversification opportunities can arise with investment in human capital and agriculture. The country's agricultural sector has large untapped resources and could benefit from increased investment to facilitate productivity gains. According to the FAO's 2019 Seed System Security Assessment,[13] only 4.2 percent of South Sudan's total surface area is cultivated, even though about 50 percent (or 65.9 million hectares) of the total surface area is assessed as prime agricultural area. Unlocking these productivity gains is dependent on continued peace conditions allowing displaced communities to return to their lands, and investment in human health and capital in addition to infrastructure. In addition to public and private investment, continuing and seeking our more projects with development partners (e.g., the World Bank Resilient Agricultural Livelihoods Project) is key in fostering a more productive and resilient agricultural sector.

Authorities' Views

40. The authorities recognize that safeguarding macroeconomic stability and creating fiscal space is key to adapting to, and mitigating the effects of, climate change. They share staff assessments of the need for investment in infrastructure that can mitigate the impact of floods and climate-related disasters on oil production, agricultural land degradation, transportation, and as a consequence, food security and economic growth. They are aware of the critical importance of supporting the health and well-being of the affected population. However, they also note that their budgetary resources as stretched and that, as a result, continued assistance from donors and development partners will be needed in this area. To that end, they expressed interest in accessing the newly established Resilience and Sustainability Trust to help them build resilience to external shocks and ensure sustainable growth.

SMP MODALITIES AND STRATEGY FOR FUTURE IMF ENGAGEMENT WITH THE REPUBLIC OF SOUTH SUDAN

41. Staff proposes to extend the SMP to end-November 2022. The extension would allow for publication of the final audit report on spending financed by the second RCF, and the completion of

[13] FAO (2019) Seed System Security Assessment (SSSA) in South Sudan

the independent external audit of all underlying contracts and documentation related to South Sudan's external borrowing. This is seen as particularly important given the limited institutional capacity and the discovery of an outstanding loan to the National Investment and Development Bank (NIDB) that was incurred prior to the start of the SMP. To that end, the SMP sets new quantitative targets (QTs) for end-August 2022 (MEFP Table 1) and four structural benchmarks (MEFP Table 2) as the basis for the final review of the SMP. The structural benchmarks target the completion and publication of the two audits, the signing of an MoU with the Auditor General to ensure the timely appointment of an international external audit firm for the audits of BoSS financial statements from FY2022/23 onwards (MEFP ¶14), and the publication of budget implementation reports for FY2020/21 and the first two quarters of FY2021/22.

42. **The Fund's engagement with South Sudan over the medium and long term will be guided by the strategy outlined in the Country Engagement Strategy.** As elaborated in the summary of the Country Engagement Strategy (Annex I), policies to address the manifold sources of fragility in South Sudan should aim to maintain macro stability; increase agricultural production (a sector that provides the livelihoods for 80 percent of the population); enhance social spending; and foster private-sector investment. These policies need to be complemented with institutional reforms to strengthen governance and transparency.

43. **The economic reforms supported by the SMP are laying the ground for a potential ECF request at the end of the SMP.** South Sudan has significant medium-term BOP gaps to support its objective for poverty reduction and catch-up and inclusive growth, which would require financial support from development partners including the IMF. The track record so far under the SMP—especially in stabilizing the economy, reducing distortions in the FX market, and initiating governance reforms—is promising. Nevertheless, significant steps remain to be taken. These include (i) sustaining fiscal and monetary discipline to consolidate gains in macroeconomic stabilization; (ii) consolidating FX market liberalization reforms by bolstering reserves and expanding the set of available monetary instruments; (iii) strengthening debt management and oversight; (iv) deepening PFM reforms and implementing the Safeguards Assessment's recommendations; and (v) strengthening the anti-corruption and AML/CFT frameworks. Continued implementation of reforms in these areas will help build credibility with donors and unlock concessional financing.

OTHER ISSUES

A. Capacity Development

44. **The Fund is providing extensive technical assistance to the South Sudan but limited absorptive capacity is a risk for CD delivery.** The Fund is providing TA in many areas, including on PFM reforms, revenue mobilization, revenue administration, operationalizing the money targeting framework, liquidity forecasting, and macroeconomic statistics (Annex VI). The authorities have also requested further TA on debt management, public sector pay assessment, and public investment management. Traction of CD has improved recently but remains an issue due to the lack of leadership, weak governance, low morale, and high staff turnover. The mission discussed with the

authorities the strategies to improve the absorptive capacity to best make use of available TA. Given limited absorption capacity, an incremental approach to TA delivery would serve the authorities best. Experience under the SMP suggests that in-person TA, delivered through a longer-term program of hands-on activities, has delivered the most tangible benefits. The authorities expressed a strong preference for this approach.

B. Data for Surveillance

45. Data provision continues to have significant shortcomings that hamper surveillance. Most official macroeconomic data have significant weaknesses in terms of quality, periodicity, and timeliness. Data on government finances and oil sector transactions deteriorated in quality during the civil war. However, the authorities have been providing crucial information for surveillance on oil production, revenues and debts to its development partners through the PFM Oversight Committee, established in April 2020, and are working towards establishing a formal publications schedule for such data. South Sudan has been receiving intensive TA missions from the IMF to assess and improve the quality of official data on government finances, monetary and financial statistics, external sector statistics, and real sector statistics (Informational Annex). Progress is being made to improve data availability and quality, subject to resource and capacity constraints.

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46. South Sudan's economy is highly vulnerable to internal and external shocks, and the impact of the war in Ukraine via global markets adds new uncertainty. Over the past three years, the economic recovery from civil war has been impeded by the covid-19 pandemic, continued violent conflict in some states, and devastating floods. Flooding now threatens to become permanent in some areas due to ground saturation, further complicating the recovery of agricultural activity that would be needed to reduce the country's heavy reliance on food imports. While the recent rise in global commodity prices from the war in Ukraine will increase South Sudan's oil revenues and improve its overall balance of payment position, most of the population will experience the impact in the form of higher prices of everyday goods – especially food and fuel. Moreover, geopolitical uncertainty imply that the current oil windfall may be short-lived.

47. Against the challenging backdrop of the past months, the authorities have taken encouraging steps to reforming macroeconomic governance and restoring exchange rate and price stability. Under the SMP, the authorities have abolished the multiple exchange rate system, allowed banks to set buying and selling rates freely. This removal of FX restrictions and the authorities' tight control of the money supply have made it possible for individuals and firms to buy and sell foreign currency at predictable and competitive rates in recent months and have led to a dramatic reduction in inflation. FX reserves, while still low, have also been fairly stable since the start of the year. In addition to creating a more predictable economic environment for the private sector, these improvements in macroeconomic management have raised the authorities' standing with the international donor community. This is reflected in the World Bank's US$34 million IDA grant that was approved in March 2022 to support PFM reforms and will be the first World-Bank-financed project implemented through government systems since the end of South Sudan's civil war.[14]

48. Staff strongly encourages the authorities to consolidate these gains by keeping money growth stable and managing public finances prudently. The Bank of South Sudan should continue FX auctions to aid price discovery in the market, while adhering to its reserve money target. There are first signs that the improvements in macroeconomic stability are yielding economic benefits; but building private-sector confidence in the durability of the new monetary regime will take time. In turn, ensuring this durability requires prudent management of public finances. The authorities should use the proceeds from higher oil revenues to enhance the resilience of South Sudan's economy, by reducing the stock of non-concessional debt, building FX reserves, and investing in growth-enhancing infrastructure. Lower debt obligations, higher reserves and a broader revenue base are needed to guard against a destabilizing return to monetary financing during the next downturn.

49. The implementation of structural reforms under the SMP has encountered delays. While the authorities have initiated several PFM reforms – to strengthen cash management and improve fiscal transparency – progress has been slow. Several structural benchmarks were only completed with a multi-month delay. The FY2021/22 budget cycle also revealed severe weaknesses in the budget implementation process. Unbudgeted expenditures and the discovery of further external obligations through NIDB crowded out anticipated service and led to a temporary resurgence of salary arrears.

50. The authorities should continue the PFM reforms and safeguard the integrity of the budget process as a matter of priority. Staff welcomes the authorities' commitment to complete the program of reforms in progress under the SMP. Staff also welcomes the authorities' steps to implement the recommendations made by the Auditor General's report on the first RCF disbursements, including paying salaries through for public sector employees through commercial banks and exploring ways to issue biometrics identifications to all public sector employees with assistance from the World Bank. The MoFP should proceed to publish quarterly budget implementation reports and to establish a timetable for the publication of such reports, in line with the reporting requirements laid out by Parliament. It should also provide a public account of the US$150 million from the recent SDR allocation used for budget support. Critically, the authorities need to establish mechanisms to ensure that unbudgeted expenditures cannot be executed without formal scrutiny, and that key budgeted expenditures – most notably, public sector salaries – are protected.

51. Staff are encouraged by the continuing improvements in the capacity and transparency of BoSS. The publication of BoSS audits for the years 2015–20 represents significant improvements in transparency. The Bank is also working to expand its monetary toolkit, to strengthen liquidity monitoring and forecasting and to improve its public communication. Alongside

[14] This represents the only on-budget support to South Sudan at present and is heavily ear-marked. All other donor-funded grants are being implemented through third parties.

these steps, BoSS should reassert its supervisory authority over South Sudan's small domestic banking sector by completing work its risk-based supervision policy and addressing the sector's long-standing undercapitalization.

52. **Addressing South Sudan's economic development will needs require sustained efforts by international development partners as well as the authorities.** Continued macroeconomic stability and a predictable, transparent FX regime are preconditions for furthering other reforms and reducing conflict potential. It is encouraging that many of the 2019 Article IV recommendations have been implemented, despite the challenging economic environment. The focus of future IMF engagement with South Sudan will be to put macroeconomic reforms initiated under the SMP on a sustainable footing, and to support further governance and transparency measures. However, South Sudan's economic and development needs are much broader. In the near term, the country requires continued humanitarian support to manage the fallout from its civil war and recent flooding. Recent indications of a decline in donor support are worrying in this respect. In the medium term, sustained investment and technical assistance are crucial to address the country's manifold development needs. To unlock the necessary support from international partners, the authorities must signal their willingness to manage their resources––most notably, oil revenues––transparently and to assume a greater share of the provision of basic services to the country's population.

53. **The team will continue to support the authorities' CD needs with policy advice and a tailored capacity building program that prioritizes key areas.** The capacity needs in South Sudan remain substantial across all sectors. An incremental approach of TA delivery should serve the authorities best and addresses the risks arising from limited absorptive capacity. Support will prioritize reform-related areas such as PFM, fiscal governance, anti-corruption, debt management, revenue administration, monetary operations, among others.

54. **Staff supports the authorities' request for completion of the second review of the SMP, given the overall robust performance and authorities' commitment to meeting program objectives, and an extension of the SMP until November 2022.** The successful monetary and FX reforms constitute significant progress, and the authorities have taken meaningful steps to increase transparency in relation to public revenues, spending and debt. As a result, despite slower-than-expected progress, most of the program objectives have been met. The extension of the SMP will allow for the completion of the final structural benchmark and continued close cooperation between staff and authorities on the FY2022/23 budget and PFM reform program. The authorities have indicated their intention to apply for an ECF alongside the final review of the SMP. Staff would support entering discussions about such a program provided the completion of the SMP is satisfactory and the capacity of the country to implement a UTC-quality program is demonstrated, and if a protracted BOP problem is confirmed, reliable data is produced in a timely fashion, and there is sufficient capacity for South Sudan to repay the IMF. The conditionality of a possible ECF would need to be carefully calibrated to maximize the chance of a catalytic effect towards mobilizing donor support to tackle South Sudan's longer-term development needs. To mitigate risks to a potential ECF from the currently weak debt management practices, staff urges the authorities to follow the legal framework set out in the Constitution and the PFM Act of 2011, including to ensure

that the Loan Committee that has been reconstituted under the MoFP approves any external debt contract by the Republic of South Sudan before they are sent for final approval to the Cabinet of Ministers and the National Assembly.

55. Staff recommends that the next Article IV Consultation for South Sudan be held on the 12-month cycle.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2019/20–2026/27[1]

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.		Projections				
	(Annual percent of change, unless otherwise indicated)							
Output, prices, and exchange rate								
Real GDP (percent change)	13.2	-5.0	-2.8	-0.3	4.6	4.8	5.2	5.3
Oil	26.4	-0.9	-7.4	-3.8	3.3	3.2	3.1	3.0
Non-oil	0.5	-11.8	6.3	7.3	7.0	7.5	8.4	8.3
Inflation (average)	33.6	43.5	2.1	11.5	16.8	10.2	8.3	8.0
Inflation (end-of-period)	12.7	44.7	1.2	21.7	12.0	8.5	8.0	8.0
Oil GDP (percent of GDP)	62.4	66.4	66.3	66.1	61.5	58.9	55.0	51.6
GDP deflator	-1.9	31.8	219.6	47.1	3.9	-2.9	1.2	2.8
Official exchange rate (SSP/US$, average)	160.8	190.7	422.7	557.3	627.2	649.0	668.5	688.6
Official exchange rate (SSP/US$, end period)	163.8	322.6	499.7	…	…	…	…	…
Parallel market exchange rate (SSP/US$, average)	309.2	522.9	432.1	…	…	…	…	…
Money and credit								
Broad money	42.1	67.9	32.5	11.7	…	…	…	…
Monetary base	42.3	53.4	23.9	2.9	…	…	…	…
Credit to non-government sector	35.2	60.6	51.9	4.3	…	…	…	…
M2/GDP (percent)	20.7	27.7	11.8	9.0	…	…	…	…
	(Percent of GDP, unless otherwise indicated)							
Central government budget								
Total revenues and grants	29.5	34.6	29.6	31.1	30.0	28.9	27.5	26.2
Of which : Oil	25.5	29.8	27.0	28.5	27.0	25.9	24.2	22.7
Of which : Non-oil tax revenue	4.0	4.8	2.6	2.6	3.0	3.0	3.2	3.5
Of which : Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	39.5	38.3	30.0	31.7	29.9	28.9	27.7	26.9
Current	35.7	27.3	21.1	19.2	25.0	24.8	23.5	22.7
Of which : transfers to Sudan	13.1	11.0	7.8	5.1	5.4	5.7	5.7	5.6
Net acquisition of non-financial assets	3.8	11.0	8.9	11.5	4.2	4.2	4.2	4.2
Overall balance (cash)	-10.0	-3.7	-0.4	-0.6	0.1	0.0	-0.2	-0.7
Change in arrears	-3.4	-0.7	-0.9	0.0	0.0	0.0	0.0	0.0
of which: salary arrears	…	-0.7	-0.9	…	…	…		
Overall balance (accrual balance)	-6.6	-3.0	0.5	-0.6	0.1	0.0	-0.2	-0.7
Public debt								
Total public debt[2]	51.3	61.9	42.1	34.7	33.0	33.4	32.5	31.6
Of which : external public debt	40.1	45.9	33.4	28.8	27.5	27.4	26.2	24.9
External sector								
Exports of goods and services	63.7	67.6	67.2	65.6	62.5	60.1	56.3	52.9
Imports of goods and services	89.2	87.9	66.6	71.0	72.5	75.9	73.5	71.9
Current account balance (including grants)	-17.4	-4.2	4.5	1.2	0.1	-3.1	-3.2	-4.1
Current account balance (excluding grants)	-37.0	-30.2	-12.3	-18.5	-21.5	-25.7	-26.3	-26.8
Gross foreign reserves (millions of US dollars)	129.5	187.4	191.8	342.3	446.0	487.6	540.8	607.2
Gross foreign reserves (in months of imports)	0.3	0.5	0.4	0.7	0.9	1.0	1.1	1.2
Memorandum items:								
Population (millions)	13.6	14.0	14.4	14.8	15.2	15.7	16.1	16.6
Oil production (millions of barrels)	62.1	61.5	56.9	54.8	56.6	58.4	60.2	62.1
South Sudan's oil price (U.S. dollars per barrel)	49.3	55.9	84.5	95.5	84.7	77.3	72.3	69.1
Brent price (U.S. dollars per barrel)	51.3	55.2	86.5	97.5	86.7	79.3	74.3	71.1
Nominal GDP (billions of SSP)	789	988	3,068	4,501	4,889	4,972	5,290.2	5,725.1
Nominal GDP (billion US$)	4.9	5.2	7.3	8.1	7.8	7.7	7.9	8.3
External debt (millions US$)	1,931	2,377	2,048	2,105	2,105	2,071	2,044	2,040
GNI per capita (US dollars)	320.8	318.2	439.2	473.4	452.8	440.1	446.1	461.8
Nominal SSP GDP (percent change)	11.0	25.2	210.6	46.7	8.6	1.7	6.4	8.2

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Public external debt in U.S. dollars in percent of U.S. dollar GDP.

Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20–2026/27[1]

(In billions of South Sudanese pounds)

	2019/20	2020/21	2021/22		2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.	Budget	Proj.	Projection				
Total revenue and grants	**232.8**	**341.5**	**602.4**	**907.7**	**1,398.9**	**1,469.0**	**1,438.7**	**1,453.1**	**1,499.9**
Total oil revenues	201.1	294.1	544.2	828.1	1,281.9	1,322.4	1,289.6	1,281.2	1,299.6
Non-oil tax revenue	31.8	47.4	58.2	79.6	117.0	146.7	149.2	171.9	200.4
Total expenditure	**311.4**	**378.0**	**645.5**	**919.1**	**1,425.2**	**1,464.1**	**1,439.2**	**1,464.5**	**1,538.2**
Current expenditure	281.6	269.5	526.1	647.4	863.6	1,220.3	1,231.5	1,243.6	1,299.1
Salaries	36.5	44.1	123.0	124.0	237.8	357.5	323.2	317.4	343.5
Operating expenses	82.7	60.4	77.8	103.0	160.8	268.9	273.5	264.5	257.6
Interest	16.7	1.2	2.0	40.9	41.5	47.3	46.9	45.7	46.2
Transfers to states	10.9	36.8	23.9	52.5	76.7	84.6	80.5	78.4	78.4
Conditional transfers	4.8	8.8	9.0	9.2	13.5	21.1	20.1	19.6	19.6
Current transfers to states	3.6	8.8	9.0	9.2	13.5	10.6	10.1	9.8	9.8
Capital transfers to states	1.2	0.0	0.0	0.0	0.0	10.6	10.1	9.8	9.8
Transfers to oil producing states (5%)	6.0	14.7	14.9	29.4	52.7	52.8	50.3	49.0	49.0
Block grants to states	0.0	13.3	0.0	13.9	10.5	10.6	10.1	9.8	9.8
Transfers to Sudan[2]	103.6	109.1	245.3	239.7	228.2	265.4	283.5	301.2	319.6
Transportation and transit fees	22.0	0.0	90.0	102.7	228.2	265.4	283.5	301.2	319.6
Financial transfer	81.7	0.0	155.3	137.0	0.0	0.0	0.0	0.0	0.0
Salary arrears repayment	…	0.0	0.0	0.0	45.0	39.7	0.0	0.0	0.0
Other expenses	31.2	33.5	54.1	87.2	118.5	123.3	124.5	130.6	139.3
Subsidies and transfers to public enterprises	20.5	23.5	32.7	65.8	90.0	97.8	99.4	105.8	114.5
Emergency contingency fund	0.0	10.0	6.4	6.4	13.5	10.6	10.1	9.8	9.8
Peace agreement	10.7	0.0	15.0	15.0	15.0	15.0	15.0	15.0	15.0
Net acquisition of non-financial assets	29.8	108.4	119.4	271.6	516.6	204.2	207.6	220.9	239.1
of which: Road project			88.0	271.6	128.1				
Domestically financed	19.2	108.4	…	203.7	387.4	153.1	155.7	165.7	179.3
Foreign financed	10.6	0.0	…	67.9	129.1	51.0	51.9	55.2	59.8
Covid-19 Fund		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	**-78.5**	**-36.4**	**-43.1**	**-11.4**	**-26.3**	**4.9**	**-0.5**	**-11.4**	**-38.3**
Change in non-salary arrears	-26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual balance)	**-51.9**	**-36.4**	**-43.1**	**-11.4**	**-26.3**	**4.9**	**-0.5**	**-11.4**	**-38.3**
Statistical discrepancy	138.9	47.2	0.0	-397.6	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**31.4**	**0.0**	**234.9**	**233.8**	**276.7**	**235.4**	**242.2**
Financing	**190.8**	**83.6**	**11.7**	**-386.2**	**-208.6**	**-238.7**	**-276.3**	**-224.0**	**-203.9**
Domestic (net)	30.3	0.0	11.7	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from the central bank	44.2	0.0	11.7	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from commercial banks	12.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	-26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	160.4	83.6	0.0	-386.2	-208.6	-238.7	-276.3	-224.0	-203.9
Disbursement	266.6	131.0	0.0	63.4	0.0	0.0	0.0	0.0	0.0
of which: RCF-1 Initial Disbursement		9.1	…	…	…	…	…	…	…
of which: RCF-1 Auction Gain		14.7	…	…	…	…	…	…	…
of which: RCF-2 Initial Disbursement		16.1	…	…	…	…	…	…	…
of which: RCF-2 Auction Gain		13.9	…	0.0	…	…	…	…	…
of which: new SDR		…	…	60.0	…	…	…	…	…
Amortization	-106.2	-47.4	0.0	-202.3	-208.6	-238.7	-276.3	-224.0	-203.9
Credit to Sudan (TFA overpayment)			0.0	-247.3	…	…	…	…	…
Memorandum items:									
Non-oil domestic current fiscal balance[3]	-140.1	-98.3	-207.6	-298.7	-465.7	-755.3	-748.6	-721.5	-730.2
Oil production (millions of barrels)	62.1	61.5	56.2	56.9	54.8	56.6	58.4	60.2	62.1
Nominal GDP (bn of South Sudanese pounds)	788.7	987.6	3,067.8	3,067.8	4,500.7	4,889.0	4,972.1	5,290.2	5,725.1

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Transfer to Sudan is the sum of TFA payment (financial transfer) and transportation fee (9.1 US$/barrel) from using the oil pipeline. The financial transfer will be zero after the completion of the the TFA agreement.

[3] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees), minus tranfers to oil producing states and communities.

Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20-2026/27[1]

(In percent of GDP)

	2019/20	2020/21	2021/22		2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.	Budget	Proj.		Projection			
Total revenue and grants	**29.5**	**34.6**	**19.6**	**29.6**	**31.1**	**30.0**	**28.9**	**27.5**	**26.2**
Total oil revenues	25.5	29.8	17.7	27.0	28.5	27.0	25.9	24.2	22.7
Non-oil tax revenue	4.0	4.8	1.9	2.6	2.6	3.0	3.0	3.2	3.5
Total expenditure	**39.5**	**38.3**	**21.0**	**30.0**	**31.7**	**29.9**	**28.9**	**27.7**	**26.9**
Current expenditure	35.7	27.3	17.1	21.1	19.2	25.0	24.8	23.5	22.7
Salaries	4.6	4.5	4.0	4.0	5.3	7.3	6.5	6.0	6.0
Operating expenses	10.5	6.1	2.5	3.4	3.6	5.5	5.5	5.0	4.5
Interest	2.1	0.1	0.1	1.3	0.9	1.0	0.9	0.9	0.8
Transfers to states	1.4	3.7	0.8	1.7	1.7	1.7	1.6	1.5	1.4
Conditional transfers	0.6	0.9	0.3	0.3	0.3	0.4	0.4	0.4	0.3
Current transfers to states (to MoP 3%)	0.5	0.9	0.3	0.3	0.3	0.2	0.2	0.2	0.2
Capital transfers to states (1%)	0.2	0.0	0.0	0.0	0.0	0.2	0.2	0.2	0.2
Transfers to oil producing states (5%)	0.8	1.5	0.5	1.0	1.2	1.1	1.0	0.9	0.9
Block grants to states	0.0	1.3	0.0	0.5	0.2	0.2	0.2	0.2	0.2
Transfers to Sudan[2]	13.1	11.0	8.0	7.8	5.1	5.4	5.7	5.7	5.6
Transportation and transit fees	2.8	0.0	2.9	3.3	5.1	5.4	5.7	5.7	5.6
Financial transfer	10.4	0.0	5.1	4.5	0.0	0.0	0.0	0.0	0.0
Salary arrears repayment …	…	0.0	0.0	0.0	1.0	0.8	0.0	0.0	0.0
Other expenses	4.0	3.4	1.8	2.8	2.6	2.5	2.5	2.5	2.4
Subsidies and transfers to public enterprises	2.6	2.4	1.1	2.1	2.0	2.0	2.0	2.0	2.0
Emergency contingency fund	0.0	1.0	0.2	0.2	0.3	0.2	0.2	0.2	0.2
Peace agreement	1.4	0.0	0.5	0.5	0.3	0.3	0.3	0.3	0.3
Net acquisition of non-financial assets	3.8	11.0	3.9	8.9	11.5	4.2	4.2	4.2	4.2
of which: Road project			2.9	8.9	2.8				
Domestically financed	2.4	11.0	…	6.6	8.6	3.1	3.1	3.1	3.1
Foreign financed	1.3	0.0	…	2.2	2.9	1.0	1.0	1.0	1.0
Covid-19 Fund		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (cash)	**-10.0**	**-3.7**	**-1.4**	**-0.4**	**-0.6**	**0.1**	**0.0**	**-0.2**	**-0.7**
Change in non-salary arrears	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual)	**-6.6**	**-3.7**	**-1.4**	**-0.4**	**-0.6**	**0.1**	**0.0**	**-0.2**	**-0.7**
Statistical discrepancy	17.6	4.8	0.0	-13.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**1.0**	**0.0**	**5.2**	**4.8**	**5.6**	**4.4**	**4.2**
Financing	**24.2**	**8.5**	**0.4**	**-12.6**	**-4.6**	**-4.9**	**-5.6**	**-4.2**	**-3.6**
Domestic (net)	3.8	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from the central bank	5.6	0.0	0.4	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from commercial banks	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	20.3	8.5	0.0	-4.5	-4.6	-4.9	-5.6	-4.2	-3.6
Disbursement	33.8	13.3	0.0	2.1	0.0	0.0	0.0	0.0	0.0
of which: RCF-1 Initial Disbursement		0.9	…	…	…	…	…	…	…
of which: RCF-1 Auction Gain		1.5	…	…	…	…	…	…	…
of which: RCF-2 Initial Disbursement		1.6	…	…	…	…	…	…	…
of which: RCF-2 Auction Gain		1.4	…	0.0	…	…	…	…	…
of which: new SDR		…	…	2.0	…	…	…	…	…
Amortization	-13.5	-4.8	0.0	-6.6	-4.6	-4.9	-5.6	-4.2	-3.6
Credit to Sudan (TFA overpayment)			0.0	-8.1	…	…	…	…	…
Memorandum items:									
Non-oil domestic current fiscal balance[3]	-17.8	-10.0	-6.8	-9.7	-10.3	-15.4	-15.1	-13.6	-12.8
Oil production (millions of barrels)	62.1	61.5	56.2	56.9	54.8	56.6	58.4	60.2	62.1
Nominal GDP (bn of South Sudanese pounds)	788.7	987.6	3,067.8	3,067.8	4,500.7	4,889.0	4,972.1	5290.2	5725.1

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Transfer to Sudan is the sum of TFA payment (financial transfer) and transportation fee (9.1 US$/barrel) from using the oil pipeline. The financial transfer will be zero after the completion of the TFA agreement.

[3] Non-oil revenue excluding grants minus domestically-financed current expenditure minus transfers to Sudan (including pipeline fees), minus tranfers to oil producing states and communities.

Table 3. Republic of South Sudan: Monetary Accounts, June 2018–June 2023

(In billions of South Sudanese pounds, unless otherwise indicated)

	2018	2019	2020	2021	2022	2023
	Jun	Jun	Jun	Jun	Jun	Jun
	Actual		Projections			
			Monetary Survey			
Net foreign assets	**-58.0**	**-69.2**	**-71.4**	**-199.3**	**-332.2**	**-285.4**
Claims on nonresidents	41.5	55.3	89.3	143.1	202.5	321.7
Central bank	7.6	5.0	21.2	52.8	60.6	173.8
Commercial banks	33.9	50.3	68.1	90.3	141.9	147.8
Liabilities to nonresidents	99.6	124.5	160.7	342.4	534.7	607.1
Central bank	20.8	23.1	23.7	76.5	235.1	241.0
Commercial banks	78.8	101.5	136.9	265.9	299.5	366.1
Net domestic assets	**147.4**	**184.0**	**234.4**	**473.0**	**695.0**	**690.6**
Net domestic credit	180.5	149.6	209.8	369.9	470.9	472.2
Net claims on central government	175.0	140.6	197.6	350.3	441.2	441.2
Claims on other sectors	5.5	9.0	12.2	19.6	29.7	31.0
Other items (net)	-33.1	34.3	24.7	103.1	224.1	218.4
Broad money	**89.4**	**114.7**	**163.0**	**273.7**	**362.8**	**405.2**
Currency outside banks	27.1	36.9	59.5	74.3	83.8	87.8
Transferable deposits	50.6	90.6	171.3	171.3	232.6	292.9
o/w: in foreign currency	47.5	57.0	67.5	143.0	196.0	241.2
Other deposits	11.6	10.9	28.9	28.9	46.4	54.4
o/w: in foreign currency	6.0	4.0	3.6	16.0	16.3	20.1
			Central Bank			
Net foreign assets	**-13.1**	**-18.1**	**-2.5**	**-23.6**	**-174.5**	**-67.2**
Claims on nonresidents	7.6	5.0	21.2	52.8	60.6	173.8
Liabilities to nonresidents	20.8	23.1	23.7	76.5	235.1	241.0
Net domestic assets	**102.5**	**122.7**	**151.3**	**251.9**	**457.3**	**358.1**
Net domestic credit	88.4	35.3	78.7	110.8	111.4	111.5
Claims on commercial banks	1.2	2.8	2.0	1.7	2.0	2.0
Net claims on central government	87.2	32.5	76.7	108.8	108.8	108.8
Claims on central government	94.7	39.3	79.3	146.5	264.8	264.8
Liabilities to central government	7.5	6.8	2.6	37.6	155.9	155.9
Other items (net)	14.0	87.4	72.6	141.1	345.9	246.6
Monetary base	**89.3**	**104.6**	**148.8**	**228.3**	**282.8**	**291.0**
Currency in circulation	30.5	42.8	67.3	96.1	110.3	109.5
Liabilities to commercial banks	55.9	58.7	77.4	123.5	150.6	159.7
Liabilities to other sectors	3.0	3.1	4.2	8.7	21.9	21.7
Memorandum items:						
Money multiplier	1.0	1.1	1.1	1.2	1.3	1.4
Share of foreign currency deposits to total deposits	0.9	0.6	0.4	0.8	0.9	0.9
Monetary base (year-on-year change in percent)	29.0	17.1	42.3	53.4	23.9	2.9
Broad money (year-on-year change in percent)	69.2	28.4	42.1	67.9	32.5	11.7

Sources: South Sudanese authorities; and IMF staff estimates and projections.

Table 4. Republic of South Sudan: Balance of Payments, 2019/20–2026/27[1]

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

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.	Projections					
Current account balance	**-856**	**-217**	**330**	**99**	**6**	**-241**	**-254**	**-338**
Trade Balance	-606	-408	741	463	196	-144	-228	-364
Exports of goods	3,089	3,467	4,840	5,266	4,839	4,572	4,421	4,365
Oil	3,061	3,440	4,810	5,227	4,792	4,516	4,356	4,289
Nonoil	27	27	30	38	48	56	65	76
Imports of goods	-3,695	-3,875	-4,099	-4,802	-4,644	-4,715	-4,649	-4,730
Balance of Services	-649	-645	-704	-895	-974	-1,064	-1,136	-1,215
Exports of services	34	34	34	34	34	34	34	34
Imports of services	-682	-679	-738	-929	-1,008	-1,098	-1,169	-1,248
o/w: oil-related	-438	-437	-471	-613	-633	-667	-682	-696
of which non-oil	-244	-242	-267	-316	-375	-431	-488	-552
Income	-558	-511	-930	-1,063	-896	-762	-715	-646
Wages of expatriate oil workers	-150	-162	-168	-168	-195	-221	-212	-203
Investors' profits	-348	-314	-693	-855	-686	-554	-540	-497
Investment income (net)	-84	-59	-97	-74	-75	-72	-68	-67
Current Transfers (net)	957	1,348	1,223	1,594	1,680	1,728	1,825	1,887
General government	0	0	0	0	0	0	0	0
Workers' remittances (net)	77	76	83	98	117	134	0	0
Financial transfers to Sudan	-508	0	-268	0	0	0	0	0
Other sectors	1,248	1,272	1,353	1,393	1,435	1,478	1,523	1,568
Capital and financial account	**637**	**275**	**-326**	**-330**	**-268**	**-138**	**-40**	**58**
Capital account	0	0	0	0	0	0	0	0
Financial account	637	275	-326	-330	-268	-138	-40	58
Foreign direct investment[2]	-18	47	48	44	113	180	154	179
of which: non-oil	22	24	24	24	24	24	24	24
Other investment	655	228	-374	-381	-318	-195	-120	-139
Overall balance	**-218**	**58**	**4**	**-232**	**-262**	**-379**	**-294**	**-280**
Errors and omissions	317	0	0	0	0	0	0	0
Financing	**-99**	**-58**	**-4**	**-150**	**-104**	**-42**	**-53**	**-66**
Change in net foreign assets of the central bank	-99	-58	-4	-150	-104	-42	-53	-66
of which : Change in gross reserves (Increase -)	-98	-58	-4	-150	-104	-42	-53	-66
of which : New SDR allocation[3]			-150	...	...	...	...	...
Financing gap	0	0	0	382	366	420	347	347
Memorandum items:								
Current account balance including transfers (percent of GDP)	-17.4	-4.2	4.5	1.2	0.1	-3.1	-3.2	-4.1
Current account balance excluding transfers (percent of GDP)	-37.0	-30.2	-12.3	-18.5	-21.5	-25.7	-26.3	-26.8
South Sudan oil price (dollars per barrel; weighted average)	49.3	55.9	84.5	95.5	84.7	77.3	72.3	69.1
Gross foreign reserves (millions of US dollars)	130	187	192	342	446	488	541	607
In months of current year's imports of goods and services	0.3	0.5	0.4	0.7	0.9	1.0	1.1	1.2
Oil production (millions of barrels)	62.1	61.5	56.9	54.8	56.6	58.4	60.2	62.1
Nominal GDP (billions of U.S. dollars)	4.9	5.2	7.3	8.1	7.8	7.7	7.9	8.3

Sources: South Sudanese authorities; and IMF staff estimates and projections.

[1] The fiscal year runs from July to June.

[2] Net of outflows associated with the repatriation of oil investments (Capex cost oil).

[3] The full SDR allocation was US$335 million, of which US$150 million was on-lent to the budget while US$185 million was used to strengthen reserves.

Table 5. Republic of South Sudan: Quantitative Targets Under the Staff-Monitored Program

	End-Jun 2021 SMP Target	End- June 2021 Actual	End-Oct 2021 SMP Target	End-Oct 2021 Actual	End-Aug 2022 Proposed
Central government's primary cash budget deficit (ceiling: in billions of SSP)[1]	10.0	25.9 (Not met)	35.9	32.0 (Met)	25.0
Central bank net credit to the central government (ceiling: in billions of SSP)[2]	0.0	0.0 (Met)	0.0	25.0[3] (Not met)	25.0[4]
Contracting or guaranteeing of non-concessional borrowing (continuous ceiling: in millions of U.S. dollars)[5]	0.0	650.0 (Not met)	0.0	0.0 (Met)	0.0
Average net international reserve (floor: in millions of U.S. dollars)[6]	85.0	131.0 (Met)	284.0	406.0 (Met)	170.0
Clearance of salary arrears (floor: in billions of SSP)[7]	7.3	14.5 (Met)	14.5	10.6 (Not met)	18.2
Average reserve money growth (ceiling: in percentage points)[8]	5.0	-2.6 (Met)	10.0	-5.4 (Met)	15

[1] Numbers are cumulative from March 30, 2021 for June and October 2021 and cumulative from June 30, 2022 for August 2022.

[2] Numbers are cumulative changes from March 30, 2021. NCG should be zero in at least half of the quarter and never higher than 5 percent of quarterly revenue.

[3] Breach of the ceiling on NCG arose from clearance of salary arrears out of MoFP FX deposits with BoSS, without an increase in the government overdraft.

[4] Ceiling adjusted up to allow for on-lending of the remaining portion of the SDR allocation to be used for budget support, as agreed under the SMP.

[5] Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program or for critical COVID-related spending, and for which concessional financing is not available. The MoFP entered into an agreement for an external non-concessional loan in April 2021 for an amount of US$650 million without prior consultation with Fund staff, and the BoSS issued a sovereign guarantee related to this loan agreement in July 2021. This loan and associated guarantee were canceled in October 2021.

[6] Targets on NIR for end-June and end-October 2021 and end-August 2022 are defined as the cumulative changes of the average stock of daily NIR balances during, respectively, June and October 2021 and August 2022 relative to the stock of NIR on March 30, 2021.

[7] Cumulative from end-March 2021.

[8] Limits on reserve money growth for end-June, end-October 2021, and end-August 2022 are defined as the cumulative changes of the average reserve money during, respectively, June 2021, October 2021, and August 2022 relative to the reserve money stock at end-March 2021.

Table 6. Republic of South Sudan: Structural Benchmarks and Prior Actions Under the Staff-Monitored Program

Measures	Target Date[1]	Current Status
(i) MoFP to publish on its website the stock of all external debt and guarantees as of December 2021, (ii) contract with an internationally reputable external auditor to be signed, for said auditor to review and verify all underlying contracts and documentation	Prior Action	Met (June 2022 and July 2022 respectively)
1. Gradually roll-out to selected MDAs the use of cash for payment of salaries to all public servants and mandate the use of bank accounts	Sep-21	Not met. Implemented with Delay. Circular issued in September instructing MDAs to make payment of salaries of their staff through bank accounts as of July 1, 2022.
2. CMU will make a comprehensive review of the expenditures in the cash plan and together with the Budget make a proposal for programming the expenditures according to GOSS priorities	Sep-21	Not met. Implemented with delay.
3. Conduct an audit by an external independent auditor to take stock of all outstanding external loan agreements and guarantees and publish the results of the audit.	Dec-21	Not met. In progress: Completion of the audit and publication of its results rescheduled as structural benchmark for November 15, 2022 (see item 7 below).
4. Publish findings and recommendations of the audit of the spending of the April 2021 RCF disbursement	Aug-22	Proposed. The audit was completed, and a preliminary report for it was prepared. It is expected to be published in late-July/early-August 2022, and the SB is scheduled for end-August 2022.
5. BoSS to sign an MoU with the Auditor General to ensure the timely appointment of an international external audit firm for the audits of the BoSS financial statements from FY2022/23 onwards (MEFP ¶14). Proposed.	Oct-22	Proposed.
6. Publication of budget execution reports for FY2020/21 and FY2021/22.	Oct-22	Proposed.
7. Completion of an audit by an independent external auditor to take stock of all outstanding external loan agreements and guarantees and publish the results of the audit	Nov. 15, 2022	Proposed

[1] Target Dates refer to end of the month unless otherwise stated.

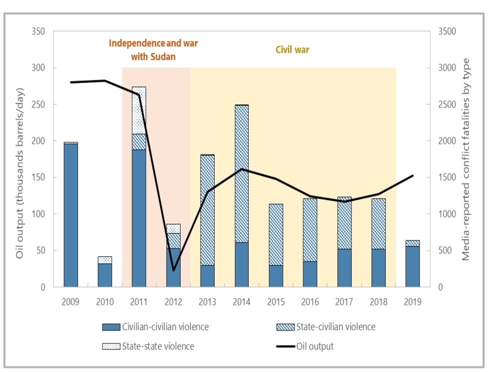
Annex I. Country Engagement Strategy—Summary

A. Background and Context

1. **South Sudan's economic and social indicators, which were already among the world's lowest at the time of its independence in 2011, have deteriorated over the past decade.** At the time of its independence in 2011, South Sudan already ranked as one of the world's poorest countries. Over the subsequent decade external and internal conflict damaged production capacity in the oil sector, the country's most important economic activity (Text Figure 1). There is also a persistent gap between per-capita cereal requirement and output (Text Figure 2). As a result, 60 percent of the population experience acute food insecurity for at least part of the year.[1] Although the Revitalized Agreement on the Resolution of Conflict of South Sudan (R-ARCSS) formally ended the country's civil war in 2018, violent conflict continues locally to varying degrees. Several other indicators also point to severe social and structural issues in South Sudan. The literacy rate was less than 35 percent among adults in 2018 and life expectancy in 2019 was among the lowest in the world at around 57 years.

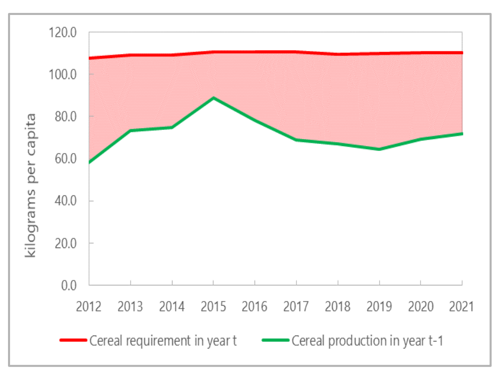
2. **Conflict and overlapping crises have prevented South Sudan from building inclusive governance institutions and providing basic public services.** Political power is heavily concentrated in the capital Juba. This concentration of power, combined with weak transparency and institutions, have undermined the management of public resources and exacerbated the poor quality of infrastructure and limited civil-service capacity. The wide gulf between the written law and the actual practice of government, and incidents of the capture of government policies by vested interests have led to a credibility gap with the international donor community. Yet donor support remains a vital lifeline. Off-budget support from international donors, worth US$1.4 billion per year, is the sole source of basic food, health and education provision for a large share of the population.

Text Figure 1. Media-Reported Conflict Fatalities and Oil Output Over Time



Sources: Uppsala Conflict Data Program, South Sudanese Authorities, and IMF staff calculations.

Text Figure 2. Estimated Cereal Production and Requirement



Sources: FAO, and IMF staff calculations.

[1] Source: FAO Special Report on South Sudan, May 2021; https://www.fao.org/publications/card/en/c/CB4498EN

B. Sources and Consequences of Fragility

3. South Sudan's short history suggests it may be on the verge of falling into a "fragility trap", with violent conflict, widespread poverty and weak institutions mutually reinforcing each other. Institutional failure and scarcity of economic opportunities provide fertile ground for armed violence and the erosion of state authority, capacity, and legitimacy. As a result, political uncertainty persists, and inter-community violence continues to simmer. In turn, conflict impedes the establishment of robust governance institutions and curtails investment and economic development. The resulting institutional gaps can be exploited by actors seeking to divert a share of the country's resources.

4. There are many interlocking sources of South Sudan's state fragility.

- **An overly centralized state with limited legitimacy and checks on the Executive:** The executive branch of South Sudan's government is headed by the President, who is both the chief of state and head of government. With a constitution still to be drafted and elections yet to be held, the President currently enjoys a virtual monopoly of power, able to appoint and dismiss ministers, judges, civil servants, and state governors with few formal constraints.
- **Rent extraction by vested interests:** There is little accountability in the management of public resources by a small group of politicians and businesspeople. The U.S. Government has sanctioned several highly connected South Sudanese individuals and companies in connection with corruption and the illicit appropriation of government resources.[2] South Sudan is also subject to UN sanctions on human rights grounds including arms embargo, travel bans and financial measures.
- **Violent conflict:** Violence––including gender-based violence––is widespread and affects almost every state in the country. Among the structural causes of this violence are disputes over land and cattle resulting from weak property rights, incomplete demobilization and an uncontrolled circulation of guns, and high levels of youth unemployment.
- **A large security sector/incomplete demobilization from civil war:** A compromise on the contentious unification of the armed forces was belatedly announced in April 2022. While this process remains incomplete, both the government and opposition retain their own forces of indeterminate size. A potential breakdown of the army unification process poses one of the most serious threats to the implementation of the R-ARCSS.
- **The legacy of independence from Sudan:** South Sudan encompasses most of the oil fields of the former state it shared with Sudan until 2011. Yet the country remains entirely reliant on Sudanese pipelines and port facilities to export the oil it extracts. Unresolved political bargaining over the future division of oil revenues with Sudan has significant fiscal implications for South Sudan and is a possible source of regional political tensions.
- **Weak public financial management, including poor oversight in relation to government spending and borrowing:** Public financial management remains weak, in

[2] See the OFAC Sanctions List: https://sanctionssearch.ofac.treas.gov/

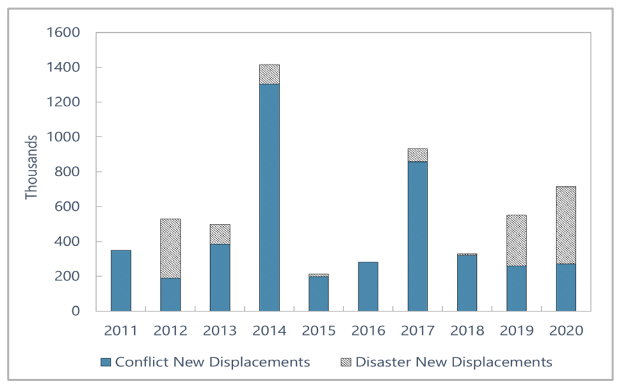
relation to procurement, fiscal reporting as well as cash and debt management. There was no central oversight over borrowing until recently and, as a result, the full extent of South Sudan's external debts remains uncertain.

- **An economy over-reliant on oil:** Oil contributes about 60 percent of GDP, 95 percent of exports and 90 percent of government revenue. This makes the economy extremely susceptible to external shocks including fluctuations in oil prices and internal shocks such as the recent damage to oil production by flooding.

- **A large, displaced population:** Conflict and floods continue to displace a significant population in South Sudan. South Sudan is estimated to host approximately 1.5 million internally displaced persons, 2.3 million of its citizens live as refugees in neighboring countries (more than 50 percent of whom are children), and 8.3 million people out of a population of 13 million rely on some form of humanitarian aid.[3]

- **An increasingly apparent exposure to climate shocks:** South Sudan has experienced devastating floods in the last three years, described as the worst since the 1960s. The UN estimates that the floods have affected at least 800,000 people and driven more than 200,000 from their homes in 2021. In line with this, disaster fallouts have overtaken conflict as a cause for new displacements in recent years (Text Figure 3).

Text Figure 3. New Displacements Over Time and by Cause



Sources: IDMC, and IMF staff calculations

"New displacements" refers to new cases of displacement recorded by year.

C. Strategy to Escape Fragility

5. **South Sudan has economic development needs that can only be met through sustained domestic and multilateral efforts.** South Sudan ranks 164 out of 165 countries according to the sustainable development report 2021 with a score of 38.9.[4] Progress towards the Sustainable Development Goals (SDGs) would require sustained efforts by the authorities, civil society and the international community and likely take decades. While the country's economic development needs are manifold, a few economic objectives stand out:

- **Macroeconomic stability:** Providing a stable macroeconomic environment by ensuring stable prices, no recourse to monetary financing, and an end to ad-hoc borrowing and

[3] Source: UN OCHA South Sudan Humanitarian Snapshot, December 2021; https://reliefweb.int/report/South-Sudan/South-Sudan-humanitarian-snapshot-december-2021

[4] The score can be interpreted as a percentage of SDG achievement. A score of 100 indicates that all SDGs have been achieved. Source: Sustainable Development Report, 2021; www.sdgindex.org

spending would create space to build economic resilience and increase the confidence of international donors and private investors.

- **Agricultural productivity:** About 80 per cent of the population lives in rural areas where subsistence agriculture is the backbone of livelihoods.[5] In these areas, insecurity, a lack of access to land and an absence of land-tenure regulation are constraints on agricultural productivity. There is significant untapped potential for expanding productivity by investing in irrigation, improving yields through seed selection and provision, developing aquaculture, and taking advantage of agroforestry opportunities.
- **Protect and enhance social spending:** Government expenditure on key social sectors including health, education, water and sanitation, and agriculture and rural development is virtually absent, creating a reliance on large-scale international humanitarian aid. By shouldering a greater share of this spending, the Government of South Sudan may be able to unlock donor support for longer-term development initiatives.
- **Foster private-sector development:** Infrastructure underdevelopment has reduced investor confidence, hampered investment and increased the cost of doing business.
- **Economic diversification:** Given its geographical and geological advantages, South Sudan has economic potential in non-oil sectors such as agriculture, fisheries, and mining.

6. South Sudan also requires institutional development and change to increase the accountability of those that hold public power. A successful political and institutional transformation would require, at a minimum, some progress towards all the below:

- **Establishment of power-sharing institutions:** The eventual political and institutional arrangement established by South Sudan's as-yet-to-be-written constitution needs to be finely calibrated to avoid "winner-takes-all" politics, and balance power between the President, Parliament, and the States.
- **De-concentration of political power:** Strengthening the representation of the States and of different subnational communities in South Sudan's governance infrastructure would ensure that resources are more evenly distributed, and their disbursal is better targeted towards local needs.
- **Restoration of state monopoly on security:** Civilian disarmament efforts need to continue at pace, accompanied by improved income opportunities for the demobilized.
- **Increased transparency:** The dominant oil sector needs to become more transparent, with a full accounting of the government's revenues from oil production and their use. South Sudan needs to create appropriate fora (not limited to its Parliament) for the discussion of public policies, leaving space for civil society to scrutinize the conduct of government.

[5] Source: World Bank World Development Indicators.

- **Tackling corruption risks:** South Sudan needs to establish and strengthen watchdog institutions and commit to regional and global transparency standards such as the Extractive Industry Transparency Initiative (EITI) and Financial Action Task Force (FATF).
- **Strengthening of property rights:** The establishment of an effective, integrated, socially legitimate, and acceptable system for the resolution of disputes over land and other natural resources is critical to quell conflict and support the private economy.

D. Role of the Fund

7. The recent experience of the Fund with South Sudan––through two RCFs (in November 2020 and March 2021) and an SMP that was combined with the second RCF––offers several lessons for the Fund's engagement with South Sudan going forward.

- **Timing:** Timely international support is key to success. The RCF disbursements and SDR allocation supported the authorities at a crucial time, when deteriorating internal and external economic conditions created an impetus for macroeconomic reform.
- **Pace:** The pace of reform implementation should be commensurate with capacity. This includes setting realistic objectives that respect political and resource constraints.
- **Inclusion of relevant stake holders:** The engagement policy should consider the inclusion of all relevant stake holders, especially development partners. This involves coordination, clear and constant communication, information sharing, and educating the authorities and international community about the IMF approach and engagement.
- **Capacity development:** CD support has been an integral part of Fund engagement with South Sudan. A sequenced approach to the delivery of hands-on CD improves absorption capacity and reform implementation.

8. The focus of future Fund engagement should be to put macroeconomic reforms initiated under the SMP on a sustainable footing, and to support further governance and transparency reforms in areas in which the Fund enjoys a comparative advantage. Fund engagement will have three main pillars. First, it will aim at sustaining monetary stability and the reformed market through the restoration of central bank credibility, the accumulation of reserve buffers, and a gradual expansion of the toolkit for the conduct of monetary policy and the monitoring of its economic impacts. Second, it will enhance the efficiency of fiscal operations by improving budget planning and debt management. Third, it will guide improvements in governance in relation to central bank operations, financial-sector supervision, fiscal transparency and oil revenue management.

9. Alongside policy advice, the IMF will continue to assist the authorities through a tailored capacity building program that prioritizes key areas. Given limited absorption capacity, an incremental approach to TA delivery would serve the authorities best. Experience under the SMP suggests that in-person TA, delivered through a longer-term program of hands-on activities, has delivered the most tangible benefits. The authorities have expressed a strong preference for this approach. Support in the near term will prioritize capacity development on cash management, banking supervision, crisis management, and public debt management.

10. There are significant risks to embarking on a closer engagement with South Sudan, through further credit disbursements or a longer-term financing program. The manifestation of political risks, such as the collapse of the peace process, could halt or reverse reform progress. In addition, a deterioration of external economic conditions may undermine macroeconomic stability given South Sudan's limited resilience, while a prolonged oil price boom may undermine incentives for further economic and governance transformation. Moreover, frequent turnover of high-level officials and weak institutional and technical capacity are likely to act as a drag on the pace of economic reforms. If further Fund financing does not promote progress towards South Sudan's broader economic development, it risks burdening the country with additional senior debt with few offsetting long-term benefits.

11. To balance these risks, a possible financing program would need to be designed to maximize the potential upside of the engagement. Continued macroeconomic stability and a predictable, transparent FX regime are preconditions for furthering other reforms and reducing conflict potential. Reforms of governance and transparency under a future IMF program should build on the experience with RCF spending audits, and further facilitate civil-society scrutiny of government against the backdrop of a reconstituted National Assembly and upcoming elections. Improvements in technical and institutional capacity should aim to unlock the potential for deeper structural changes going forward. Finally, closer IMF engagement should be calibrated to establish the track record necessary to unlock on-budget support for specific development projects by the broader international donor community.

Annex II. Risk Assessment Matrix

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Conjunctural Shocks and Scenarios			
Russia's invasion of Ukraine leads to escalation of sanctions and other disruptions.	High	High. Increased food and fuel prices and more inflationary pressure on the poor and vulnerable. On the positive side, higher global oil prices may strengthen the fiscal and external accounts.	Use windfall hydrocarbon earnings to rebuild macroeconomic buffers. Clear salary arrears and adopt temporary fiscal measures to protect food security for vulnerable population.
Outbreaks of lethal and highly contagious Covid-19 variants lead to subpar/volatile growth, with increased divergence across countries.[1]	High	Medium-High. Hampering economic activity, putting more pressure on public resources to manage health conditions, larger economic scarring effects, higher unemployment, and poverty rate	Increase spending on health and social protection. Accelerate the coverage of vaccination (including boosters). Seek support from donors to cover medical needs. Maintain the current exchange rate regime.
Widespread social discontent and political instability	High	High. Social unrest fueled by increasing prices and shortages of essentials, inadequate healthcare, and low food security	Improve the adequacy and efficiency of fiscal and social measures.
De-anchoring of inflation expectations in the U.S. and/or advanced European economies.[2]	Medium	Medium-High. South Sudan has no access to international markets, but there could be spillovers due to the dependence on crude oil. If the global trend in rising inflation (particularly food prices) continues, the adverse impact on the external sector could be sizable.	Advance non-oil revenue reforms and keep public spending under control to create room for a likely increase in food prices. If spillovers from Fed tightening become disruptive, temporary FX intervention to counter disorderly conditions could be warranted.

[1] Rapidly increasing hospitalizations and deaths, due to low vaccination rates or caused by vaccine-resistant variants, force lockdowns and increased uncertainty about the course of the pandemic. Policies to cushion the economic impact are prematurely withdrawn or for many countries, constrained by lack of space. In addition to declines in external demand, a reassessment of growth prospects triggers capital outflows, financial tightening, currency depreciations, and debt distress in some countries, with spillovers to more advanced countries, leading to growing divergence of economic recovery paths.

[2] A fast recovery in demand amid a lagging supply-side response leads to a rapid de-anchoring of inflation expectations, which prompts central banks to tighten policies abruptly. The resulting sharp tightening of global financial conditions and spiking risk premia lead to currency depreciations, asset market selloffs, bankruptcies, sovereign defaults, and knock-on effects (e.g., lower commodity prices and possible spillovers).

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
Structural Risks			
Natural disasters related to climate change[3]	Medium	High. Increased pressures on public expenditures during flood or famine would divert resources away from growth-enhancing spending and decrease the growth. It also would lead to lower agricultural output, an increase in food inflation and negatively affect the poor and vulnerable groups.	Use targeted programs to help vulnerable groups. Reprioritize spending. Build buffer to cushion against next natural disaster. Guard against second-round effects on inflation.
Domestic Risks			
Political tension and the deterioration of security situation[4]	Medium	High. Diversion of resources to deal with internal conflict and heightened levels of country risk could hamper the growth and lower oil production and lead to and insufficient investment, economic instability and increasing poverty.	Keep implementing the peace agreement and seek reconciliation between the political parties. Focus on economic stabilization, fair sharing of oil revenues, and overall good governance.
Delays in improving governance or capacity	Medium-High	High. Diversion of resources from development and continued threat of social and political instability. Entrenched rent seeking behavior, pressures on current expenditures, and lower quality of public investment.	Strengthen anti-corruption efforts, including by improving transparency, focus on strengthening economic institutions, and foster progresses in business environment.

[3] Higher frequency of natural disasters cause severe economic damage to smaller vulnerable economies and accelerate emigration. Severe events in large economies reduce global GDP, cause further supply chain disruptions and inflationary pressures, and prompt a recalculation of risk and growth prospects. Disasters hitting key infrastructure or disrupting trade raise commodity price levels and volatility.

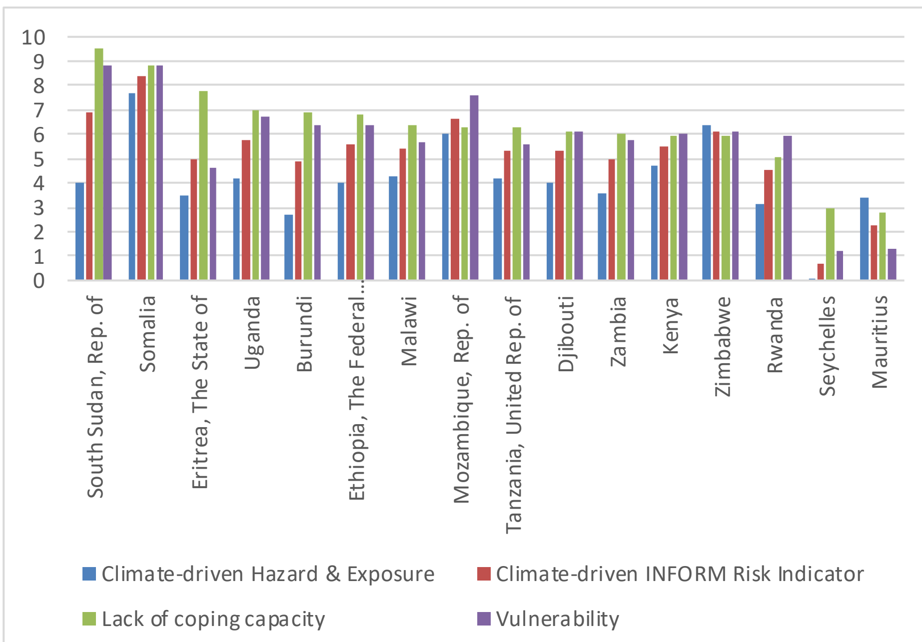
[4] Overall, the political and security situation is stable but remains fragile

Annex III. Addressing Climate Change

South Sudan is extremely vulnerable to the effects of climate change and natural disasters, due to its geographical features and to the low degree of coping capacity. Floods have emerged as one of the main risks, with devastating effects on the population and on the path of economic progress and improvements in the standard of living. In addition, the large role of oil in South Sudan's economy makes the country vulnerable to global efforts to reduce oil consumption. Increasing preparedness to floods, laying the groundwork to diversity the economy and improving social protections for at-risk communities are necessary steps to pave the way for growth.

A. The Impact of Climate-Change Related Flooding on South Sudan

1. **South Sudan's socioeconomic conditions amplify the effects of natural disasters.** The Climate-driven INFORM Risk[1] lists South Sudan as the country most lacking coping capacity in the world, and as the second-most at risk country for climate driven shocks within East Africa, even though it ranks only tenth for climate-driven hazard and exposure. The factors contributing to low coping capacity include lack of or inadequate infrastructures, widespread poverty, food insecurity, and low access to a medical and financial social safety net. These issues make the effect of natural disasters more severe, impacting especially the poorest households which rely on domestic farming for sustenance.



2. **Floods represent one of the main risks and exacerbate existing issues of displacement and food insecurity.** Floods occur yearly in certain areas of South Sudan, due both to rivers overflowing and abundant rains. However, over the last few years, the episodes have become more extreme, with FAO[2] estimating that in 2021 around 835,000 people were affected, with the loss of

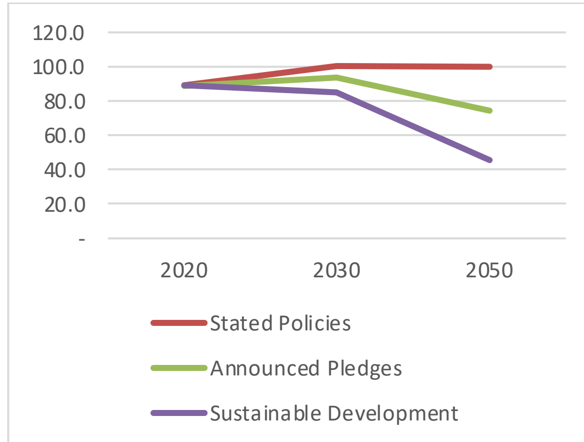
[1] Source: INFORM Risk [Financial and Risk Indicators | Climate Change Indicators Dashboard (imf.org)] and IMF staff calculations.

[2] Source : https://www.fao.org/fileadmin/user_upload/faoweb/South-Sudan/FAOSS-Flood-Impact-Report-Dec-2021.pdf

almost 800,000 livestock and 9 percent of domestic cereal production. The loss of domestic production and the disruptions in transportation and market access have worsened the problem of food insecurity, with the World Food Program estimating that about 60 percent of the population of South Sudan needs food assistance. Repeated and severe flooding may also affect agricultural land, rendering it less suitable for crop production and compounding the problem of food security. Finally, flooding exacerbated the displacement of communities, in a country in which UNHCR[3] estimates close to 2 million people to be internally displaced, both due to conflict and flooding issues.

Global Oil Production, 2020–2050

(Millions of barrels per day)[1]

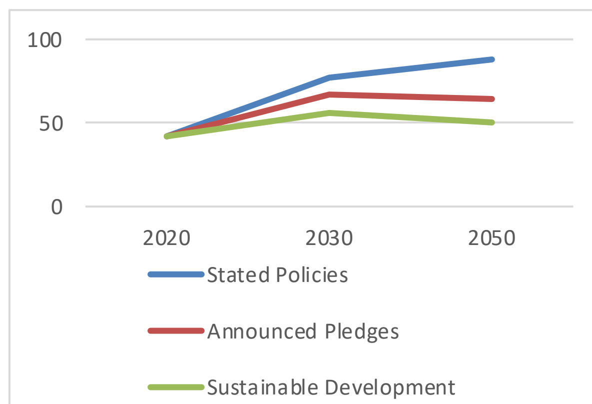


Sources: International Energy Agency (IEA) IMF Staff calculations.

[1] The IEA has modeled the Current Policies Scenario (CPS), Sustainable Policies Scenario (SPS), and Sustainable Development Scenario (SDS). Details can be found at https://www.iea.org/reports/world-energy-model.

Crude Oil Price, 2020–2050

(USD per barrel)[1]



Sources: International Energy Agency (IEA) WEO 2021.

[1] The IEA has modeled the Current Policies Scenario (CPS), Sustainable Policies Scenario (SPS), and Sustainable Development Scenario (SDS). Details can be found at https://www.iea.org/reports/world-energy-model.

3. Flooding also affected oil production, further reducing the resources available. Flooding, aging oil fields, and the COVID-19 pandemic had negative effects on oil production, with a forecast of about 156,000 barrels per day in FY2021/22 versus the 170,000 initially projected by the authorities. This further decreased the resources available to authorities to alleviate the effects of climate change, invest in resilient infrastructure, and increase development expenditures, creating a negative feedback loop.

B. Global Changes in Oil Demand

4. The timing of global decarbonization is uncertain. The majority of the world's largest polluters are recognizing that reducing greenhouse gas emissions can mitigate the consequences of climate change and putting in place policies such as carbon taxes and investments in renewable sources of energy to reduce pollution. The timing of decarbonization however is still uncertain. The

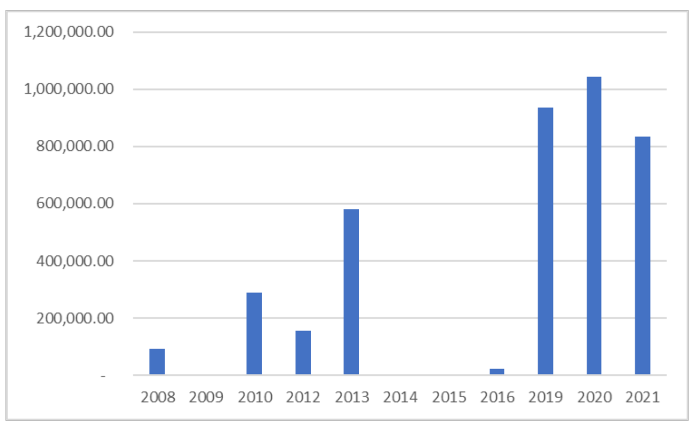
[3] UNHCR - South Sudan

IEA 2021 World Energy Outlook forecasts different scenarios including the "announced pledges scenario" (which takes into consideration all policies announced but not necessarily put into law), the stated policies scenario (which is more conservative and looks at what steps have been taken), and the sustainable development scenario (which takes into considerations steps that would lead to reaching the objectives of the Paris agreement). The three scenarios imply very different oil production levels for 2050, with the lowest being around 50 percent of 2020 production, and the highest being slightly above current production. The implied crude oil prices in the three scenarios are also quite different, with the delta between the "stated policies" and the "sustainable scenarios" reaching US$38 per barrel in 2050. With a production of 54 million barrels per year, this would translate into a delta of over US$2 billion.

5. Lower global demand for oil will negatively affect South Sudan. While the pace of decarbonization remains uncertain, it is projected that economies highly reliant on oil revenues will experience large economic losses in the medium to long term because of it. IMF staff[4] identified higher revenue risks for countries which are highly reliant on resource-dependent revenue, and which are at risk of ending up with stranded assets. In addition, the changes in access to renewable energy and taxation of fossil fuels will have a larger impact on oil producers with a higher cost structure, reducing their profit margin. Thus, while large decreases in global oil demand are not expected in the medium term, the compression in profit margins poses a clear risk.

6. The compounded effects of climate change and global reduction in fossil fuel demand pose important risks. The intensification of natural disasters requires investments in adaptation measures to avoid severe consequences on livelihoods and standards of living. These investments will constrain the fiscal space by diverting funds from other uses. In addition, a scenario with fast global decarbonization and consequent low demand and producer prices for crude oil will have a severe effect on revenues. In the case of South Sudan, this would likely be followed by a contraction in growth and in fiscal spending, with potentially severe effects on the country's macroeconomic and social stability.

People Affected by Floods in South Sudan



Sources: FAO flood impact report and World Bank Climate Change Knowledge Portal

7. Timely investments in resilient infrastructure and diversification are necessary. The increased frequency and impact of floods in the last few years underlines a need for investment in resilient infrastructure with the aim of protecting livelihoods and limiting the damages brought by

[4] IMF Fiscal Monitor (2019).

flooding events. In particular, investment is needed in the construction of dikes, bridges, and roads, which can help avoiding communities getting isolated by floods, and can limit the loss of livestock. Protecting agricultural production and limiting the extent of damages to land quality and crop viability is also vital. In addition to the infrastructure spending, it is necessary to invest in building access to medical and financial safety nets for communities affected by floods.

8. Protecting and developing agriculture can help alleviate food insecurity and reduce reliance on oil revenues. Agricultural production in South Sudan has been severely impacted by conflict, displacement, and floods, with a resulting high reliance on aid and imports for private consumption. South Sudan however has a large number of untapped resources, as only a fraction of its arable land is currently cultivated. Increasing investment in agriculture would reduce food insecurity and provide a channel of diversification of the economy away from oil. However, given the fragile situation of the country, multiple roadblocks stand in the way, including continued conflict in certain areas, lack of reliable infrastructure to sell products, and low access to agricultural inputs. Investments in climate-change adaptation infrastructure should be targeted to also support agricultural development to foster inclusive growth. Some donor-supported projects to strengthen agricultural production are already in place (e.g. the World Bank's Resilient Agriculture Livelihoods Project[5]), and continued support in this area remains key.

C. South Sudan's Commitments on Paris Agreement Goals

9. South Sudan submitted its second Nationally Determined Contribution (NDC) in September 2021, which covers emission reduction across sectors (agriculture and fisheries, infrastructure, forestry, electricity, waste, tourism and recreation, and transport). The main commitments include a reduction by 70 percent of the total deforested area by 2030 compared to 2018 levels. According to the second NDC report, the majority of South Sudan's population relies on forest products for both energy needs and sustaining livelihood, which leads to an estimated rate of deforestation of 2 percent per year putting the existing forests under increasing pressure. In addition, commitments also include meeting the 2030 target for the installation of renewable energy-based power plants.

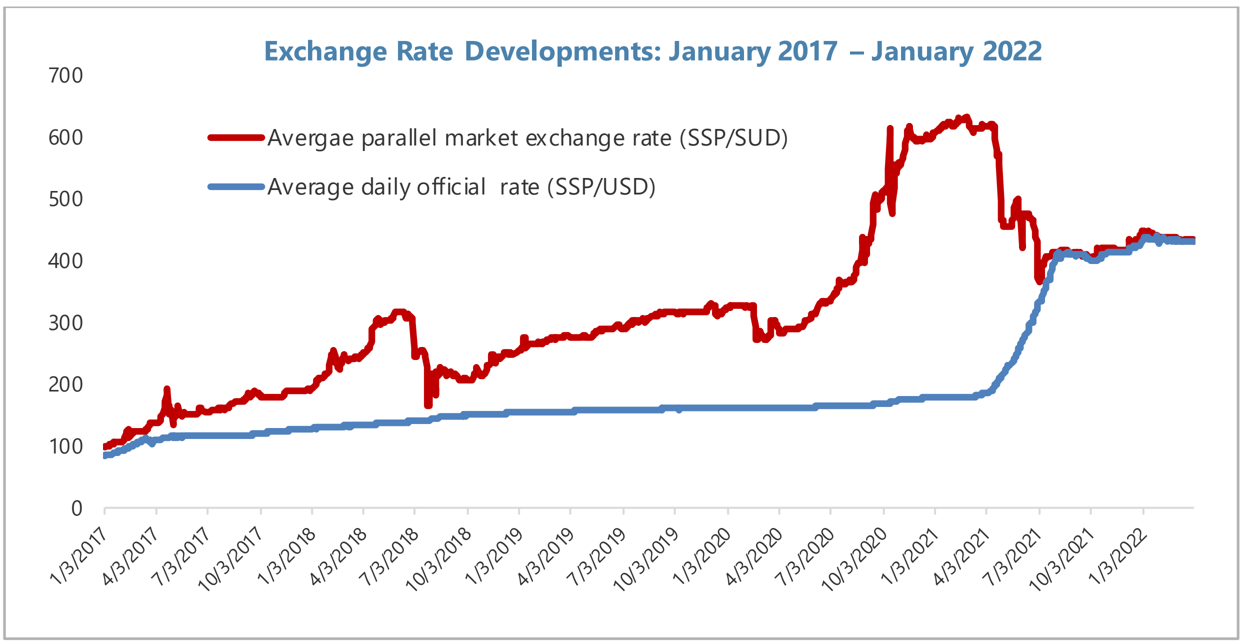
[5] Projects (worldbank.org).

Annex IV. External Sector Assessment

Based on data as of February 2022, the external position of South Sudan is weaker than implied by fundamentals and desirable policies. In the absence of standard tools, this conclusion reflects heavy reliance on oil and donor finance, and low level of reserve adequacy. Achieving external stability requires sustaining macroeconomic stabilization through continued fiscal and monetary prudence, lasting peace, and good governance.

1. **The significant structural changes in recent years, broad-based fragility and weak statistical infrastructure complicate the use of standard tools for the external sector assessment in the case of South Sudan.** Given insufficient data and uncertainty about structural and policy variables, neither the External Balance Assessment (EBA) nor EBA-lite is applicable to South Sudan. In the following, the external assessment is based on a more descriptive analysis.

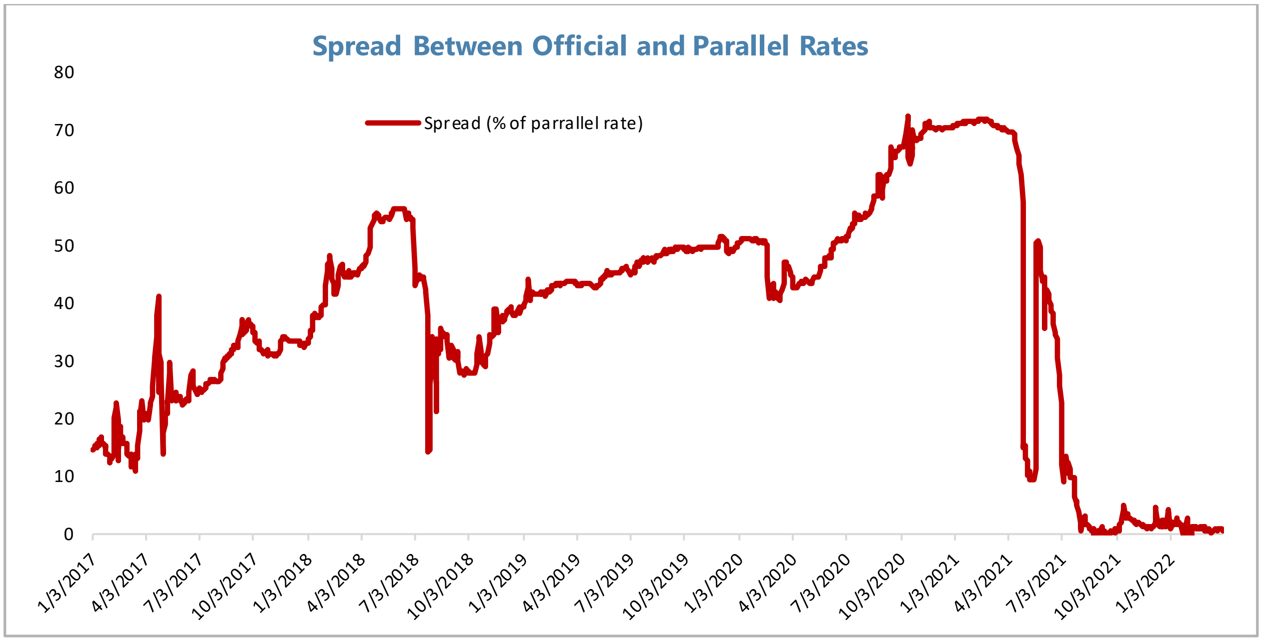
2. **The FX reforms introduced under the SMP achieved convergence of the exchange rates, eliminating the previously large distortions in the FX market.** The reform liberalized the FX market and eliminated the large distortions from a significant exchange rate premium in the parallel market relative to the official rate. Supported by two disbursements under the Rapid Credit Facility and higher global oil prices, the macroeconomic stabilization and FX market reforms contributed to an appreciation of the market rate.



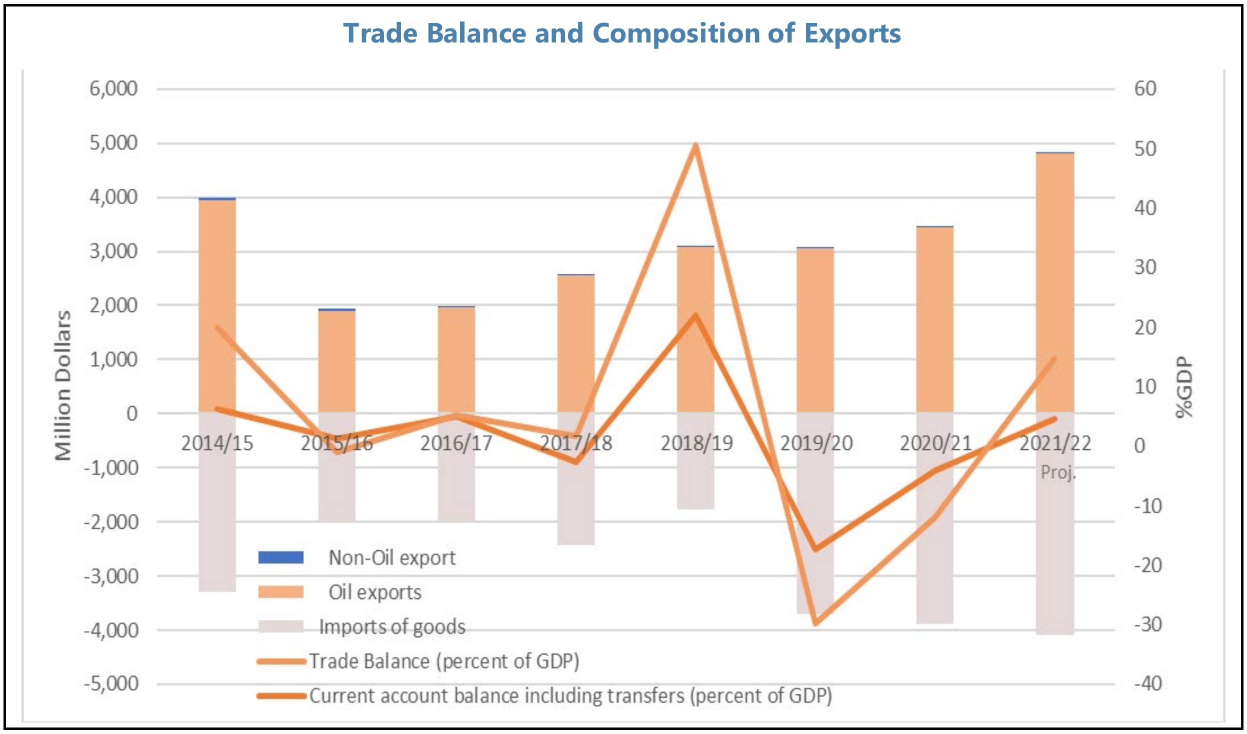
3. **The FX reforms adopted a multi-pronged approach to liberalizing the foreign exchange market.** The reforms started in December 2020 by allowing the participation of FX bureaus in weekly FX auctions with the introduction of weekly FX auctions to FX bureaus in December 2020 and were deepened further in April 2021 through a number of additional measures that included (i) opening the FX auctions to banks; (ii) allowing commercial banks to buy and sell FX at market rates; and (iii) adjusting the official exchange gradually (1 percent each trading day) until it

converged with the parallel market rate. These reforms led to convergence of the different exchange rates in the market in mid-August 2021. Following such convergence, the official exchange rate was discontinued and replaced with a reference rate based on rates prevailing in the market.

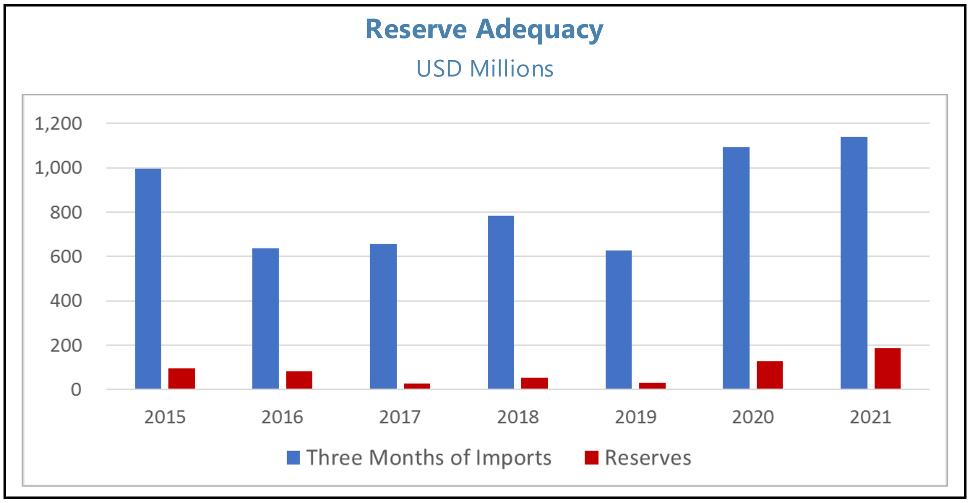
4. The spread between the official and parallel rates substantially decreased after the reforms. The FX reforms, combined with monetary discipline and an oil price recovery that has boosted FX liquidity, have led to a significant appreciation of the exchange rate in the parallel market. The spread between the official and parallel market rates has averaged about 1.5 percent since August 2021 when the exchange rates in the market were effectively unified.



5. South Sudan is a heavily oil-dependent country, with oil exports accounting for about 99 percent of total exports of goods. The recovery of oil prices and the recent SDR allocation have closed the BOP gap in FY2021/22. However, large BOP financing gaps are estimated for the current year and over the medium term. Measures of about 5.2 percent of GDP will be needed to close the financing gap in FY2022/23. Financing gaps averaging 4.8 percent of GDP over the horizon of the next 3-4 years will leave South Sudan vulnerable to shocks and large unmet financing needs to support the country's objectives for economic convergence and inclusive growth.



6. Low levels of foreign reserves reflect external disequilibrium. South Sudan's foreign exchange reserves have increased over the last two years after a steady decline since the outset of the civil conflict in 2013. The August 2021 SDR allocation and the uptrend in oil prices due to geopolitical uncertainties have contributed to the accumulation of reserves. Nonetheless, the level of gross international reserves at end-2021––at US$187 million or less than 2 weeks of imports––is inadequate by any measure. Given the country's high dependence on oil exports and reliance on imports for most basic goods for domestic consumption, South Sudan needs substantial foreign exchange buffers. In this context, the "rule of thumb" of three months of imports would likely be suboptimal. In the medium and long term, a level of reserves closer to the average of LIC oil exporters (4 months of imports cover) would be preferable.



7. Fiscal and monetary discipline and strengthening the balance of payments are important to stabilize South Sudan's external position. While the standard tools for the external sector assessment are not applicable to the case of South Sudan, the analysis on the exchange rate and the reserve adequacy shows South Sudan's external disequilibrium. In the short term, continuing fiscal discipline, refraining from central bank financing, and the liberalized FX market are essential. Over the medium term, diversification away from dependence on oil will be key for external stability and achieving sustainable economic growth.

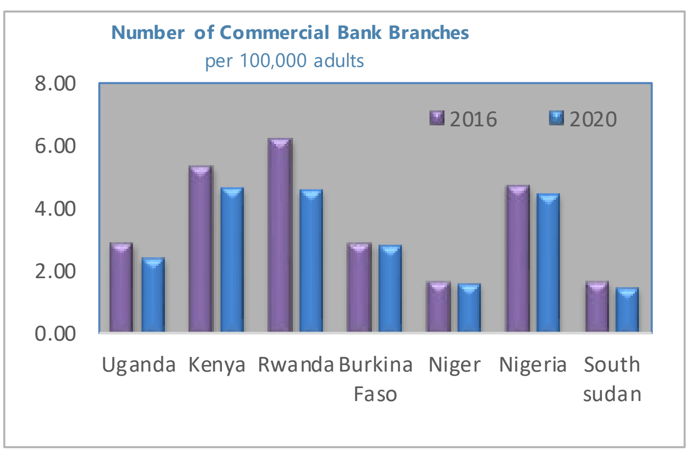
Annex V. Financial Inclusion

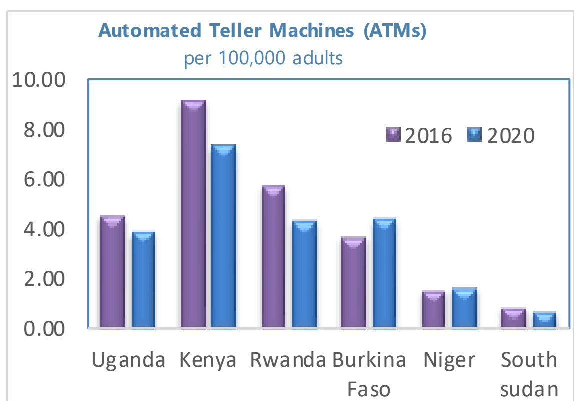
A. Financial Access

1. **The financial inclusion rate in South Sudan remains low compared to the average for sub-Saharan Africa and low-income countries.** In 2017, only 8.6 percent of the adult population (aged 15 years and older) had an account in a financial services institution, compared to 42.6 percent for sub-Saharan Africa and 34.9 percent for the global low-income country average. Furthermore, only 4.7 percent of adult women have access to formal financial services, while 24.5 percent of adults have access to finance through informal channels (compared to only 3.4 percent for those with access to formal credit offers).

2. **Commercial bank penetration rates in South Sudan stands at 1.45 commercial bank branches per 100,000 adults in 2020, lower than the 1.65 rate in 2017.** South Sudan's bank penetration is below that of its peers in the region (text Figure below). Data from the IMF's Financial Access Survey shows that access to automated teller machines (ATMs) declined from 0.86 to 0.7 per 100,000 adults between 2016 and 2020 in South Sudan. While most of the countries within the East African Community (EAC) experienced a reduction in access levels during this time period, South Sudan registers the lowest access rate over the five-year period.

3. **Mobile money is also in its infancy in the country. According to the 2017 World Bank Global Findex, only 4 percent of the population aged 15 and older sent or received domestic remittances through a mobile phone in South Sudan.** The introduction of the first mobile phone financial services regulated by the BoSS in 2019 is expected to promote the financial inclusion for much of the population which lives in rural areas and remains largely unbanked. The sector's development potential is significant, as there are an estimated 2.61 million mobile connections in South Sudan representing 23.1 percent of the total population in 2021, an increase of about 17 percent between January 2020 and January 2021.[1] The number of mobile connections in South Sudan in January 2021 was equivalent to 23.1 percent of the total population.





Source: IMF key Financial Acess Survey

[1] Digital in South Sudan: All the Statistics You Need in 2021—Data Reportal—Global Digital Insights.

B. Challenges for Financial Inclusion in South Sudan

4. The high cost of doing business is a major constraint on the expansion of banking services. The lack of infrastructure, electricity, communication channels, public transport, and local supplies contributes to exceptionally high operating costs for banks doing business in South Sudan.

5. The local population's lack of familiarity with banks hampers banks' ability to act as financial intermediaries for large segments of South Sudan's estimated 12 million inhabitants. South Sudan is principally a cash economy with a low formal savings rate (due to low salary levels, and a preference for informal or traditional saving methods) and a population that views banks with distrust. Banks thus find it difficult to market their products broadly, and to obtain liquidity locally.

6. The low level of skills implies a shortage of qualified staff. Local banks face a recruitment challenge, given the low level of skills that prevail even among university-qualified staff in Southern Sudan. Though immigrants from the neighboring countries have good financial sector skills, these are expensive and not always accepted by local staff (and the local banks boards). By contrast, foreign banks can draw more easily on their own external resource pools.[2]

[2] Altai Consulting for the World Bank: "Mobile Money Ecosystem Survey in South Sudan" (2019)

Annex VI. Capacity Development Strategy

A. Context

1. **In the past year, CD activities increased rapidly to support the country's reforms envisaged under the SMP program.** South Sudan formally joined AFRITAC East in May 2020. Since then, AFRITAC East has provided additional technical assistance and CD assessments. TA missions took place in several areas including monetary policy operationalization, liquidity management, financial sector supervision, PFM, government finance statistics, CPI statistics, and macro-fiscal analysis.

2. **There seems to be a new impetus to implement much-needed structural reforms, suggesting that TA traction could improve in the future.** The peace agreement, together with the engagement with the Fund under the SMP, seems to have brought a new impetus in the authorities' resolve to implement reforms, and performance in implementing the most recent PFM TA has been good (in contrast with past experiences), with some of the recommendations already acted upon. This offers an opportunity to deliver TA more productively.

3. **Since the breakout of the pandemic in March 2020, all TAs have been provided virtually.** This supported the increase in CD activities as it saved time and cost and allowed for virtual follow-ups which improved absorption. Nevertheless, low capacity, including a lack of IT infrastructure, suggests that the best course of action in the near term would be for a streamlined and sequential technical assistance that is focused on the most critical needs, and delivered in small increments, allowing the authorities to implement recommendations step by step, while demonstrating continuous progress.

4. **Addressing South Sudan's status of being under Increased FATF Monitoring (Grey List) for AML/CFT risks requires CD support.** To address these risks, the authorities committed to implementing reforms as part of the action plan developed in June 2021. South Sudan has also been approved as observer to the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) and has committed to undertake a Mutual Evaluation by ESAAMLG. Such progress needs to be complemented with CD support and authorities have requested TA in drafting the needed legislation in this area.

B. CD Priorities

5. **The authorities indicated their interest in several capacity development topics related to the implementation of Chapter IV in the revitalized peace agreement as well as their action plan on AML/CFT.**

- The reform program on public financial management is fully owned by the government who developed a concept note for its PFM reform where 11 reform areas are prioritized (Box 1). The authorities have requested and received assistance in PFM issues including the implementation of a Treasury Single Account (TSA), cash management, and arears management. Progress of reform in these areas, however, remains ongoing and will likely require additional support through follow ups and additional TA. A technical assistance program to support the National Revenue Authority, which predates the PFM impulse, is ongoing.

Box 1. Current PFM Reform Priorities in South Sudan

1. Implement a TSA
2. Strengthen cash management
3. Relocate Loans Committee to MoFP
4. Review, verify and clear all arrears
5. Review and verify loans and contracts collateralized or guaranteed against crude oil
6. Strengthen the Anti-Corruption Commission (ACC) and the Audit Chamber (external auditor)
7. Establish a Public Procurement and Asset Disposal Authority (PPADA)
8. Rollout electronic payroll using biometric system
9. Strengthen Fiscal and Financial Allocation Monitoring Commission (FFAMC)
10. Strengthen macro-fiscal framework (Not in R-ARCSS)
11. Strengthen the budget process and budget credibility (Not in the R-ARCSS)

- Further technical assistance support for the central bank is needed to support the reform envisaged under the SMP. This includes several topics in monetary policy, currency operations, FX management, and banking supervision. Authorities have expressed interest in TA to help them implement monetary policy reforms, enhance FX management, and develop a crisis resolution framework. They also identified other topics including assistance in compilation of statistics. The IMF safeguard assessment revealed several CD needs. To help address some of the safeguard assessment recommendations, the authorities need CD support in several central banking operations that include TAs in Currency Operations, and an IMF long-term expert to improve financial reporting.
- In the area of AML/CFT, the objective is to bring AML/CFT legal and institutional framework in compliance with the international standards thereby exiting the gray listing of FATF. This will require significant effort on many fronts (e.g. development of a National Risk Assessment, risk based supervisory regimes and a system for the collection of beneficial ownership information). Authorities have requested TA in identifying gaps and drafting the needed AML/CFT legislation. The TA could potentially cover a comprehensive review of the AML/CFT Act enacted in 2012, capacity development for the Financial Intelligence Unit, and development of a legal framework to collect information on beneficial ownership.
- Priority topics for CD growth are debt management, public investment management, and wage structure, with assistance on national accounts and external sector statistics to be provided subject to absorption capacity. A TA on CPI statistics provided an assessment and identified gaps in CPI reporting including the methodology currently used. Subsequent TA

to assist authorities in addressing the findings is recommended. Also, revenue administration missions are particularly needed including tax administration and digitalization.

Republic of South Sudan: Priority CD Topics

Priorities	Objectives	Challenges
Public Financial Management	Support the authorities' PFM reform strategy, implement a treasury single account, improve cash management, and strengthen the macro-fiscal framework development.	Absorptive and implementation capacity is very low. Streamlined TAs has been taking place but should focus on small steps and be incremental.
Revenue Administration	Improve petroleum revenue management, as well as non-oil revenue	The institutional, absorptive and implementation capacities are very low. The reforms underway at the national revenue authority have resulted in a significant increase in non-oil revenue but additional reforms are needed. While the recently established PFM oversight committee has helped, there is still weak coordination between the ministry of finance and the ministry of petroleum which complicates the management of oil revenues and oil advances.
Central Bank Operations	Improve monetary policy operations and FX management, liquidity management, currency operations, banking supervision and resolution, and debt management.	Implementation capacity is very low at the central bank, and TA is required for most central bank operations. For virtual missions, IT facility is only available in the CB board meeting room.
Statistics	Improve monetary and financial statistics, balance of payment statistics, debt statistics, CPI, and national statistics.	Absorptive and implementation capacity is very low. Ownership needs to be established.
AML/CFT	Review the existing law, prepare for joining international conventions, develop a legal framework on beneficial ownership	The institutional, absorptive and implementation capacities are very low. Ownership needs to be established.

C. CD Risks and Modality

6. **Limited absorptive and implementation capacity remains the key risk to the CD activities.** Traction on CD has historically been low and, although showing signs of improvement recently, the implementation of TA recommendations has been very slow due to political constrains, weak governance, high staff turnover, limited institutional memory, and frequent change of management in most recipient institutions. Post-pandemic, while virtual TAs has helped expedite the delivery and follow up of TA, weak IT capacity has posed a major challenge.

7. **Fund engagement with authorities in CD activities has taken place through several channels.** These include the Fund's local office in Juba, bilateral meetings in HQ and Juba,

workshops in neighboring countries, as well as several virtual meetings during the Covid-19 pandemic; the latter, which took place over a longer time period due to constraints linked to time differences were very productive, allowing for an in-depth dialogue with the authorities that did not stretch capacity. South Sudan joined AFRITAC East in May 2020, and this has opened opportunities to deliver CD and helped increase support with several TA activities executed through the AFRITAC East center. As for engagement with outside partners, The World Bank CD activities are coordinated through the WB country manager in Juba.

8. **Incremental TA delivery supports the authorities best.** Low capacity suggests that the best course of action in the near term would be for technical assistance focused on the most critical needs and priority topics, and delivered in small increments, allowing the authorities to implement recommendations step by step, while demonstrating continuous progress.

D. Priorities by IMF Department

FAD

Topics (ordered based on priority)	Objectives
Public Financial Management	Implementation of the PFM reform strategy concept note, TSA implementation, cash management, and development of the macro-fiscal framework.
Revenue Administration	Improve petroleum revenue management; enhance non-oil revenue management through CD to the national revenue authority
Expenditure policy	Enhance execution of the budget in line with plans and support fiscal discipline

MCM

Topics (ordered based on priority)	Objectives
Debt Management	Strengthen the debt management framework including by enhancing debt data recording, monitoring, reporting and disclosure, and developing a medium-term debt strategy. This is a high priority area.
Currency Operations	Developing a strategy to strengthen currency operations including purchasing, storage, processing, destruction activities.
Liquidity forecasting and monitoring	Continue hands-on training and follow up virtual sessions to achieve the objective of issuing daily liquidity reports.
Banking Supervision	Identify regulatory gaps and implement Risk Based Supervision (RBS). Authorities requested TA on RBS.
Central bank operations	Enhance monetary policy implementation and introducing monetary policy tools and facilities (e.g., term deposits).
Crisis management	The authorities have requested technical assistance on banking resolution and restructuring framework.

STA

Topics (ordered based on priority)	Objectives
Monetary and financial statistics, balance of payment statistics, debt statistics	Support the central bank in its operations
Government Finance Statistics	Compilation of fiscal and public debt data
CPI statistics	Improve the collection and methodology of CPI calculation across different states.
Real Sector Statistics	Compute and publish national accounts statistics

LEG

Topics	Objectives
AML/CFT	Support the authorities in identifying gaps in the legal framework and drafting legislation to address such gaps

Annex VII. Implementation of Recommendations from the IMF 2019 Article IV Consultation

Recommendations	Status
Fiscal Policy	
Stop borrowing from BoSS	Met
Reestablish preparation of realistic budgets and tighter budgetary controls	Ongoing
Removal of Fuel subsidies	Met
Improve management and use of government oil revenues	Ongoing
Impose immediate stop on contracting oil advances	Met
Complete creation of National Revenue Authority (NRA), recruiting management and staff	Met
Facilitate a public audit of Nilepet, as stipulated by law	Not met
Monetary Policy	
BoSS to set price stability as its primary objective	Met
Use reserve money as an intermediate target	Met
Abstaining from Providing credit to Government	Met
Gradually rebuild monetary policy toolbox	Ongoing
Exchange Rate Policy and External Stability	
Abolish the multiple foreign exchange rate system	Met
Banks are allowed to freely set buying and selling rates	Met
Remove ceiling on the availability of FX for certain transactions	Ongoing
Abolish prioritization of FX access for government transactions and essential commodities	Ongoing
Financial Stability	
Adopt a comprehensive banking resolution regulation	Met
Address undercapitalized banks	Not met

Appendix I. Letter of Intent

Juba, Republic of South Sudan, July 19, 2022

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

Dear Ms. Georgieva:

South Sudan's economy is recovering more slowly than expected from the downturn it experienced in 2020. While the rise in global oil prices has acted as a tailwind for economic growth, a third consecutive year of severe flooding caused output losses in the oil and agricultural sectors and exacerbated the country's humanitarian crisis. More than 200,000 people have been driven from their homes, as internally displaced persons (IDPs) have risen above 2 million, and up to 70 percent of the population are expected to experience acute food insecurity in this year's lean season. The impact of recent geopolitical events on commodity prices is a double-edged sword for South Sudan. Although we expect a further boost to export revenues from the higher price of crude, oil extraction has limited room to expand to meet the increase in demand. Moreover, our economy is critically reliant on imports of food and refined petroleum whose prices have also increased sharply.

Following the foreign exchange (FX) reforms initiated under the Staff Monitored Program (SMP) that started in March 2021, we have kept money growth under control and maintained a stable, unified, exchange rate. This contributed to a rapid decline in inflation over the past year, although the rise in global food and fuel prices is now putting pressure on domestic prices. As a result of the removal of the multiple-currency system and regular FX auctions, the private sector and donor community are now able to buy and sell FX at predictable, competitive rates. We have used US$184 million out of South Sudan's total SDR allocation of US$334 million to bolster the FX reserves held by the Bank of South Sudan (BoSS) and are taking further steps to ensure the sustainability of our monetary and FX reforms. These include expanding the monetary toolkit at the disposal of BoSS, gradually building up our reserves, and improving BoSS's communication with market participants, including through press releases and the publication of financial statements and key monetary statistics at regular intervals. We have also strengthened the internal governance frameworks and processes at BoSS and have started to implement the recommendations of an IMF safeguards assessment mission.

The budget devised for the FY2021/22 was belatedly approved by the Reconstituted Transitional National Legislative Assembly (RTNLA) in March 2022, marking the first time that South Sudan has had a Parliament-approved budget since the end of its civil war. We have submitted to Parliament a draft budget for the FY2022/23, which is consistent with our commitment to refrain from monetary financing and to meet our objectives for sustainable and inclusive growth without reliance on non-concessionary external financing. Under the SMP, we have set in motion several Public Financial Management (PFM) Reforms: fiscal management has been strengthened through the establishment of a Cash Management Unit at the Ministry of Finance and Planning (MoFP); and South Sudan has applied for the membership in Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and has been approved as an observer.

We have met all but two end-October quantitative targets set under the SMP. The envisaged clearance of all salary arrears was missed, but we are taking steps to keep such arrears in check. There was a technical breach of the ceiling on net credit to the central government due to the use of government FX deposits to pay salaries, but we have refrained from use of the government overdraft. The reforms targeted under the structural benchmarks for end-September and end-December 2021 were also delayed, but have made significant progress. Specifically:

- *Audit of spending financed by the April 2021 Rapid Credit Facility (RCF)*. The Auditor General has completed an audit of government spending financed by the second RCF that was disbursed in April 2021 and is currently conducting an exit interview with the MoFP. The report will be finalized and published on the MoFP website as a structural benchmark for the next SMP review.
- *Stocktaking of external government debt and guarantees.* As prior action for the SMP review: (i) the MoFP has published on its website a report on Republic of South Sudan's external debts and guarantees as of December 2021; and (ii) a contract with an external independent auditor was signed in July 2022, for said auditor to review and verify all underlying contracts and documentation.

On the basis of our consistent progress in policy implementation discussed above, we request completion of the second review of the SMP. We also request to extend the SMP through November 30, 2022, to allow for the publication of the Auditor General's report on the use of April 2021 RCF spending as well as the audit of our external debts and guarantees. The policies and actions for the remainder of the SMP are set out in the attached Memorandum of Economic and Financial Policies (MEFP). We consider the SMP to be essential in supporting our macroeconomic and stabilization efforts, building a track record of sound policy towards a future Fund-supported program, and an indispensable further step towards deepening relations with the international community, including the mobilization of critical financial support at concessional terms from our Development Partners. To that end, we request that the last review of the SMP be combined with discussions about an Extended Credit Facility (ECF).

In line with our commitment to transparency, we authorize the publication of this letter of intent, the attached MEFP, the Technical Memorandum of Understanding, the related IMF staff report, and the debt sustainability analysis (DSA) prepared by IMF and World Bank staffs, including placement of these documents on the IMF website.

Sincerely yours,

/s/	/s/
Hon. Mr. Agak Achuil Lual Minister, Ministry of Finance and Planning	Mr. Moses Makur Deng Governor, Bank of South Sudan

Attachment I. Memorandum of Economic and Financial Policies

Juba, Republic of South Sudan, July 19, 2022

A. Recent Economic Developments and Outlook

1. Macroeconomic conditions have benefitted from the recovery of oil prices since mid-2021 but are still affected by the devastating consequences of flooding. The positive effect of the upward trend in oil prices for our economy has been hampered by the severe floods, which have hit South Sudan for the third year in a row. The flooding has affected oil production, which declined from 169 thousand barrels/day in FY2020/21 to 156 thousand barrels/day in FY2021/22. The floods have also affected agricultural output, killed livestock, and have had a severe impact on people's access to essential services and humanitarian aid. The negative effects of floods are reflected in the projected 2.8 percent contraction in real GDP in FY2021/22. Oil production is expected to drop at around 150 thousand barrels/day in FY2022/23 with a continuing positive trend for oil prices in the short period. As a result, real GDP is expected to grow by 2.1 percent in FY 22/23.

2. Monetary discipline and stability of the exchange rate have resulted in a significant decline in inflation, but higher global commodity prices from recent geopolitical developments have started to put pressure on prices in South Sudan. Inflation in Juba decreased from 94 percent in January 2021 to about 2 percent in March 2022 despite a concurrent increase in global food prices. The reduced inflation rate was the result of our policies to discontinue monetary financing of the deficit and commit to the reserve money targeting that have been in effect since September 2020. However, the recent sharp rise in global prices for fuel and other essential products, recent clearance of several months of salary arrears is putting pressure on domestic prices. Given that South Sudan relies heavily on imports for consumer goods—including refined fuel products, grains, and medicine—inflation is expected to pick up again during the remainder of the calendar year.

3. The recent SDR allocation from the IMF was used to support the FY2021/22 budget and bolster foreign exchange reserves. Of the SDR allocation equivalent to US$334 million that was allocated to South Sudan in August 2021, US$184 million were used to strengthen the external reserve position of BoSS. MoFP used the remaining US$150 million to reduce expenditure arrears, of which US$90 million went towards clearing salary arrears and US$60 million towards clearing arrears on purchases of goods and services.

B. Performance Under the SMP

4. We have met all but two quantitative targets under the SMP for end-October 2021, with one technical breach, and only the clearance of salary arrears lagging (Table 1). Specifically, in line with commitments under the SMP we have refrained from monetary financing of the deficit and have kept reserve money growth well within the ceiling of 6 percent between March and October 2021. There was only a technical breach of the ceiling on net credit to the central government due to the use of government FX deposits to pay salaries. Monetary restraint, together with the FX liberalization reforms introduced in April 2021 that brought about the convergence of official and parallel exchange rates in August 2021, have resulted in a strengthening of our domestic currency from over 600 SSP/US$ prior to the FX reforms to a range of about 400-500 SSP/US$ in recent months. Our net international reserves were about US$430 million at end-October 2021, compared to a floor of US$285 million. However, after managing to reduce domestic salary arrears to about 1 month at end-June 2021, these arrears once again started to increase from July and stood at SSP 8 billion at end-October 2021 relative to a target of no further increase in arrears under the program. We have since taken steps to keep domestic salary arrears in check and have reduced significantly the salary arrears to our diplomatic personnel serving abroad.

5. **Progress is being made on structural fiscal reforms but with delays in some areas.** We have initiated public financial management (PFM) reforms in several areas: fiscal management has been strengthened through the establishment of the Cash Management Unit; and South Sudan has been approved as an observer of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and submitted a membership application in March, with a view to attaining membership by end-September. However, the implementation of reforms slowed in recent months and the implementation of the structural benchmarks for end-September and end-December 2021 has been delayed (Table 2).

C. Economic Policies

Fiscal Policy

6. **Our fiscal policy will focus on maintaining macroeconomic and public debt stability as well as re-enforcing transparency and discipline in budget execution.** Consistent with our commitment under the SMP, we have refrained from non-concessional borrowing and remain committed to do so. As a result of higher global fuel prices and a significant improvement in non-oil revenues, overall revenues will exceed the projected SSP 602.4 billion in the draft budget that was approved by the Cabinet in September 2021. Given the higher revenue, the budget for FY2021/22 that was adopted by the Reconstituted Transitional National Assembly on March 17, 2022, increased revenues to 647.4 billion and discretionary spending by SSP 51 billion relative to the draft budget. Such an increase can be accommodated in the budget for this fiscal year without the need to resort to BoSS or new non-concessional external financing. The higher oil revenues allowed us to limit domestic salary arrears to 3 months as of end-June 2022.

7. **We remain committed to refrain from monetary financing and intend for the FY2022/23 budget to meet our objectives for sustainable and inclusive growth without reliance on non-concessionary external financing.** High oil prices and continued improvement in non-oil revenue will increase the resource envelope in FY2022/23. At the same time, there are pressing needs for higher spending. First, the unification of the armed forces that was agreed in April 2022 implies an increase in the number of military personnel for about two-thirds, which

increases the wage bill. In addition, to mitigate the impact of sharply higher food and fuel prices, the draft budget includes an upwards adjustment of 20 percent in the pay scale for all government workers, and we are looking to raise spending on health, education and social assistance to the extent possible. Although the payments to Sudan under the Transitional Financial Arrangement (TFA) of 2012 were completed in March 2022 and in principle should increase fiscal space, no agreement has yet been reached with Sudan on the in-kind over-payments of crude oil previously supplied to Sudan, which was 28,000 barrels/day. The draft budget for FY2022/23 currently envisages spending total spending of SSP 1,210 billion, including SSP 156 billion to be deposited in the Oil Revenue Stabilization Fund and the Future Generations Fund. The draft budget for FY2022/23 has been approved by Cabinet and was submitted to Parliament on June 30th, 2022. As we await its adoption by Parliament, we have uploaded the spending envisaged under the draft budget in IFMIS to facilitate expenditure control.

Exchange Rate, Monetary, and Financial Sector Policies

8. **We are committed to refrain from any new monetary financing of the deficit and will continue our policy of reserve money targeting.** Given the current state of development of South Sudan's financial sector and the policy levers at the disposal of BoSS, reserve money targeting remains the appropriate monetary policy framework for the time being. We will continue to implement this framework by targeting an annual reserve money growth rate of 10 percent or lower, as initiated under the SMP. We will also continue to conduct regular FX auctions to aid price discovery in relation to the exchange rate and publish auctions data on the BoSS website in a timely manner to foster confidence among market participants. We have introduced a new term deposit facility as a first step to expanding the monetary policy toolkit of BoSS and will refine the auction mechanism and terms of this facility to develop it into a viable means of managing liquidity as needed. We are also considering the introduction of BoSS bills as an additional instrument for liquidity management. We will coordinate closely with MoFP through the Cash Management Committee to improve our capacity for liquidity monitoring and forecasting, with a view to tracking market developments better and responding to them effectively, using the tools at our disposal.

9. **We will address the undercapitalization of the domestic banking sector and take steps to improve banking supervision and financial inclusion.** Our approach to addressing the undercapitalization of domestic banks will be to promote mergers where possible, and to enforce liquidation where needed. In light of South Sudan's limited experience with bank resolution, we have requested urgent technical assistance on this from the IMF, and an IMF TA mission is scheduled to take place in September 2022. The BoSS has now published audited financial statements up to 2020, and will proceed to enforce the timely publication of audited financial statements by commercial banks. A draft risk-based supervision (RBS) policy has been approved by the BoSS Board of Directors, and we expect to develop it into a comprehensive policy by September 2022. With IMF assistance, we have compiled new quarterly Financial Soundness Indicators (FSIs) in line with current best practice, and we will now publish these FSIs at quarterly frequency from June 2022 onwards. In the medium term, we intend to reduce the cost of cash transactions by phasing out low-

denomination bank notes, and to reduce the cash reliance of the economy through supportive policies, including paying civil servants through bank accounts as discussed below.

Other Structural and Governance Reforms

10. We are committed to strengthen transparency in the management of oil revenues. To that end, we will: (i) publish on a government website all signed oil production sharing agreements between the GoSS and oil extracting companies by end-September 2022; (ii) submit by end-December 2022 a membership application to the EITI; and (iii) publish on a government's website a quarterly report on the oil sector, including reconciliation of oil output and revenues, starting from the first quarter of FY2022/23.

11. We are committed to implement the Auditor General's reports on the use of RCF funds disbursed in November 2020 and April 2021. We are already working to implement the recommendations in the Auditor General's report of September 2021 regarding the use of funds under the first RCF disbursed in November 2020. We have submitted additional documentation to the Auditor General's office as requested in the report and are also taking steps to ensure the fidelity of payments against earmarked monies going forward, including the recommendation to pay salaries through bank accounts. The MoFP issued a circular requesting all MDAs to open bank accounts for employees of the central government will be paid exclusively through bank accounts, with a few exceptions. In addition, the audit of the funds under the second RCF disbursed in April 2021 has concluded and the final report is expected to be published in August 2022.

12. We will continue to strengthen our expenditure controls. All infrastructure spending, including those expenditures financed from the oil for roads scheme, will be recorded in the appropriate IFMIS module from FY2022/23 onwards. We will also publish on the MoFP website quarterly budget execution reports for FY2020/21 and FY2021/22 by end-October 2022 and continue to publish such quarterly reports three months after the end of the quarter to improve budget transparency. With support from an IMF TA mission expected in September 2022, we will review the legal and institutional framework for debt management and develop a debt management strategy. The Cash Management Unit has started preparing monthly updates of the cash plan, and the Cash Management Committee will discuss and approve the rolling cash plans monthly.

13. The Loan Committee (LC) will be operationalized. The working methods of the LC - which will advise on all proposals for external financing and oversees the coordination of debt data - will be set out in detail in a Ministerial Order of the Minister of Finance by September 2022 This will set out, inter alia, the frequency of meetings, the responsibilities for providing secretariat support, and procedures for reporting and publishing the LC's meeting minutes. In addition, we plan to establish a consolidated database of all existing external debt obligations, including guarantees and oil advances. The consolidated database will be validated by the MoFP, the Ministry of Petroleum, and the BoSS. Moreover, the debt stock, including amounts by currency and creditor, as of end-2021 has been published on the MoFP website. The database will subsequently be updated on a quarterly basis and published on the Ministry of Finance website no later than 30 days following each reporting quarter. The tendering of an audit of the validated database up to end-December 2021 was launched in May 2022 based on Terms of Reference prepared in consultation with IMF staff and the contract with an internationally reputable external auditor was signed in July 2022.

14. The BoSS is committed to implementing the recommendations made by the IMF's safeguards assessment. With technical assistance from the IMF, we have already initiated some of the reforms contained in the safeguards assessment report, and will take action during the second half of 2022 to complete the remaining recommendations, particularly by: (i) developing a comprehensive strategy to address vulnerabilities and strengthen currency operations, including purchasing, storage, processing, and destruction activities to that end we hereby request technical assistance from the IMF in this area; (ii) sending tender requests to reputable currency manufacturers, and conduct a review of bids vis a vis the tender criteria; (iii) conducting a cost benefit analysis of replacing low denomination banknotes with coins; (iv) hiring additional staff with backgrounds in audit and risk management; and (v) engaging an audit firm to co-source the internal audit activities. Further, the external audit of the BoSS financial statement for 2021 is being finalized and we plan to have it published on the BoSS external website by end-July 2022. In addition, by end-July 2022 the BoSS will enter into a Memorandum of Understanding with the Auditor General to ensure: (i) the timely appointment of an international audit firm from FY2022/23 onwards with experience in IFRS and central banking; and (ii) multi-year appointments, carried out through a competitive public tender (proposed structural benchmark for the next SMP review).

15. We will continue implementing the reforms contained in our action plan on AML/CFT. We have made some progress implementing the AML/CFT reforms and had been invited to the ESAAMLG meeting in April 2022 as an observer. We have established the financial intelligence unit (FIU), and will strengthen its functions and technical expertise, including through hiring additional staff, so that it will take all supervisory responsibilities. However, in order to exit FATF's grey listing, and in light of FATF's recent statement that our progress has been limited, we will expedite our effort to implement the action plan. To address the legal issues in the action plan, we note the urgency to engage committedly and work closely with the TA team from the Legal Department of the IMF, whose diagnostic mission is expected to take place by the end of September 2022.

Table 1. Republic of South Sudan: Quantitative Targets Under the Staff Monitored Program

	End-Jun 2021 SMP Target	End- June 2021 Actual	End-Oct 2021 SMP Target	End-Oct 2021 Actual	End-Aug 2022 Proposed
Central government's primary cash budget deficit (ceiling: in billions of SSP)[1]	10.0	25.9 (Not met)	35.9	32.0 (Met)	25.0
Central bank net credit to the central government (ceiling: in billions of SSP)[2]	0.0	0.0 (Met)	0.0	25.0[3] (Not met)	25.0[4]
Contracting or guaranteeing of non-concessional borrowing (continuous ceiling: in millions of U.S. dollars)[5]	0.0	650.0 (Not met)	0.0	0.0 (Met)	0.0
Average net international reserve (floor: in millions of U.S. dollars)[6]	85.0	131.0 (Met)	284.0	406.0 (Met)	170.0
Clearance of salary arrears (floor: in billions of SSP)[7]	7.3	14.5 (Met)	14.5	10.6 (Not met)	18.2
Average reserve money growth (ceiling: in percentage points)[8]	5.0	-2.6 (Met)	10.0	-5.4 (Met)	15

[1] Numbers are cumulative from March 30, 2021 for June and October 2021 and cumulative from June 30, 2022 for August 2022.

[2] Numbers are cumulative changes from March 30, 2021. NCG should be zero in at least half of the quarter and never higher than 5 percent of quarterly revenue.

[3] Breach of the ceiling on NCG arose from clearance of salary arrears out of MoFP FX deposits with BoSS, without an increase in the government overdraft.

[4] Ceiling adjusted up to allow for on-lending of the remaining portion of the SDR allocation to be used for budget support, as agreed under the SMP.

[5] Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program or for critical COVID-related spending, and for which concessional financing is not available. The MoFP entered into an agreement for an external non-concessional loan in April 2021 for an amount of US$650 million without prior consultation with Fund staff, and the BoSS issued a sovereign guarantee related to this loan agreement in July 2021. This loan and associated guarantee were canceled in October 2021.

[6] Targets on NIR for end-June and end-October 2021 and end-August 2022 are defined as the cumulative changes of the average stock of daily NIR balances during, respectively, June and October 2021 and August 2022 relative to the stock of NIR on March 30, 2021.

[7] Cumulative from end-March 2021.

[8] Limits on reserve money growth for end-June, end-October 2021, and end-August 2022 are defined as the cumulative changes of the average reserve money during, respectively, June 2021, October 2021, and August 2022 relative to the reserve money stock at end-March 2021.

Table 2. Republic of South Sudan: Structural Benchmarks and Prior Actions Under the Staff-Monitored Program

Measures	Target Date[1]	Current Status
(i) MoFP to publish on its website the stock of all external debt and guarantees as of December 2021, (ii) contract with an internationally reputable external auditor to be signed, for said auditor to review and verify all underlying contracts and documentation	Prior Action	Met (June 2022 and July 2022 respectively)
1. Gradually roll-out to selected MDAs the use of cash for payment of salaries to all public servants and mandate the use of bank accounts	Sep-21	Not met. Implemented with Delay. Circular issued in September instructing MDAs to make payment of salaries of their staff through bank accounts as of July 1, 2022.
2. CMU will make a comprehensive review of the expenditures in the cash plan and together with the Budget make a proposal for programming the expenditures according to GOSS priorities	Sep-21	Not met. Implemented with delay.
3. Conduct an audit by an external independent auditor to take stock of all outstanding external loan agreements and guarantees and publish the results of the audit.	Dec-21	Not met. In progress: Completion of the audit and publication of its results rescheduled as structural benchmark for November 15, 2022 (see item 7 below).
4. Publish findings and recommendations of the audit of the spending of the April 2021 RCF disbursement	Aug-22	Proposed. The audit was completed, and a preliminary report for it was prepared. It is expected to be published in late-July/early-August 2022, and the SB is scheduled for end-August 2022.
5. BoSS to sign an MoU with the Auditor General to ensure the timely appointment of an international external audit firm for the audits of the BoSS financial statements from FY2022/23 onwards (MEFP ¶14). Proposed.	Oct-22	Proposed.
6. Publication of budget execution reports for FY2020/21 and FY2021/22.	Oct-22	Proposed.
7. Completion of an audit by an independent external auditor to take stock of all outstanding external loan agreements and guarantees and publish the results of the audit	Nov. 15, 2022	Proposed

[1] Target Dates refer to end of the month unless otherwise stated.

Attachment II. Technical Memorandum of Understanding

Juba, Republic of South Sudan, July 19, 2022

1. This Technical Memorandum of Understanding (TMU) defines the quantitative targets and structural benchmarks for monitoring the performance of South Sudan under the Staff Monitored Program (SMP). In addition, the TMU specifies the data to be provided to the IMF for program monitoring purposes, and the periodicity and deadlines for the transmission of the data.

2. The SMP will be monitored based on six quarterly quantitative targets (QTs) and five structural benchmarks listed in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP). The QTs are expressed as cumulative changes of the corresponding stock variables since the beginning of the SMP, March 30, 2021. The QTs are as follows.

i. ceiling on the central governments primary deficit;

ii. ceiling on the central bank net credit to the central government;

iii. continuous ceiling on contracting or guaranteeing of external non-concessional borrowing;

iv. floor on the average net international reserves (NIR);

v. floor on clearance of salary arrears; and

vi. ceiling on the average reserve money growth.

QUANTITATIVE TARGETS

3. **Primary cash budget deficit of the central government** is measured as the sum of net foreign financing and net domestic financing minus interest payments. Central government includes all line ministries and agencies controlled by the government. Net foreign financing is the difference between disbursements and amortization of any external loans both concessional and non-concessional, internationally-issued bonds, and any other forms of liabilities by the central government to nonresidents. Net domestic financing is defined as the sum of net financing from the Bank of South Sudan (BOSS), and other depository corporations (ODCs). Net financing from the BOSS /(ODCs) is equal to the change in net claims on the central government from the BOSS/ODCs between the start and end of the relevant period, as obtained from the Monetary Survey. For the purposes of the program, all claims and liabilities of the central government to the BOSS and ODCs denominated in foreign currency will be valued at the program exchange rate of 174 SSP/US$.

4. **Net credit to the central government by the BOSS** (NCG) is defined as change in the stock of net credit to the central government by the BOSS. For the purposes of the program, the part of the new SDR allocation that will be used for budget financing is excluded from NCG and all claims and liabilities of the central government to the BOSS denominated in foreign currency will be valued at the program exchange rate of 174 SSP/US$.

5. **Net international reserves (NIR)** of the BOSS are defined as reserve assets of the BOSS net of short-term external liabilities of the BOSS. Reserve assets are defined as foreign assets readily available to, and controlled by, the BOSS and exclude pledged or otherwise encumbered foreign assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Reserve assets must be denominated and settled in a convertible foreign currency. Short-term foreign liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BOSS. This excludes SDR allocations as they are of a long-term nature. For program-monitoring purposes, official reserve and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock denominated in SDR, EUR and GBP at program exchange rates of, respectively, 1.44, 0.83 and 0.71 against the US dollar. The NIR limits for end-June 2021, end-October 2021 and end-August 2022 are defined as the cumulative changes of the average NIR daily stocks during, respectively, June 2021, September 2021 and August 2022 relative to the NIR stock at end-March 2021.

6. **Contracting or guaranteeing of new non-concessional external debt by the central government and the BOSS** applies to debt to non-residents at non-concessional terms. For the purposes of the program, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)), attached in Annex I). This quantitative target will be assessed on a continuous basis starting from March 30, 2021.

- **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 discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt.
- Discussion on the contracting and/or guaranteeing of any new non-concessional debt will only be undertaken after consultation with the IMF. Exceptions to the zero program target for non-concessional debt may apply for debt that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) transactions that finance, while avoiding excessive external borrowing, critical investment projects with a high social and economic return that are integral to national development program or for critical COVID-related spending, and for which concessional financing is not available.

7. **Clearance of salary arrears** will be measured by the net change in the stock of domestic salary arrears at end-June and end-October 2021, and end-August 2022 relative to end-March 2021.

8. **Reserve money** is defined as the sum of local currency circulating outside of banks, total reserves for banks (required and excess) at the BOSS. For program purposes, limits on reserve money

growth for end-June and end-October 2021, and end-August 2022 are defined as the cumulative changes of the average reserve money in these months relative to the reserve money stock at end-March 2021. For program purposes, all components of reserve money that are denominated in foreign currency will be valued at the program exchange rate of 174 SSP/US$.

PROGRAM MONITORING AND REPORTING REQUIREMENTS

9. The monitoring of quantitative targets and structural benchmarks will be the focus of the quarterly assessment report to be prepared by the authorities at the end of each quarter. The information on implementation and/or execution of structural benchmarks under the program will be reported to IMF staff within two weeks after their programmed implementation date. The status of implementation of other structural program measures will also be reported to IMF staff within the same time frame.

10. The authorities will report the information specified in Table 1 below according to the reporting periods indicated. More generally, the authorities will provide IMF staff with all information required for effective follow-up on economic policy implementation.

11. The authorities agree to consult IMF staff on any new external debt proposals. They will report to IMF staff on the signing of any new external debt arrangements and the conditions pertaining to such debt.

Table 1. Republic of South Sudan: Data to be Reported for Program Monitoring

Reporting Agency	Type of data	Frequency	Submission Lag
MOFP	Table of government fiscal operations	Monthly	4 weeks
	Estimated government tax revenue	Monthly	4 weeks
	Estimated oil production and revenue	Monthly	4 weeks
	Stock of salary arrears of the Central Government	Monthly	4 weeks
	Budget execution report	Quarterly	4 weeks
	Disbursements of External Debt including Newly Contracted Debt of Government	Quarterly	4 weeks
	Projected external debt service	Quarterly	4 weeks
BOSS	BOSS balance sheet	Monthly	4 weeks
	Monetary Survey	Monthly	4 weeks
	Detailed FX Auction Results	Weekly	1 week

Annex I. Technical Memorandum of Understanding: Guidelines on External Debt

Excerpt from Executive Board Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)):

- For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

  (i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral 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 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 this paragraph, 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.

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

July 19, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM—DEBT SUSTAINABILITY ANALYSIS

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

Joint Bank-Fund Debt Sustainability Analysis	
Risk of external debt distress	High
Overall risk of debt distress	High
Granularity in the risk rating	Sustainable
Application of judgment	No

The baseline in this Debt Sustainability Analysis (DSA) reflects several changes with respect to the previous DSA update of October 21, 2021, including the higher outlook for oil prices, a slower recovery in oil production over the medium term, the discovery of an outstanding loan to the National Investment and Development Bank (NIDB) incurred prior to the start of the SMP, and more conservative assumptions on financing terms throughout the forecast period. South Sudan's debt remains assessed to be sustainable with a high risk of debt distress for both external and overall public debt.[1] Two of the four key indicators of public and publicly guaranteed external debt breach the threshold in the short/medium term, with debt service to revenue remaining above the threshold through 2027/28, and debt service-to-exports through FY2024/25. The present value of overall debt-to-GDP ratio decreases below the threshold starting in FY2022/23. This suggests that risks to external debt distress will remain high, and that maintaining debt sustainability while supporting development objectives would require financing at concessional and semi-concessional terms—such financing is minimal under the baseline. South Sudan's external and overall debt are assessed to be sustainable given the current recovery in oil prices, and contingent on a prudent path for fiscal policy, including refraining from expensive financing such as oil-advances. There are several downside risks to these assessments, which include potential volatility in oil prices, slow implementation of reforms, effect of climate-related disasters, and a breakdown in the peace process and the resumption of large-scale civil conflict.

[1] South Sudan's debt-carrying capacity remains rated "weak" with composite indicator score of 1.38 according to the April 2022 vintage of World Economic Outlook and the 2020 Country Policy and Institutional Assessment index of the World Bank.

BACKGROUND

A. Public Debt Coverage

1. The DSA is limited to central government debt. Debt data collection and compilation presents serious weaknesses in South Sudan. SOEs are omitted from the DSA as information about SOE debt and government guarantees is incomplete or unavailable.[2] External debt is defined using the currency criterion. The analysis for the contingent liability stress test includes SOE debt, financial market shocks, and a 2 percent shock to GDP to include the potential repayment of salary arrears to embassies' staff.

Subsectors of the public sector	Sub-sectors covered
1 Central government	X
2 State and local government	
3 Other elements in the general government	
4 o/w: Social security fund	
5 o/w: Extra budgetary funds (EBFs)	
6 Guarantees (to other entities in the public and private sector, including to SOEs)	
7 Central bank (borrowed on behalf of the government)	X
8 Non-guaranteed SOE debt	

1 The country's coverage of public debt	The central government, central bank			
	Default		Used for the analysis	Reasons for deviations from the default settings
2 Other elements of the general government not captured in 1.	0	percent of GDP	2.0	
3 SoE's debt (guaranteed and not guaranteed by the government) 1/	2	percent of GDP	2.0	
4 PPP	35	percent of PPP stock	0.0	
5 Financial market (the default value of 5 percent of GDP is the minimum value)	5	percent of GDP	5.0	
Total (2+3+4+5) (in percent of GDP)			9.0	

1/ The default shock of 2% of GDP will be triggered for countries, whose government-guaranteed debt is not fully captured under the country's public debt definition (1.). If it is already included in the government debt (1.) and risks associated with SoE's debt not guaranteed by the government is assessed to be negligible, a country team may reduce this to 0%.

2. Debt data access and availability remains weak. The IMF and the World Bank are providing technical assistance (TA) on statistics compilation (including on Balance of Payment statistics) and Public Financial Management (PFM) reforms. This is expected to improve the quality and availability of data. An IMF STA TA mission on International Investment Position, International Aid and External Debt Data is planned for July 2022, and a TA mission on Public Debt Management is planned for September 2022.

B. Debt Developments

3. South Sudan's external public debt was estimated at US$2,390 million (46 percent of GDP) as of December 2021 (Text Table 1). Debt to the World Bank amounted to US$79.8 million on IDA terms, while debt to the African Development Bank (AfDB) amounted to US$19 million. Debt to the IMF includes the two disbursements under the Rapid Credit Facility (RCF) of November 2020 and April 2021, and the use of US$150 million from the SDR allocation for budget support.[3] Bilateral creditors include China Exim Bank,

[2] Addressing the lack of coverage of SOE will require significant efforts in terms of data gathering and possibly technical support to produce the information. There are only a few SOEs in South Sudan with significant economic activity, the largest being Nilepet—the state-owned National Oil and Gas Company of South Sudan.

[3] The authorities used US$150 million from the SDR allocation to finance spending, mostly to reduce salary arrears. This amount, consistent with the Guidance Note of August 2021 on the treatment and use of SDR allocations, has been included in the external debt stock starting in FY2021/2022 for the purposes of this DSA.

with a remaining debt estimated at US$130 million at end-December 2021. Amongst commercial creditors the outstanding liability to the Qatar National Bank was amounting to US$586 million at the end of 2021, and the debt stock with Afrexim bank was US$438 million. The debt stock at the end of 2021 also included an outstanding debt of US$550 million owed to oil companies and an estimated outstanding debt of US$210 million to the National Investment Development Bank.[4] Domestic debt is mostly owed to the central bank but also includes a relatively small share of debt due to local commercial banks (around 20 percent).

Text Table 1. Republic of South Sudan: Decomposition of Public Debt by Creditor FY2020/21–2022/23[1]

	Debt Stock (end of period)			Debt Service					
	2021			FY20/21	FY21/22	FY22/23	FY20/21	FY21/22	FY22/23
	(In US$)	*(Percent total debt)*	*(Percent GDP)*	*(In US$)*			*(Percent GDP)*		
Total	3081	100	60	328	456	431	6.4%	9.5%	5.0%
External	2390	78	46	312	446	422	6.0%	8.6%	8.2%
Multilateral creditors[2]	913	30	18	134	227	229	2.6%	4.4%	4.4%
IMF	377	12	7	0	0	0			
World Bank	80	3	2	1	1	1			
ADB/AfDB/IADB	19	1	0	0	0	2			
Other Multilaterals	438	14	8	134	227	227			
o/w: Afrexim	438	14	8	134	227	227			
Bilateral Creditors	130	4	3	27	17	13	0.5%	0.3%	0.2%
Paris Club	0	0	0	0	0	0	0.0%	0.0%	0.0%
		0	0						
Non-Paris Club	130	4	3	27	17	13	0.5%	0.3%	0.2%
o/w: China Exim	130	4	3						
		0	0						
Commercial creditors	1346	44	26	150	201	180	2.9%	3.9%	3.5%
o/w: QNB	586	19	11	66	66	66			
o/w: Oil Companies	550	18	11	84	135	114			
Domestic	692	22	13	17	11	9	0.3%	0.2%	0.2%
Held by residents, total	692	22	13	17	11	9	0.3%	0.2%	0.2%
Held by non-residents, total	0	0	0				0.0%	0.0%	0.0%
Memo items:									
Collateralized debt[3]	1574	51	30						
o/w: Related	0	0	0						
o/w: Unrelated	1574	51	30						
Contingent liabilities	na								
o/w: Public guarantees	na								
o/w: Other explicit contingent liabilities[4]	na								
Nominal GDP	5167								

1/As reported by Country authorities according to their classification of creditors, including by official and commercial. Debt coverage is the same as the DSA.

2/ "Multilateral creditors" are simply institutions with more than one official shareholder and may not necessarily align with creditor classification under other IMF policies (e.g. Lending Into Arrears)

3/ Debt is collateralized when the creditor has rights over an asset or revenue stream that would allow it, if the borrower defaults on its payment obligations, to rely on the asset or revenue stream to secure repayment of the debt. Collateralization entails a borrower granting liens over specific existing assets or future receivables to a lender as security against repayment of the loan. Collateral is "unrelated" when it has no relationship to a project financed by the loan. An example would be borrowing to finance the budget deficit, collateralized by oil revenue receipts. See the joint IMF-World Bank note for the G20 "Collateralized Transactions: Key Considerations for Public Lenders and Borrowers" for a discussion of issues raised by collateral.

4/ Includes other-one off guarantees not included in publicly guaranteed debt (e.g. credit lines) and other explicit contingent liabilities not elsewhere classified (e.g. potential legal claims, payments resulting from PPP arrangements).

4. **The recovery in oil prices contributed positively to South Sudan's debt-servicing capacity (Text Table 2).** Oil prices are forecasted to be higher in the medium term with respect to the previous DSA update. The positive effect of higher oil prices, however, is dampened by a decrease in oil production, which was affected negatively by floods and aging oil infrastructure. Real oil GDP is projected to decrease by 2.8 percent in FY2021/22 and 0.3 percent in FY2022/23, and to start growing again in FY2023/24.

[4] This is a loan that was issued before the SMP start and that has recently come to light. Reconciliation of the data is still in progress.

Text Table 2. Republic of South Sudan: Key Macroeconomic Assumptions Comparison with the Previous Debt Sustainability Analysis

	2020/21	2021/22	2022/23	2023/24	2024/25	2029/30
			Projection			
Real GDP growth (annual percent change)						
June 2022 DSA	-5.0	-2.8	-0.3	4.6	4.8	5.9
Sep 2021 DSA	-5.4	1.0	5.2	7.4	4.9	6.1
Real oil GDP growth (annual percent change)						
June 2022 DSA	-0.9	-7.4	-3.8	3.3	3.2	2.8
Sep 2021 DSA	-5.9	-2.5	5.8	9.1	2.8	5.0
Current Account Balance (percent of GDP)						
June 2022 DSA	-4.2	4.5	1.2	0.1	-3.1	-0.4
Sep 2021 DSA	-5.0	2.7	3.2	2.2	-0.3	5.0
Exports of goods and services (percent of GDP)						
June 2022 DSA	67.6	67.2	65.6	62.5	60.1	43.8
Sep 2021 DSA	61.8	68.4	70.0	73.5	74.9	81.8
Imports of goods and services (percent of GDP)						
June 2022 DSA	87.9	66.6	71.0	72.5	75.9	56.7
Sep 2021 DSA	81.8	75.8	83.6	89.8	95.2	100.6
Primary deficit (percent of GDP)						
June 2022 DSA	-3.6	1.0	0.3	1.1	0.9	-0.6
Sep 2021 DSA	-4.6	4.7	3.4	2.9	2.0	0.8
Revenue and grants (percent of GDP)						
June 2022 DSA	34.6	29.6	31.1	30.0	28.9	23.2
Sep 2021 DSA	31.6	29.6	31.9	33.0	33.6	33.2
Primary expenditures (percent of GDP)						
June 2022 DSA	38.1	28.6	30.7	29.0	28.0	23.7
Sep 2021 DSA	36.2	24.9	28.5	30.1	31.6	32.5
SSD Oil prices (US$/ barrel)						
June 2022 DSA	53.2	84.5	95.5	84.7	77.3	71.5
Sep 2021 DSA	51.5	63.1	63.2	64.5	65.8	72.9

Sources: South Sudanese authorities; and IMF staff estimations and projections.

5. **Notwithstanding progress, salary arrears have not yet been fully cleared.** Salary arrears, after accumulating during the COVID-19 crisis, had decreased as the two RCF disbursements of November 2020 and April 2021 had allowed the authorities to reduce the amount of domestic salary arrears substantially to around 1 month for central and state government workers as of end-June 2021. While salary arrears increased again during the first half of FY2021/22, the MoFP has taken steps to clear the arrears, and as of June 2022 arrears on domestic salaries stand at an estimated SSP 24 billion (about 0.8 percent of GDP), and arrears to foreign missions stand at about USD 150 million (about 2 percent of GDP). An additional 2 percent of GDP has been added to the contingency liability test to take into account the repayment of salary arrears to diplomats in foreign missions.

6. **Although the payment of the Transitional Financial Arrangement (TFA) with Sudan is completed as of February 2022, South Sudan has continued to transfer the same amount of crude oil to Sudan as before but is not getting paid.** The TFA with Sudan created considerable fiscal pressure over the last few years, with payments amounting to about 3.4 percent of GDP in FY2020/21. The end of payments to Sudan under this agreement should create fiscal space for the authorities. However, the timing of when funds that used to be paid to Sudan will become available for the budget is not yet known as it appears that modifying the practical arrangements of crude oil transferred to Sudan (about 28 thousand barrels per day) will not be immediate. As of end-March 2022, South Sudan had accumulated credit of about US$136 million with Sudan for the value of crude oil transferred in excess of obligations under the TFA. A further credit of about US$110 million is estimated to have accumulated during the last quarter of FY2021/22, bringing the total to about US$246 million (equivalent to about 3.3 percent of GDP). Resolving this issue is of critical importance for South Sudan to be able execute its FY2022/23 budget without the need for external borrowing.

UNDERLYING ASSUMPTIONS

7. **Real GDP growth is forecasted to be lower than in the previous DSA (Text Table 2).** Real GDP growth in FY2021/22 is forecasted at -2.8 percent, lower than the 1.0 percent projected in the previous DSA, and GDP growth is projected to remain substantially lower than in the previous DSA through FY2024/25. This change reflects mainly lower oil production due to flooding damage in some oil fields. Real GDP growth is expected to gradually increase over the medium term and reach the level of around 6 percent after FY2029/30. This is mainly driven by the peace dividends in the non-oil sector and base effects in the oil sector as oil production recovers from the disruption caused by floods. Text Table 2 presents the main macro-framework assumptions in the current baseline scenario, as well as those of the previous DSA update.

8. **The authorities remain committed not to contract oil advances and other highly non-concessional loans.** The average nominal interest rate on external debt in the current DSA is forecasted at 4.1 percent in FY2021/22 and projected to decrease to 3.6 percent in FY 2022/23 due to the gradual repayment of expensive oil advances. The average real interest rate on domestic debt instead is forecasted at 2.5 percent in FY2021/22 and 1.7 percent in FY2022/23.

9. **This DSA assumes that the financing gaps will be closed mostly with non-concessional external loans.** A financing gap is estimated to occur starting in FY2022/23 and to persist in the medium term. This analysis projects—starting in FY2023/24—new disbursements by bilateral, non-Paris club lenders with 5-percent interest rate, 15-year maturity, and 5 years grace period, and also assumes that starting in FY2024/25 there will be issuance of medium-long term domestic debt (initially about 10 percent of government financing needs), predicated on sustained macroeconomic stability and improved fiscal position. The remaining financing gaps are assumed to be closed using non-concessional loans with 5-percent interest rate, 5-year maturity, and 1-year grace period.

10. **The fiscal balance is estimated to be in deficit by 0.4 percent of GDP in FY2021/22.** The recovery of oil prices has increased revenue relative to the budget, narrowing the overall deficit. The fiscal

balance is expected to be in deficit by 0.6 percent inFY2022/23, and to improve to a surplus of 0.1 percent of GDP in FY2023/24, predicated mainly on the recovery in oil production and improvements in non-oil revenues.

COUNTRY CLASSIFICATION AND DETERMINATION OF STRESS TESTS

11. SSD's debt carrying capacity remains classified as weak (Text Table 3). The composite indicator score (CI) of South Sudan is evaluated at 1.38, a slight increase from the score of 1.29 of the previous DSA update. The CI score is determined by the World Bank's Country Policy and Institutional Assessment (CPIA) and other variables such as real GDP growth and import coverage of foreign exchange reserves. South Sudan's latest CI score is based on the April 2022 WEO and 2020 CPIA.

Text Table 3. Republic of South Sudan: Debt Carrying Capacity and Thresholds

Country	South Sudan
Country Code	733

Debt Carrying Capacity	Weak

Final	Classification based on current vintage	Classification based on the previous vintage
Weak	Weak 1.38	Weak 1.29

Applicable thresholds

APPLICABLE	
EXTERNAL debt burden thresholds	
PV of debt in % of	
Exports	140
GDP	30
Debt service in % of	
Exports	10
Revenue	14

APPLICABLE	
TOTAL public debt benchmark	
PV of total public debt in percent of GDP	35

New framework			
	Cut-off values		
Weak	CI ≤	2.69	
Medium	2.69	< CI ≤	3.05
Strong	CI >	3.05	

12. **This DSA includes a tailored stress test for lower oil prices.** South Sudan's economy is highly reliant on revenues from oil exports; thus the commodity price shock stress test has been added to the standard stress tests. The commodity price stress test features a one standard deviation decline in oil prices and a 6-year period for closing the financing gap that arises. This DSA does not include the market financing tailored test, as it is not applicable yet to South Sudan.

13. **The results highlight the downside risks from high reliance on oil exports.** In the tailored oil-price stress test (Table 3), the present value of external debt-to GDP ratio remains above the threshold through FY2029/30, whereas the present value of external debt-to-exports ratio is above the threshold between FY2023/24 and FY2026/27. The debt service-to-exports ratio indicator and the debt service-to-revenue ratio for external debt remain above the threshold through FY2033/34 and FY2034/35 respectively. Finally, the indicator for present value of debt-to-GDP ratio remains above the threshold through FY2025/26 in the tailored commodity price stress test.

14. **This DSA also includes an additional 2 percent of GDP in the contingent liability test.** The contingent liability stress test has been tailored to include an additional 2 percent of GDP to account for the arrears to diplomats in foreign missions, which are estimated to amount around US$150 million. Since the exact amount of arrears is still unclear and the repayment plan is in progress, the arrears are not included in the stock of debt of the DSA, but only in the contingent liability test.

15. **The repayment of arrears poses additional downside risks.** Under the combined contingent liabilities scenario, the PV of external debt to GDP ratio remains above the threshold through FY2027/28, whereas the PV of debt-to-exports ratio remains below the threshold throughout the period of analysis. Both the debt service-to-exports and debt service-to-revenue indicators breach the threshold (in FY2021/22 and FY2024/25, and through FY2028/29 respectively). The PV of overall debt to GDP remains above the threshold through FY2028/29.

EXTERNAL DEBT SUSTAINABILITY ANALYSIS

16. **The PV of external-debt-to-GDP ratio under the baseline scenario is expected to be below the threshold (Figure 1, Table 1, and Table 3).** The PV of external debt-to-GDP ratio is projected to be at 28.2 percent in FY2021/22, and to decrease to 26.1 in FY2022/23. The indicator is forecasted to remain below the threshold in the short and medium term reaching 18.1 in FY2031/32. The PV of debt-to-exports ratio remains below the threshold throughout the period in the baseline analysis.

17. **The debt service-to-revenue ratio and debt service-to-exports ratio indicators breach the thresholds in the short/medium term (Figure 1, Table 1 and Table 3).** In the baseline scenario, the debt service-to-revenue ratio exceeds its thresholds until fiscal year 2027/28. This is mainly due to the repayment of commercial external debt. The external debt service-to-exports ratio is expected to remain below the threshold after FY2024/25.

18. The alternative scenarios result in longer breaches of the threshold (Figure 1 and Table 3). Under the most extreme shock scenario (i.e., a shock to the price of oil), the PV of debt-to-GDP, the debt service-to-exports ratio, and the debt service-to-revenue all remain above the threshold in the medium term, with the PV of debt-to GDP returning below the threshold in FY2030/31. The PV of debt-to-exports ratio instead remains well under the threshold for all years forecasted.

PUBLIC DEBT SUSTAINABILITY ANALYSIS

19. The PV of total public debt-to-GDP ratio is forecasted to decrease below the threshold after FY2021/22 in the baseline scenario (Figure 2 and Table 4). The indicator is forecasted to be above the threshold at 42 percent in FY2021/22, and to subsequently decrease below the threshold. This decline is contingent on the authorities' commitment to fiscal discipline. In the combined contingent liability scenario, the PV of Debt-to-GDP Ratio indicator remains above the threshold throughout FY2028/29.

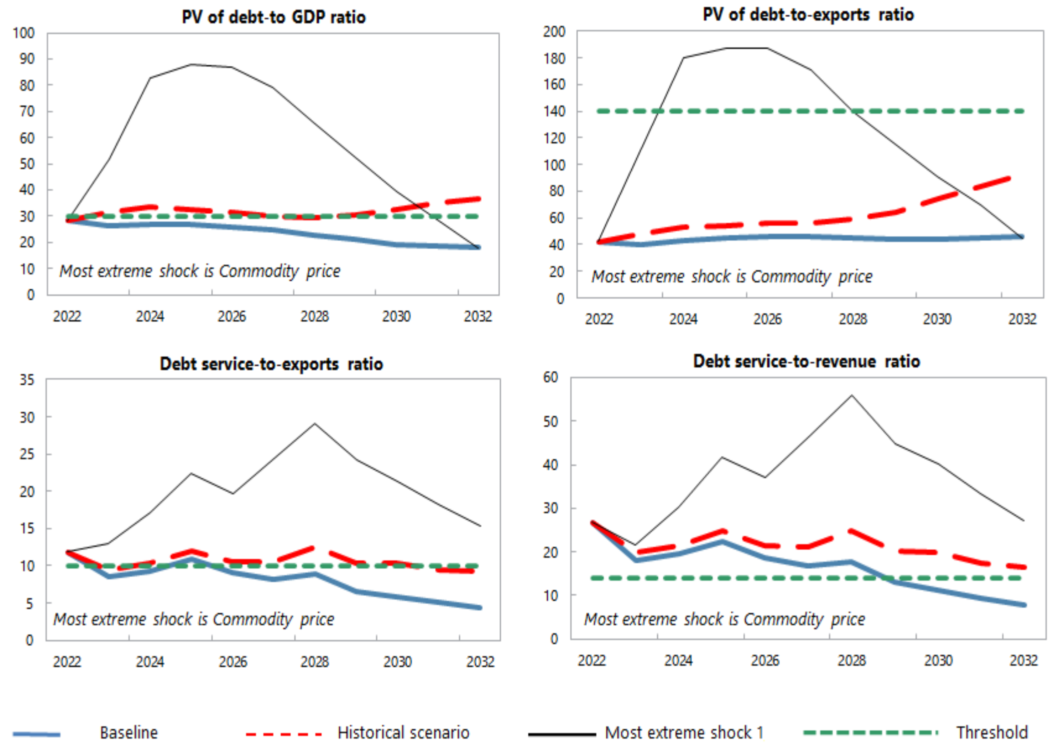
RISK RATING AND VULNERABILITIES

20. Although South Sudan's debt remains assessed as sustainable, there are substantial downside risks to the baseline scenario. The rating of debt as sustainable with a high risk of debt distress for both external and domestic public debt relies on the policies implemented by the authorities and the improvements to the institutional framework for debt management. Under the baseline scenario, all debt indicators would decrease below the respective thresholds after FY2027/28. The prolonged (but contained below 26.8 percent) breach of the external debt service-to-revenue ratio is in part due to the expensive debt service to be repaid in the medium term and to the conservative assumptions on financing terms to close the estimated financing needs. The assumptions of non-concessional borrowing in this DSA imply that financing gaps are covered with debt with low maturity and 5 percent interest rate. Maintaining debt sustainability while working towards development objectives would be better supported through higher levels of financing at concessional and semi-concessional terms relative to what is assumed under the baseline. The risks to the baseline scenario––which would prolong the breaches in the thresholds—include volatility in oil prices, resumption of large-scale civil conflict, weak governance of reforms and spending, and climate-related natural disasters. These risks of prolonged fragility underscore the importance of a commitment to internal peace, economic reforms, and close cooperation with the international community.

AUTHORITIES' VIEWS

21. The authorities agreed with the assessment of the DSA. They recognized the importance of remaining current on their debts, discontinuing oil advances, avoiding highly non-concessional borrowings, and the prudent fiscal and monetary policies discussed in the staff report to improve South Sudan's debt sustainability.

Figure 1. Republic of South Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, FY2022–2032[1]



Customization of Default Settings		
	Size	Interactions
Tailored Tests		
Combined CLs	Yes	
Natural Disasters	n.a.	n.a.
Commodity Prices 2/	Yes	No
Market Financing	n.a.	n.a.

Note: "Yes" indicates any change to the size or interactions of the default settings for the stress tests. "n.a." indicates that the stress test does not apply.

Borrowing Assumptions for Stress Tests*		
	Default	User defined
Shares of marginal debt		
External PPG MLT debt	100%	100%
Terms of marginal debt		
Avg. nominal interest rate on new borrowing in USD	5.0%	5.0%
USD Discount rate	5.0%	5.0%
Avg. maturity (incl. grace period)	12	12
Avg. grace period	3	3

* Note: All the additional financing needs generated by the shocks under the stress tests are assumed to be covered by PPG external MLT debt in the external DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

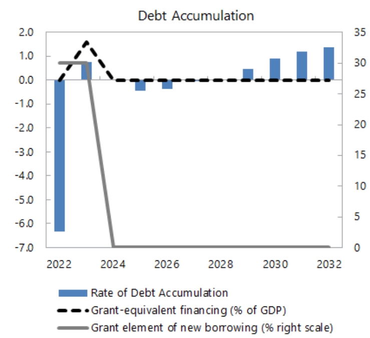
1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. Stress tests with one-off breaches are also presented (if any), while these one-off breaches are deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.
2/ The magnitude of shocks used for the commodity price shock stress test are based on the commodity prices outlook prepared by the IMF research department.

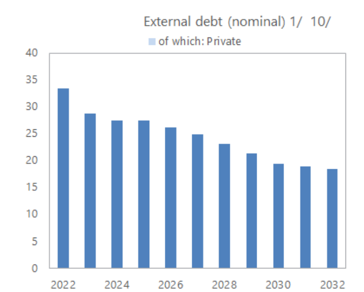
Table 1. Republic of South Sudan: External Debt Sustainability Framework, Baseline Scenario, FY2021–2042

(In percent of GDP, unless otherwise indicated)

	Actual	Projections												Average 8/	
Fiscal Year 9/	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2042	Historical	Projections
External debt (nominal) 1/ 10/	45.9	33.4	28.8	27.5	27.4	26.2	24.9	23.0	21.3	19.4	18.9	18.4	11.9	25.2	24.5
of which: public and publicly guaranteed (PPG)	45.9	33.4	28.8	27.5	27.4	26.2	24.9	23.0	21.3	19.4	18.9	18.4	11.9	25.2	24.5
Change in external debt	5.8	-12.5	-4.6	-1.2	-0.1	-1.2	-1.3	-1.8	-1.8	-1.9	-0.5	-0.5	-0.4		
Identified net debt-creating flows	1.2	-4.3	-1.7	-2.9	-0.5	-0.1	0.6	-1.1	-2.3	-2.7	-1.8	-0.9	-1.5	-2.9	-1.6
Non-interest current account deficit	3.1	-5.9	-2.1	-1.0	2.2	2.3	3.3	1.9	0.5	-0.3	1.8	4.0	-0.2	1.5	0.6
Deficit in balance of goods and services	20.3	-0.5	5.3	10.0	15.8	17.2	19.0	17.8	15.3	12.9	15.5	18.4	8.0	10.2	13.3
Exports	67.6	67.2	65.6	62.5	60.1	56.3	52.9	50.1	47.7	43.8	41.6	39.7	21.0		
Imports	87.9	66.6	71.0	72.5	75.9	73.5	71.9	68.0	63.1	56.7	57.1	58.0	29.0		
Net current transfers (negative = inflow)	-26.0	-16.8	-19.7	-21.6	-22.6	-23.1	-22.7	-21.8	-20.5	-18.4	-17.4	-16.5	-9.1	-22.7	-20.1
of which: official	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other current account flows (negative = net inflow)	8.7	11.5	12.2	10.5	9.0	8.2	7.0	5.9	5.6	5.1	3.8	2.1	0.9	14.1	7.4
Net FDI (negative = inflow)	-0.9	-0.7	-0.5	-1.4	-2.4	-2.0	-2.1	-2.5	-2.3	-2.1	-3.3	-4.7	-1.2	0.8	-2.2
Endogenous debt dynamics 2/	-1.0	2.2	1.0	-0.4	-0.4	-0.5	-0.5	-0.5	-0.4	-0.3	-0.3	-0.3	-0.1		
Contribution from nominal interest rate	1.1	1.3	0.9	1.0	0.9	0.9	0.8	0.8	0.8	0.8	0.8	0.8	0.5		
Contribution from real GDP growth	1.9	0.9	0.1	-1.4	-1.3	-1.4	-1.3	-1.3	-1.2	-1.1	-1.1	-1.1	-0.6		
Residual 3/	4.6	-8.2	-2.9	1.7	0.4	-1.1	-1.9	-0.8	0.5	0.8	1.2	0.5	1.1	9.9	-0.9
of which: exceptional financing	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Sustainability indicators															
PV of PPG external debt-to-GDP ratio	45.9	28.2	26.1	27.0	27.0	25.8	24.5	22.7	21.0	19.1	18.6	18.1	11.7		
PV of PPG external debt-to-exports ratio	67.9	42.0	39.7	43.2	45.0	45.9	46.4	45.3	43.9	43.6	44.7	45.7	56.0		
PPG debt service-to-exports ratio	8.8	11.8	8.5	9.4	10.8	9.1	8.3	8.9	6.6	5.9	5.0	4.4	10.0		
PPG debt service-to-revenue ratio	17.2	26.8	17.9	19.5	22.5	18.6	16.7	17.7	12.9	11.1	9.2	7.8	13.0		
Gross external financing need (Million of U.S. dollars)	419.0	100.3	231.5	261.9	486.2	434.3	455.9	349.3	131.4	18.1	76.7	147.9	257.8		
Key macroeconomic assumptions															
Real GDP growth (in percent)	-5.0	-2.8	-0.3	4.6	4.8	5.2	5.3	5.6	5.9	5.9	5.9	6.1	5.7	5.1	4.2
GDP deflator in US dollar terms (change in percent)	11.2	44.1	11.6	-7.7	-6.2	-1.8	-0.2	3.0	3.0	3.0	3.0	3.0	4.0	-4.0	5.0
Effective interest rate (percent) 4/	3.0	4.1	3.1	3.2	3.4	3.3	3.2	3.5	3.8	4.1	4.3	4.5	4.8	1.9	3.7
Growth of exports of G&S (US dollar terms, in percent)	12.1	39.2	8.7	-8.0	-5.5	-3.3	-1.2	2.4	5.2	5.1	3.7	5.1	0.0	262.3	4.7
Growth of imports of G&S (US dollar terms, in percent)	4.1	6.2	18.5	-1.4	2.9	0.1	2.7	2.2	2.5	3.0	10.0	12.0	0.0	4.2	5.3
Grant element of new public sector borrowing (in percent)	...	30.0	30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	5.5
Government revenues (excluding grants, in percent of GDP)	34.6	29.6	31.1	30.0	28.9	27.5	26.2	25.2	24.4	23.2	22.7	22.3	16.0	34.1	26.5
Aid flows (in Million of US dollars) 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Grant-equivalent financing (in percent of GDP) 6/	...	0.0	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	0.1
Grant-equivalent financing (in percent of external financing) 6/	...	...	30.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	...	3.0
Nominal GDP (Million of US dollars)	5,180	7,258	8,075	7,795	7,661	7,913	8,314	8,989	9,927	11,377	12,430	13,687	38,826		
Nominal dollar GDP growth	5.6	40.1	11.3	-3.5	-1.7	3.3	5.1	8.1	10.4	14.6	9.3	10.1	10.5	-2.2	9.7
Memorandum items:															
PV of external debt 7/	45.9	28.2	26.1	27.0	27.0	25.8	24.5	22.7	21.0	19.1	18.6	18.1	11.7		
In percent of exports	67.9	42.0	39.7	43.2	45.0	45.9	46.4	45.3	43.9	43.6	44.7	45.7	56.0		
Total external debt service-to-exports ratio	8.8	11.8	8.5	9.4	10.8	9.1	8.3	8.9	6.6	5.9	5.0	4.4	10.0		
PV of PPG external debt (in Million of US dollars)	2377.2	2048.4	2104.9	2105.4	2070.6	2043.5	2039.7	2041.2	2082.7	2173.1	2310.9	2481.7	4553.4		
(PVt-PVt-1)/GDPt-1 (in percent)		-6.3	0.8	0.0	-0.4	-0.4	0.0	0.0	0.5	0.9	1.2	1.4	0.8		
Non-interest current account deficit that stabilizes debt ratio	-2.7	6.6	2.5	0.2	2.3	3.6	4.6	3.8	2.3	1.6	2.4	4.5	0.2		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**





Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

8/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

9/ The fiscal year runs from July to June, i.e., 2021 refers to FY20/21 ending in June 2021.

10/ The ratio of debt over GDP in FY2020/2021 is computed with end of period exchange rate to take into account the large variation in the official exchange rate

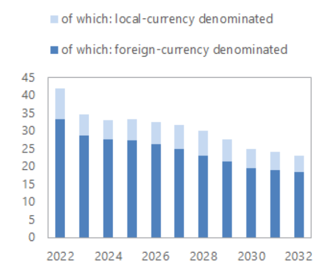
Table 2. Republic of South Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, FY2021–2042

(In percent of GDP, unless otherwise indicated)

	Actual	Projections								Average 6/	
Fiscal Year 7/	2021	2022	2023	2024	2025	2026	2027	2032	2042	Historical	Projections
Public sector debt 1/ 9/	61.9	42.1	34.7	33.0	33.4	32.5	31.6	23.1	20.5	27.1	30.6
of which: external debt	45.9	33.4	28.8	27.5	27.4	26.2	24.9	18.4	11.9	20.5	24.5
Change in public sector debt	10.6	-19.8	-7.4	-1.7	0.4	-0.9	-0.9	-0.9	-0.1		
Identified debt-creating flows	26.3	-33.8	-7.4	-1.7	0.4	-0.9	-0.9	-0.6	-0.1	7.7	-4.6
Primary deficit	3.6	-1.0	-0.3	-1.1	-0.9	-0.6	-0.1	0.7	1.1	-2.9	-0.2
Revenue and grants	34.6	29.6	31.1	30.0	28.9	27.5	26.2	22.3	16.0	39.1	26.5
of which: grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Primary (noninterest) expenditure	38.1	28.6	30.7	29.0	28.0	26.8	26.1	23.1	17.1	36.2	26.3
Automatic debt dynamics	22.7	-32.9	-7.0	-0.6	1.3	-0.2	-0.8	-1.4	-1.2		
Contribution from interest rate/growth differential	1.0	-8.3	-2.0	-1.2	-0.8	-1.2	-1.3	-1.1	-0.6		
of which: contribution from average real interest rate	-1.8	-10.1	-2.1	0.3	0.7	0.4	0.3	0.3	0.5		
of which: contribution from real GDP growth	2.7	1.8	0.1	-1.5	-1.5	-1.6	-1.6	-1.4	-1.1		
Contribution from real exchange rate depreciation	21.8	...	...	...	...	...	...	...	...		
Other identified debt-creating flows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Privatization receipts (negative)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Recognition of contingent liabilities (e.g., bank recapitalization)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Debt relief (HIPC and other)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Other debt creating or reducing flow (please specify)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		
Residual 8/	-15.7	-10.6	-5.1	0.5	2.1	1.0	0.5	-0.6	-0.5	-0.3	-1.4
Sustainability indicators											
PV of public debt-to-GDP ratio 2/	61.9	42.1	34.7	33.0	33.4	32.5	31.6	23.1	20.5		
PV of public debt-to-revenue and grants ratio	178.9	142.2	111.6	109.8	115.3	118.2	120.5	103.5	128.1		
Debt service-to-revenue and grants ratio 3/	17.4	27.0	18.3	19.8	22.8	19.0	17.3	10.8	21.7		
Gross financing need 4/	5.7	7.0	5.3	4.9	5.7	4.6	4.4	3.2	4.6		
Key macroeconomic and fiscal assumptions											
Real GDP growth (in percent)	-5.0	-2.8	-0.3	4.6	4.8	5.2	5.3	6.1	5.7	5.1	4.2
Average nominal interest rate on external debt (in percent)	3.1	4.1	3.6	3.6	3.4	3.3	3.3	4.6	4.8	3.2	3.8
Average real interest rate on domestic debt (in percent)	2.4	2.5	1.7	1.6	1.5	1.4	1.3	2.5	4.8	0.7	1.9
Real exchange rate depreciation (in percent, + indicates depreciation)	50.4	...	...	...	...	...	...	...	...	65.8	
Inflation rate (GDP deflator, in percent)	31.8	219.6	47.1	3.9	-2.9	1.2	2.8	6.9	7.7	83.3	28.1
Growth of real primary spending (deflated by GDP deflator, in percent)	-3.0	-27.1	7.1	-1.4	1.2	0.7	2.3	4.6	-4.3	110.2	0.0
Primary deficit that stabilizes the debt-to-GDP ratio 5/	-7.0	18.8	7.0	0.6	-1.3	0.2	0.8	1.7	1.2	-3.4	3.4
PV of contingent liabilities (not included in public sector debt)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0		

Definition of external/domestic debt	**Currency-based**
Is there a material difference between the two criteria?	**No**

Public sector debt 1/ 9/



Sources: Country authorities; and staff estimates and projections.

1/ Coverage of debt: The central government, central bank. Definition of external debt is Currency-based.

2/ The underlying PV of external debt-to-GDP ratio under the public DSA differs from the external DSA with the size of differences depending on exchange rates projections.

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

4/ Gross financing need is defined as the primary deficit plus debt service plus the stock of short-term debt at the end of the last period and other debt creating/reducing flows.

5/ Defined as a primary deficit minus a change in the public debt-to-GDP ratio ((-): a primary surplus), which would stabilizes the debt ratio only in the year in question.

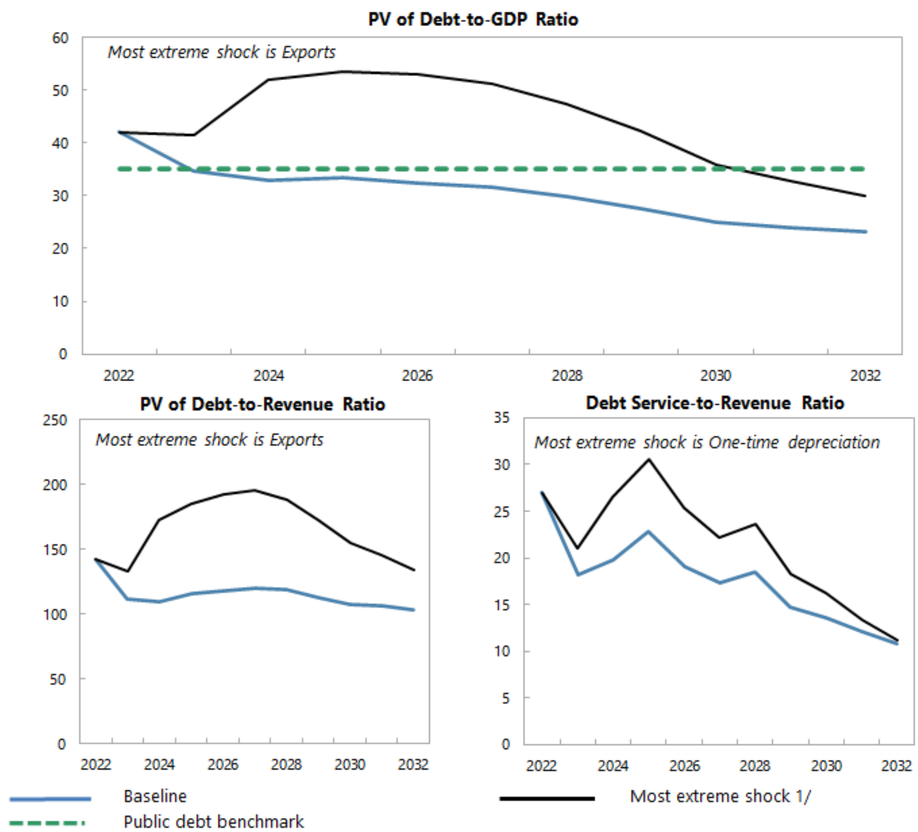
6/ Historical averages are generally derived over the past 10 years, subject to data availability, whereas projections averages are over the first year of projection and the next 10 years.

7/ The fiscal year runs from July to June, i.e., 2021 refers to FY20/21 ending in June 2021.

8/ The residual in 2021 is driven by the large nominal exchange rate adjustment in South Sudan.

9/ The ratio of debt over GDP in FY2020/2021 is computed with end of period exchange rate to take into account the large variation in the official exchange rate

Figure 2. Republic of South Sudan: Indicators of Public Debt Under Alternative Scenarios, FY2022–2032



Borrowing Assumptions for Stress Tests*	Default	User defined
Shares of marginal debt		
External PPG medium and long-term	78%	78%
Domestic medium and long-term	22%	22%
Domestic short-term	0%	0%
Terms of marginal debt		
External MLT debt		
Avg. nominal interest rate on new borrowing in USD	5.0%	5.0%
Avg. maturity (incl. grace period)	12	12
Avg. grace period	3	3
Domestic MLT debt		
Avg. real interest rate on new borrowing	-21.9%	2.0%
Avg. maturity (incl. grace period)	5	5
Avg. grace period	3	3
Domestic short-term debt		
Avg. real interest rate	0%	0%

* Note: The public DSA allows for domestic financing to cover the additional financing needs generated by the shocks under the stress tests in the public DSA. Default terms of marginal debt are based on baseline 10-year projections.

Sources: Country authorities; and staff estimates and projections.

1/ The most extreme stress test is the test that yields the highest ratio in or before 2032. The stress test with a one-off breach is also presented (if any), while the one-off breach is deemed away for mechanical signals. When a stress test with a one-off breach happens to be the most exterme shock even after disregarding the one-off breach, only that stress test (with a one-off breach) would be presented.

Table 3. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, FY2022–2032

(in percent)

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
PV of debt-to GDP ratio											
Baseline	28.2	26.1	27.0	27.0	25.8	24.5	22.7	21.0	19.1	18.6	18.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 2/	28.2	**31.2**	**33.4**	**32.6**	**31.5**	29.6	29.5	**30.7**	**32.4**	**34.8**	**36.6**
B. Bound Tests											
B1. Real GDP growth	28.2	**32.0**	**39.2**	**39.2**	**37.4**	**35.6**	**32.9**	**30.4**	27.6	26.9	26.2
B2. Primary balance	28.2	**31.1**	**38.1**	**38.8**	**37.8**	**36.8**	**35.3**	**33.2**	**30.2**	29.2	28.2
B3. Exports	28.2	**32.3**	**50.0**	**51.4**	**50.4**	**48.2**	**43.6**	**39.1**	**34.6**	**31.8**	29.2
B4. Other flows 3/	28.2	**33.8**	**44.1**	**45.3**	**44.4**	**42.2**	**38.2**	**34.3**	**30.3**	27.9	25.7
B5. One-time 30 percent nominal depreciation	28.2	**36.4**	**34.9**	**34.8**	**33.0**	**31.2**	29.1	27.0	24.6	24.2	23.9
B6. Combination of B1-B5	28.2	**48.0**	**73.0**	**75.4**	**74.2**	**70.3**	**63.2**	**56.4**	**49.6**	**45.2**	**41.0**
C. Tailored Tests											
C1. Combined contingent liabilities	28.2	**33.1**	**34.7**	**35.1**	**34.0**	**33.3**	**31.8**	29.6	27.0	26.2	25.5
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	28.2	**51.6**	**82.7**	**87.9**	**86.7**	**79.1**	**65.5**	**52.3**	**39.6**	28.8	17.7
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**	**30**
PV of debt-to-exports ratio											
Baseline	42.0	39.7	43.2	45.0	45.9	46.4	45.3	43.9	43.6	44.7	45.7
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 2/	42.0	47.6	53.4	54.3	55.9	56.0	58.8	64.2	74.0	83.7	92.2
B. Bound Tests											
B1. Real GDP growth	42.0	39.7	43.2	45.0	45.9	46.4	45.6	43.7	41.1	42.1	42.7
B2. Primary balance	42.0	47.4	61.0	64.5	67.1	69.6	70.4	69.6	69.0	70.1	71.1
B3. Exports	42.0	53.9	89.9	96.2	100.8	102.6	98.4	91.6	84.0	81.2	77.5
B4. Other flows 3/	42.0	51.5	70.5	75.3	78.8	79.8	76.6	71.4	65.5	63.5	60.8
B5. One-time 30 percent nominal depreciation	42.0	39.7	40.0	41.4	42.0	42.3	41.8	40.3	38.1	39.4	40.4
B6. Combination of B1-B5	42.0	66.0	80.9	107.3	112.9	113.7	108.5	100.5	91.7	87.8	82.9
C. Tailored Tests											
C1. Combined contingent liabilities	42.0	50.4	55.4	58.4	60.4	62.9	63.4	62.0	61.7	63.1	64.3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	42.0	112.8	**179.7**	**187.4**	**187.0**	**170.9**	139.9	115.8	91.0	69.6	44.6
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**	**140**
Debt service-to-exports ratio											
Baseline	**11.8**	8.5	9.4	**10.8**	9.1	8.3	8.9	6.6	5.9	5.0	4.4
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 2/	**11.8**	9.5	**10.3**	**12.0**	**10.5**	**10.5**	**12.5**	**10.3**	**10.4**	9.5	9.2
B. Bound Tests											
B1. Real GDP growth	**11.8**	8.5	9.4	**10.8**	9.1	8.3	8.9	6.6	5.9	4.9	4.3
B2. Primary balance	**11.8**	8.5	9.8	**11.8**	**10.1**	**10.4**	**12.2**	9.9	9.2	8.5	8.2
B3. Exports	**11.8**	9.3	**12.2**	**15.3**	**13.3**	**14.0**	**17.6**	**14.6**	**13.4**	**12.1**	**11.1**
B4. Other flows 3/	**11.8**	8.5	10.0	**12.3**	**10.6**	**11.5**	**13.8**	**11.4**	**10.4**	9.4	8.6
B5. One-time 30 percent nominal depreciation	**11.8**	8.5	9.4	**10.6**	8.9	8.1	8.3	6.1	5.3	4.4	3.8
B6. Combination of B1-B5	**11.8**	9.3	**12.9**	**15.8**	**13.9**	**16.4**	**19.4**	**16.3**	**15.0**	**13.7**	**12.6**
C. Tailored Tests											
C1. Combined contingent liabilities	**11.8**	8.5	9.9	**11.5**	9.8	9.0	9.7	7.5	6.7	5.9	5.2
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**11.8**	**12.9**	**17.2**	**22.4**	**19.6**	**24.4**	**29.1**	**24.2**	**21.4**	**18.2**	**15.3**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**	**10**
Debt service-to-revenue ratio											
Baseline	**26.8**	**17.9**	**19.5**	**22.5**	**18.6**	**16.7**	**17.7**	12.9	11.1	9.2	7.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 2/	**26.8**	**20.0**	**21.5**	**24.9**	**21.4**	**21.1**	**24.8**	**20.2**	**19.7**	**17.3**	**16.3**
B. Bound Tests											
B1. Real GDP growth	**26.8**	**21.9**	**28.2**	**32.6**	**26.9**	**24.2**	**25.6**	**18.9**	**17.0**	13.8	11.8
B2. Primary balance	**26.8**	**17.9**	**20.3**	**24.4**	**20.6**	**20.9**	**24.2**	**19.4**	**17.4**	**15.7**	**14.6**
B3. Exports	**26.8**	**18.0**	**22.5**	**28.2**	**24.2**	**25.0**	**31.0**	**25.5**	**23.8**	**20.9**	**18.7**
B4. Other flows 3/	**26.8**	**17.9**	**20.8**	**25.5**	**21.8**	**23.2**	**27.4**	**22.4**	**20.9**	**18.2**	**16.3**
B5. One-time 30 percent nominal depreciation	**26.8**	**25.0**	**27.2**	**30.9**	**25.4**	**22.7**	**23.0**	**16.7**	**14.8**	11.9	10.0
B6. Combination of B1-B5	**26.8**	**21.8**	**31.4**	**38.4**	**33.2**	**38.7**	**44.7**	**37.4**	**35.1**	**31.0**	**28.0**
C. Tailored Tests											
C1. Combined contingent liabilities	**26.8**	**17.9**	**20.7**	**23.8**	**20.0**	**18.2**	**19.3**	**14.6**	12.7	10.8	9.3
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**26.8**	**21.6**	**30.1**	**41.8**	**36.9**	**46.4**	**56.1**	**44.8**	**40.1**	**33.3**	**27.2**
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Threshold	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**	**14**

Sources: Country authorities; and staff estimates and projections.
1/ A bold value indicates a breach of the threshold.
2/ Variables include real GDP growth, GDP deflator (in U.S. dollar terms), non-interest current account in percent of GDP, and non-debt creating flows.
3/ Includes official and private transfers and FDI.

Table 4. Republic of South Sudan: Sensitivity Analysis for Key Indicators of Public Debt FY2022–2032

	Projections 1/										
	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
	PV of Debt-to-GDP Ratio										
Baseline	**42**	34.7	33.0	33.4	32.5	31.6	29.9	27.6	25.0	24.0	23.1
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 2/	**42**	26	16	11	8	7	6	6	6	6	6
B. Bound Tests											
B1. Real GDP growth	**42**	**40**	**45**	**45**	**44**	**43**	**41**	**37**	34	33	31
B2. Primary balance	**42**	**41**	**47**	**48**	**47**	**46**	**44**	**41**	**37**	**36**	35
B3. Exports	**42**	**41**	**52**	**53**	**53**	**51**	**47**	**42**	**36**	33	30
B4. Other flows 3/	**42**	**43**	**50**	**52**	**51**	**50**	**46**	**41**	35	32	29
B5. One-time 30 percent nominal depreciation	**42**	**42**	**38**	**37**	34	31	27	24	20	18	16
B6. Combination of B1-B5	**42**	**42**	**44**	**44**	**43**	**43**	**42**	**40**	**37**	**35**	34
C. Tailored Tests											
C1. Combined contingent liabilities	**42**	**44**	**42**	**43**	**42**	**41**	**39**	**36**	33	32	31
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	**42**	**44**	**39**	**38**	**36**	35	33	31	28	28	27
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Public debt benchmark	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**	**35**
	PV of Debt-to-Revenue Ratio										
Baseline	142.2	111.6	109.8	115.3	118.2	120.5	118.6	112.9	107.8	106.0	103.5
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 2/	142	85	52	37	30	27	25	25	26	27	27
B. Bound Tests											
B1. Real GDP growth	142	112	110	115	118	120	119	113	108	106	103
B2. Primary balance	142	132	155	165	171	176	175	168	162	159	155
B3. Exports	142	133	173	185	192	196	188	173	154	145	134
B4. Other flows 3/	142	139	168	179	187	189	182	167	150	141	131
B5. One-time 30 percent nominal depreciation	142	136	127	126	122	118	109	97	86	78	70
B6. Combination of B1-B5	142	134	147	151	158	164	166	162	158	156	153
C. Tailored Tests											
C1. Combined contingent liabilities	142	141	140	148	153	157	156	150	143	141	138
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	142	160	148	150	146	143	136	127	123	122	120
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	Debt Service-to-Revenue Ratio										
Baseline	27.0	18.3	19.8	22.8	19.0	17.3	18.5	14.7	13.6	12.1	10.8
A. Alternative Scenarios											
A1. Key variables at their historical averages in 2022-2042 2/	27	12	7	4	2	1	1	1	1	1	1
B. Bound Tests											
B1. Real GDP growth	27	18	20	23	19	17	19	15	14	12	11
B2. Primary balance	27	18	21	25	22	24	30	24	21	20	20
B3. Exports	27	18	21	26	23	23	29	25	23	21	19
B4. Other flows 3/	27	18	21	26	22	24	28	24	22	20	18
B5. One-time 30 percent nominal depreciation	27	21	26	30	25	22	24	18	16	13	11
B6. Combination of B1-B5	27	19	23	27	22	21	23	20	21	18	17
C. Tailored Tests											
C1. Combined contingent liabilities	27	18	21	24	21	22	23	17	16	14	13
C2. Natural disaster	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
C3. Commodity price	27	24	23	23	18	16	17	16	17	16	15
C4. Market Financing	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.

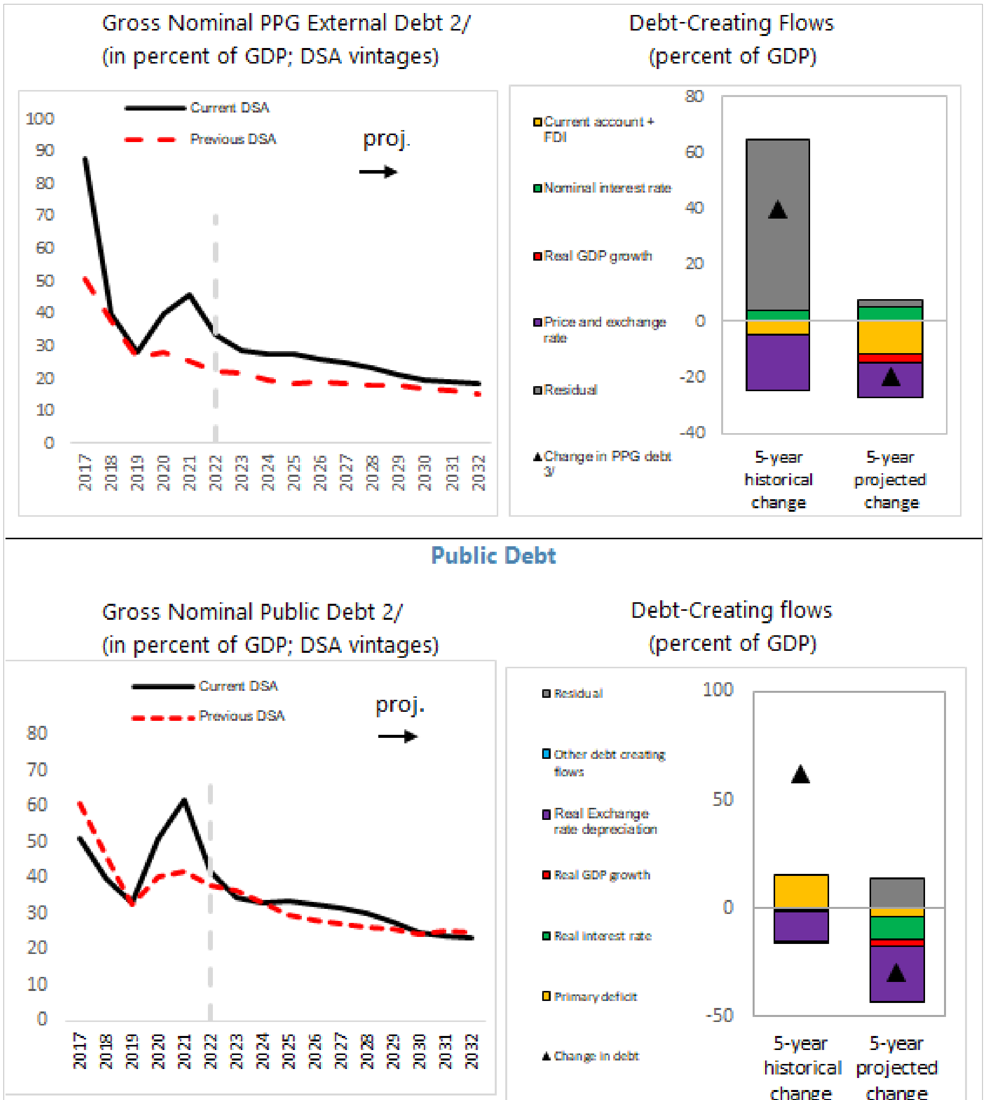
Sources: Country authorities; and staff estimates and projections.

1/ A bold value indicates a breach of the benchmark.

2/ Variables include real GDP growth, GDP deflator and primary deficit in percent of GDP.

3/ Includes official and private transfers and FDI.

Figure 3. Republic of South Sudan: Drivers of Debt Dynamics—Baseline Scenario[1]

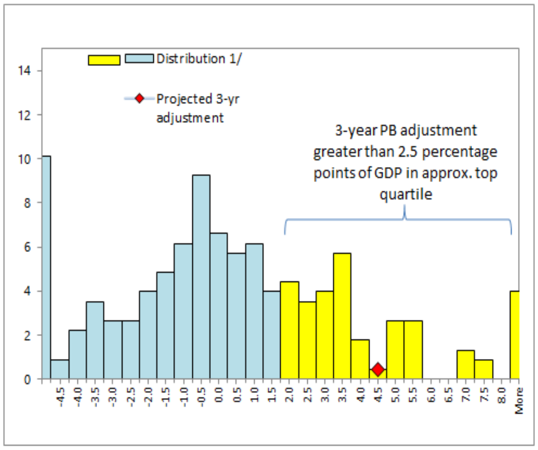


1/ Analyses on unexpected changes in debt are unavailable due to the lack of data.

2/ The current DSA assumes more external financing for peace process than the previous DSA, which makes its Gross Nominal PPG External Debt and Gross Nominal Public Debt larger than the previous DSA.

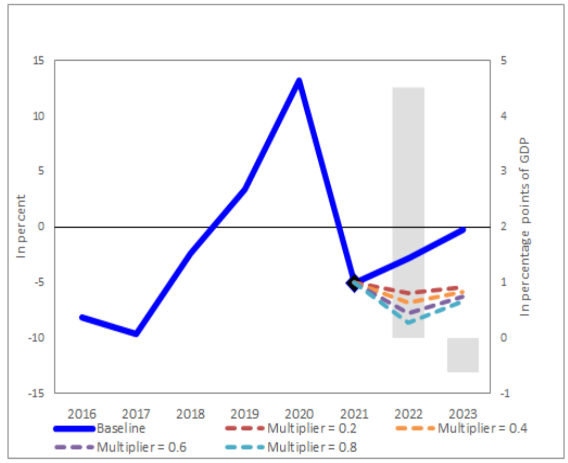
Figure 4. Republic of South Sudan: Realism Tools

3-Year Adjustment in Primary Balance
(Percentage points of GDP)



1/ Data cover Fund-supported programs for LICs (excluding emergency financing) approved since 1990. The size of 3-year adjustment from program inception is found on the horizontal axis; the percent of sample is found on the vertical axis.

Fiscal Adjustment and Possible Growth Paths 1/



1/ Bars refer to annual projected fiscal adjustment (right-hand side scale) and lines show possible real GDP growth paths under different fiscal multipliers (left-hand side scale).

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

July 19, 2022

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION AND SECOND REVIEW UNDER THE STAFF-MONITORED PROGRAM—INFORMATIONAL ANNEX

Prepared By	The African Department (in consultation with other departments)

CONTENTS

RELATIONS WITH THE FUND

(As of May 31, 2022)

Membership status: Joined on April 18, 2012.

General Resources Account	SDR Million	% Quota
Quota	246.00	100.00
Fund Holdings of Currency	246.00	100.00
Reserve Tranche Position	0.00	0.00

SDR Department	SDR Million	% Allocation
Net Cumulative Allocation	341.19	100.00
Holdings	85.70	25.12

Outstanding Purchases and Loans	SDR Million	% Quota
RCF Loans	159.90	65.00

Latest Financial Commitments

Outright Loans:

Type	Date of Commitment	Date Drawn/Expired	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
RCF	Mar. 30, 2021	Apr. 01, 2021	123.00	123.00
RCF	Nov. 11, 2020	Nov. 13, 2020	36.90	36.90

Projected Payments to Fund (SDR million; based on current use of resources and present holdings of SDRs):

	Forthcoming				
	2022	2023	2024	2025	2026
Principal					19.68
Charges/Interest	0.79	1.61	1.61	1.61	1.61
Total	0.79	1.61	1.61	1.61	21.29

Exchange Rate Arrangement

South Sudan introduced its currency (the South Sudanese Pound) upon independence in July 2011. In September 2011, the Bank of South Sudan (BoSS) pegged the exchange rate at 2.95 SSP per U.S. dollar. The de jure exchange rate arrangement was a "conventional peg" against the U.S. dollar. In the first week of the new currency, after independence, the exchange rate was determined by a central bank auction. However, this system was abandoned after it resulted in a jump of the rate from 2.9 to 3.5 SSP/US$, and the exchange rate was fixed again at 2.96 SSP/US$. The exchange rate remained fixed to the US dollar from 2011 to mid-December 2015, even when foreign exchange receipts fell; first during the 2012 government's shutdown of oil production and then again when oil prices and production fell in 2014.

In mid-December 2015 the authorities introduced a de jure floating exchange rate regime, which led to an 84 percent depreciation of the exchange rate. Under the new regime, the BSS supplied foreign exchange to commercial banks in auctions and an indicative market rate was determined from the auction rate and the rate charged by commercial banks. All government transactions were carried out using the official (indicative) rate. The reform was successful in reducing the spread between the official (indicative) and parallel market rates. The reform also included the abolishment of exchange controls. However, excessive expansionary monetary policy continued to exert downward pressure on the exchange rate and undermined convergence of the official (indicative) and parallel market rates. Despite liberalization of the exchange rate regime towards the end of 2015, continued deterioration in the security and economic situation led the re-introduction of the multiple exchange rate system with the BoSS abolishing its foreign exchange auctions in 2017.

A Staff Monitored Program (SMP) for South Sudan was approved on March 30, 2021. Under the SMP, the BoSS introduced policies to reform the FX market and unify FX rates. The reform liberalized the FX markets, allowed all market participants to transact at market rates, re-introducing of the BoSS auction system with auctions taking place on a weekly basis, and gradually adjusting the official (indicative rate) until it was fully replaced by a market-based reference rate. The reform resulted in the convergence of parallel and official reference exchange rates by August 2021.

The de facto exchange rate arrangement is classified as "other managed ", reflecting the fact that BoSS varies the frequency and volume of FX auctions to lean against sharp changes in the exchange rate.

South Sudan maintains one exchange restriction under the transitional arrangements of Article XIV. The exchange restriction arises from imposing absolute ceilings on the availability of foreign exchange for certain invisible transactions (travel, remittances for living expenses of students and families residing abroad, transfers of salaries by foreign workers).

South Sudan also maintains one exchange restriction subject to Fund approval under Article VIII. The exchange restriction arises because of prioritization of foreign exchange allocation by the BoSS for external government payments and payments for certain essential commodities.

Article IV Consultation

The last Article IV consultation with South Sudan was concluded on June 4, 2019 (IMF Country Report No. 19/153).

Capacity Development

IMF technical assistance and training were scaled up after the independence. In October 2012, the Fund launched a five-year dedicated capacity building program supported by a multi-donor trust fund. In 2019, the number of CD projects increased exponentially following the formal end of the civil war in 2018. In addition, South Sudan became a member of the East Africa Technical Assistance Center in May 2020 and has received several AFRITAC TA missions ever since.

Table 1. Republic of South Sudan: Technical Assistance Missions and Short-Term Experts: May 2021 – June 2022

Lead Department	Topic	Mission Start Date	Mission End Date	Funding Source
FAD	Public Financial Management	06/20/2022	06/30/2022	
		03/29/2021	4/13/2021	IMF-HQ
		03/10/2021	3/26/2021	IMF-HQ
		03/29/2021	4/15/2021	AFRITAC East
		06/08/2020	6/26/2020	AFRITAC East
		12/02/2020	12/16/2020	AFRITAC East
		06/08/2020	6/30/2020	IMF-HQ
		11/14/2020	11/27/2020	AFRITAC East
		06/08/2020	6/26/2020	AFRITAC East
		12/02/2020	12/24/2020	AFRITAC East
	Tax Administration	05/23/2022	06/17/2022	IMF-HQ and AFRITAC East
		02/15/2021	3/4/2021	AFRITAC East
		04/04/2021	4/21/2021	AFRITAC East
MCM	Bank Risk Based Supervision	01/24/2022	01/28/2022	AFRITAC East
	Monetary and Forex Operations, including Islamic Banking	01/18/2021	1/22/2021	AFRITAC East
	Other	01/18/2021	1/22/2021	AFRITAC East
		06/15/2020	7/3/2020	AFRITAC East
	Payments and Settlements	01/18/2021	1/22/2021	AFRITAC East
	Monetary and Financial Statistics	05/11/2022	05/15/2022	IMF-HQ
	National Account Statistics	02/14/2022	02/25/2022	IMF-HQ
	National Account Statistics	11/15/2021	11/26/2021	IMF-HQ
	Balance of Payments Statistics	11/23/2020	11/27/2020	IMF-HQ
	Consumer Price Index	02/08/2021	2/12/2021	IMF-HQ
	Government Finance Statistics	07/13/2020	7/17/2020	AFRITAC East
		02/08/2021	2/12/2021	AFRITAC East
	Money and Banking Statistics	12/08/2020	12/10/2020	IMF-HQ
	National Accounts Statistics	01/11/2021	1/15/2021	AFRITAC East
		09/28/2020	10/2/2020	IMF-HQ
LEG	Central Bank Law Reform	04/06/2022	04/13/2022	IMF-HQ
	Financial and Fiscal Law Reform	2/22/2022	6/30/2022	IMF-HQ

Resident Representative

The Fund's Office in Juba, South Sudan, is headed by the current Resident Representative, Mr. Guy Jenkinson who was appointed in April 2022.

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL INSTITUTIONS

The World Bank work program can be found on the following website:
http://www.worldbank.org/en/country/southsudan

The African Development Bank work program can be found on the following website:
https://www.afdb.org/en/countries/east-africa/south-sudan/

STATISTICAL ISSUES

Data provision has serious shortcomings that significantly hamper surveillance. With the exception of monetary and exchange rate data, other macroeconomic data have important weaknesses in terms of availability, quality, periodicity, and timeliness. Some progress with data quality and compilation has been made since the end of the civil war due to resumption of technical assistance.

Real Sector Statistics:

- Price indexes. A monthly Consumer Price Index (CPI) covering Juba, Wau, and Malakal is compiled (data for Malakal have been imputed since 2014 because of the conflict), based on the 2009–10 Household Budget Survey. The CPI calculation and compilation methodology, however, is outdated and unreliable due to limited geographical coverage and lack of technical and financial resources. To ensure appropriate weights are used, a new household survey needs to be conducted. Import price indexes are not available and will require substantial investment in source data development (particularly at customs). Monthly CPI figures are issued and published on the National Bureau of Statistics (NBS) website, albeit with lags.
- The NBS does not currently publish National Income. There have been efforts by the NBS to compile and publish GDP data from the expenditure side, but this remains in progress. Work on source data for GDP estimates is a priority which will require, inter-alia, an agriculture survey and continued technical assistance. National accounts TA missions were provided in September 2020 and November 2021 on the estimation of GDP by expenditure and production, but the TA support in this aria needs to be stepped up.

Government Finance Statistics (GFS):

GFS are not published nor publicly available. The last HQ GFS mission took place in December 2017. It developed a medium-term Result Based Management (RBM) action plan and roadmap for the implementation of the GFSM 2014 framework. Two follow up missions were provided by AFRETAC East September 2020 and February 2021 on the same topic.

Monetary and Financial Statistics:

The Bank of South Sudan (BSS) reports the Standardized Report Forms (SRFs) 1SR for the central bank, 2SR for the other depository corporations, 5SR for monetary aggregates, and 6SR for interest rates for publication in the IMF's *International Financial Statistics (IFS)* on monthly basis.. Data for the other financial corporations are not available, but the sector remains relatively small. The BSS reports data on some key series and indicators of the financial access survey (FAS), including the two indicators of the U.N. Sustainable Development Goals.

Financial Soundness Indicators (FSIs):

With technical assistance from the IMF’s Statistics Department, the BSS has compiled 11 of the 12 core FSIs and 6 of the 13 encouraged FSIs for deposit takers, with quarterly frequency. While the BoSS does not currently publish FSIs, plans for publication are at final stages and expected by end-August 2022.

External Sector Statistics (ESS):

- Data on ESS are scant. The BSS has been producing balance of payments statistics and data for the period 2014–17 have been disseminated. The data, however, has been discontinued since.
- On August 2018, ESS and national accounts missions worked jointly on issues related to oil exports, imports, and humanitarian aid received from abroad, and produced improved balance of payments estimates for 2015 to 2017.
- Enhancements were made to source data for oil export and humanitarian aid to reflect information from the Ministry of Petroleum and the Customs Authority. Profit repatriated by the oil company was also estimated and included in the revised balance of payments estimates for 2015 to 2017.
- Data on direct investment flows and positions are virtually nonexistent and the international investment position statistics (IIP) is not compiled.

Data Standards and Quality

- South Sudan does not yet subscribe to the General Data Dissemination System (GDDS).

Table 2. Republic of South Sudan: Common Indicators Required for Surveillance

(As of June 2022)[1]

	Date of Latest Observation	Date Received	Frequency of Data	Frequency of Reporting	Frequency of Publication
Exchange Rates	Current	Current	D	M	M
International Reserve Assets and Reserve Liabilities[2]	Current	Current	D	D	M
Reserve/Base Money	June 2022	Current	M	M	M
Broad Money	June 2022	Apr 2019	M	M	M
Central Bank Balance Sheet	June 2022	Apr 2019	M	M	M
Consolidated Balance Sheet of the Banking System	June 2022	Apr 2019	M	M	M
Interest Rates	June 2022	Apr 2019	M	M	M
Consumer Price Index	June 2022	Apr 2019	M	M	M
Revenue, Expenditure, Balance, and Composition of Financing––General Government[3]	Dec 2021	Mar 2019	Q	Q	N/A
External Current Account	2018	Mar 2019	A	A	A
Exports and Imports of Goods and Services	2018	Mar 2019	A	A	A
GDP/GNP	2017	Oct 2018	A	A	A
Domestic Government Debt	N/A	N/A	N/A	N/A	N/A
Gross External Debt[4]	Dec 2021	June 2022	Q	Q	Q
International Investment Position	N/A	N/A	N/A	N/A	N/A

[1] Daily (D); Monthly (M); Quarterly (Q); Annually (A); Not Available (N/A).
[2] Any reserve assets that are pledged or otherwise encumbered should be specified separately.
[3] Data on composition of financing not yet available.
[4] The stock of external debt relating to data as of end-2021 was published for the first time in June 2022. The authorities have committed to publish external data on a quarterly basis.

Statement by the Executive Director, Ms. Ita M. Mannathoko and the Senior Advisor of the Executive Director, Mr. James Alic Garang
July 29, 2022

I. Introduction

1. Our South Sudanese authorities appreciate the candid discussions with Fund staff during the Article IV and second Staff-Monitored Program (SMP) review missions. They broadly share staff's assessment and policy recommendations.

2. Since re-engaging with the Fund in 2020, the authorities have been focused on rebuilding economic systems and establishing a reform track record. Extremely difficult reforms have already been undertaken under the SMP, which, alongside two Rapid Credit Facility (RCF) disbursements and the general SDR allocation, helped the authorities restore some macroeconomic stability and unify exchange rates, ending a long-standing system of multiple exchange rates. Successful exchange rate reforms ensured the authorities were able to minimize disruption and sustain the reform outcomes, with the benefit of important technical support and guidance from the MCM Department and mission staff. The authorities managed to complete these reforms under especially difficult conditions. They found the SMP provided vital support for their macroeconomic reform and stabilization efforts, building a track record of sound policy, and providing an important bridge towards a future Fund-supported program, which is key to catalyze concessional support and grant resources. They request that discussions for the final SMP review be combined with negotiations for an Extended Credit Facility (ECF).

3. South Sudan is one of the poorest countries in the world, with extremely high poverty rates where 70 percent of the population currently suffer acute food insecurity in the wake of rising global food prices. Three years of climate shocks with severe flooding have also eroded agricultural output further compromising livelihoods and exacerbating the humanitarian crisis.

4. A timely UCT program later in the year is critical to stem further macroeconomic deterioration, and we hope the Board can be supportive in this regard. The authorities have advanced in the implementation of Fund recommendations and continue to deepen their engagement with the Fund. They desire a UCT program to enable them to safeguard macroeconomic stability and deepen their reform agenda in line with their revised National Development Strategy (NDS) 2021-2024, which aims to consolidate peace and revive the economy.

5. The authorities have continued to make significant progress in the implementation of the Revitalized Peace Agreement and while capacity constraints have slowed some measures, the authorities are now working towards the population census and draft constitution that are needed ahead of 2023 elections. Key milestones of the Agreement that have been achieved

include formation of State and National Governments and the Transitional National Legislative Assembly (TNLA), a unified command structure in the National Army, and improved security in the country, among others. The Political Parties and Elections Bills are with Cabinet ahead of their submission to the TNLA, along with the political roadmap that charts the way forward. Meanwhile the authorities continue to ensure that any risks to the peace agreement are addressed, and measures are taken to reduce uncertainty and create a conducive environment for investment and growth. They intend to hold elections by end-2023 after conducting the census.

II. Recent Economic Developments and Outlook

6. The pandemic and climate change impacts (specifically floods) have reversed the recovery achieved under the 2018 Revitalized Peace Agreement, with real GDP now estimated to have contracted by 5 percent in FY2020/21 (after growing by 13.2 percent in FY2019/2020). While the recent increase in the global oil price implies a boost to economic output, a third consecutive year of severe flooding caused losses in oil production. Going forward, two more years of recession are projected in an economy that is already under significant economic and social strain.

7. Following successful exchange rate unification, inflation has declined significantly from 43.5 percent in 2021 to about 2 percent in 2022, benefitting from tight monetary conditions and relative stability in the exchange rate. More recently, however, high oil and food prices present upside risks to inflation. The current account balance is expected to improve despite a rising import bill, reflecting the positive impact on the trade balance of the increase in oil prices. International reserves remain low, and the authorities are making greater efforts to build FX reserve buffers despite constrained inflows.

8. The economy remains open as the people of South Sudan adjust to life with COVID. South Sudan has so far had a comparatively low caseload and fatality rate. Nevertheless, recognizing that there is some undercounting, the authorities plan to accelerate vaccinations with goal of reaching herd immunity. Currently, only a small percentage of the population is fully vaccinated. As South Sudan benefits from the COVAX facility, the focus is now on overcoming severe logistical challenges that are hampering the distribution of vaccine doses.

III. SMP Performance

9. All quantitative targets under the SMP for end-October 2021 have been met, except for the clearance of domestic salary arrears, where corrective measures have been taken with a view to clearing them by August 2022. In line with SMP commitments, the authorities have refrained from monetary financing of deficits for the past 2 years, kept reserve money growth well within the ceiling of 6 percent between March and October 2021, and maintained a stable, unified exchange rate while eliminating a system of multiple currency practices. Given the removal of nearly all foreign exchange restrictions, market participants can now buy and sell foreign exchange at market clearing exchange rates.

10. The authorities remain committed to expenditure rationalization and improving budget execution. The FY2021/22 budget was approved by the national assembly (TNLA) in March 2022, marking the first time that South Sudan has had a Parliament-approved budget since the end of the civil war in 2018. The draft budget for FY2022/23 has already been submitted to TNLA for approval and is consistent with the authorities' commitment to fiscal prudence and the objective of supporting sustainable and inclusive growth without reliance on non-concessional external financing.

11. The authorities are undertaking significant measures to strengthen Public Financial Management (PFM), with partners' support, including under the SMP where notably, fiscal management has been strengthened through the establishment of a Cash Management Unit (CMU) at the Ministry of Finance and Planning (MoFP). The CMU is developing a preliminary annual cash plan on monthly basis for FY2022/23 based on the resource envelope approved by the Council of Ministers, with assistance from Fund TA. The debt stock as of December 2021 was also published on the MoFP website by amounts, currency, and creditor, as a prior action for the second SMP review. The MoFP also issued a circular to Ministries, Departments, and Agencies (MDAs) to formalize payment of salaries of their staff through bank accounts (rather than in cash) as of July 1, 2022; and progress is being made towards implementing the Treasury Single Account (TSA).

12. To ensure prudent debt management, the authorities are operationalizing the reconstituted MoFP Loan Committee (LC). In line with the legal framework set out in the Constitution and the PFM Act of 2011, the LC will be responsible for approving any external debt contracts before they are sent for final approval to the Cabinet of Ministers and the National Assembly, as per the responsible borrowing guidelines. This new framework will help to ensure more robust recording and disclosure of debt regardless of the source agency.

13. Staff has extended the SMP through November 30, 2022, to allow for verification by the independent international auditor of the published stock of external debt and guarantees as of December 2021.

IV. Macroeconomic Policies

The authorities' goal is to pursue prudent macroeconomic policies that ensure stability and debt sustainability, while enhancing social spending, improving governance, and building resilience, including with infrastructure investments that support adaptation to withstand natural disasters and that help diversify the economy.

Fiscal Policy and Debt Management

14. Fiscal policy is focused on maintaining macroeconomic stability and debt sustainability while mobilizing domestic revenue and reenforcing budget discipline. Higher revenues reflecting firming global oil prices and a significant improvement in the collection of non-oil revenue by the National Revenue Authority, are providing fiscal space to meet

priority spending. The authorities will continue to phase out exemptions, digitalize collections, and increase customs rates in line with East Africa Community commitments, while enhancing the efficiency of spending on road investments.

15. With oil prices expected to be higher than projected over the medium term, the authorities plan to save part of the windfall revenues in the Future Generation and the Oil Revenue Stabilization Funds, in line with the Petroleum Act 2012. They are also committed to increasing priority social spending, while enhancing human capital development, but note that debt service costs leave them with limited space to maneuver. They cleared the Transitional Financial Arrangement with Sudan and are working to bring the associated share of receipts onto the national budget to create more fiscal room.

Monetary, Exchange Rate, and Financial Sector Policies

16. The authorities continue to implement reserve money targeting, which has helped bring inflation down to single digit levels, and they will refrain from any new monetary financing of the deficit. They will continue to implement this framework, in line with SMP commitments, while conducting regular foreign exchange auctions to maintain a market clearing rate and publishing auction data on the Bank of South Sudan (BoSS) website in a timely manner, to foster confidence among market participants.

17. Active liquidity management continues, helping to contain inflation. The authorities have introduced a new term deposit facility as a first step in expanding the monetary policy toolkit and will refine the auction mechanism and terms of the facility to ensure a viable means of managing liquidity. They are also considering introducing BoSS bills, as an added liquidity management instrument, and plan to strengthen coordination with the MoFP to improve their capacity for liquidity monitoring and forecasting, to better track market developments and effectively respond to them.

18. The authorities continue to work to ensure financial sector stability, improve bank supervision, and increase financial inclusion. This includes plans to promote adequate capitalization of domestic banks, be it through raising capital, finding new investors, mergers, applying for voluntary liquidation, or enforcing liquidation where justified. Given limited experience with bank resolution, the authorities have requested urgent technical assistance in this area from the IMF, and a mission is scheduled for August 2022. Going forward, the authorities also plan to reduce the current heavy reliance on cash for transaction purposes and will pursue relevant measures, including increased use of the banking system in settling government obligations.

19. The BoSS has now published audited financial statements up to 2020 and will proceed to enforce the timely publication of audited financial statements by commercial banks. A risk-based supervision policy has been drafted and will be approved by the BoSS Board of Directors, by end-2022. The publication of quarterly Financial Soundness Indicators will help to strengthen financial sector transparency.

20. The BoSS is committed to implementing the 2021 IMF safeguards assessment recommendations. Reforms have been initiated with a view to fully addressing the recommendations in the second half of 2022. They are developing a detailed strategy to tackle remaining vulnerabilities. Measures include finalizing and publishing the FY2021/22 audited financial statements, signing a MoU with the Auditor General to ensure the timely appointment of an international external audit firm for audits of FY2022/23 onwards, co-sourcing of internal audit services, and strengthening currency operations, among others.

Structural Reforms and Capacity Development

21. The authorities share staff's concern on the need for investment in climate resilient infrastructure given the country's vulnerability to climate shocks and the need to prevent agricultural land degradation, and support food security. The authorities will need donor support, including to unlock climate financing as a complement to support engagement under the Resilience and Sustainability Trust (RST). Measures are also needed to advance economic diversification and broaden sources of growth to non-oil sectors such as agriculture. In the meantime, the people of South Sudan need further urgent humanitarian support as they work with the staff to leverage the CES to address the underlying drivers of economic fragility.

22. Work is also underway to strengthen transparency in the management of oil resources. To this end, the authorities plan to select by end-September 2022, an internationally recognized auditor to certify the annual financial reports of Nilepet, starting with the 2022 annual report. They have also committed to publish the audit reports on Nilepet' s website, and on a government website. By end-September 2022 a membership application will also be submitted to the Extractive Industries Transparency Initiative (EITI). Quarterly reports on the oil sector and public financial audited reports will be published on a government website.

23. As they continue to pursue improved governance, and transparency, the authorities have implemented their commitments under the RCF letter of intent and ensured transparency in the use of COVID-related resources. The Auditor General (AG) has completed the audit of spending financed from disbursements under the first RCF and the results were posted online. The authorities are now implementing the audit recommendations. The AG is also expected to complete the audit of the second RCF in July 2022. The authorities' debt stock has been published, and they aim to publish the report of the independent auditor that is verifying the external debt stock by mid-November 2022. Relatedly, the recent SDR allocation was prudently used, with $184 million allocated to bolster FX reserves, while $150 million was devoted to supporting the budget.

24. To strengthen the credibility of the financial system, the authorities are implementing AML/CFT reforms in coordination with the Financial Action Task Force (FATF). They have applied for membership in the Eastern and Southern Africa Anti-Money Laundering Group

(ESAAMLG) and have been approved as an observer. In August 2022, the ESAAMLG delegation is due to assess whether the country meets requirements to join as per the MoU with ESAAMLG. Importantly, the authorities have established the Financial Intelligence Unit and will continue to strengthen its functions and technical expertise, including by hiring new staff. To address the legal issues in the FATF Action Plan, they will work closely with the technical assistance team from the IMF Legal Department. The country is committed to the Action Plan agreed with FATF and expect to be removed from the grey list upon satisfactory completion of requirements under the Action Plan.

25. The authorities appreciate the technical assistance support on PFM reforms, revenue mobilization, revenue administration, operationalizing the money targeting framework, liquidity forecasting, and macroeconomic statistics. Traction of CD has improved and in-person technical assistance delivery, provided through a longer-term program of hands-on support activities, has delivered tangible benefits. As such, the authorities express a strong preference for this approach.

V. Conclusion

26. Our South Sudanese authorities reaffirm their commitment to pursuing prudent macroeconomic policies needed to ensure macroeconomic stability and to lay a strong foundation for sustainable inclusive growth. They value Fund engagement and look forward to deepening relations with the Fund, including with an ECF program later this year that they hope the Board will support, to anchor their current efforts to ensure external balance, support the recovery, raise medium-term growth, and catalyze donor support.