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REPUBLIC OF SOUTH SUDAN

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THIRD REVIEW UNDER THE STAFF–MONITORED PROGRAM WITH BOARD INVOLVEMENT—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE REPUBLIC OF SOUTH SUDAN

In the context of the title, the following documents have been released and are included in this package:

- A **Press Release** including a statement by the Chair of the Executive Board.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on November 15, 2024, following discussions that ended on October 2, 2024, with the officials of the Republic of South Sudan on economic developments and policies underpinning the IMF arrangement under the Staff-Monitored Program with Board Involvement. Based on information available at the time of these discussions, the staff report was completed on November 1, 2024.
- A **Statement by the Executive Director** for the Republic of South Sudan.

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PRESS RELEASE

PR 24/434

IMF Executive Board Discusses the Third Review of the Staff-Monitored Program with Board Involvement with the Republic of South Sudan

FOR IMMEDIATE RELEASE

- Severe spillovers from the conflict in Sudan, including refugee inflows and damages to an oil pipeline, have exacerbated South Sudan's difficult humanitarian and macroeconomic situation, resulting in an economic slowdown, sharp exchange rate depreciation, high inflation, and higher spending needs against the backdrop of large fiscal revenue losses.
- Discussions with the South Sudanese authorities during the Third Review of the Staff-Monitored Program with Board Involvement (PMB) focused on re-calibrating macroeconomic policy to address the impact of the external shocks. The authorities remain committed to implementing strong policies and reform measures to restore macroeconomic stability.
- IMF Management completed the Third review of the PMB with South Sudan. The implementation of commitments taken by the authorities under the Letter of Intent will continue to support macroeconomic stability and debt sustainability.

Washington, DC – November 22: On November 15, 2024, the Executive Board of the International Monetary Fund (IMF) discussed the Third and Final Review of South Sudan's Staff-Monitored Program with Board Involvement (PMB). The review was approved by IMF Management on November 1, 2024.

Spillovers from the war in Sudan have worsened South Sudan's macroeconomic situation and exacerbated an already difficult humanitarian situation. Damages to the pipeline that carries 70 percent of South Sudan's oil production through Sudan has led to a sharp decline in oil exports. This resulted into lower foreign exchange inflows, a large exchange rate depreciation in the parallel market, sharp fiscal revenue drop leading to the accumulation of salary arrears, and high inflation. The war in Sudan has also led to a massive refugee inflow (over 800,000 as of mid-October 2024) and a supply chain disruption (mainly imports of fuel and key food staples). In addition, more than half of the population (about 7.1 million) is estimated to be experiencing acute food insecurity. The South Sudanese authorities face the challenging task of meeting higher spending needs, including on humanitarian relief, against the backdrop of limited financing options.

A PMB was approved by IMF Management in February 2023 and subsequently extended to November 15, 2024 following a request by the authorities. The program's objectives are to support the authorities' reform agenda aimed at maintaining macroeconomic stability and debt sustainability and improving governance and transparency with the objective of building a track record in support of the authorities' request for a financing arrangement under the Extended Credit Facility (ECF). Performance under the third review was mixed with two quantitative targets at end-June 2024 met (the zero ceiling on contracting non-concessional debt and the floor on net international reserves) out of five. The other quantitative targets at end-June 2024 related to salary payments, social spending execution, the primary deficit, debt to the central government, and reserve money growth were missed, partly because of the oil production shock. While the structural benchmarks were not implemented at end-June 2024, two out of three were completed subsequently. The Bank of South Sudan' s 2021 audited statements were published in early September 2024 and the authorities formulated a salary arrears repayment plan under the FY2024/25 draft budget submitted to Parliament in September 2024. The authorities took steps toward hiring an international firm to audit the central bank's financial statements of 2022−24.

Discussions with the authorities during the review focused on: (i) accelerating reforms and collection efforts to continue strengthening non-oil revenue and redirecting funding towards urgent social spending, including salary payments; (ii) continuing prudent borrowing and contained monetary financing, against the backdrop of financing pressures, to maintain economic stability and debt sustainability; (iii) further exchange rate management flexibility to reduce external imbalances and improve market functioning; and (iv) reforms to further strengthen governance and fight corruption, while improving public finance management.

South Sudan faces protracted balance of payments financing needs, partly reflecting development spending needs; large external debt service obligations in the medium term; weak foreign exchange reserves; and limited external financing options amidst a decline in international aid. To address these challenges, the authorities have requested an arrangement under the Extended Credit Facility (ECF) to anchor their macroeconomic policy design and implementation while catalyzing external financing.

Executive Board Assessment[1]

Executive Directors noted with concern South Sudan's severe economic and humanitarian challenges, which have resulted from numerous external shocks, including the war in Sudan and its spillovers, flooding, and a disruption of oil production, combined with domestic policy slippages. Against this worrying backdrop with successive negative growth rates, exchange rate depreciation, and high inflation, Directors urged the authorities to continue building on the progress made under the Management-endorsed Staff Monitored Program with Board Involvement (PMB) to restore economic stability and maintain debt sustainability. Concrete steps to strengthen political stability and address policy missteps and structural challenges, particularly on governance and transparency, would be essential to boost donor confidence.

Noting that program performance has significantly weakened, Directors welcomed the corrective measures taken by the authorities and their commitment to further remedial measures in support of the program's objectives, including efforts to clear salary arrears and prioritize critical social spending. In that context, they welcomed the resumption of salary payments and efforts to strengthen non-oil revenues and public financial and debt management, to help avoid monetary financing and preserve debt sustainability. Stronger monetary and fiscal policy coordination is also important, as well as ensuring that all new lending remains concessional.

Directors welcomed the gradual depreciation of the official exchange rate to narrow the gap with the parallel market. They underscored the need for further adjustment to unify the FX

[1] At the conclusion of the discussion, the Managing Director, as Chair 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.

markets and eliminate distortions. Directors encouraged efforts to further strengthen the monetary policy framework and preserve financial stability, including by enacting remaining recommendations from the Safeguards Assessment.

Directors positively noted the improvements in transparency and governance of fiscal and monetary operations and the oil sector. They called for sustained efforts in these areas, including further improvements in anti-corruption initiatives and in strengthening the AML/CFT framework.

Directors stressed the importance of continued Fund engagement with South Sudan, particularly through well-sequenced and tailored capacity development, to build on the policy dialogue and progress made under the PMB. Many Directors considered that the PMB met its objectives. However, noting the expiration of the PMB, most Directors indicated that further and sustained efforts by the authorities would be needed to establish a sufficiently strong track record for any consideration of a possible Upper Credit Tranche arrangement. Some Directors saw scope for a successor SMP/PMB.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2022/23–2027/28[1]

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	Est.	Est.	Projections			
Output, prices, and exchange rate						
Real GDP growth	-1.0	-5.8	-11.9	41.6	5.0	5.0
Oil	-6.8	-13.6	-25.9	76.4	3.0	2.9
Non-oil	11.0	7.6	7.6	8.1	8.1	8.1
Prices						
Inflation (avg, %)	25.3	52.2	136.7	19.4	7.6	7.9
Central government budget						
Revenue (% GDP)	34.7	31.3	26.5	31.5	30.8	30.3
Of which: Oil	30.5	24.8	20.8	25.3	24.4	23.6
Expenditures (% GDP)	28.1	36.4	28.4	28.2	29.0	32.0
Fiscal balance (% GDP)	6.6	-5.0	-1.9	3.3	1.8	-1.7
Non-oil [2] :	-17.6	-28.7	-15.8	-14.1	-15.3	-18.1
Public debt (% GDP)	35.7	38.3	48.6	32.6	29.8	31.2
Balance of payments						
Current account (incl. grants, % GDP)	-5.8	-4.6	-11.6	5.4	3.0	1.2
Reserves (millions of US dollars)	144.7	115.2	376.4	895.0	1,360.6	1,825.0
Reserves (in months of imports)	0.4	0.3	0.8	1.9	2.8	3.6
External debt (% GDP)	35.7	38.3	48.6	32.6	29.8	31.2

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)

INTERNATIONAL MONETARY FUND

REPUBLIC OF SOUTH SUDAN

THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM WITH BOARD INVOLVEMENT

November 1, 2024

EXECUTIVE SUMMARY

Context. Spillovers from the war in Sudan have worsened South Sudan's macroeconomic imbalances and exacerbated an already-dire humanitarian situation. A pipeline carrying 70 percent of South Sudan's oil production through Sudan has been inoperable since February 2024 and repairs have taken longer than expected owing to restricted access to the concerned areas. This has caused a sharp drop in economic growth, exports, fiscal revenue, and FX inflows and led to difficult policy challenges including high inflation, rapid parallel market exchange rate (ER) depreciation, and budget financing constraints. To cope with the shock, the authorities incurred salary arrears and monetary financing, in the face of limited alternative financing, as well as delaying the official ER adjustment. Nearly two-thirds of South Sudan's population was exposed to acute food insecurity prior to the Sudan conflict and the situation has worsened due to floodings and a growing number of refugees. The national unity government which has been in place since 2018, consistent with the peace treaty, recently announced that the elections initially planned for December 22, 2024 have been postponed by two years.

Program review. The current Staff-Monitored Program with Board Involvement (PMB) expires on November 15, 2024—it was initially approved in February 2023 for nine months and the authorities subsequently requested its extension. The program's objective is to support the authorities' reform agenda aimed at maintaining macroeconomic stability and debt sustainability and improving governance and transparency, with the goal of building a track record towards an upper credit tranche financial arrangement. Performance under this third and final PMB review was mixed. Two out of seven quantitative targets at end-June 2024 were met, notably the zero ceiling on contracting non-concessional debt and the floor on net international reserves. Against the backdrop of the oil production shock, salary payments and social spending were below program targets while the primary deficit, debt to the central government, and monetary financing were larger than programmed. The structural benchmarks (SBs) were not met at end-June; however, the authorities took steps to complete them, albeit with delay. The Bank of South Sudan (BoSS)' 2021 audited statements were published in early September 2024; an offer was made to an external auditor for the audit of the BoSS' 2022−24 financial statements and the contract is being finalized; and the authorities formulated a salary arrears repayment

plan under the FY2024/25 draft budget adopted by Cabinet in early August and submitted to Parliament in September 2024. The authorities also implemented corrective measures to further reinforce macro-sustainability and have committed to additional measures under the Letter of Intent (LOI).

Staff's views. Staff supports the completion of the third PMB review based on performance against program targets, the corrective measures taken by the authorities, and their commitment to further measures under the LOI. The authorities started paying salaries in July 2024, although adverse external spillovers are still strong. They have slowed down monetary financing, leveraging it as last resort, and have rather redirected investment funds towards priority spending while strengthening efforts for strong non-oil revenue collection. Furthermore, they have also submitted the FY2024/25 draft budget to Parliament in end-September 2024—adoption is expected by end-November. To end, they have demonstrated progress in narrowing the parallel FX market ER premium. Additional remedial measures taken in support of macroeconomic stability include (i) recognizing in the FY2024/25 draft budget the salary arrears incurred during FY2023/24 and committing in the LOI to continue paying one month of salary every month from October and, when oil production restarts, to pay every month an additional month of salary towards clearing the salary arrears (i.e., paying two months of salary each month); and (ii) committing to refrain from monetary financing as much as possible and, in case of usage, to mop up related excess liquidity. The authorities remain committed to fiscal and monetary prudence and to implementing their medium-term reform agenda.

Approved By
Catherine Pattillo (AFR) and Peter Dohlman (SPR)

An IMF team conducted a hybrid mission during September 16–October 2, 2024. The mission team comprised Mame Astou Diouf (head), Enrique Chueca Montuenga, Sunwoo Lee, Jules Leichter, Masateru Okamoto, Jens Reinke (all AFR), Boaz Nandwa (SPR), Nelson Rutto (STA), Guy Jenkinson (IMF Resident Representative, Juba Office), Hoth Chany (economist, Juba Office), and Mr. Nyamongo (Senior Advisor, OED). The team met with the Minister of Finance and Planning Dr. Marial Dongrin Ater, Bank of South Sudan Governor Dr. James Alic Garang, and other high-level government officials. Staff also had productive discussions with representatives of the donor and business communities. Ms. Mireille Nsanzimana (AFR) contributed to the preparation of this report.

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CONTEXT

1. South Sudan is a very fragile post-conflict country with high vulnerability to floodings and spillovers from the war in Sudan. Following a brutal secession war, South Sudan gained independence in 2011. Subsequent tensions within the political elite and rival militias led to civil war in 2013, which ended in 2020 following a peace treaty signed in 2018. A government of national unity has been in office since then and elections were planned for December 2024, at the end of the transitional arrangement. The government recently announced that the elections have been postponed to December 22, 2026. There were delays in setting up related key institutions and in the registration of the main political parties and initiatives are ongoing to broaden political discussions to additional factions. In July 2024, more than half of the population (about 7.1 million) was estimated to be experiencing acute food insecurity from the combined effects of localized domestic security incidents, larger-scale floodings that have taken place during rainy seasons since 2022, and the related internal displacement.[1] In addition, the war in Sudan has led to a massive refugee flow (over 800,000 as of mid-October 2024) and a supply chain disruption (mainly imports of fuel and key food staples). The country's main oil pipeline, accounting for about 70 percent of oil exports capacity, has been inoperable since end-February 2024.

2. Macroeconomic and social outcomes have significantly deteriorated, widening near-term external and fiscal financing needs compared to recent years and raising risks of a humanitarian crisis. A sharp fall in oil exports has weakened growth and exacerbated fiscal and external imbalances. This shock has lasted longer than previously anticipated due to delays in repairing the damaged pipeline, which runs through Sudan. South Sudan's social indicators have also deteriorated, while already among the weakest in the world (see Box 3 of 2023 Article IV staff report). The costs of supporting the refugee flow and addressing the impact of floodings appear significant. However, limited fiscal space and capacity to ramp up safety nets means that donors fund a large part of humanitarian assistance. Additional support is however needed to reduce risks of a humanitarian crisis.[2,3]

3. The Staff-Monitored Program with Board Involvement (PMB) expires on November 15, 2024, with this final third review. [4] A 9-month PMB was approved in February 2023 to support the authorities' reform agenda, aimed at maintaining macroeconomic stability and debt sustainability, and improving governance and transparency with the objective of building a track record in support of the authorities' request for a financing arrangement under the

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[1] Per UNHCR, South Sudan hosts some 330,000 refugees and asylum-seekers (mainly from Sudan) and has 2 million internally displaced persons. The country has repeatedly faced floodings since 2022. Crisis Group (link) suggests that the increased flooding frequency and intensity is attributed to stronger rains in the Lake Victoria countries, partly driven by climate change.

[2] The UNHCR indicates that only 16 percent of funding needs for the Sudan Refugee Response Plan are met as of mid-September 2024 with a financing gap of over USD 300 million.

[3] The estimation of the costs and imports needed to cope with the refugee inflows and floodings are ongoing and not yet accounted under the baseline.

[4] A 9-month PMB was approved in February 2023 and twice extended for technical reasons. The combined first and second reviews were concluded in June 2024 and the authorities requested a 6-month extension to November 15.

Extended Credit Facility (ECF). Approval of the PMB was followed by approval of the Food Shock Window (FSW) of SDR 86.1 million, 35 percent of quota (about US$114.8 million) aimed at funding reserves management and priority spending through the World Food Program, the International Organization for Migration, and budget health and education spending.

RECENT ECONOMIC DEVELOPMENTS

4. **The spillovers from the war in Sudan have had damaging effects on the economy and have worsened an already difficult humanitarian situation.** The year-and-a-half long war in Sudan has created numerous economic challenges, including by adversely affecting trade routes, raising prices, and increasing risk and the cost of doing business. Damages in mid-February 2024 to the pipeline normally carrying 70 percent of South Sudan's oil production through Sudan had the most severe macroeconomic impact. With the significant drop in oil production, exports, fiscal revenues, and FX inflows over the past nine months, the authorities have faced difficult challenges. Reduced FX inflows have increased exchange rate (ER) depreciation pressures and inflation, while lower fiscal revenues resulted in difficulties in implementing the budget. In addition, an increasing number of refugees fleeing the war have come to South Sudan. To cope with the shocks, the government has resorted to accumulating arrears, including wage arrears, delaying the official exchange rate (ER) depreciation, and resuming monetary financing, creating second round effects.

5. **Consequently, macroeconomic outcomes have deteriorated (Tables 1–5, Figure 1).** Fiscal and external imbalances have also increased.

- *Growth*. Real GDP growth is estimated to have dropped to -5.8 percent of GDP in FY24 (July 2023–June 2024) reflecting mainly lower oil exports of (21 percent decrease of oil exports values in FY2023/24 compared to FY2022/23).
- *Exchange rate (ER)*. While the parallel ER depreciated by 306 percent during January–September 2024,[5] the official ER depreciated by 190 percent during the period. The Bank of South Sudan (BoSS)'s attempt to delay the official ER adjustment to dampen the impact of the shock led to a large parallel FX market premium. It however recently allowed gradual depreciation of the official ER, which decreased the premium—54 percent on average in September 2024 from 140 percent in July 2024 (on average).
- Inflation has surged (107.3 percent y/y at end-July 2024), mainly owing to the parallel ER depreciation.[6]
- *FX markets*. Auctions continued in 2024H1, although with reduced amounts owing to low FX reserves (US$ 92 million or 0.3 month of imports at end-September 2024). The auctioned amounts were not settled, reflecting dwindling official reserves, with the BoSS owing $34 million to banks at end-September. Furthermore, the BoSS set the winning bid

[5] The parallel ER depreciation peaked at 365 percent on August 29, compared to end-December 2023 while the premium peaked at 179 percent in July 2024 (from 15 percent at end-January, before the shock).

[6] Estimations indicate a 1-to-1 pass-through from the parallel ER variations to food and fuel inflation within six months (IMF Country Report No. 24/160, Annex II).

at the median bid, instead of the highest bid, thereby slowing down the official ER depreciation.

6. The execution of the FY2023/24 budget reflects the challenging conditions (Text Table 1). While oil revenue collection was strong at end-December 2023 at 16 percent of GDP (for six months), the outturn was weak owing to the pipeline damage (24.8 percent of GDP in FY2023/24 compared to 30.5 percent in FY2022/23). Strong non-oil revenue partly compensated (6.5 percent of GDP in FY2023/24 compared to 4.2 percent of GDP in FY2022/23), thanks to an increase in November 2023 in the ER used for customs valuation from 90 SSP/$ to 300 and other revenue administration measures including hiring of new staff and digitalization of tax and customs processes (Text Table 2). Resulting fiscal space shrinkage led to spending compression. Public wages were not paid in 2024H1, adding to previous arrears (reaching 8 months at end-June).[7] While strong during 2023H2 (5.2 percent of GDP at end-December 2023), capital spending slowed down in 2024H1 leading to a lower annual outturn compared to FY2022/23—6.7 percent of GDP in FY2023/24 vs. 9.7 percent of GDP in FY2022/23). Budget processes were also impacted with inability to access the budget execution software for several months impeding operations and the timely and granular compilation of data. The fiscal deficit reached 5 percent of GDP, mainly financed by monetary financing.

7. Program performance at end-June 2024 was mixed (Tables 6–7). The zero ceiling on contracting non-concessional debt and floor on net international reserves were met. The other five quantitative targets were not met. As the duration of the oil production shock lengthened more than initially expected, financing constraints led the authorities to further delay salary payments and under-execute social spending while incurring a larger primary deficit, debt to the central government, and monetary financing than programmed. The structural benchmarks (SBs) were not met at end-June; however, the authorities took steps to implement all of them, and completed two with delay. The BoSS' 2021 audited statements were published in early September 2024 and an external auditor was appointed for the audit of the central bank (BoSS)'s financial statements for 2022–24 (currently finalizing contracts). The authorities formulated as part of the FY2024/25 budget a repayment plan for the salary arrears. The authorities have implemented corrective measures to further reinforce macro-sustainability (para. 31).

OUTLOOK AND RISKS

8. While the near-term outlook is still weak, an expected gradual resumption of oil production from early 2025 would support a sharp recovery in FY2025/26 and beyond. The oil pipeline has been repaired and maintenance operations are projected to be completed by early 2025. The baseline projects that oil production will slowly increase starting in early 2025 to reach its full capacity by end-June 2025. While this assumption is subject to upside risks (para. 9), it is

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[7] Arrears covered November 2023–June 2024. While the drop of revenue was the main driver, changes of government procedures started the issue—in August 2023, a vetting process was introduced to eliminate ghost workers. Vetting of civil servants was completed in early 2024 while vetting of local government workers has been ongoing.

consistent with the authorities' central scenario, on which budget expenditure planning is based (para. 14).[8] Staff project a GDP contraction of 12 percent in FY25 (July 2024−June 2025) and full recovery from FY2025/26. In the medium term, oil production is projected to recover towards its peak in the recent past (FY2020/21) despite significant risks (para. 9). Growth is projected to remain modest over the medium term, supported by the agriculture sector and increased public investment. Greater stability in the ER and elimination of monetary financing, after the oil production shock recedes, would decrease inflation to single digits. Nonetheless, continued progress on reforms is needed to support the modest positive outlook. In the absence of a catalyzing UCT-quality Fund program, official flows are projected to remain low.

9. **Risks to the outlook are balanced.** Downside risks include a prolonged or escalated war in Sudan or an escalation of the Red Sea crisis, which would exacerbate the macroeconomic situation and further disrupt trade (external risks), and climate shocks including floods, which would affect both agricultural and oil production (domestic risks). With limited institutional capacity, there are significant risks to policy implementation (related to possible delays and suboptimal implementation). On the upside, an early resumption of oil production from the damaged pipeline would significantly improve macroeconomic outcomes. This is likely as repairs of the damaged pipeline are finalized and discussions with Sudan are ongoing about an imminent resumption of production. Similarly, a stronger non-oil revenue collection from higher yields from ongoing reforms operated by the South Sudan Revenue Administration (SSRA) and revenue measures planned under the FY2024/25 draft budget and planned reforms would improve the fiscal outlook. An early end to the Sudan war and higher oil prices than projected would reduce fiscal and external financing gaps.

POLICY DISCUSSIONS

10. **Discussions focused on recalibrating the near-term policy mix to cope with the oil production shock while maintaining economic stability and debt sustainability.**[9] The near-term policy mix entails concomitant adjustments of fiscal, monetary, and ER policies to face the oil production shock, and key priorities include: (i) accelerating reforms and collection efforts to continue strengthening non-oil revenue and redirecting funding towards urgent social spending, including salary payments; (ii) continuing prudent borrowing and contained monetary financing, against the backdrop of financing pressures, to maintain economic stability and debt sustainability; (iii) further ER management flexibility to reduce external imbalances and improve market functioning; together with (iv) reforms to further strengthen governance and reduce corruption, while improving public finance management.

[8] The authorities have prepared three scenarios: a pessimistic view assuming no increase in oil production in FY2024/25, a central scenario assuming oil production for a few months during FY2024/25, and an optimistic scenario assuming resumption during 2024Q4—while irrespective of the starting date, oil production resumption from the damaged pipeline will be gradual until production reaches its full capacity. The draft budget uses the central scenario as basis for its expenditure projections and the most pessimistic scenario for its revenue projections. The most pessimistic scenario is also used as basis for the authorities' contingency plan for spending compression.

[9] See the Country Engagement Strategy with South Sudan in IMF Country Report No. 23/108 for the main drivers of fragility in South Sudan and the Fund strategy to help the country escape fragility.

11. The authorities have utilized coping policies to face the adverse oil production shock. These encompassed delaying salary payments and capital spending from the oil-for-infrastructure earmarked funds, [10] sporadically using monetary financing albeit for limited volumes, slowing down the official ER depreciation, and avoiding adjustment of the ER used for customs valuation. The authorities have been discussing with their creditors to reschedule debt service and with donors to boost financing. While these measures may have somewhat reduced the magnitude of the shock impact, macroeconomic imbalances are likely to increase if both the oil production resumption and macroeconomic adjustment continue to be delayed.

A. Fiscal Policy

12. The fiscal deficit is projected to decrease to 1.9 percent of GDP in FY2024/25, from 5 percent of GDP in FY2023/24, as the oil production shock gradually recedes, and spending restraint continues (Text Table 1).

- **Revenue.** Staff projects a gradual increase in oil revenue from early 2025 to reach full potential by June 2025 (para. 8 and 9). This will be complemented by a strong non-oil revenue uptick (nominal increase of 125 percent in FY2024/25 compared to FY2023/24), in line with the draft budget as revenue administrative measures adopted in FY2023/24 continue to yield and new measures included in the draft budget FY2024/25 are implemented (Text Table 2, para. 16).[11] Overall revenue will however decrease to 26.5 percent of GDP in FY2024/25 compared to 31.3 percent of GDP in FY2023/24, owing to the still recovering oil production and strong ER-driven nominal GDP increase.
- **Spending.** Staff projects full payment of FY2024/25 salaries (3.9 percent of GDP) and repayment of six months of the domestic salary arrears incurred in FY2023/24 (3.0 percent of GDP) plus foreign salary arrears[12] (0.5 percent of GDP). Payments will include one month of current salary and one month of salary arrear every month (the equivalent of two months of salaries paid every month) starting when oil production increases. The balance of two months of arrears will be deferred to FY2025/26 owing to financing constraints. Capital spending under the oil-for-infrastructure scheme is projected to resume gradually from early 2025, consistent with the assumed timeline of oil revenue recovery. Other outlays are projected in line with the draft budget assumptions (para. 13). However, the overall spending is projected to remain constrained at 28.4 percent of GDP in FY2024/25, lower than in FY2023/24 (36.4 percent of GDP) reflecting six months of constrained oil exports.
- **A financing gap** of 3.6 percent of GDP is projected reflecting the fiscal deficit and sizable amortization due (para. 18). Financing options, including near-term prospects for external concessional financing, are limited. However, policy adjustment including returning to low

[10] The authorities previously earmarked for road building the funds coming from sales of one pipeline (oil-for infrastructure scheme)—the pipeline channeling 30 percent of oil production.

[11] The assumptions are consistent with the authorities' non-oil revenue target.

[12] Foreign salaries refer to those paid to staff at South Sudan's missions in foreign countries (including embassies), payable in foreign currency.

capital spending (as per the draft FY2024/25 budget, para 13) could help close the financing gap.

13. While the FY2024/25 draft budget projects a fiscal deficit at 9.7 percent of GDP, reflecting more stringent assumptions on oil revenue collection than staff projections, the authorities have prepared a contingency plan in case financing constraints remain binding (Text Tables 1–2).

- **The FY2024/25 draft budget submitted to Parliament acknowledges the uncertainty surrounding oil production.** It assumes a full year of anemic oil revenue collection, partly compensated by strong non-oil revenue collection.
- **Spending plans show a cut of 15.2 percent of GDP compared to FY2023/24.** The draft budget plans for on-time payment of current salaries and full repayment of salary arrears accumulated in FY2023/24 by end-June 2024.[13] The authorities have started fulfilling this commitment, as salaries were paid in July and August 2024 (two months) financed with oil revenues previously earmarked for investment and non-oil revenue. The assumptions regarding salary repayments are ambitious compared to staff projections, which assumes that the repayment of salary arrears will run through FY2025/26.
- **The authorities plan to exercise expenditure restraint during FY2024/25.** While the draft budget provisions for sufficient allocation to execute more spending if financing is available, the authorities have prepared a contingency spending compression plan in case non-oil revenue collection disappoints or financing is binding (para. 8). They also plan to calibrate payments contingent on collected revenue, as new revenue measures may take time to be implemented and yield results. This supports the authorities' commitment to prioritize salary payments and social spending while avoiding monetary financing and contracting non-concessional external debt, per the PMB objectives (para. 31 and Letter of Intent or LOI). Advocating for further assistance by development partners (IOM, WFP, and The World Bank) will be paramount given the dire humanitarian situation and continued refugee inflows.

14. Over the medium term, the fiscal financing gap is projected to remain positive, reflecting large estimated debt amortization. Buoyant oil revenue and steady improvements in non-oil revenue collection will allow a recovery in revenue collection, although insufficient to cover large spending needs and debt amortization in the absence of significant external financing flows. Domestic and non-concessional foreign financing are both expensive and limited in access. If revenue increases (such as oil revenue) fall short of financing needs, expenditure restraint will be required to avoid arrears and monetary financing.

[13] The payment of foreign mission salaries faces the additional challenge of requiring FX to cover their benefits denominated in foreign currency, which will lead to further delays.

Fiscal Structural Policies

15. Staff welcomes the authorities' resolve to make salary payments a top priority; however, this will require strong revenue mobilization efforts and strict spending prioritization.

- *The authorities' ambitious strategy to boost non-oil revenue will help provide a stable resource stream for priority social and development spending.* The NRA has taken important reforms in FY2023/24 (para. 6), which will support revenue increase in FY2024/25 as the first full year of implementation. New measures to be implemented during FY2024/25 (Text Table 2), with an expected permanent impact, include (i) further increasing the ER used for customs valuation; (ii) a new gaming tax on casino operations; (iii) higher taxes on goods with negative externalities (alcohol, tobacco, and cigarettes); and (iv) revenue administration measures, including a new cargo tracking system, tighter tax compliance and fee collection controls, and centralizing tax collection from districts. The authorities also plan to contain exemptions—staff has however cautioned against any removal of tax exemptions for humanitarian goods.[14] Closing the gap between the official and parallel market ER would further raise revenue by significantly increasing the SSP-equivalent of FX-denominated oil and non-oil revenues.[15] The authorities are in early discussions to replace the sales tax with a value added tax (VAT), which could provide a more robust revenue source in the longer term—not accounted for in the projections. A tax policy CD mission is planned in 2025Q2 to support reforms.
- *Continuous spending restraint and prioritization is essential.* The authorities agreed to (i) pay current salaries while gradually clearing arrears when oil revenue restarts, to avoid deteriorating social outcomes; (ii) prioritize critical social spending including health, education, and humanitarian spending; (iii) complete the transfer to the IOM planned under the FSW; and (iv) continue suspension of non-urgent infrastructure investment.

16. Improving payroll management will also be essential. Arrears in salary payments have a detrimental effect on the vulnerable population. Improving payroll management and payment plans will be important to avoid deteriorating social outcomes. Accelerating the vetting of civil servants that started in August 2023 will reduce administrative bottlenecks and improve payroll distribution efficiency. The authorities are planning to expand the Integrated Financial Management Information System (IFMIS) and adopt a payroll management system supported by a new data center with the World Bank's support.

17. Spending efficiency gains should be part of the policy package, including improving targeting of social spending and public investment management. While social indicators are weak and require substantial resources to significantly improve outcomes, social spending budget allocations have been under-executed. Scaling up execution, while improving targeting, is important.

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[14] The authorities attempted taxing humanitarian goods in February 2024, which temporarily hampered humanitarian operations. The initiative was cancelled in May 2024.

[15] About half of non-oil tax revenues are collected in foreign currency.

Improving the management of oil revenue earmarked for investment, including project selection, approval, and implementation of related projects would ensure better return on investment. Timely reporting would further strengthen transparency. More generally, public finance management (PFM) reforms, including strengthening procurement and payment processes and expanding the coverage of the Treasury Single Account (TSA) will strengthen spending efficiency and governance.

18. Prudent debt management will support management of tight financing constraints. The stock of external debt at end-June 2024 is estimated at 38.3 percent of GDP.[16] No new external non-concessional loans have been contracted since 2022. Total public debt increased from 52 percent of GDP in FY2018/19 to 73.2 percent of GDP in FY2023/24, with an uptick in domestic debt in FY2023/24 reflecting increased monetary financing (Text Figure 1). The authorities have engaged with creditors to reprofile loans and reduce debt service due in FY2024/25—the initial amount due (before reprofiling) was 6.6 percent of GDP, reflecting maturity bunching at the time of contracting. More broadly, the authorities have started implementing the debt management action plan approved in 2023 (Annex I). A debt management strategy was adopted in June 2024, including plans to develop a domestic debt market. Further efforts are needed to strengthen debt data compilation.

Text Table 1. Republic of South Sudan: Summary of Central Government's Fiscal Operations

	Billion of SSP				Percent of GDP			
	FY2022/23	FY2023/24	FY2024/25[1]		FY2022/23	FY2023/24	FY2024/25[1]	
	Act.	Prel.	Draft Budget	Staff Proj.	Act.	Prel.	Draft Budget	Staff Proj.
Total revenue and grants	**1,795.7**	**2,397.5**	**2,257.6**	**5,211.1**	**34.7**	**31.3**	**11.5**	**26.5**
Oil revenues	1,578.1	1,900.3	1,138.4	4,091.9	30.5	24.8	5.8	20.8
Non-oil tax revenue	217.6	497.1	1,119.2	1,119.2	4.2	6.5	5.7	5.7
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**1,455.1**	**2,783.1**	**4,172.2**	**5,582.9**	**28.1**	**36.4**	**21.2**	**28.4**
Current expenditure	951.7	2,268.9	3,089.0	4,604.8	18.4	29.7	15.7	23.4
of which: Salaries	64.1	243.3	1,512.1	1,467.5	1.2	3.2	7.7	7.5
of which: Operating expenses	300.2	653.4	413.3	413.3	5.8	8.5	2.1	2.1
of which: Interest	108.8	31.0	13.5	297.8	2.1	0.4	0.1	1.5
of which: Oil-sector-related domestic transfers	77.0	104.2	91.1	255.1	1.5	1.4	0.5	1.3
of which: Transportation and transit fees to Sudan	174.8	0.0	157.0	902.6	3.4	0.0	0.8	4.6
Net acquisition of non-financial assets	503.4	514.2	493.5	978.1	9.7	6.7	2.5	5.0
of which : Road project	462.0	411.6	0.0	801.3	8.9	5.4	0.0	4.1
Overall balance (cash)	**340.6**	**-385.6**	**-1,914.6**	**-372**	**6.6**	**-5.0**	**-9.7**	**-1.9**
Financing	**-257.1**	**385.6**	**-273.1**	**-335**	**-5.0**	**5.0**	**-1.4**	**-1.7**
Domestic (net)	154.4	433.3	0.0	0.0	3.0	5.7	0.0	0.0
Foreign (net)	-411.5	-47.7	-273.1	-334.8	-7.9	-0.6	-1.4	-1.7
of which: TFA Overpayment to Sudan	-270.7	227.7	0.0	0.0	-5.2	3.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**2,187.7**	**706.6**	**0.0**	**0.0**	**11.1**	**3.6**

[1] For FY2024/25, staff projections differ from the draft budget mainly as follows:
i) the draft budget revenue projections assume that the damaged oil will not be operational during the whole year; while staff projects gradual resumption from early 2025,
ii) the authorities project a full repayment of salary arrears during the year while staff projects repayment of six months of arrears during the current fiscal year,
iii) staff projects that the Transportation and transit fees to Sudan is assumed to increase compared to the previous fee schedule (of 9.7 USD per barrel on average),
iv) staff projects higher interest payments based on data on debt service obligations (to stay current on interest payments), and
v) consistent with the expected resumption of exports through the damaged pipeline, staff project a resumption of oil-for-infrastructure funding.
Note: For consistency, Percent of GDP figures are calculated as share of staff projected GDP.
Sources: South Sudanese authorities; and IMF staff estimates and projections.

[16] The conclusions of the Debt Sustainability Analysis (DSA) prepared on May 20, 2024 (IMF Country Report No. 24/160) apply to the current macroeconomic framework.

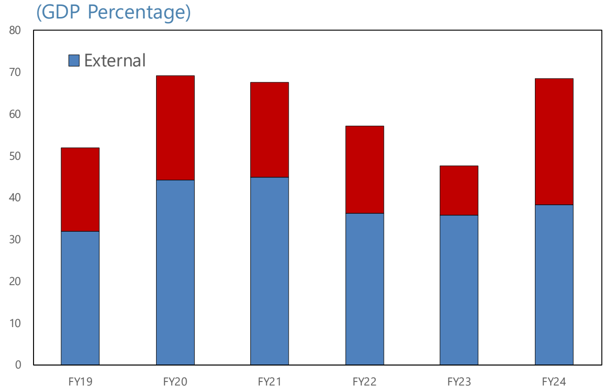
Text Table 2. Republic of South Sudan: Recent Revenue Reforms Impacting FY2024/25

Reform	**Date**	**Estimated impact in FY2024/25 (% of GDP)**
Improvement in tax administration (capacity development, suspension of non-statutory exemptions)	FY2023/24	0.6
Adjustment of the exchange rate used for customs valuation (from 300 SSP/$ to the budget value (2527 SSP/$) or the market value	Planned in FY2024/25	depends on the magnitude (0.4 percent of GDP for an adjustment to 1600 SSP/$)
Other tax administration measures, including increased staffing and digitalization.	Planned in FY2024/25	NA

Sources: South Sudanese authorities and IMF staff calculations.

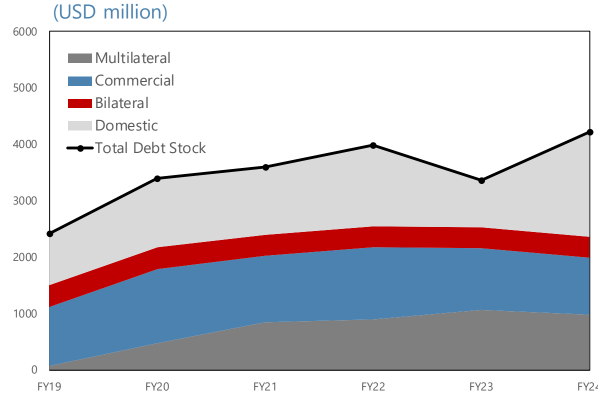
Text Figure 1. Republic of South Sudan: Evolution of Public Debt

South Sudan: Total Public debt
(GDP Percentage)



Source: South Sudanese authorities with IMF staff calculations.

South Sudan: Public Debt Composition
(USD million)



Source: South Sudanese authorities with IMF staff calculations.

B. Monetary, Exchange Rate, and Financial Sector Policies

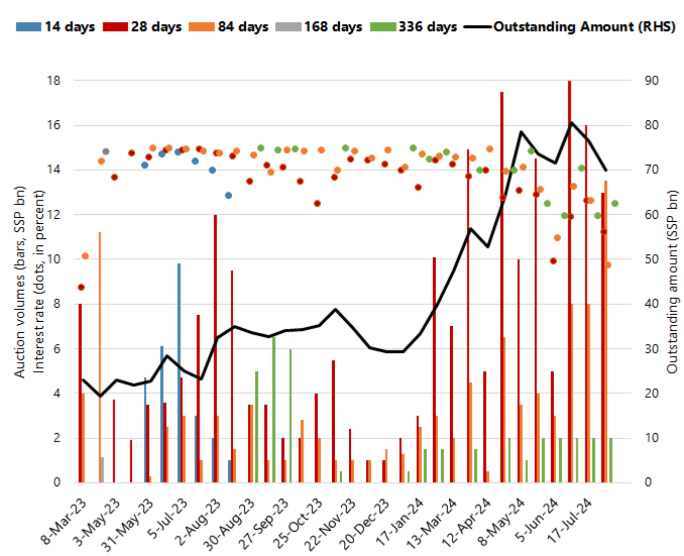
Monetary and Exchange Rate Policies

19. The BoSS' ability to manage exchange rate flexibility and conduct monetary policy has been severely impeded by the significantly lower FX inflows due to the oil production shock. The oil production shock and resulting lower FX inflows have significantly impacted the BoSS' FX reserves and its ability to conduct FX auctions for both exchange rate flexibility and liquidity management.

20. With the shock lasting longer than previously expected, the BoSS has initiated gradual depreciation of the official ER since July although the parallel FX market premium remains large. While the BoSS stopped auctions, the official ER has continued gradually depreciating (para. 5) as it is currently calculated as the average of rates used outside of the parallel market—FX transactions in the banking system and the FX market (i.e., excluding FX bureaus)—which allows flexibility.

21. Reforms to the monetary policy framework have provided additional tools, although ongoing inflationary dynamics are proving challenging to tame. While FX auctions have traditionally been the BoSS' main tool for liquidity mop up, supplied by FX from oil exports. Introduction of a term-deposit facility (TDF) in October 2022 provided an additional tool for monetary policy to complement the FX auctions and, subsequently, a 336-day tenor to the TDF was introduced in August 2023. As FX inflows slowed down, the BoSS aggressively utilized the TDF in 2024H1 to mop up excess liquidity, leading to credit outstanding rising to SSP 70 billion in August 2024 (from SSP 34 billion in August 2023, Text Figure 2). This helped supplement lower amounts of auctioned FX. However, demand is predominantly concentrated in shorter maturities, as banks have so far stayed away from the longer tenor in response to the uncertain macroeconomic conditions, thus limiting liquidity management efficiency.

Text Figure 2. Republic of South Sudan: TDF Auctions, March 2023–August 2024



Sources: Bank of South Sudan and IMF staff calculations.

Moreover, large cash holdings outside of banks have created additional challenges and limited MP's efficiency in taming inflation.[17]

22. Resumption of monetary financing in FY2023/24 has added to the inflation and ER depreciation pressures. The authorities resumed monetary financing since December 2023 to finance emergency social needs, against the backdrop of budget financing constraints. In the absence of efficient liquidity mopping mechanisms, this further fueled ER depreciations and inflation dynamics, amplified by the large cash circulation. Since July 2024, monetary financing dropped significantly compared to FY2023/24. On September 16, 2024, the BoSS introduced daily cash withdrawal limits of a SSP 10 million, but this has created unintended adverse effects on banks' functioning and discouraged deposits.

23. The authorities agreed with staff that moving forward, avoiding further monetary financing is essential. Refraining from monetary financing will help contain further ER depreciation, notably in the parallel market and, thus, help tame inflation. In the event revenue collection disappoints and monetary financing is necessary to fund urgent priority spending, the authorities are committed to using domestic tools to mop up the resulting liquidity. In the medium term, further developing the monetary policy framework, strengthening coordination of monetary and fiscal policy, and developing domestic debt markets would also help with liquidity and financing management.

24. The authorities have committed to further ER management flexibility and steps to gradually reduce the parallel FX market premium. ER unification will help increase fiscal space thanks to higher SSP-denominated oil revenue and ease financing needs. The authorities indicated, however, that since the FX market is thin, external financing is needed to help close the gap. They are lobbying for donor support and obtained a term deposit from the Abu Dhabi National Bank to boost the BoSS' foreign assets. Reverting to pre-shock FX auction rules, notably allocation of FX to the highest bid, will help reduce the premium, reduce the size of the parallel market, and reduce distortions to the FX market. While auctions are suspended, ER flexibility is induced by market price-driven FX transactions between banks and their clients.

Financial Sector Stability

25. South Sudan's commercial banks, which dominate the country's financial sector, are faced with multi-faceted challenges. Several domestic commercial banks are undercapitalized, although the average capital adequacy ratio for all banks was at 10.1 percent at end-June 2024 (Table 5). With limited financial intermediation activities taking place, a large share of banks' income (70 percent) is from non-interest income, mainly FX transactions. Thus, the reduced FX inflows due to the oil pipeline shock have impacted their performance. Moreover, over 70 percent of commercial bank liabilities are denominated in FX, possibly exposing banks whose asset composition does not match liabilities to ER risk.

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[17] The authorities are actively promoting less cash circulation, encouraging bank account opening, and usage of electronic payment platforms.

26. The BoSS has taken steps to support financial stability. The amendment to the 2012 Banking Act approved in November 2023 has strengthened the supervisory framework by consolidating the supervision of bank and non-bank institutions, including microfinance and insurance companies under the purview of the BoSS. The authorities have begun implementing provisions through (i) the ongoing restructuring of the BoSS' Supervision Directorate, including recruitment for the new staff profiles needed under the revised mandate; (ii) building capacity of its liquidation team through technical assistance, training and peer-to-peer learning at neighboring central banks; (iii) planning from next year to issue regulations and guidelines to address the main issues in the banking reforms, including the undercapitalization of banks. Fast-tracking cabinet approval of the BoSS' action plan would allow for full implementation of the amended 2012 Banking Act and boost the supervisory capacity of the BoSS.

C. Strengthening Transparency and Governance

27. The authorities plan to continue improving transparency, building on ongoing progress in fiscal and monetary policy transparency and central bank governance. The authorities have started publishing quarterly budget execution reports, notably for the first two quarters of FY2023/24. However, inability to access IFMIS for several months has impeded efficient budget execution and timely preparation of FY2023/24 last two quarter reports. Several modules of IFMIS are still not accessible. The authorities' efforts to circumvent this issue, in collaboration with an IMF LTX, are welcome. The authorities publish data on FX auctions outcomes and key monetary indicators on a regular basis, along with daily oil production data. Continuing publication of oil revenues details is encouraged. The publication of the audited 2021 BoSS financial statements in September 2024 also represents a key milestone in improving the transparency of BoSS' operations (para. 29). Further strengthening governance would be beneficial.

28. The BoSS is implementing recommendations of the IMF Safeguards Assessment (SA), although additional efforts are needed. The National Audit Chamber has taken steps to appoint an international firm to audit the BoSS' financial statements for FY2022−2024 (contract signing is underway). Accelerating the audits will support the return to a timely audit cycle. Amendments enhancing some aspects of the BoSS' legal framework were approved by Parliament in November 2023. However, follow up revisions are required for some provisions related to financial, institutional, and personal autonomy that are not consistent with SA recommendations. Staff will also continue to engage with the authorities in addressing other key safeguards recommendations, including in the areas of Board oversight, strengthening of audit and reporting capacity, and currency operations.

29. The BoSS made progress towards bringing South Sudan's AML/CFT framework in line with international standards. An amendment bill to incorporate the current FATF standards into the AML/CFT Act, prepared with IMF CD support, was passed by Parliament in July 2024 and the authorities are working to finalize governance and operational rules for the Financial Intelligence Unit. The Fund will continue to engage with the authorities including on statutory regimes for targeted financial sanctions and protection of non-profit organizations from being targeted by financiers of terrorism. South Sudan has also completed its first National Risk Assessment (NRA) and has become a party to relevant UN Conventions. Despite these achievements, South Sudan remains on the FATF grey list. The authorities are encouraged to increase the capacity and resources of relevant agencies, develop a strong and timebound National Action Plan informed by the findings of the NRA, and raise awareness of both financial institutions and designated non-financial institutions about the AML/CFT obligations contained in the new law. The authorities also amended the anti-corruption legislation in December 2023 and allocated a larger allocation (in percent of GDP) to the Anti-Corruption Commission in the FY2024/25 draft budget.

PMB REVIEW AND ACHIEVEMENTS DURING THE ENGAGEMENT

30. Program performance at end-June 2024 was mixed (para. 7, Tables 6–7). Two out of seven targets were met, notably the zero ceiling on contracting non-concessional debt and floor on net international reserves. The other five quantitative targets were missed owing to financing constraints stemming from the oil production shock. The structural benchmarks (SBs) were not met at end-June, but two were implemented while the authorities made significant steps towards the third one.

31. However, the authorities have implemented corrective measures to support program objectives and committed to several additional remedial actions, which are deemed sufficient to achieve the PMB goals (LOI, Appendix I). The authorities started paying salaries in July 2024, although adverse external spillovers are still strong. They have slowed down the use of monetary financing, leveraging it as last resort and for low and sporadic use, rather using oil revenues previously earmarked for investment and aggressive non-oil revenue collection to finance priority spending. Furthermore, they have increased the flexibility of the official ER management, which has reduced the parallel FX market ER premium. They have committed to prudent debt management and continuing to rely on concessional borrowing. To further support macroeconomic stability and achieve the objectives of the PMB, the authorities have started implementing remedial actions and have committed to further measures. First, they have submitted the FY2024/25 draft budget to Parliament in end-September 2024 (adoption expected by end-November). Second, the authorities have recognized in the draft FY2024/25 budget the salary arrears accumulated in FY2023/24 and have committed to continue paying current salaries every month and start reducing the number of months of salary arrears when oil production restarts. Third, they have committed to refrain from monetary financing starting in October and, if its usage is unavoidable, increase mopping up of liquidity using available domestic tools to help tame resulting inflation pressures. These measures will ensure policy adjustments, while minimizing adverse effects on inflation, economic growth, and debt dynamics. The authorities remain committed to fiscal and monetary prudence, while addressing the economic impact of the oil production shock, and to implementing their medium-term reform agenda.

32. The authorities have advanced important economic reforms during Fund engagement under the PMB, and have implemented nearly all structural benchmarks, some with delay (Annex I). They have made progress on improving transparency and governance, with publication of fiscal reports and fiscal and central bank audits, as well as numerous measures to strengthen the AML/CFT framework. Revenue reforms to increase non-oil revenues and adherence to non-oil primary balance targets for most of the period have demonstrated a commitment to fiscal prudence. Nonetheless, program performance measured against quantitative targets and structural benchmarks shows uneven results. Moreover, salary arrears accumulation and low social spending indicate a need to strengthen budget execution.

33. Intensive engagement with South Sudan would be beneficial. The authorities reiterated their request for a 3-year arrangement under the Extended Credit Facility to help address balance of payment pressures and medium-term macroeconomic challenges. South Sudan would benefit from further capacity development, including in data compilation and strengthening governance, and financial support to foster macroeconomic stability and debt sustainability, cope with shocks, and alleviate structural challenges.

STAFF APPRAISAL

34. South Sudan has faced sizeable adverse spillovers from the war in Sudan, which have worsened an already difficult humanitarian situation and created difficult policy challenges. Damages in mid-February 2024 to the pipeline carrying 70 percent of South Sudan's oil production through Sudan have caused an economic slowdown with a significant drop in oil production, exports, fiscal revenues, and FX inflows. In addition, the increasing influx of refugees fleeing the war and floodings have exacerbated the humanitarian situation. The authorities are managing difficult policy tradeoffs including (i) spending prioritization against the backdrop of several months of salary arrears, financing constraints, and limited alternative financing options; (ii) depreciation pressures of the South Sudan Pound against the backdrop of limited FX availability and (iii) pressures to use monetary financing, but in the context of high inflation and difficulties to efficiently mop up liquidity in the absence of FX auctions.

35. Staff welcomes the authorities' resolve to prioritize salary payments. The FY2024/25 draft budget plans for on-time payment of current salaries. It also recognizes the salary arrears incurred in FY2023/24 and plans for their full repayment, financed by funds redirected from the oil-for-infrastructure investment scheme. The authorities have shown their commitment by paying two months of salaries (in July and August 2024). Steadfast efforts in non-oil revenue collection will provide additional funding, supported by ambitious reforms to significantly increase the ER used for customs valuation and strengthen collection efficiency and controls. Staff projects a smaller deficit than the FY2024/25 draft budget as the latter over-conservatively forecasts anemic oil revenues for the entire fiscal year, assuming that the shock would further persist.

36. The recently initiated gradual depreciation of the ER has reduced the parallel market ER premium and partly alleviated mounting market distortions. The BoSS' ability to manage ER flexibility and conduct monetary policy has been severely impeded by the significantly lower FX inflows due to the oil production shock. Consequently, the BoSS significantly reduced the frequency of auctions and offered amounts, which had a large impact on the thin FX market, and delayed auction settlements. With the shock lasting longer than initially expected, the BoSS has initiated gradual depreciation of the official ER. From a peak of 179 percent at end-July 2024, the parallel FX market premium has gradually narrowed, although remaining large at about 50 percent at end-September.

37. Staff welcomes the authorities' commitment to refrain from monetary financing and sustain efforts to contain inflation. Over the past years, the authorities have strengthened the monetary policy framework, including with the creation of a Term Deposit Facility and subsequent introduction of a longer tenor. This has helped supplement monetary operations as slower FX inflows led to lower auctioned amounts. Following an extended period without monetary financing, the authorities used monetary financing starting in December 2023. Although sporadic, it fueled ER depreciation in the parallel market and reinforced inflation dynamics. Moving forward, reining in the persistent inflation dynamics will require stopping monetary financing, and if usage is necessary to fund priority spending, mopping up related additional liquidity. Strengthening coordination between fiscal and monetary policies will support strengthened monetary discipline.

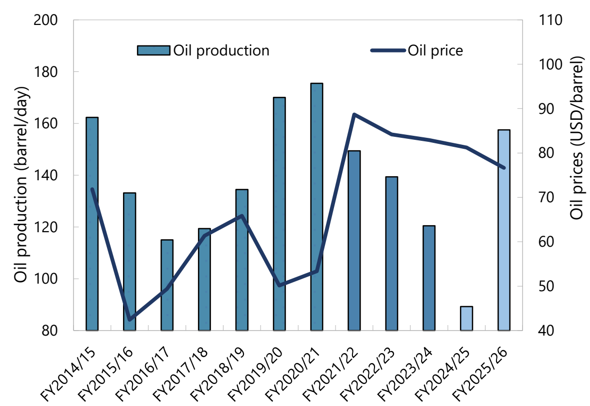
38. Recalibrating the near-term policy mix to cope with the long-lasting shock will entail strong revenue mobilization efforts, strict spending prioritization, and further ER depreciation to increase the SSP-denominated value of fiscal revenue and remove FX market distortions. Addressing the tradeoff of continuing to pay salaries monthly while avoiding monetary financing and non-concessional borrowing will require continued revenue mobilization efforts. Furthermore, rationalizing non-salary spending to prioritize salary payments and well-targeted social spending will be essential. Closing the gap between the official and parallel market exchange rates is important to reduce FX market distortions and boost growth as well as the SSP-denominated fiscal revenue. Stronger debt management will be essential to manage the current maturity bunching and spread out the large debt service that was originally due during FY2024/25. Developing domestic debt securities will help diversify financing options.

39. The authorities have made progress in improving fiscal and monetary policy transparency and bringing South Sudan's AML/CFT framework in line with international standards. Regular publication of budget execution reports and information on oil revenue sources, building on the publication of the reports covering the first half of FY2023/24, will continue progress toward further transparency. PFM reforms including to further improve budget execution and strengthen public investment management will be essential. Building on recent strides to improve the AML/CFT framework and strengthen the BoSS' audit framework, further implementing recommendations from the IMF safeguards assessment would improve BoSS' governance and operations. The authorities are encouraged to continue improving the anti-corruption legislation, building on recent progress, and support to anti-corruption institutions.

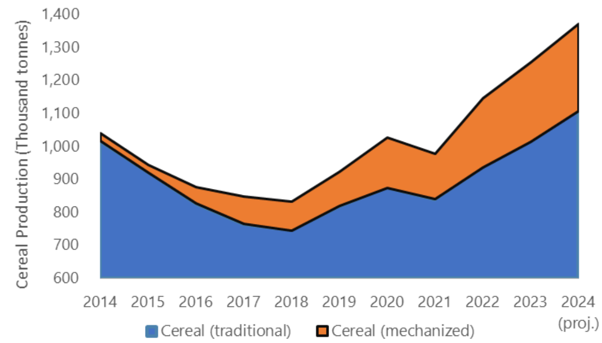
40. Staff supports the authorities' request for the completion of the third and final PMB review, based on program performance, the implemented corrective measures, and the remedial measures to which the authorities have committed to ensure that the PMB 's objectives are met. The authorities took several corrective actions since July 2024, including allowing more flexibility of the official exchange rate, starting salary payments, redirecting infrastructure financing towards salary payments and other priority spending, and significantly slowing down monetary financing. They committed under the Letter of Intent to additional remedial actions starting October 2024 in support of the program's objectives including paying one month of salary every month; paying every month an additional month of salary towards arrears when oil production restarts; refraining from monetary financing as much as possible and, in case of usage, mopping up related excess liquidity; and continuing prudent dent management. These actions will support macroeconomic stability and achieving the PMB's objectives.

Figure 1. Republic of South Sudan: Recent Economic Developments

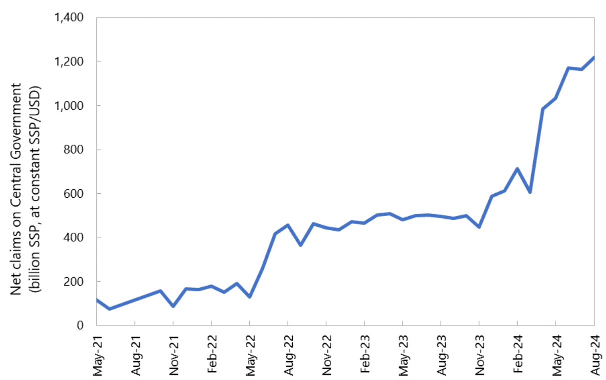
Damage to the pipeline is continuing to hamper oil production, which is assumed to start recovering in mid-FY2024/25.



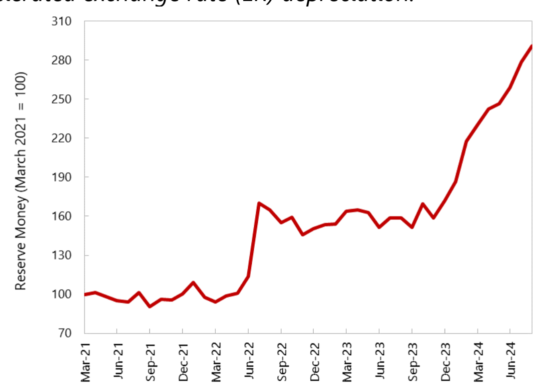
Preliminary data from FAO/WFP shows continued strong growth of agricultural production.



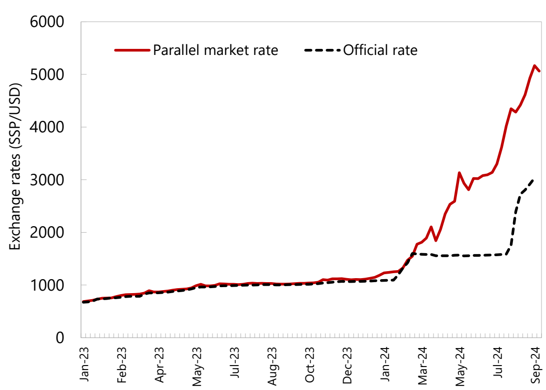
The authorities have been using the government overdraft since December 2023…



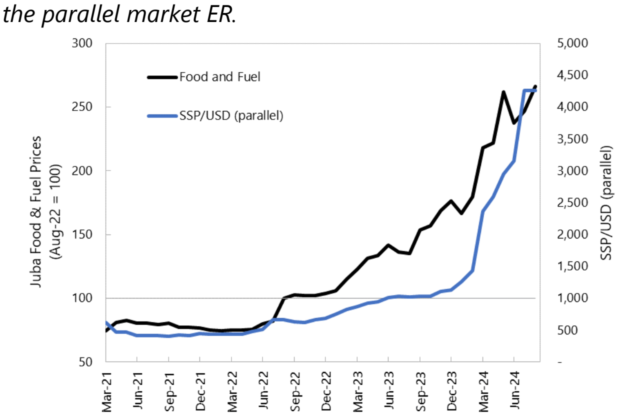
… leading to increases in reserve money which has accelerated exchange rate (ER) depreciation.



The parallel market ER has depreciated quickly owing to the pipeline damage while the depreciation of the official rate has lagged.



Juba food and fuel prices have continued to increase with the parallel market ER.



Sources: Bank of South Sudan, FAO, WFP, and IMF staff calculations.

Note: The values used for the parallel market and official rate in the bottom left chart use a rolling weekly average smoothing.

Table 1. Republic of South Sudan: Selected Economic Indicators, 2019/20–2028/29[1]

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Act.					Projections				
	(Annual percentage change, unless otherwise indicated)									
Output, prices, and exchange rate										
Real GDP (percent change)	13.2	-2.3	-8.0	-1.0	-5.8	-11.9	41.6	5.0	5.0	5.0
Oil	26.4	3.2	-14.8	-6.8	-13.6	-25.9	76.4	3.0	2.9	2.9
Non-oil	0.5	-11.6	6.0	11.0	7.6	7.6	8.1	8.1	8.1	8.2
Inflation (average)	33.6	43.5	0.9	25.3	52.2	136.7	19.4	7.6	7.9	8.3
Inflation (end-of-period)	12.7	44.7	-11.6	46.2	97.3	75.7	7.8	8.0	8.2	8.0
Oil GDP (percent of GDP)	62.4	67.2	67.5	63.6	57.9	48.5	58.9	56.8	55.1	53.5
GDP deflator	-2.1	31.9	216.4	77.0	56.9	191.6	28.6	8.7	9.1	9.5
Official exchange rate (SSP/US$, average)	160.8	190.7	422.7	731.6	1,244.5	…	…	…	…	…
Official exchange rate (SSP/US$, end period)	163.8	322.6	499.7	988.2	1,569.6	…	…	…	…	…
Parallel market exchange rate (SSP/US$, average)	309.2	522.9	432.1	756.2	1,574.9	…	…	…	…	…
Money and credit										
Broad money	40.8	67.3	47.4	108.0	117.1	…	…	…	…	…
Monetary base	42.3	53.4	48.9	79.2	124.5	…	…	…	…	…
Credit to non-government sector	35.2	60.6	74.1	263.7	109.8	…	…	…	…	…
M2/GDP (percent)	20.3	26.3	13.3	15.8	23.3	…	…	…	…	…
	(Percent of GDP, unless otherwise indicated)									
Central government budget										
Total revenues and grants	29.5	33.6	31.7	34.7	31.3	26.5	31.5	30.8	30.3	29.9
Of which : Oil	25.5	29.0	29.0	30.5	24.8	20.8	25.3	24.4	23.6	23.0
Of which : Non-oil tax revenue	4.0	4.7	2.7	4.2	6.5	5.7	6.2	6.4	6.7	6.9
Of which : Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	38.2	37.2	38.5	28.1	36.4	28.4	28.2	29.0	32.0	33.4
Current	34.4	26.5	25.1	18.4	29.7	23.4	20.5	20.0	21.5	21.4
Of which : transfers to Sudan	13.1	10.7	5.8	3.4	0.0	4.6	6.0	6.0	5.9	5.8
Net acquisition of non-financial assets	3.8	10.7	13.4	9.7	6.7	5.0	7.7	9.0	10.5	12.0
Overall balance (cash)	-8.6	-3.6	-6.8	6.6	-5.0	-1.9	3.3	1.8	-1.7	-3.5
Change in non-salary arrears	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual balance)	-5.3	-3.6	-6.8	6.6	-5.0	-1.9	3.3	1.8	-1.7	-3.5
Public debt										
Total External public debt[2]	44.2	44.9	36.3	35.7	38.3	48.6	32.6	29.8	31.2	33.4
External sector										
Exports of goods and services	63.8	68.6	68.4	63.3	70.8	55.2	67.6	65.4	63.6	61.9
Imports of goods and services	90.7	83.1	60.5	61.4	65.0	77.2	76.8	77.6	77.8	77.0
Current account balance (including grants)	-8.8	11.3	23.0	-5.8	-4.6	-11.6	5.4	3.0	1.2	0.6
Current account balance (excluding grants)	-38.2	-24.1	-5.5	-29.3	-24.0	-35.2	-17.5	-19.1	-20.1	-20.7
Gross foreign reserves (millions of US dollars)	129.5	163.7	191.7	144.7	115.2	376.4	895.0	1,360.6	1,825.0	1,968.6
Gross foreign reserves (in months of imports)	0.4	0.5	0.5	0.4	0.3	0.8	1.9	2.8	3.6	3.7
Memorandum items:										
Population (millions)	13.6	14.0	14.4	14.8	15.2	15.7	16.1	16.6	17.1	17.6
Oil production (millions of barrels)	62.1	64.1	54.5	50.9	44.0	32.6	57.5	59.2	60.9	62.7
South Sudan's oil price (U.S. dollars per barrel)	49.3	55.9	86.5	88.5	80.9	77.1	71.5	69.4	68.1	67.3
Brent price (U.S. dollars per barrel)	51.3	55.2	86.5	88.5	80.9	77.1	71.5	69.4	68.1	67.3
Nominal GDP (billions of SSP)	789	1,016	2,956	5,180	7,650	19,643	35,772.6	40,804.1	46,733.0	53,764.6
Nominal GDP (billion US$)	4.9	5.3	7.0	7.1	6.1	5.2	7.0	7.2	7.5	7.9
External debt (millions US$)	2,168	2,391	2,542	2,530	2,354	2,511	2,276	2,158	2,347	2,629
GNI per capita (US dollars)	320.8	327.8	421.3	421.9	255.9	303.3	395.9	405.4	414.6	422.2
Nominal SSP GDP (percent change)	10.8	28.8	191.0	75.2	47.7	156.8	82.1	14.1	14.5	15.0

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

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

[2] Public external debt in SSP (at eop exchange rate) in percent of GDP in SSP (at avg exchange rate). FY2020/2021 value reflects large difference between eop and avg exchange in that fiscal year.

Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20–2028/29[1]

(In billions of South Sudanese pounds)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26	2026/27	2027/28	2028/29
	Act.	Act.	Act.	Act.	Prel.	Draft Budget	Proj.	Projection			
Total revenue and grants	**232.8**	**341.5**	**938.1**	**1,795.7**	**2,397.5**	**2,257.6**	**5,211.1**	**11,266.2**	**12,573.0**	**14,173.7**	**16,075.1**
Total oil revenues	201.1	294.1	857.6	1,578.1	1,900.3	1,138.4	4,091.9	9,048.3	9,945.2	11,043.7	12,351.0
Non-oil tax revenue	31.8	47.4	80.5	217.6	497.1	1,119.2	1,119.2	2,217.9	2,627.8	3,130.0	3,724.1
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**300.9**	**378.0**	**1138.5**	**1,455.1**	**2,783.1**	**4,172.2**	**5,582.9**	**10,072.8**	**11,840.2**	**14,951.4**	**17,937.0**
Current expenditure	271.1	269.5	742.9	951.7	2,268.9	3,089.0	4,604.8	7,318.3	8,167.9	10,044.4	11,485.2
Salaries	36.5	44.1	94.8	166.1	243.3	1,512.1	1,467.5	1,409.1	1,607.3	1,840.9	2,117.8
of which: Domestic salary arrears repayment	...	...	...	...	...	642.3	597.7	398.5	0.0	0.0	0.0
of which: Foreign salary arrears repayment	...	0.0	0.0	0.0	0.0	96.0	96.0	136.0	142.7	149.9	157.4
Operating expenses	82.7	60.4	356.5	300.2	653.4	413.3	413.3	1,323.3	2,160.3	3,219.7	3,704.1
NRA Retention/Commission	...	...	...	17.4	0.0	55.0	162.8	321.6	381.0	453.9	540.0
Interest[5]	6.2	1.2	9.9	108.8	31.0	13.5	297.8	319.4	166.1	174.8	189.4
Transfers to states	31.4	44.7	110.7	137.9	206.1	510.4	674.4	1267.3	1416.8	1597.5	1813.8
Oil-related transfers	10.9	23.5	48.8	77.0	104.2	91.1	255.1	551.8	600.7	662.9	738.5
Transfers to MoP	3.6	8.8	18.3	25.4	37.3	34.2	95.7	206.9	225.3	248.6	276.9
Capital transfers to states (Future Gen Fund)	1.2	0.0	0.0	8.6	4.5	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to oil producing states & communities	6.0	14.7	30.5	43.0	62.4	56.9	159.5	344.9	375.4	414.3	461.5
Non-oil transfers to states	20.5	21.2	61.9	60.9	102.0	419.3	419.3	715.5	816.1	934.7	1,075.3
Transfers to Sudan[2]	103.6	109.1	170.9	174.8	0.0	157.0	902.6	2,150.3	2,436.3	2,757.7	3,120.1
Transportation and transit fees	22.0	51.0	98.4	174.8	0.0	157.0	902.6	2,150.3	2,436.3	2,757.7	3,120.1
TFA payments	81.7	58.1	72.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	10.7	10.0	14.9	45.3	1135.1	744.3	744.3	128.8	0.0	0.0	0.0
Emergency contingency fund + ORSA	0.0	10.0	0.0	13.5	0.0	173.7	173.7	0.0	0.0	0.0	0.0
Peace agreement	10.7	0.0	0.0	12.0	0.0	93.8	93.8	0.0	0.0	0.0	0.0
Transfers to WFP/IOM	...	...	...	19.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Sudan Pension Fund	...	...	...	...	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture Bank of South Sudan	...	...	...	...	0.0	8.6	8.6	0.0	0.0	0.0	0.0
Litigation	...	...	...	...	...	34.3	34.3	0.0	0.0	0.0	0.0
Election Related Expenditure	...	...	...	...	...	257.5	257.5	128.8	0.0	0.0	0.0
Transfers to International treaties	...	...	...	...	...	108.5	108.5	0.0	0.0	0.0	0.0
Constituency Development Fund	...	...	...	...	0.0	30.0	30.0	0.0	0.0	0.0	0.0
Other expenditure[6]	...	...	14.9	...	1,135.1	38.0	38.0	0.0	0.0	0.0	0.0
Net acquisition of non-financial assets	29.8	108.4	395.6	503.4	514.2	493.5	978.1	2,754.5	3,672.4	4,907.0	6,451.7
of which: Oil for Infrastructure project		100.0	274.7	462.0	411.6	0.0	801.3	2,008.6	2,143.4	2,313.1	2,515.0
Overall balance (cash)	**-68.0**	**-36.4**	**-200.4**	**340.6**	**-385.6**	**-1,914.6**	**-371.8**	**1,193.4**	**732.8**	**-777.6**	**-1,861.9**
Change in non-salary arrears	-26.6	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual balance)	**-41.4**	**-36.4**	**-200.4**	**340.6**	**-385.6**	**-1,914.6**	**-371.8**	**1,193.4**	**732.8**	**-777.6**	**-1,861.9**
Statistical discrepancy	153.1	38.4	-282.4	83.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**2187.7**	**706.6**	**2694.5**	**460.7**	**1590.6**	**2911.2**
Financing	**194.5**	**74.8**	**-82.0**	**-257.1**	**385.6**	**-273.1**	**-334.8**	**-3887.9**	**-1193.4**	**-812.9**	**-1049.3**
Domestic (net)	28.1	32.2	10.9	154.4	433.3	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from the central bank	44.2	32.2	10.9	154.4	433.3	0.0	0.0	0.0	0.0	0.0	0.0
of which: Overdraft	...	...	...	177.2	410.5	0.0	0.0	0.0	0.0	0.0	0.0
of which: Carried over RCF-FSW	...	...	...	-22.8	22.8	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from commercial banks	10.6	0.0	0.0	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	0.0	0.0
Foreign (net)	166.3	42.7	-92.9	-411.5	-47.7	-273.1	-334.8	-3887.9	-1193.4	-812.9	-1049.3
Disbursement[4]	266.6	90.0	344.1	42.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-100.3	-47.4	-310.2	-183.4	-275.4	-273.1	-334.8	-3887.9	-1193.4	-812.9	-1049.3
TFA Overpayment	...	...	-126.827	-270.696	227.7	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Non-oil Primary Fiscal Balance[3]	-153.3	-205.5	-846.6	-910.9	-2192.6	...	-3103.8	-5040.3	-6234.6	-8474.6	-10441.8
Oil production (millions of barrels)	62.1	64.1	54.5	50.9	44.0	...	32.6	57.5	59.2	60.9	62.7
Nominal GDP (bn of South Sudanese pounds)	788.7	1,015.8	2,955.7	5,179.6	7,649.7		19,643.0	35,772.6	40,804.1	46,733.0	53,764.6

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 average transportation fee from using the oil pipeline. TFA payments ended in January 2022.
Starting in FY2024/25, it is assumed that the Transportation and transit fees to Sudan increases from 9.7 USD per barrel (on average) to 17 USD per barrel

[3] Non-oil revenue minus primary expenditure excluding transfers to Sudan, and tranfers to oil producing states and communities.

[4] Initial disbursement refers to the amount received directly by the authorities while Auction Gain refers to the proceeds of the auction in which disbursements were converted at the official exchange rate

[5] Interest payments projected for FY 25 covers interests from multilateral lenders and other creditors.

[6] "Other expenditure" includes transactions not yet classified due to data management constraints. Efforts to classify these transaction appropriately are ongoing.

Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20–2028/29[1]

(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25		2025/26	2026/27	2027/28	2028/29
	Act.	Act.	Act.	Act.	Prel.	Draft Budget	Proj.	Projection			
Total revenue and grants	**29.5**	**33.6**	**31.7**	**34.7**	31.3	**11.5**	**26.5**	**31.5**	**30.8**	**30.3**	**29.9**
Total oil revenues	25.5	29.0	29.0	30.5	24.8	5.8	20.8	25.3	24.4	23.6	23.0
Non-oil tax revenue	4.0	4.7	2.7	4.2	6.5	5.7	5.7	6.2	6.4	6.7	6.9
Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total expenditure	**38.2**	**37.2**	**38.5**	**28.1**	**36.4**	**21.2**	**28.4**	**28.2**	**29.0**	**32.0**	**33.4**
Current expenditure	34.4	26.5	25.1	18.4	29.7	15.7	23.4	20.5	20.0	21.5	21.4
Salaries	4.6	4.3	3.2	3.2	3.2	7.7	7.5	3.9	3.9	3.9	3.9
of which: Domestic salary arrears repayment	…	…	…	…	…	3.3	3.0	1.1	0.0	0.0	0.0
of which: Foreign salary arrears repayment	…	0.0	0.0	0.0	0.0	0.5	0.5	0.4	0.3	0.3	0.3
Operating expenses	10.5	5.9	12.1	5.8	8.5	2.1	2.1	3.7	5.3	6.9	6.9
NRA Retention/Commission	…	…	…	0.3	0.0	0.3	0.8	0.9	0.9	1.0	1.0
Interests[5]	0.8	0.1	0.3	2.1	0.4	0.1	1.5	0.9	0.4	0.4	0.4
Transfers to states	4.0	4.4	3.7	2.7	2.7	2.6	3.4	3.5	3.5	3.4	3.4
Oil-related transfers	1.4	2.3	1.7	1.5	1.4	0.5	1.3	1.5	1.5	1.4	1.4
Transfers to MoP	0.5	0.9	0.6	0.5	0.5	0.2	0.5	0.6	0.6	0.5	0.5
Capital transfers to states (Future Gen Fund)	0.2	0.0	0.0	0.2	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to oil producing states & communities	0.8	1.4	1.0	0.8	0.8	0.3	0.8	1.0	0.9	0.9	0.9
Non-oil transfers to states	2.6	2.1	2.1	1.2	1.3	2.1	2.1	2.0	2.0	2.0	2.0
Transfers to Sudan[2]	13.1	10.7	5.8	3.4	0.0	0.8	4.6	6.0	6.0	5.9	5.8
Transportation and transit fees	2.8	5.0	3.3	3.4	0.0	0.8	4.6	6.0	6.0	5.9	5.8
TFA payments	10.4	5.7	2.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other expenses	1.4	1.0	0.5	0.9	14.8	3.8	3.8	0.4	0.0	0.0	0.0
Emergency contingency fund + ORSA	0.0	1.0	0.0	0.3	0.0	0.9	0.9	0.0	0.0	0.0	0.0
Peace agreement	1.4	0.0	0.0	0.2	0.0	0.5	0.5	0.0	0.0	0.0	0.0
Transfers to WFP/IOM	…	…	…	0.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
South Sudan Pension Fund	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Agriculture Bank of South Sudan	…	…	…	…	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Litigation	…	…	…	…	…	0.2	0.2	0.0	0.0	0.0	0.0
Election Related Expenditure	…	…	…	…	…	1.3	1.3	0.4	0.0	0.0	0.0
Transfers to International treaties	…	…	…	…	…	0.6	0.6	0.0	0.0	0.0	0.0
Constituency Development Fund	…	…	…	…	0.0	0.2	0.2	0.0	0.0	0.0	0.0
Other expenditure[6]	…	…	…	…	14.8	0.2	0.2	0.0	0.0	0.0	0.0
Net acquisition of non-financial assets	3.8	10.7	13.4	9.7	6.7	2.5	5.0	7.7	9.0	10.5	12.0
of which: Oil for Infrastructure project	0.0	9.8	9.3	8.9	5.4	0.0	4.1	5.6	5.3	4.9	4.7
Overall balance (cash)	**-8.6**	**-3.6**	**-6.8**	**6.6**	**-5.0**	**-9.7**	**-1.9**	**3.3**	**1.8**	**-1.7**	**-3.5**
Change in non-salary arrears	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (accrual)	**-5.3**	**-3.6**	**-6.8**	**6.6**	**-5.0**	**-9.7**	**-1.9**	**3.3**	**1.8**	**-1.7**	**-3.5**
Statistical discrepancy	19.4	3.8	-9.6	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financing gap	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**11.1**	**3.6**	**7.5**	**1.1**	**3.4**	**5.4**
Financing	**24.7**	**7.4**	**-2.8**	**-5.0**	**5.0**	**-1.4**	**-1.7**	**-10.9**	**-2.9**	**-1.7**	**-2.0**
Domestic (net)	3.6	3.2	0.4	3.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0
Net credit from the central bank	5.6	3.2	0.4	3.0	5.7	0.0	0.0	0.0	0.0	0.0	0.0
of which: Overdraft	…	….	…	3.4	5.4	0.0	0.0	0.0	0.0	0.0	0.0
of which: Carried over RCF-FSW	…	…	…	-0.4	0.3	…	…	…	…	…	…
Net credit from commercial banks	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	21.1	4.2	-3.1	-7.9	-0.6	-1.4	-1.7	-10.9	-2.9	-1.7	-2.0
Disbursement[4]	33.8	8.9	11.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Principal	-12.7	-4.7	-10.5	-3.5	-3.6	-1.4	-1.7	-10.9	-2.9	-1.7	-2.0
TFA Overpayment	0.0	0.0	-4.3	-5.2	3.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum items:											
Non-oil Primary Fiscal Balance[3]	-19.4	-20.2	-28.6	-17.6	-28.7	…	-15.8	-14.1	-15.3	-18.1	-19.4
Oil production (millions of barrels)	62.1	64.1	54.5	50.9	44.0	…	32.6	57.5	59.2	60.9	62.7
Nominal GDP (bn of South Sudanese pounds)	788.7	1,015.8	2,955.7	5,179.6	7,649.7		19,643.0	35,772.6	40,804.1	46,733.0	53,764.6

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 average transportation fee from using the oil pipeline. TFA payments ended in January 2022. Starting in FY2024/25, it is assumed that the Transportation and transit fees to Sudan increases from 9.7 USD per barrel (on average) to 17 USD per barrel.

[3] Non-oil revenue minus primary expenditure excluding transfers to Sudan, and tranfers to oil producing states and communities.

[4] Initial disbursement refers to the amount received directly by the authorities while Auction Gain refers to the proceeds of the auction in which disbursements were converted at the official exchange rate

[5] Interest payments projected for FY 25 covers interests from multilateral lenders and other creditors.

[6] "Other expenditure" includes transactions not yet classified due to data management constraints. Efforts to classify these transaction appropriately are ongoing.

Table 3. Republic of South Sudan: Monetary Accounts, June 2018–June 2024

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

	2018	2019	2020	2021	2022	2023	2024
	Jun	Jun	Jun	Jun	Jun	Jun	Jun
	Actual						Prel.
			Monetary Survey				
Net foreign assets	**-58.0**	**-69.2**	**-71.4**	**-199.3**	**-409.2**	**-959.4**	**-1,857.7**
Claims on nonresidents	41.5	55.3	89.3	143.1	245.6	610.3	856.7
Central bank	7.6	5.0	21.2	52.8	95.8	143.0	33.1
Commercial banks	33.9	50.3	68.1	90.3	149.8	467.3	823.6
Liabilities to nonresidents	99.6	124.5	160.7	342.4	654.8	1569.7	2714.4
Central bank	20.8	23.1	23.7	76.5	269.7	599.9	941.9
Commercial banks	78.8	101.5	136.9	265.9	385.1	969.8	1772.5
Net domestic assets	**147.0**	**182.8**	**231.2**	**466.7**	**803.2**	**1,626.1**	**3,637.0**
Net domestic credit	180.1	148.4	206.3	361.6	736.8	1465.3	3997.4
Net claims on central government	174.6	139.4	194.1	342.0	702.7	1341.3	3737.5
Claims on other sectors	5.5	9.0	12.2	19.6	34.1	123.9	260.0
Other items (net)	-33.1	34.4	24.9	105.1	66.4	160.8	-360.4
Broad money	**89.0**	**113.5**	**159.8**	**267.4**	**394.1**	**819.7**	**1779.3**
Currency outside banks	27.1	36.9	59.5	74.3	96.1	183.2	455.4
Transferable deposits	50.3	65.7	87.4	165.0	260.3	542.3	1066.6
o/w: in foreign currency	38.9	49.2	67.5	124.0	183.5	426.8	828.6
Other deposits	11.6	10.9	13.0	28.9	37.7	94.2	257.3
o/w: in foreign currency	4.2	3.4	3.6	13.4	15.2	46.8	106.6
			Central Bank				
Net foreign assets	**-13.1**	**-18.1**	**-2.5**	**-23.6**	**-173.9**	**-456.8**	**-908.8**
Claims on nonresidents	7.6	5.0	21.2	52.8	95.8	143.0	33.1
Liabilities to nonresidents	20.8	23.1	23.7	76.5	269.7	599.9	941.9
Net domestic assets	**102.5**	**122.7**	**151.3**	**251.9**	**513.8**	**1,066.0**	**2,276.7**
Net domestic credit	88.4	35.3	78.7	110.8	330.3	505.4	1173.8
Claims on commercial banks	1.2	2.8	2.0	1.7	2.1	2.6	8.7
Net claims on central government	87.2	32.5	76.7	108.8	327.3	501.4	1164.9
Claims on central government	94.7	39.3	79.3	146.5	338.2	516.3	1178.7
Liabilities to central government	7.5	6.8	2.6	37.6	10.9	14.9	13.8
Other items (net)	14.0	87.4	72.6	141.1	183.5	560.6	1102.9
Monetary base	**89.3**	**104.6**	**148.8**	**228.3**	**339.9**	**609.2**	**1367.9**
Currency in circulation	30.5	42.8	67.3	96.1	121.7	211.2	514.4
Liabilities to commercial banks	55.9	58.7	77.4	123.5	205.9	356.9	698.4
Liabilities to other sectors	3.0	3.1	4.2	8.7	12.4	41.1	155.1
Memorandum items:							
Money multiplier	1.0	1.1	1.1	1.2	1.2	1.3	1.3
Share of foreign currency deposits to total deposits	0.7	0.7	0.7	0.7	0.8	0.9	0.9
Monetary base (year-on-year change in percent)	29.0	17.1	42.3	53.4	48.9	79.2	302.4
Broad money (year-on-year change in percent)	63.5	27.6	40.8	67.3	47.4	108.0	351.5

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

Table 4a. Republic of South Sudan: Balance of Payments, 2019/20–2028/29[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	2027/28	2028/29
	Est.					Projections				
Current account balance	**-434**	**601**	**1,606**	**-409**	**-280**	**-601**	**376**	**216**	**87**	**49**
Trade Balance	-648	-93	1,254	1,492	1,634	-653	-82	-267	-435	-531
Exports of goods	3,092	3,619	4,751	4,150	3,926	2,536	4,157	4,155	4,195	4,266
Oil	3,061	3,583	4,717	4,117	3,892	2,511	4,112	4,109	4,148	4,217
Nonoil	31	36	34	33	34	25	45	46	48	49
Imports of goods	-3,740	-3,711	-3,497	-2,659	-2,292	-3,189	-4,238	-4,421	-4,631	-4,797
Balance of Services	-670	-677	-700	-1,361	-1,278	-485	-560	-618	-638	-662
Exports of services	38	39	33	329	428	317	559	576	593	610
Imports of services	-707	-716	-733	-1,690	-1,705	-802	-1,120	-1,194	-1,231	-1,272
o/w: oil-related	-438	-437	-470	-1,447	-1,437	-476	-660	-672	-689	-706
of which non-oil	-269	-279	-263	-277	-269	-326	-460	-521	-542	-566
Income	-555	-517	-941	-706	-546	-683	-577	-496	-440	-437
Wages of expatriate oil workers	-150	-162	-168	-168	-195	-221	-212	-203	-204	-204
Investors' profits	-351	-318	-650	-669	-573	-525	-503	-473	-429	-437
Investment income (net)	-20	-82	-64	-149	-29	-46	-78	-62	-29	-28
Current Transfers (net)	1,438	1,888	1,992	1,662	1,198	1,220	1,595	1,596	1,600	1,678
Grants[5]	490	495	511	419	326	347	347	277	208	208
Workers' remittances (net)	84	89	84	44	-2	12	28	37	47	57
Financial transfers to Sudan	-508	-233	-234	-78	-14	0	0	0	0	0
Other sectors (including NPISH)	1,372	1,537	1,631	1,380	979	862	1,221	1,281	1,345	1,413
Capital and financial account	**637**	**271**	**28**	**-396**	**30**	**-163**	**-604**	**-33**	**97**	**78**
Capital account	0	0	0	0	0	0	0	0	0	0
Financial account	637	271	28	-396	30	-163	-604	-33	97	78
Foreign direct investment[2]	-18	47	48	56	190	180	154	179	228	232
of which: non-oil	22	24	24	36	101	24	24	24	24	24
Other investment[4]	655	224	-20	-452	-160	-343	-758	-212	-131	-154
of which: Foreign borrowing (net)	672	224	-220	-452	-160	-343	-758	-212	-131	-154
of which : New SDR allocation[3]	…	…	-150	…	…	…	…	…	…	…
of which : RCF-FSW	…	…	…	-113	…	…	…	…	…	…
Overall balance	**203**	**872**	**1,633**	**-805**	**-251**	**-763**	**-228**	**183**	**183**	**127**
Errors and omissions	-104	-838	-1,605	758	221	0	0	0	0	0
Financing	**-99**	**-34**	**-28**	**47**	**30**	**-261**	**-519**	**-466**	**-464**	**-144**
Change in net foreign assets of the central bank	-99	-34	-28	47	30	-261	-519	-466	-464	-144
of which : Change in gross reserves (Increase -)	-98	-34	-28	47	30	-261	-519	-466	-464	-144
Financing gap	0	0	0	0	0	1,025	746	282	281	17
Memorandum items:										
Current account balance including transfers (percent of GDP)	**-8.8**	**11.3**	**23.0**	**-5.8**	**-4.6**	**-11.6**	**5.4**	**3.0**	**1.2**	**0.6**
Current account balance excluding transfers (percent of GDP)	**-38.2**	**-24.1**	**-5.5**	**-29.3**	**-24.0**	**-35.2**	**-17.5**	**-19.1**	**-20.1**	**-20.7**
South Sudan oil price (dollars per barrel; weighted average)	49.3	55.9	86.5	88.5	80.9	77.1	71.5	69.4	68.1	67.3
Gross foreign reserves (millions of US dollars)	130	164	192	145	115	376	895	1,361	1,825	1,969
In months of next year's imports of goods and services	0.4	0.5	0.5	0.4	0.3	0.8	1.9	2.8	3.6	3.7
Oil production (millions of barrels)	62.1	64.1	54.5	50.9	44.0	32.6	57.5	59.2	60.9	62.7
Nominal GDP (billions of U.S. dollars)	4.9	5.3	7.0	7.1	6.1	5.2	7.0	7.2	7.5	7.9

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 SDR 235.8 million, approximately US$335 million, of which US$150 million was on-lent to the budget while US$185 million was used to strengthen reserves.

[4] Some loans are registered as pending agreement so the maturity may be longer than indicated.

[5] Data included from UN OCHA reporting the humanitarian grants that have been reportedly paid to operations in South Sudan

Table 4b. Republic of South Sudan: Balance of Payments, 2019/20–2028/29[1]

(In percent of GDP, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
	Est.					Projections				
Current account balance	**-8.8**	**11.3**	**23.0**	**-5.8**	**-4.6**	**-11.6**	**5.4**	**3.0**	**1.2**	**0.6**
Trade Balance	-13.2	-1.7	17.9	21.1	26.6	-12.6	-1.2	-3.7	-5.8	-6.7
Exports of goods	63.0	67.9	67.9	58.6	63.9	49.0	59.6	57.4	55.7	54.2
Oil	62.4	67.2	67.5	58.2	63.3	48.5	58.9	56.8	55.1	53.5
Nonoil	0.6	0.7	0.5	0.5	0.6	0.5	0.6	0.6	0.6	0.6
Imports of goods	-76.2	-69.7	-50.0	-37.6	-37.3	-61.7	-60.8	-61.1	-61.5	-60.9
Balance of Services	-13.7	-12.7	-10.0	-19.2	-20.8	-9.4	-8.0	-8.5	-8.5	-8.4
Exports of services	0.8	0.7	0.5	4.6	7.0	6.1	8.0	8.0	7.9	7.7
Imports of services	-14.4	-13.4	-10.5	-23.9	-27.7	-15.5	-16.1	-16.5	-16.3	-16.1
o/w: oil-related	-8.9	-8.2	-6.7	-20.4	-23.4	-9.2	-9.5	-9.3	-9.2	-9.0
of which non-oil	-5.5	-5.2	-3.8	-3.9	-4.4	-6.3	-6.6	-7.2	-7.2	-7.2
Income	-11.3	-9.7	-13.5	-10.0	-8.9	-13.2	-8.3	-6.9	-5.8	-5.5
Wages of expatriate oil workers	-3.1	-3.0	-2.4	-2.4	-3.2	-4.3	-3.0	-2.8	-2.7	-2.6
Investors' profits	-7.2	-6.0	-9.3	-9.5	-9.3	-10.1	-7.2	-6.5	-5.7	-5.5
Investment income (net)	-0.4	-1.5	-0.9	-2.1	-0.5	-0.9	-1.1	-0.9	-0.4	-0.4
Current Transfers (net)	29.3	35.4	28.5	23.5	19.5	23.6	22.9	22.1	21.2	21.3
Grants[5]	10.0	9.3	7.3	5.9	5.3	6.7	5.0	3.8	2.8	2.6
Workers' remittances (net)	1.7	1.7	1.2	0.6	0.0	0.2	0.4	0.5	0.6	0.7
Financial transfers to Sudan	-10.3	-4.4	-3.4	-1.1	-0.2	0.0	0.0	0.0	0.0	0.0
Other sectors (including NPISH)	28.0	28.8	23.3	19.5	15.9	16.7	17.5	17.7	17.9	17.9
Capital and financial account	**13.0**	**5.1**	**0.4**	**-5.6**	**0.5**	**-3.1**	**-8.7**	**-0.5**	**1.3**	**1.0**
Capital account	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	13.0	5.1	0.4	-5.6	0.5	-3.1	-8.7	-0.5	1.3	1.0
Foreign direct investment[2]	-0.4	0.9	0.7	0.8	3.1	3.5	2.2	2.5	3.0	2.9
of which: non-oil	0.4	0.5	0.3	0.5	1.6	0.5	0.3	0.3	0.3	0.3
Other investment[4]	13.4	4.2	-0.3	-6.4	-2.6	-6.6	-10.9	-2.9	-1.7	-2.0
of which: Foreign borrowing (net)	13.7	4.2	-3.1	-6.4	-2.6	-6.6	-10.9	-2.9	-1.7	-2.0
of which : New SDR allocation[3]	...	...	-2.8	...	...	...	...	...	...	...
of which : RCF-FSW	...	...	...	-2.1	...	...	...	...	...	...
Overall balance	**4.1**	**16.4**	**23.4**	**-11.4**	**-4.1**	**-14.8**	**-3.3**	**2.5**	**2.4**	**1.6**
Errors and omissions	-2.1	-15.7	-23.0	10.7	3.6	0.0	0.0	0.0	0.0	0.0
Financing	**-2.0**	**-0.6**	**-0.4**	**0.7**	**0.5**	**-5.1**	**-7.4**	**-6.4**	**-6.2**	**-1.8**
Change in net foreign assets of the central bank	-2.0	-0.6	-0.4	0.7	0.5	-5.1	-7.4	-6.4	-6.2	-1.8
of which : Change in gross reserves (Increase -)	-2.0	-0.6	-0.4	0.7	0.5	-5.1	-7.4	-6.4	-6.2	-1.8
Financing gap	0.0	0.0	0.0	0.0	0.0	19.8	10.7	3.9	3.7	0.2
Memorandum items:										
Current account balance including transfers (percent of GDP)	-8.8	11.3	23.0	-5.8	-4.6	-11.6	5.4	3.0	1.2	0.6
Current account balance excluding transfers (percent of GDP)	-38.2	-24.1	-5.5	-29.3	-24.0	-35.2	-17.5	-19.1	-20.1	-20.7
South Sudan oil price (dollars per barrel; weighted average)	49.3	55.9	86.5	88.5	80.9	77.1	71.5	69.4	68.1	67.3
Gross foreign reserves (percent of GDP)	2.6	3.1	2.7	2.0	1.9	7.3	12.8	18.8	24.2	25.0
In months of next year's imports of goods and services	0.4	0.5	0.5	0.4	0.3	0.8	1.9	2.8	3.6	3.7
Oil production (millions of barrels)	62.1	64.1	54.5	50.9	44.0	32.6	57.5	59.2	60.9	62.7
Nominal GDP (billions of U.S. dollars)	4.9	5.3	7.0	7.1	6.1	5.2	7.0	7.2	7.5	7.9

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 SDR 235.8 million, approximately US$335 million, of which US$150 million was on-lent to the budget while US$185 million was used to strengthen reserves.

[4] Some loans are registered as pending agreement so the maturity may be longer than indicated.

[5] Data included from UN OCHA reporting the humanitarian grants that have been reportedly paid to operations in South Sudan

Table 5. Republic of South Sudan: Financial Soundness Indicators 2021-2024

	2021	2022	2023	2024
	Dec.	Dec.	Dec.	Jun.
Regulatory Capital to Risk-Weighted Assets	10.8	8.3	8.5	10.7
Regulatory Tier 1 Capital to Risk-Weighted Assets	10.8	8.3	8.2	10.1
Capital to Assets	10.6	9	6.8	6.9
Return on Assets (ROA)	0.6	2.2	1.8	2.7
Return on Equity (ROE)	3	18.5	17.4	29.5
Interest Margin to Gross Income	13.5	17.7	29.7	27.9
Non Interest Expenses to Gross Income	56.7	57	62	50.2
Liquid Assets to Total Assets	0	0	0	35.5
Customer Deposits to Total (noninterbank) loans	67	86.4	53.7	78.4
FX Currency Denominated Assets to Total Assets	76.7	78.6	84.9	81.8
Foreign-Currency-Denominated Loans to Total Loans	103.6	96.7	96.2	94.5
Foreign-Currency-Denominated Liabilities to Total Liabilities	76.7	78.6	84.9	81.8
Personnel Expense to Noninterest Expense	26.5	31.9	32.4	36
Nonperforming loans to total gross loans	2.7	2.4	1.2	1.9
Nonperforming loans net of provisions to capital	0	8.6	6.9	6.9
Provisions to Non-performing loan	…	65.1	47.3	55.1

Source: Bank of South Sudan with IMF staff calculations.

Table 6. Republic of South Sudan: Quantitative Targets Under the Program Monitoring with Board Involvement, Third Review

	End-June 2023 Target	End-June 2023 Act.	End-June 2024 Target	End-June 2024 Act.	Met / Not met
Non-oil primary balance (floor: in billions of SSP)[1]	-996.0	-910.9	-1358	-2192.6	Not met
Central bank net credit to the central government (ceiling: in billions of SSP)[2]	178.0	178.0	0.0	186.1	Not met
Contracting or guaranteeing of non-concessional debt by the central government (continuous ceiling: in millions of U.S. dollars)[3]	0.0	…	0.0	0.0	Met
Average net international reserve (floor: in millions of U.S. dollars)[4]	151.5	183.7	100.0	105.2	Met
Reserve money growth (ceiling: in percent)[5]	7.5	-2.2	2.5	6.8	Not met
Salary payments to central government workers (floor: in billions of SSP)[6]	142.3	166.1	75.8	9.4	Not met
Priority social spending (floor: in billions of SSP)[6, 7]	149.4	66.3	22.0	8.6	Not met

[1] For end-June 2023 the number is cumulative from June 30, 2022, and for end-June 2024 the number is cumulative from June 30, 2023.

[2] For end-June 2023 the number accommodates central bank net credit extended to the government in July and August 2022 and imposes no further central bank net credit to the government from September 2022 onwards. For end-June 2024 the number is cumulative from end-April 2024. If during the period May-June 2024 revenue fall below payments for salaries and social spending (on health, education and humanitarian assistance) as specified in the QTs for end-June 2024 on such spending in this table, the target for end-June 2024 would be adjusted upwards by the difference, up to SSP 55 billion. The conditions for the activation of the adjuster were not met. Total revenue in May-June 2024 were SSP 307 bn while the sum of salary and social spending was SSP 18.0 bn (salaries of 9.4 and social spending of 8.6 bn.

[3] 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, and for which concessional financing is not available.

[4] Targets are defined as the average stock of daily NIR balances during March and June 2023 and June 2024.

[5] For end-June 2023 the number is cumulative growth rate in reserve money (defined as currency in circulation, due to banks, and due to OFI) from September 30, 2022, adjusting for month-on-month exchange rate changes, and for end-June 2024 the number is the cumulative growth rate from end-April 2024. If during the period May-June 2024 revenue fall below budgeted amounts for salaries and social spending (on health, education, and social and humanitarian assistance) as specified in the QTs for end-June 2024 on such spending in this table, the target for end-June 2024 would be adjusted upwards by the difference, up to 15 percent. The conditions to trigger the adjuster, essentially identical to the one on net credit to government above, were not met.

[6] For end-June 2023 the number is cumulative from June 30, 2022, and for end-June 2024 the number is cumulative from April 30, 2024.

[7] The proposed floor on social spending is set at the proposed spending on education, health, and social and humanitarian sectors in the FY2022/23 and FY2023/24 budgets. There were no adjustors in the social spending data.

Sources: South Sudanese authorities and IMF staff calculations.

Table 7. Republic of South Sudan: Structural Targets Under the Program Monitoring with Board Involvement

Measures	Target Date[1]	Current Status/Rationale
1. Appoint an external auditor to perform BoSS audits for financial year 2022 and beyond.	End-June 2024	Not met. Strengthen the central bank's safeguards. The central bank has made an offer to an external auditor and is currently finalizing contracts.
2. Adopt a timebound action plan to clear all salary arrears.	End-June 2024	Not met. Strengthen fiscal discipline. The authorities' plans are formulated in the FY2024/25 draft budget, which has been adopted by Cabinet in early August and submitted to Parliament on September 25. Adoption by Parliament is planned for end-November.
3. National Audit Chamber will finalize the external audit of the BoSS financial statements for FY21 and the audit report will be published.	End-June 2024 (MEFP)	Not met. Strengthen the central bank's safeguards. Implemented in September 2024 (see link).

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

Sources: South Sudanese authorities and IMF staff calculations.

Annex I. Achievements During the PMB Timeframe

A. Summary

1. This note takes stock of South Sudan's achievements during the PMB timeframe (February 2023–September 2024). Key conclusions show that (i) the original objectives of the PMB were broadly met and (ii) program performance against official quantitative targets and structural benchmarks, while mixed, point to commitment to strengthening the policy framework and rebuilding credibility. Notwithstanding the overall positive assessment, reform progress has been uneven, with significant delays and occasional setbacks owing to external shocks and a difficult geopolitical environment during the PMB period against the backdrop of continued fragility and a dire humanitarian situation. Section B looks into policy achievements under the PMB and section C discusses macroeconomic outcomes under the PMB in 2024, notably the impact of the oil production shock and other setbacks.

2. Achievements towards the original objectives. The PMB sets out to support the authorities' reform agenda aimed at maintaining macroeconomic stability and debt sustainability and improving governance and transparency with the objective of building a track record in support of the authorities' request for a financing arrangement under the Extended Credit Facility (ECF). During the period of the PMB, the authorities implemented important reforms to improve fiscal and monetary operations, strengthen debt management and begin addressing transparency and governance concerns. Nonetheless, there have been some delays in implementation, with some reforms not achieving the full set of objectives laid out in the PMB. Some policy slippages also occurred, partly driven by the challenging economic environment, which the authorities have begun to address.

3. Performance against official structural benchmarks (SBs) and other reforms. Most reform commitments made under the PMB were implemented by the authorities. However, recurrent delays linked to capacity constraints meant that some implemented SBs were deemed not met as they were completed with delay (Text Table 1), pointing to the need for building sufficient time buffers in setting timelines. Beyond SBs, significant reforms improved transparency and operations as well as policy design.

4. Performance against official quantitative targets and impact of the oil production shock on macroeconomic outcomes. The authorities consistently met the target related to external non-concessional borrowing, demonstrating a focus on debt sustainability. However, social spending targets were often missed, and the recourse to monetary financing starting in December 2023 resulted in recurrent misses of monetary targets. The authorities slowed down monetary financing since July 2024. While the large oil production shock contributed to a difficult policy environment, with the floor of non-oil primary balance being missed for end-June 2024, the missed targets suggest that further efforts are needed to build buffers to ensure policy resilience, in addition to incorporating agile policy planning in the design of the authorities' policies or future program engagement.

B. Policy Achievements Under the PMB

5. Fiscal operations and transparency were improved significantly during the PMB. Regular policy dialogue has been supported by ongoing technical assistance, delivered through AFE and by a resident long-term advisor on PFM. Achievements include:

- **The exchange rate used for customs valuation was adjusted during the second quarter of FY2023/24 from 90 SSP/$ to 300 SSP/$. Even though this adjusted rate was still lower than the exchange rate prevailing in the market then, the adjustment significantly boosted non-oil revenues.** Subsequent pressures on the exchange rate have partially eroded the gains in broadening the tax base, but the authorities are committed to continued adjustment as a basis for strengthening the non-oil tax base. The draft FY2024/25 budget is exploring alternative adjustment approaches.
- **The customs administration was strengthened through the deployment of police in support of customs enforcement actions and the launch of a new recruitment process.** The focus on non-oil revenue motivated the authorities to enhance the budgetary resources available to revenue authorities, including customs. Additional staff, training, and IT equipment all contributed to significant improvements in non-oil revenue.
- **Achievements in raising non-oil revenue contributed to South Sudan's partial fiscal cushioning of the shock when the main oil export pipeline became inoperable.** While the oil pipeline damage resulted in a sharp drop in fiscal revenues, previous efforts to increase non-oil revenue, including revenue administrative reforms in the South Sudan Revenue Authority, helped cushion the impact of the shock.
- **The authorities have demonstrated fiscal prudence to support debt sustainability.** Despite limited fiscal resources and urgent spending needs, the fiscal authorities have steered a largely stability-oriented course. The non-oil primary balance target was consistently met before the oil production shock. This has been helped by the continued engagement of the donor community which significantly supports the social sectors (health, education, humanitarian support of refugees). The authorities' intensive engagement through the Public Finance Management (PFM) oversight committee with development partners and related Fund support (including an PFM LTX) has contributed to a constructive relationship between the international community and the authorities, despite expressed transparency and governance concerns.
- **Following the publication of the FY2023/24 Q1 and Q2 reports, fiscal transparency has increased.** The authorities are committed to continuing publication of quarterly budget execution reports.[1] However, the reports for FY2023/24 Q3 and Q4 are currently delayed, pending finalization of the draft FY2024/25 budget.

[1] https://mofp.gov.ss/wp-content/uploads/2024/04/2023-24-Quarter-2-Budget-Execution-Report25022024-3.pdf

- **Oil revenue reports for January 2022 to July 2023 were made available to public.**[2] Continued reporting on oil revenues remains an objective of the PMB. Progress in this area would help promote a strong policy track record.
- **The authorities completed and published[3] an audit of the spending of the March 2023 RCF disbursement under the FSW.** While the audit showed some weaknesses including noncompliance with the procurement law and lack of recording through IFMIS, it has raised awareness and improved transparency. The authorities are committed to appropriate follow-up.
- **The authorities implemented a Treasury Single Account on a subset of central government accounts.** Reforms are underway to increase the scope of the TSA with CD assistance (from AFRITAC East) to strengthen PFM.

6. Monetary operations showed improvements in the transparency of the central bank while meeting quantitative program targets. Achievements include:

- **The BoSS has consistently published monetary survey data,[4] although with a lag** (latest published in March 2024). Monetary data shared with staff are more recent (up to August 2024), with publication awaiting the finalization of ongoing revisions.
- **The authorities adopted amendments to the BoSS Act aimed at bringing the South Sudan legislation partially in line with international best practices for central banking legislation and governance.** The changes included limiting issuance of sovereign guarantees and prohibiting government employees from the eligibility criteria for Board members, as well as a double veto procedure for the appointment of the governor and deputy governor by the president.
- **The BoSS finalized and published[5] the external audit of its financial statements for financial year 2021.** The authorities remain committed to conducting and publishing subsequent audits on a regular and timely basis.
- **The BoSS has taken steps to appoint an external auditor to perform BoSS audits for financial years 2022, 2023 and 2024**. Reaching an agreement with a reputable international auditor has been difficult, for reasons beyond the BoSS' control, but the contract is being finalized.
- **The authorities consistently met the PMB target on net international reserves, reflecting improved reserve management.**

7. Financial sector governance also showed some progress. The authorities adopted an action plan to implement recommended action items on banking sector reform. The action plan aims to enhance depositor protection, reinforce the legal and supervisory framework, and ensure

[2] https://mofp.gov.ss/?dlp_document=ministry-of-petroleum
[3] https://mofp.gov.ss/?dlp_document=complience-audit-report-of-the-auditor-general-april-3-2024
[4] Statistical Bulletin (boss.gov.ss)
[5] https://boss.gov.ss/auditor-generals-report-and-financial-statement-for-the-year-ended-31-december-2021/

banks comply with regulatory capital requirements set out in the Banking Act. Based on IMF CD on banking sector reforms, the plan includes measures to align depositor protection with East African Community standards, strengthen legal expertise and supervisory capacity, and improve communication with banks.

8. The authorities took steps to strengthen debt management institutionally, while maintaining debt sustainability in the face of major shocks and financing challenges. Notable achievements include:

- **The authorities adopted an action plan to strengthen the institutional framework for debt issuance and management.** This plan is based on recommendations from FAD/MCM joint TA and includes steps to strengthen the treatment of debt-related flows in the budget, to address gaps in the legal framework, and to strengthen the capacity in the Debt Management Unit (DMU) at the Ministry of Finance and Planning (MoFP).
- **The authorities refrained from non-concessional external financing.** This was a key recommendation for maintaining debt sustainability under the PMB.

9. Governance and the AML/CFT legal framework were further strengthened by the following reforms:

- **The authorities amended the anti-corruption legislation in December 2023.** The changes aim to strengthen the investigation and prosecution mandates of the anti-corruption commission.
- **Parliament passed the AML/CFT amendment bill in July 2024.**
- **The authorities developed the first National Risk Assessment.** This assessment will help prioritizing risk management strategies, while meeting key action points under the Financial Intelligence unit (FIU) Action Plan.
- **The authorities also executed the UN Conventions related to illicit trafficking and terrorism financing.** This step could potentially improve SSD's standing with key international partners.

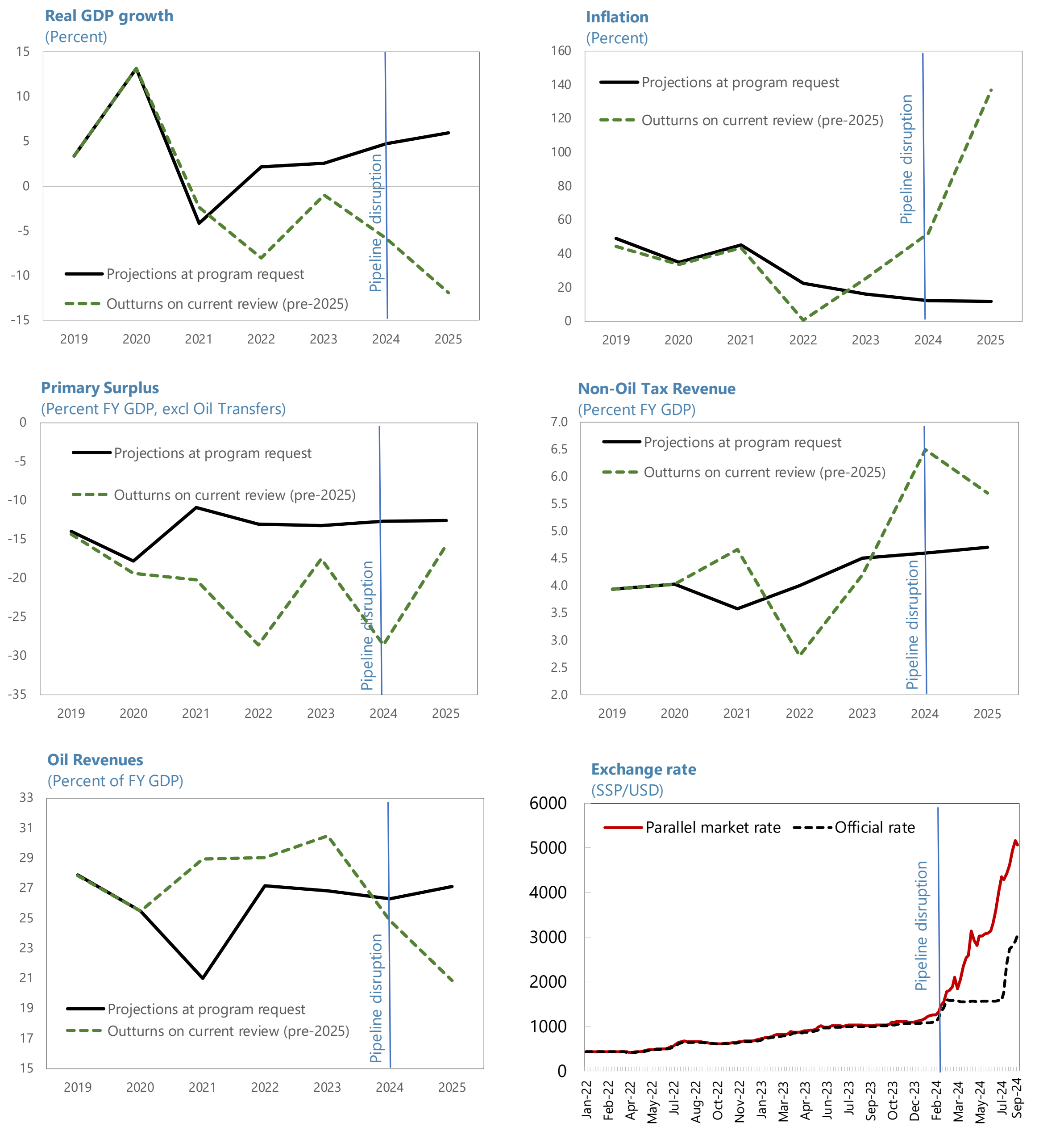
C. Impact of the oil Production Shock on Macroeconomic Outcomes Under the PMB and Other Setbacks

10. The damage to the oil pipeline since February 2024 has had a devastating impact on the economy, with sharply lower GDP growth, fiscal revenue, and exports (Figure 1 and Text Table 1). The resulting significant decrease in FX inflows has put depreciation pressures on the South Sudanese pound, with a significant impact on inflation. The authorities took on several steps to navigate this extremely challenging economic environment. Yet, there have been policy slippages and sometimes reversal of reform progress, some predating the pipeline damage. Notable examples include:

- **Monetary financing.** The authorities refrained from using monetary financing during the early part of the PMB, but starting in December 2023 monetary financing re-emerged. The sharp fall in fiscal revenues, combined with lack of access to debt financing, resulted in additional recourse to monetary financing in the first half of 2024. It has since slowed down in frequency and volume.

- **Salary arrears** began to accumulate in late 2023, as the Ministry of Finance (MOFP) undertook an exercise to remove ghost workers and improve administration of salary payments, with technical support from the World Bank. Some progress was made on removing ghost workers, but reforms to introduce a biometric system have stalled due to long delays in the procurement process. The oil pipeline damage and subsequent sharp fall in fiscal revenues has limited resources and exacerbated salary payment challenges.
- **Social spending.** Spending on health and education is largely funded by development partners with an expectation that the authorities ramp up their spending over time. PMB targets were missed, but the government has reiterated their commitment to increase spending over time. CD support will be important to improve spending efficiency and consistency with allocations approved in the budget.
- **Exchange rate.** The authorities undertook successful exchange rate (ER) reforms in 2021 to unify the official and parallel markets and move to a market-based auction. They successfully continued implementing the flexible ER policy in the early part of the PMB, until the oil production shock took place. Accelerated depreciation of the parallel market ER, which followed the oil pipeline shock, triggered a change in policy to cope with the impact of the oil production shock. Apparent modifications of the FX auction rules contributed to a widening of the gap between the official and parallel ERs which peaked in July 2024. More recently, the authorities have introduced further flexibility in the ER management, with the parallel FX market premium having narrowed from 179 percent (observed at end-July 2024) to 43 percent (on September 11, 2024), also aided by a recent sharp appreciation of the parallel rate. The authorities reiterated their commitment to continue narrowing the premium and eliminating it.

Figure 1. Republic of South Sudan: Macroeconomic Performance, 2019–25



Sources: South Sudan authorities, BoSS, and IMF staff estimates

Table 1. Republic of South Sudan: Structural Targets, Policy Achievements and Slippages Under the Program Monitoring with Board Involvement

Measures	Target Date[1]	Current Status/Rationale
1. MoFP to develop and adopt by end-March 2023, in consultation with Fund staff, an action plan to strengthen the institutional framework for debt issuance and management, and formulate a debt management strategy.	Mar-23	Not met. Action plan adopted by MoFP in June 2023.
2. National Assembly to adopt amendments to the BoSS Act aimed at bringing the South Sudan legislation in line with international best practices for central banking legislation and governance.	May-23	Not met. Amendments to the BoSS Act were adopted by Parliament in August 2023. The amendments allow the BoSS to issue sovereign guarantees consistent with the Transitional Constitution, but amendments specify that the issuance of such guarantees will be subject to relevant legislation on public finance.
3. BoSS to adopt an action plan to implement recommended action items on banking sector reform developed in August 2022 by BoSS staff with MCM.	Jun-23	Met.
4. Publish all signed oil production sharing agreements with oil-extracting companies as well as quarterly reports on the oil sector (IMF Country Report No. 2023/108 MEFP ¶14).	Jun-23	Not met. The publication of oil production sharing agreements is opposed by oil companies as a breach of contractual obligations. However, the details of the oil sharing agreements are available in the oil reports published in the Ministry of Petroleum website.
5. Completion and publication of an audit of the spending of the new RCF disbursement under the FSW (IMF Country Report No. 2023/108 LOI ¶5).	Sep-23	Not met. Prior action for 1st and 2nd reviews (see 6).
6. Publish the audit of spending by the central government that was financed by the disbursement through the Food Shock Window of the Rapid Credit Facility.	Prior action for 1st and 2nd reviews	Met. The audit report was completed and published in March 2024. Some weaknesses were identified, including procurement process and failure to record some expenditure items in IFMIS, as well as failure to pay IOM.
7. BoSS Board to adopt the BoSS financial statements for financial year 2021.	Prior action for 1st and 2nd reviews	Met.
8. Publish the budget execution reports for Q1 and Q2 of FY2023/24.	Prior action for 1st and 2nd reviews	Met.
9. Appoint an external auditor to perform BoSS audits for financial year 2022 and beyond.	Jun-24	Not met. Strengthen the central bank's safeguards
10. Adopt a timebound action plan to clear all salary arrears.	Jun-24	Not met. Strengthen fiscal discipline. The authorities' plans are outlined in the draft FY25 budget, which has not been adopted yet.
11. National Audit Chamber will finalize the external audit of the BoSS financial statements for FY2021 and the audit report will be published.	Jun-24	Not met. Implemented in September 2024.

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

Table 1. Republic of South Sudan: Structural Targets, Policy Achievements and Slippages Under the Program Monitoring with Board Involvement (Concluded)

Measures	Target Date[1]	Current Status/Rationale
Reforms completed which were not SBMs		
Various reforms to strengthen AML/CFT, including passage of amendments to AML/CFT law, developed its National Risk Assessment and executed various UN Conventions.		Strenghten AML/CFT framework.
Adopted Treasury Single Account for a subset of central government accounts.		Improve PFM.
Strengthened customs administration through redeployment of police on staff and launch of new recruitment process.		Increase non-oil revenues.
Increased customs exchange rate to value imports (90 SSP/USD to 300).		Increase non-oil revenues.
Made publicly available oil revenue report for January 2022 to July 2023.		Increase fiscal transparency.
Slippages		
Exchange rate		Accelerated depreciation of the parallel market, which followed the oil pipeline shock, triggered a change in policy to cope with the impact of the oil production shock. Apparent modification of FX auction rules contributed to a widening of the gap between the official and the parallel exchange rates.
Monetary financing		Recourse to monetary financing in late 2023. The sharp fall in fiscal revenues, combined with lack of access to debt financing, resulted in additional recourse to monetary financing in 2024.
Salary arrears		Began to accumulate in late 2023, as the MOFP undertook an exercise to remove ghost workers and improve administration of salary payments.Damage to the oil pipeline and subsequent sharp fall in fiscal revenues have limited resources and exacerbated salary payment challenges.
Social spending		Targets consistently missed throughout PMB.

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

Sources: South Sudanese authorities and IMF staff.

Appendix I. Letter of Intent

Juba, Republic of South Sudan, November 1, 2024

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

Dear Ms. Georgieva:

1. South Sudan's Staff Monitored Program with Board Involvement (PMB), which was approved on February 17, 2023, and the accompanying disbursement through the Food Shock Window approved on March 1, 2023 has provided welcome support in addressing the near-term adverse spillovers from the war in Sudan and implementing our medium-term reform agenda. The current PMB is set to expire on November 15, 2024, reflecting our request in June to extend it. Despite a very difficult macroeconomic environment, our commitment to building a track record of sound policies and reform implementation remains strong.

2. The impact of the war in Sudan on our economy and on our people has been devastating. The shutdown in early 2024 of the oil pipeline, which carries 70 percent of our oil production through Sudan, has created multiple and interconnected macroeconomic challenges. The fall in oil production has lowered economic activities, exports, and revenues, with the accompanying sharp reduction in FX receipts putting depreciation pressures on the South Sudan Pound and creating inflationary pressures. The large fall in fiscal revenue has made the implementation of our fiscal year 2023/24 budget challenging and has led to temporarily resort to monetary financing and the accumulation of salary arrears. Flood has affected about 730,000 people and displaced 67,230 nationwide (UNOCHA), coupled with large influx of refugees from Sudan has exacerbated an already dire humanitarian situation and food insecurity.

3. Notwithstanding significant challenges from the external shocks, two program targets at end-June 2024 related to the accumulation of net international reserves (NIIR) and non-contracting non-concessional debt were met. Other quantitative targets for end-June 2024 covering fiscal policy, social spending, non-use of monetary financing, and reserve money growth were missed partly owing to the oil production shock and resulting coping measures to face its spillovers. Unfortunately, it has been challenging to prepare timely data regarding the execution of the FY23/24 budget because the budget execution software was not available for our use during several months, which disrupted spending recording and data compilation. In line with program commitments (Table 1), we have finalized and published the 2021 audit of the Bank of South Sudan (BoSS) financial accounts albeit with delay (published in early September 2024). We have taken steps

to appoint a reputable auditor to perform the audits of BoSS financial accounts for 2022-24. However, the contract negotiations have been lengthened by the prospects of elections in December 2024 and are being finalized. Through the 2024/25 budget, the Cabinet has adopted a timebound plan to clear salary arrears in early August 2024. The 2024/25 draft budget was submitted to Parliament on September 25 and its adoption is planned by end-November 2024.

4. In addition, to the PMB targets set upon the program's extension in June 2024, the Government of South Sudan commits to the following remedial actions in support to the third PMB review completion and to ensure that the goals of the PMB are achieved. First, we commit to a plan to repay salary arrears. The draft budget plan recognizes the salary arrears due to civil servants and provisions to pay one month of salary every month during the fiscal year 2024/25. This will allow to avoid increasing the number of months of salary arrears. We have so far paid two months of salaries for civil servants, in July and August 2024, except for foreign missions whose salary payments are constrained by FX availability. Moving forward, we commit to pay one month of salary every month and, in addition, to gradually repay salaries in arrears as soon as oil production and sales restart for the Dar Blend. Second, we intend to refrain from monetary financing as much as possible, starting October 2024. In the event that monetary financing does become ultimately necessary, we commit to mobilizing available instruments to mop up excess liquidity and, thereby, help contain inflation.

5. More broadly, we have made significant progress on our economic agenda over the period of the PMB. Significant steps have been taken to increase transparency and strengthen governance. The amendments to the BoSS Law helped to strengthen our institutional and policy framework. Parliamentary approval of a new Anti-Money Laundering/Countering Financing of Terrorism Law, development of our first National Risk Assessment and execution of UN Conventions related to illicit trafficking, narcotics, transnational crimes and financing of terrorism, have contributed to addressing gaps in our AML/CFT framework. Significant progress has also been made to build a debt management strategy to support macroeconomic stability and ensure debt remains sustainable. Regular publication of quarterly budget execution reports and dissemination of information on oil revenues has increased transparency of fiscal policy. Important steps have also been taken to boost non-oil revenues through both tax policy and administration reforms. Implementation of a new Treasury Single Account on a subset of central government accounts will help strengthen PFM and cash management. The increased uptake and extension of the maturity on the term deposit facility resulted in meeting the monetary policy targets. In addition, we have already taken measures to ensure exchange rate stability a further narrowing of the exchange rate gap with a view to its eventual elimination.

6. Our commitment to mee ting our long-term development objectives remains strong. While we have made progress on our reform agenda, much work remains to strengthen our institutions to lay the ground for strong and sustainable growth and poverty reduction over the medium term. We are committed to maintaining a prudent fiscal policy and to eschewing new non-concessional external debt, consistent with supporting debt sustainability. Implementation of comprehensive revenue reforms, including strengthening tax and customs administration and broadening the base, will create fiscal space to finance infrastructure spending in a sustainable way and allow an increase

in social and humanitarian expenditures. Strengthening public financial management, including improving the process for approval, implementation and ex post assessment of capital spending will ensure limited resources are spent in an efficient and transparent manner. Development of domestic debt markets will provide a dependable source of budgetary financing and help develop the financial system. Further steps to develop our monetary policy toolkit, combined with a commitment to avoid monetary financing will ensure inflation will decline to single digits.

7. Given the progress made in implementing the PMB targets, we are seeking completion of the third and final PMB review. While the PMB is expiring, we look forward to continuing close engagement with the Fund as we implement policies and reforms to support macroeconomic stability, economic development and poverty reduction, in line with our commitment to establish a strong policy track record.

8. The close engagement with the IMF through the PMB and capacity building has been instrumental in improving our macroeconomic policy framework. We reiterate our request for Fund financing through the Extended Credit Facility which is needed to support our reform efforts and significant medium-term BOP needs. Continued collaboration will be essential for maintaining reform momentum and ensuring that South Sudan builds the institutions needed for stability and growth over the long term. We also look forward to further assistance from the Fund and other development partners to build the technical capacity needed to implement macroeconomic reforms in a timely fashion. We will not introduce any measures or policies that would exacerbate macroeconomic imbalances and will not impose new or intensify existing trade restrictions. We will also not introduce or intensify existing restrictions on payments and transfers for current international transactions; introduce or modify multiple currency practices; or enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles or Agreement. The BoSS will provide IMF staff with such information as may be requested in connection with the progress made in implementing the economic and financial policies and in achieving the objectives of the program. We hope that continued progress on improving our policy framework will lay the groundwork for a future Fund-supported program and unlock financial support from development partners to address development, social and humanitarian challenges.

9. We authorize the IMF to publish this letter, the attached MEFP and TMU, and the related staff report, including placement of these documents on the IMF website.

Sincerely yours,

/s/	/s/
Dr. Marial Dongrin Ater	Dr. James Alic Garang
Minister, Ministry of Finance and Planning	Governor, Bank of South Sudan

Attachments (2)

I. Memorandum of Economic and Financial Policies (MEFP)
II. Technical Memorandum of Understanding (TMU)

Table 1. Republic of South Sudan: Structural Targets Under the Program Monitoring with Board Involvement (PMB), Third Review

Measures	Target Date	Current Status/Rationale
1. Appoint an external auditor to perform BoSS audits for financial year 2022 and beyond.	End-June 2024	Not met. Strengthen the central bank's safeguards. The central bank has made an offer to an external audit and is currently finalizing contracts.
2. Adopt a timebound action plan to clear all salary arrears.	End-June 2024	Not met. Strengthen fiscal discipline. The authorities' plans are formulated in the FY2024/25 draft budget, which has been adopted by Cabinet in early August and submitted to Parliament on September 25. Adoption by Parliament is planned for end-November.
3. National Audit Chamber will finalize the external audit of the BoSS financial statements for FY21 and the audit report will be published.	End-June 2024 (MEFP)	Strengthen the central bank's safeguards. Implemented in September 2024 (see link).

Source: IMF staff.

Attachment I. Memorandum of Economic and Financial Policies

1. **This memorandum describes the macroeconomic and financial policies that the Government of South Sudan have implemented under the Staff-Monitored Program with Board Involvement (PMB).** A 9-month PMB was approved in February 2023 and the authorities requested a 6-month extension to November 15, 2024. The PMB has aimed to support the authorities' robust reform agenda aimed at maintaining macroeconomic stability and debt sustainability while improving governance and transparency, with the objective of building a track record in support of the authorities' request for a financing arrangement under the Extended Credit Facility (ECF). It is aligned with the National Development Strategy (2021−2024). The memorandum provides an update on the implementation of the policies set out in the memorandum published in June 2024 (IMF Country Report No. 24/160).

Recent Developments

2. **South Sudan's economy continues to navigate several economic shocks and humanitarian challenges stemming from spillovers from the war in Sudan and destructive successive floodings since 2020.** The country's oil exports have been hit by the damage to the pipeline that transported the majority crude through Sudan since mid-February. Although repair works on the damaged pipeline are nearing completion, the ongoing conflict in Sudan continues to create uncertainty regarding the outlook of the oil sector, given our reliance on Sudan as our primary transit channel. Recurring flooding in many parts of the country continue to cause massive human displacement and disruption to the agricultural sector, a key driver of non-oil sector activity. In addition, the sizable financing needs to address the challenging humanitarian situation arising from the influx of refugees fleeing conflict in Sudan are exacerbating already stretched public finances.

3. **The economic pressures from the above-mentioned concurrent shocks have complicated macroeconomic management and are impacting our economy through multiple interconnected channels.** The sharp reduction in oil production and exports has adversely affected government revenues and FX receipts, given that oil revenue constituted more than 85 percent of fiscal revenues and 95 percent of exports before the shock. Lower fiscal revenues since mid-February made it difficult to pay salaries for the first half of 2024 and led to a reduction in spending on critical social services, given the limited domestic and external financing. The sizable financing needs created by the shortfall in oil exports, alongside the urgent humanitarian needs of refugees, resulted in having resorted at times to central bank overdrafts to finance critical government expenditures. The lower FX inflows and resulting inability to intervene owing to low FX reserves have placed severe pressures on the FX market and widened the spread between the official and parallel market exchange rates, though they have significantly narrowed since August 2024. Consequently, consumer price inflation has risen, adversely affecting the lives of poor, especially in the context of constrained social safety nets. To restore macroeconomic stability, we are actively engaging with

development partners, seeking that they scale up their financial and humanitarian support. We are also partnering with the IMF to recalibrate macroeconomic policy.

Fiscal and Monetary Policies

4. **The priorities set in FY2024/25 draft budget aim to restore fiscal discipline and place public finances on a sustainable footing.** To restore sound public finances, we are committed to boost non-oil revenue mobilization to finance priority expenditures. Revenue-boosting measures outlined in the draft budget include re-aligning the exchange rate used for custom valuations (using current exchange rate level or a close estimate), streamlining tax exemptions, accelerating the modernization of our revenue authority, and recruiting personnel to support tax collection and ensure compliance. We will also reinvigorate ongoing capacity development (CD) work with the IMF on revenue administration modernization and tax policy design. Our revenue forecast is based on conservative assumptions given the high uncertainty related to the return of the damaged pipeline to normal operations. Although the budget shows a financing gap, expenditures will be strictly prioritized and we will ensure that payments are aligned with available resources to prevent recourse to monetary financing. Furthermore, we commit under the draft budget to avoid incurring additional salary arrears by observing monthly salary payments and clearing salary arrears once the fiscal outlook improves with the reopening of the damaged pipeline.

5. **The Bank of South Sudan remains committed to bringing inflation under control.** The recent upsurge in inflation has been driven by the sharp exchange rate depreciation in both the official and the parallel markets and, to a lesser extent, by the monetary financing resumed in FY2023/24. The BoSS has stopped and will continue to avoid monetary financing of the budget, except in exceptional cases where limited amounts are needed to address temporary urgent liquidity needs. In addition, we are utilizing our Term Deposit Facility to fine-tune liquidity operations and absorb liquidity induced on such occasion, as well as structural excess liquidity. The Bank will continue to collaborate with the IMF to strengthen our capacity in liquidity forecasting and monetary policy implementation within the reserve targeting monetary policy framework. The BoSS will also continue to engage the IMF for CD in implementing the recommendations of the safeguards assessment. Regarding the external sector position, the Bank will seek to bolster FX reserves once oil exports from the damaged pipeline resumes. We remain committed to realigning our official exchange rate with prevailing parallel market rates and have been progressively narrowing the gap between the official and parallel exchange rates since August 2024.

6. **We remain committed to implementing prudent measures to safeguard debt sustainability.** To this end, we are committed to continuing to refrain from contracting new non-concessional loans and engage our external creditors to reprofile debt servicing, while policies described above will help ensure macroeconomic stability. We plan to seek CD to enhance our debt management and recording and reporting operations. We will implement recommendations from the joint FAD/MCM technical assistance to strengthen the treatment of debt-related flows in the budget, address gaps in the legal framework, and enhance the capacity of the Debt Management Unit (DMU) at the Ministry of Finance and Planning (MoFP) as per the Memorandum published in June (IMF Country Report No. 24/160).

7. Safeguarding the gains in governance remains a key priority of our government. Progress in this area includes amendments to the BoSS Law, Parliamentary approval of a new Anti-Mony Laundering/Countering Financing of Terrorism Law addressing gaps in our AML/CFT framework and enhancing fiscal transparency through the publication of revenue and budget execution reports. We intend to continue strengthening our public accountability institutions by providing them with the needed financial and human resources to fulfill their mandate. We remain committed to implementing the commitment set in the June memorandum.

8. We will continue to fully utilize technical assistance offered by the Fund for developing our capacity to implement sound economic policies. Ongoing capacity support in the areas of budget execution, revenue administration, tax policy design, debt management and monetary policy operations is enhancing our ability to improve macroeconomic data and execute our reform agenda. Looking ahead, we will continue our partnerships with ARITAC East and HQ-based technical assistance providers in the areas of PFM, revenue administration and tax policy design and monetary policy operations as well as digitalization of financial services in South Sudan

Selected Recent Achievements Under the PMB

9. Notwithstanding the challenging context, we have made significant progress under the PMB, particularly on governance. The audit of the RCF disbursement under the FSW and the BoSS' audited financial statements for 2021 were timely published in April and September 2024, respectively. In addition, we are finalizing the contract with an external auditor of international reputation for the audit of the BoSS' financial statements for 2022-2024. We have made strides in the publication of quarterly budget execution report to enhance fiscal transparency. The Treasury Single Account has been operationalized for a subset of government accounts. We have refrained from contracting new non-concessional loans despite the tight financing constraints facing our government. These strides demonstrate our commitments to advance critical economic reforms to strengthen macroeconomic management and improve living standards in South Sudan.

Outlook

10. We wish to re-emphasize our strong interest in an upper credit tranche arrangement with the IMF upon the expiration of the PMB on November 15, 2024. The soon-to-expire PMB has played a crucial role in shaping macroeconomic management under a period of multiple shocks and enhanced our policy track record. We reiterate that South Sudan continues to face significant economic headwinds evidenced by the structural external financing needs as well as the substantial reform required to foster sustainable and inclusive growth. -quality program would support our efforts to restore macroeconomic stability, preserve debt sustainability, and advance essential governance and policy reforms. We believe that a medium-term UCT-quality program will help catalyze financing from development partners and adeptly build buffers to withstand future shocks.

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the quantitative targets and structural benchmarks for monitoring the performance of South Sudan for the third review of the Staff-Monitored Program with Board involvement (PMB). 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 current third and final review of the PMB is monitored based on seven quarterly quantitative targets (QTs, see staff report) and three structural benchmarks listed in Table 1 of the Letter of Intent (LOI). The QTs are as follows.

i. Floor on non-oil primary balance;

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

iii. Floor on the average net international reserves (NIR);

iv. Continuous ceiling on contracting or guaranteeing of non-concessional borrowing;

v. Floor on salary payments to central government workers;

vi. Ceiling on reserve money growth; and

vii. Floor on priority social spending.

Quantitative Targets

3. Non-oil primary balance of the central government is measured as non-oil revenues minus total expenditures excluding interest payments, transfers to the Ministry of Petroleum (MoP) and the oil producing states and communities, and transfers for transit fees to Sudan. For the purposes of the program, all revenues and expenditure denominated in foreign currency will be valued at the program exchange rate of 1,600 SSP/US$.

4. Central bank net credit to the Central Government is the change in the stock of net credit to the *central* government (NCG) by the Bank of South Sudan (BoSS) between end-June 2024 and end-April 2024. NCG is defined as the difference between gross claims on central government and gross liabilities to the central government. For the purposes of the program, all claims and liabilities of the central government to the BoSS denominated in foreign currency will be valued at the program exchange rate of 1,600 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. 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, 0.76, 1.07 and 1.25 against one US dollar. The NIR limits for each test period are defined as the average NIR daily stocks during the month of the test period.

6. Contracting or guaranteeing of new non-concessional external debt by the central government applies to debt to non-residents with original maturity of one year or more at non-concessional terms and to guarantees issued to both residents and non-residents. 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 program approval.

- **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 and guarantees 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 critical investment projects with a high social and economic return that are integral to national development program and for which concessional financing is not available.

7. Floor on salary payments to central government workers includes payment of all central government civil salaries, military and armed forces, and foreign mission salaries during May and June 2024. Foreign currency salary payments, such as foreign mission salaries, will be valued at the program exchange rate of 1,600 SSP/US$.

8. Floor on priority social spending includes central government spending on the education, health, and humanitarian sectors as defined in the FY2022/23 budget.

9. Reserve money is defined as the sum of local currency circulating outside of banks, and total reserves for banks and other financial institutions (required and excess) at the BoSS. For program purposes, limits on reserve money growth for the end of the test period are defined as the percentage difference between the average daily reserve money during June 2024 and the reserve money stock at end-April 2024, adjusting foreign-currency components for exchange-rate changes between the two periods.

Program Monitoring and Reporting Requirements

10. 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.

11. The authorities will report the information specified in Text 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.

12. 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.

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

Reporting Agency	Data	Frequency	Submission Lag
MoFP	Table of government fiscal operations	Monthly	8 weeks
	Government tax and non-oil revenue	Monthly	8 weeks
	Oil production and revenue	Monthly	8 weeks
	Stock of salary arrears of the Central Government	Monthly	8 weeks
	Salary payments in total and by sector (including foreign mission and military/armed forces}	Monthly	8 weeks
	Budget execution report	Quarterly	8 weeks
	Disbursements of External Debt including Newly Contracted Debt of Government	Quarterly	8 weeks
	Projected external debt service	Quarterly	8 weeks
BoSS	BOSS balance sheet	Monthly	4 weeks
	Monetary Survey	Monthly	4 weeks
	Detailed FX Auction Results	Weekly	1 week
	List of guarantees issued by the BoSS	Monthly	1 week

Attachment Annex I. 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.

Statement by Mr. Regis O. N'Sonde and Mr. Morekwa Esman Nyamongo on Republic of South Sudan
November 15, 2024

Introduction

1. Our South Sudanese authorities appreciate the constructive engagements with Fund staff, and they broadly concur with the staff's appraisal.

2. South Sudan is facing a dire humanitarian situation—with large flows of refugees and returnees—and macroeconomic challenges compounded by the spillovers from conflicts in the region and beyond as well as adverse climate-related shocks. Notwithstanding these challenges, the authorities have persevered with agreed reforms to keep the Program Monitoring with Board Involvement (PMB) arrangement broadly on track, and they view continued Fund support and flexibility as critical to restoring and anchoring long-term inclusive growth and stability. They also remain focused on securing political stability under the UN-backed September 2018 Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS), brokered by Intergovernmental Authority on Development (IGAD). Our authorities appreciate the short-term arrangements the Fund has extended to South Sudan since the country became a member of the Fund in April 2012—including the current PMB arrangement. They believe that the current program has supported implementation of critical reforms and also helped to build a firmer track record to warrant access to a UCT quality arrangement based on the country's balance-of-payment (BOP) needs.

Performance Under the PMB

3. Mostly due to the shock stemming from the disruption in the country's oil production and export, only two out of seven end-June 2024 quantitative targets were met, including the zero ceiling on contracting non-concessional debt and the floor on net international reserves. However, the authorities have taken corrective actions to strengthen performance and achieve the program objectives—as outlined in their Memorandum of Economic and Financial Policies. Specifically, in September 2024, the authorities presented to Parliament a draft budget for FY2024/25 that aligns with the objectives of the program. Relatedly, they are working on policy measures to address salary arrears and payment of current salaries. The authorities are also pursuing prudent debt management with a focus on concessional loans and directing scarce oil-for-infrastructure resources to essential spending. Going forward, they have committed to further reducing monetary financing of the budget while prioritizing investment spending and enhancing non-oil revenue collection. They have also dedicated to introducing orderly reforms to ensure exchange rate flexibility.

4. All the end-June 2024 structural targets were met albeit with a delay against the backdrop of challenging circumstances and capacity constraints.

5. Considering the program performance under extremely difficult circumstances and the strong commitment demonstrated with the implementation of necessary corrective actions, our authorities request the completion of the third and final review under the PMB arrangement.

Recent Economic Developments and Outlook

6. Economic activity has remained subdued, reflecting an interplay of domestic and external shocks. Real GDP contracted by 5.8 percent in FY 2023/24 after a reduction of 1.0 percent in FY2022/23, owing mainly to severe decline in oil output. That said, growth is poised to rebound to 41.5 percent in FY2025/26 before it normalizes to around 5 percent in the medium-term, driven by increased oil production as well as dividends of economic diversification efforts. In the meantime, the authorities have commenced aggressive policies to spur economic diversification which have contributed to a decline of the share of oil GDP to 57.9 percent in FY2023/24 from 67.5 percent in FY2023/22. Looking forward, the positive growth outlook is premised on resumption of oil exports through Sudan as well as steadfast policy reforms to foster economic diversification—away from oil—in agriculture, fishing, mining, and services sectors.

7. A confluence of unfavorable factors has resulted in a surge in inflation. Key drivers include rising food prices with irregular rainfall constraining supply, heightened global food prices, and monetary financing of government operations. As a result, inflation accelerated to 52.2 percent in FY2023/24 from 0.9 percent in FY2021/22. In the medium term, inflation is expected to decline to single digits, reflecting improved harvests, elimination of monetary financing, and resolution of the current transportation constraints.

8. The current account deficit worsened to 11.6 percent of GDP in FY2023/24 from 4.6 percent of GDP in the previous fiscal year, reflecting the impact of subdued oil exports amid increasing cost of imports owing to significant exchange rate (ER) depreciation. Going forward, as oil exports recover, a surplus in the current account is expected—which will support a healthy flow of FX and boost the central bank's reserve buffers to 3.6 months of import cover by FY2027/28 from the current 0.3 months. In the meantime, against a backdrop of depleted official reserves and noticeable speculative behaviors, the authorities pay close attention to the dual exchange market and associated parallel market premium.

Fiscal Policy and Debt Management

9. Despite the challenging macroeconomic environment, the authorities remain committed to prudent fiscal management underpinned by determined domestic revenue mobilization efforts, cautious spending, and prioritization of concessional external debt to mitigate potential fiscal risks.

10. In a bid to diversify the domestic revenue base, our authorities have developed a strategy to bolster non-oil revenue. Specifically, the National Revenue Authority (NRA) has already implemented a higher exchange rate for customs valuation, as well as instituted other revenue administration measures—including hiring of new staff and digitalization of tax and customs processes. Going forward, new measures are contemplated including (i) a new gaming tax on casino operations; (ii) higher taxes on

alcohol, tobacco, and cigarettes; and (iii) revenue administration measures—a new cargo tracking system, tighter tax compliance and fee collection controls, and centralization of tax collection from districts. The authorities also plan to contain exemptions and close the gap between the official and parallel market exchange rate (ER) to further enhance customs revenue. They also plan to transition to a VAT regime—with the IMF technical assistance (TA).

11. On the expenditure side, our authorities remain committed to spending rationalization with priority on social spending and clearance of salary arrears for civil servants. Strengthening the payroll management and public investment management is essential to improve the efficiency of public spending. To this end, our authorities have instituted public finance management (PFM) reforms—including strengthening procurement and payment processes and expanding the scope to the Treasury Single Account (TSA). Considering the centrality of the oil revenues in the budget, they have also continued to strengthen reporting and management of their oil-for-infrastructure framework. Moreover, the authorities have prioritized the timely payment of current salaries, gradual clearance of salary arrears, and allocation of adequate resources to critical needs in the health, education, and humanitarian sectors.

12. The authorities reiterate their commitment to ensuring medium-term debt sustainability. The country's external debt remains relatively low—38.3 percent of GDP in June 2024. Nonetheless, our authorities are implementing a debt management strategy which focuses on concessional loans for financing. They also have hastened implementation of the debt management action plan, including the adoption of the debt management strategy with the view to notably develop a domestic debt market.

Monetary, Exchange Rate, and Financial Sector Policies

13. The Bank of South Sudan's (BoSS) primary objective remains price stability. However, the subdued FX flows, oil pipeline destruction and regional conflict spillovers have undermined the smooth functioning of the FX market and forced the authorities to resort to central bank financing of emergency budgetary needs—leading to elevated inflation and exchange rate depreciation pressures. Going forward, the authorities have committed, in consultation with staff, to refrain from further monetary financing to contain exchange rate-fueled inflationary pressures and anchor inflation expectations. Concurrently, our authorities are introducing reforms to improve monetary policy transmission. Areas of focus include modernization of the monetary policy framework, strengthening of coordination of monetary and fiscal policies, and accelerated development of the domestic debt markets. Fund technical assistance in these areas is of the essence.

14. On the FX market, the exchange rate premium remains a concern and reform efforts to enhance exchange rate flexibility are at the core of the authorities' priorities. Importantly, the authorities are committed to advancing ER flexibility and undertaking an orderly elimination of the parallel FX market premium. They view the ER unification as a contributor to the expansion of fiscal space. The unification would, indeed, see the ER tend towards the parallel market rate, bolstering FX related fiscal revenues.

15. On the financial sector, the average capital adequacy ratio for all banks stood at 10.1 percent at end of June 2024, while the bulk of banks income is from non-interest

income. Against this background, the BoSS has taken steps to support financial stability. Specifically, the amendment to the 2012 Banking Act approved in November 2023 allows BoSS to undertake consolidated supervision of bank and non-bank institutions, including microfinance and insurance companies. BoSS is also building its capacity with support from Fund TA, which is complemented by peer-to-peer learning at central banks in neighboring countries.

Structural and Governance Reforms

16. Our authorities continue to put a high premium on improving transparency with focus on fiscal and monetary policy transparency and central bank governance. They have started to publish quarterly budget execution reports as well as data on FX auctions outcomes, key monetary indicators and oil production data on a regular basis. The BoSS is in the process of implementing recommendations of the IMF Safeguards Assessment (SA) albeit at a slow pace.

17. On the AML/CFT, the authorities are making progress towards aligning their frameworks with international standards. They have completed their first National Risk Assessment (NRA)—and are a party to relevant UN Conventions—although they remain on the FATF grey list. That notwithstanding, the authorities remain focused on making progress towards incorporating the current FATF standards into the AML/CFT Act—with IMF technical support. They are also finalizing the governance and operational rules for the Financial Intelligence Unit. Relatedly, the anti-corruption law was amended in December 2023 and the Anti-Corruption Commission has been given significant funding under the FY2024/25 draft budget to ensure the effective accomplishment of the entity's mandate. In addition, the authorities are committed to more efforts to strengthen governance and transparency of the oil-for-infrastructure scheme.

Conclusion

18. Our South Sudanese authorities look forward to Executive Directors' favorable consideration of their request for the completion of the third and final review under PMB arrangement. Having kept the PMB arrangement broadly on track under especially difficult circumstances, the authorities view continuing IMF support as vital to successfully sustaining their reform momentum. Fund technical assistance continue to be vital to help cope with limited capacities in the fragile and conflict-affected country. Going forward, the authorities are seeking a deeper engagement with the Fund through a UCT-standard arrangement. Agreement under the Extended Credit Facility (ECF) would help the country tackle protracted BOP needs more effectively and catalyze much-needed additional donor support.