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Sudan: Final Review Under the 2002 Staff-Monitored Program and the 2003 Program

This paper on the final review under the 2002 Staff-Monitored Program and the 2003 Program for **Sudan** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **May 22, 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Sudan** or the Executive Board of the IMF.

A statement by the Executive Director is attached.

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SUDAN

Final Review Under the 2002 Staff-Monitored Program and the 2003 Program

Prepared by the Middle Eastern and
Policy Development and Review Departments

(In consultation with the Finance, Fiscal Affairs,
Legal, and Monetary and Financial Systems Departments)

Approved by Lorenzo L. Perez and Matthew Fisher

May 22, 2003

- Discussions on Sudan's economic performance in 2002 and a program for 2003 took place in The Hague during March 24–31, 2003. The staff team included Mr. Shabsigh (head), Messrs. Williams, Gemayel, and Goyal (all MED), and Mr. Ronci (PDR). Mr. Arnason (FIN) joined the team in the latter part of the mission to discuss arrears-related issues.

- The mission met with His Excellency El-Zubeir Ahmed El-Hassan, Minister of Finance and National Economy, Her Excellency Abda Yahia El Mahdi, State Minister of Finance for International Cooperation, His Excellency Saber Mohammed Hassan, the Governor of the Bank of Sudan, and other senior Sudanese officials.

- The principal author of this report is Mr. Ghiath Shabsigh.

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EXECUTIVE SUMMARY

Performance under the program

Policy performance in 2002 was in line with the program. All quantitative benchmarks were met. All structural benchmarks were implemented, except preparatory work on mechanisms to hedge the risks of agricultural finance, amending the VAT law to increase the registration threshold, and preparing a revised I-PRSP though some progress was made in the latter with UNDP and World Bank assistance. The agreed payments of $24 million were made to the Fund.

Real GDP growth reached the program target of 5 percent, while average CPI inflation rose to 8.3 percent compared with 6–7 percent under the program. The fiscal outcome was better, mainly on account of higher oil revenue. However, the non-oil deficit deteriorated slightly owing to shortfalls in indirect taxes. The external current account improved because of higher commodity exports and increased private transfers. Broad money growth accelerated in the second half of 2002.

On the political front, peace negotiations are broadly on track with significant support from international mediators. Discussions are continuing on political power and resource sharing, and security issues. The two parties have expressed hope for a final agreement by midyear.

Policy discussions

The discussions focused on the 2003 program and the need to reinforce the reform momentum and prepare for peace. The program aims to consolidate macroeconomic stability and sustain growth by requiring restrained fiscal and monetary policies and implementing critical structural reform measures. It targets real GDP growth of 5.8 percent, inflation at 7 percent, and reserve accumulation of $140 million (to a level equivalent to 1.7 months of imports). The structural elements of the program are geared towards strengthening economic policy institutions, and include measures to increase tax revenue, improve expenditure management, formalize the medium-term budgeting process, strengthen debt management capacity, and enhance monetary policy efficacy. Furthermore, the authorities have expressed their intention to begin the process for acceptance of Article VIII, Sections 2, 3, and 4, and intend to further reduce tariff protection.

Based on Sudan's debt service capacity, the authorities are committed to raise payments to the Fund in 2003 to $27 million (compared with $13 million needed to stabilize arrears).

Staff appraisal

Sudan's economic performance under the 2002 SMP was encouraging. In addition, the oil savings account mechanism worked as anticipated, the criteria for granting tax exemptions were tightened, the conduct of monetary policy improved steadily as more experience was gained in broad money targeting, and steps were taken to increase exchange rate flexibility.

The program for 2003 is a strong effort to consolidate macroeconomic stability, promote growth, and prepare for the challenges of peace. The authorities' commitment to fiscal reform is a significant step towards achieving fiscal sustainability and supporting the peace process. On balance, while there remain areas for improvement, the staff regards the policy commitments and proposed payments in line with what would be required for a rights accumulation program (RAP), had the necessary financing assurances been available. The staff proposes to monitor the program and recommends that the Board consider the authorities' request to recognize the performance under the 2002 SMP and satisfactory performance under the 2003 SMP, in conjunction with the progress achieved previously, in determining the timetable for arrears clearance and a resolution of Sudan's debt.

I. Background

1. **On October 30, 2002, the Executive Board considered the Mid-Year Review under the 2002 Staff-Monitored Program (SMP).** Directors commended Sudan's efforts to bring economic policies back on track. They welcomed the establishment of a mechanism to save oil export receipts arising from higher-than-programmed oil prices, but underscored the need to strengthen budget control and monitoring systems. Directors stressed that lasting peace is critical to resolve Sudan's external debt problem, and encouraged the authorities to improve relations with external creditors and mobilize a support group.

2. **Peace negotiations remain broadly on track.** The peace negotiations resumed on May 7, 2003 to continue discussions on power and resource sharing. A round of discussions on security issues took place in March 2003 without reaching a conclusion and will resume in early June. President El-Bashir and Chairman Garang of the Sudan People Liberation Movement met in Nairobi on April 2, 2003 and expressed hope for reaching a final agreement by midyear. Fund and Bank staff have been advising the parties on resource-sharing issues.

3. The mission (i) reviewed performance under the 2002 SMP; (ii) discussed an SMP for 2003; (iii) evaluated the medium-term macroeconomic outlook, including a tentative peace scenario; and (iv) assessed Sudan's debt service capacity, including payments to the Fund in 2003.[1]

II. Performance Under the Program

4. **Policy performance in 2002 was in line with the program.** All quantitative targets were met (Table 1), and social spending exceeded the program target. All structural benchmarks were implemented with the exception of preparatory work on establishing a financial arrangement to hedge the risks of agricultural finance, which still awaits Fund technical assistance (Table 2); amending the value-added tax (VAT) law to increase the registration threshold;[2] and preparing a revised Interim Poverty Reduction Strategy Paper (I-PRSP) in cooperation with the United Nations Development Program (UNDP) and the World Bank (the final PRSP will be completed only after the peace agreement is in place).

III. Recent Developments

5. **Macroeconomic developments were broadly in line with projections in 2002.** Real GDP growth is estimated to have reached 5.0 percent in 2002 compared with

[1]The Article IV consultation has been delayed because of the recent travel constraints to the Middle East. The consultation will take place during the mid-year review of the 2003 SMP.

[2]The authorities explained that in practice only traders above a higher threshold are audited. While this will improve VAT efficiency, it may affect the transparency of the regime.

5.3 percent in 2001, and the average CPI inflation rate was 8.3 percent in 2002 compared with 4.9 percent in 2001 and 6–7 percent under the program (Figure 1, Table 3).[3] Sudan's currency vis-à-vis the U.S. dollar depreciated by 1.4 percent during the first nine months and appreciated by 1.2 percent in the last quarter of the year as a result of strong foreign exchange inflows (Figure 2). The real effective exchange rate depreciated by over 6 percent in 2002, owing mainly to the depreciation of the U.S. dollar against other major currencies.

6. **The external current account improved in 2002.** The external current account deficit (on cash basis) declined to 7.5 percent of GDP in 2002 from 10.7 percent in 2001 (Table 4),[4] reflecting higher exports of oil, cotton, and livestock, and a surge in private transfers (including from Sudanese expatriates). Large private capital inflows, including foreign direct investment and small disbursements by the Islamic Development Bank and Arab funds, continued to finance the current account deficit, allowing for a significant buildup in official reserves by $200 million to 1.2 months of imports compared with 0.2 months in 2001.

7. **The fiscal deficit in 2002 was slightly lower than the program target.** The deficit reached 0.9 percent of GDP compared to the program target of 1 percent (Table 5). Despite shortfalls in indirect tax revenue, the non-oil domestic balance remained at the 2001 level (5.8 percent of GDP), mainly because of the good performance in nontax revenues. Domestic financing was contained below the end-year target.

Sudan: Government Operations, 2002

(In percent of GDP)

	Program	Actual
Revenue	12.3	13.2
Oil	3.9	4.9
Non-oil	8.4	8.1
Expenditures	13.3	14.1
Current	10.5	10.8
Capital	2.8	3.3
Balance	-1.0	-0.9
Non-oil domestic balance	-5.1	-5.8

[3]The surge in inflation was mostly the result of the expansionary policies in 2001 and early 2002.

[4]Compared with the figures in the previous staff report, the level of current account deficit is higher because import figures were revised upward for the 1999–2002 period to reflect better import coverage (associated mostly with foreign direct investment (FDI)) by the Bank of Sudan.

8. **Total revenue exceeded the projection because of an oil revenue windfall** from higher international crude oil prices; however, non-oil revenues were slightly below projections. The performance of direct taxes and taxes on international trade were in line with projections, and nontax revenues were better than projected because of higher profit transfers from public enterprises. However, there was a revenue shortfall from VAT reflecting the large number of tax exemptions granted under the Investment Encouragement Act (IEA), despite some tightening measures implemented in July 2002 on the VAT exemption criteria.

9. **Expenditures (current and capital) were higher than projected.** There were overruns in current spending in the second half of 2002, in part because of pipeline fees, which previously were off-budget and paid in-kind. In addition, an escalation of the internal conflict in early September led to unforeseen refugee-related expenditures. Capital spending overruns were mainly the result of additional spending on power and road infrastructure. Social expenditures amounted to SDD 45.5 billion (1.3 percent of GDP), exceeding the program target by about SDD 2.5 billion, while military spending reached 2.3 percent of GDP, below the program projection of 2.5 percent.

10. **The oil savings account mechanism worked as anticipated.** Export-related oil revenues arising from oil prices exceeding the $20 per barrel price benchmark were saved in a government oil savings account (OSA) in the Bank of Sudan (BOS). The OSA accumulated SDD 10.1 billion (about $40 million) by end-December 2002.

11. **Monetary growth accelerated in the second half of 2002 on account of the sharp increase in private capital inflows.** Concerted efforts by the BOS to mop up liquidity in the last two months of 2002 limited broad money growth to 30 percent, compared with an estimated 35 percent without such measures (Tables 6 and 7, and Figure 3). Measures implemented included reducing temporary advances to the government by SDD 3.3 billion, and selling SDD 10 billion of government securities and $23 million of foreign exchange. The tightening of monetary policy resulted in a slowdown of credit to the nongovernmental sectors from an annual growth rate of 47.4 percent at end-October to 28.5 percent at end-December, and an increase in the murabaha financing rates from 15.1 percent to 16 percent over the same period.[5]

12. **The conduct of monetary policy improved steadily as the BOS gained more experience in broad money targeting.** The weekly flash reporting system was strengthened to produce reliable estimates of the monetary survey and BOS balances. In addition, there was a marked improvement in policy and operational coordination between the BOS and the ministry of finance, as well as among different departments in the BOS. However, it became

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[5]A description of Islamic financial instruments was provided in Appendix I of the Staff Report dated June 5, 2002.

clear that institutional changes in the BOS are needed to improve the speed and effectiveness of BOS's interventions.[6]

13. **In May 2002, a managed-float exchange rate regime was adopted to substitute a de facto fixed exchange rate system.** As part of this process, steps were implemented to increase the flexibility of the system. Steps included widening the exchange rate band from 1.5 to 2 percent,[7] abolishing restrictions on import financing, and removing controls on the transfer of funds in and out of the country by nonbank dealers. Also, a system was set up to determine in advance the amount of foreign exchange to be sold in the BOS auction based on market conditions, the international reserves target, and monetary policy considerations. As a result, the exchange rate began to respond to market developments, and the exchange rate vis-à-vis the U.S. dollar appreciated by 1.2 percent in the last quarter of 2002 in response to increased foreign exchange inflows.

14. **Progress was achieved in key structural reform areas.** The audit of the Sudan Petroleum Company (SPC) was completed, and netting operations by public enterprises and the private sector were abolished. With technical assistance from FAD, a review of the direct tax and incentive regime was conducted and a plan to rationalize exemptions was developed that will be implemented as part of the 2003 SMP. Furthermore, VAT administrative capacity was improved (Table 2). In the financial sector, banking supervision was strengthened with the establishment of a specialized monitoring and implementation unit in the BOS, an anti-money laundering circular was issued, banking soundness indicators generally improved, and the restructuring of the El Nilein Bank was completed.[8] The privatization program was successful, with net proceeds (SDD 11 billion) about double the expectation and mostly from foreign investors.[9]

15. **Some progress was achieved on poverty alleviation, but much work remains to be done.** In addition to higher social spending in 2002, the authorities have appointed a new

[6]For example, on several occasions in the second half of 2002, the BOS's monetary policy committee (composed of senior staff) was forced to execute very short-term operations (which in turn created significant institutional stress) because of the absence of relevant specialized units.

[7]The band is intended to limit daily market exchange rate fluctuations. Bids in the BOS bi-weekly auctions were accepted within a band around the indicative rate (a weighted average of transactions from the previous day).

[8]The ratio of nonperforming loans to total loans fell from 16 percent at end-2001 to 12.7 percent at end-2002, and the ratio of total provisions to nonperforming loans rose from 23 percent to 24 percent. The risk-weighted capital adequacy ratio fell from 11 percent to 9 percent over the same period, but still remains higher than the prudential floor of 8 percent.

[9]Assets that were privatized included the Duty Free Shops and Free Zones company, the Friendship Palace Hotel, the Real Estate bank, and the Atbara Cement factory.

minister of state with the responsibility of coordinating the government's anti-poverty efforts and have drafted several sectoral studies.

16. **Developments in the first quarter of 2003 are in line with the program projections.** Annual CPI inflation declined to 7 percent, and the exchange rate vis-à-vis the U.S. dollar appreciated by 0.3 percent in response to continued foreign exchange inflows. The budget deficit reached 0.4 percent of GDP, and broad money growth slowed to 25 percent (year-on-year).

IV. Report on Policy Discussions

17. The discussions focused mainly on the 2003 program, and the need to bolster macroeconomic stability, reinforce the reform momentum, and prepare for peace. The mission also discussed a baseline and a peace medium-term macroeconomic scenario.

A. Medium-Term Strategy

18. **The authorities' medium-term strategy aims at consolidating macroeconomic stability, sustaining economic growth, and reducing poverty.** The authorities consider the 2003 program as an integral part of the strategy and stressed that, once peace is in place, the strategy would form the basis for a more ambitious program, particularly on the poverty-reduction front. Such a program could be supported, once Sudan's arrears to the Fund and other creditors are cleared, by a PRGF arrangement and lead to debt relief under the HIPC initiative. Nonetheless, they noted that, given the uncertainties related to the timing of a peace agreement and the availability of financing to clear the arrears, the strategy should be viewed as an evolving process that needs to be sufficiently flexible to also incorporate the demands of a post-conflict environment.

19. **Without peace, economic growth will remain below the country's potential,** and the real GDP growth rate is not likely to exceed 5 percent over the medium term (Table 8). The authorities, however, remain committed to maintaining macroeconomic stability and adopting appropriate fiscal and monetary policies. The mission noted that the projected output growth rates are, to a large extent, investment driven (particularly in the construction, oil, and power generation sectors) and dependent on continued foreign direct investments and other private inflows, making the growth projections vulnerable. The mission also indicated that with peace in place, real GDP growth could reach 7 percent over the medium term, fueled by the resumption of external financing and a reinforced investment environment. The authorities agreed with the mission's assessment.

20. **The authorities reiterated their commitment to structural reforms, building on the considerable progress achieved since 1997.** The focus of these reforms will be on boosting private-sector led growth in the non-oil sector and strengthening economic policy institutions. The implementation of these reforms will be supported by rising net receipts from oil exports, strengthened non-oil revenue performance, and, if peace is achieved, the resumption of external financial assistance. The authorities will prepare, in cooperation with

the staff, a tentative medium-term structural reform matrix during the year, which will be finalized in the context of the I-PRSP/PRSP process.

B. Macroeconomic Program for 2003

21. **The 2003 program aims at consolidating macroeconomic stability and sustaining economic growth.** This will require restrained fiscal and monetary policies, the maintenance of exchange rate flexibility, continued progress in implementing structural reforms, and increased emphasis on resource mobilization to meet the challenges arising from a peace agreement (Table 1 in Attachment I). The program envisages a GDP growth rate of 5.8 percent and inflation rate of about 7 percent. Non-oil GDP growth is expected to rise to 5.7 percent from 4.5 percent in 2002, reflecting the impact of higher investment spending, including FDI and the commencement of the Merowe hydropower project.

22. **The external current account deficit (on a cash basis) is projected to decline** to 7.2 percent of GDP in 2003 from 7.5 percent in 2002, reflecting mainly better terms of trade, as well as some increase in export volumes. Overall exports are projected to increase by 20 percent as a result of higher export prices (oil and non-oil). Imports are also expected to increase by 8 percent, mainly as a result of foreign direct investment related imports and the Merowe hydropower project. (Financing for the Merowe project is expected to reach about $63 million.) The current account deficit will continue to be financed mainly by private capital inflows and, to a lesser extent, by disbursements from the Islamic Development Bank and a number of regional funds. Official reserves are projected to increase by $140 million (to 1.7 months of imports compared with 1.2 months at the end of 2002).

Fiscal policy

23. **Fiscal policy in 2003 will focus on maintaining the same budget deficit as in 2002 and strengthening tax revenue.** The overall budget deficit will be contained to 0.9 percent of GDP compared with the originally budgeted 2.5 percent of GDP.[10] The non-oil domestic deficit will be contained at 5.9 percent of GDP, in line with ratios achieved in recent years. Domestic financing (excluding the OSA deposits) will be limited to 0.5 percent of GDP.

24. **Total revenues are projected to rise by 1.7 percent of GDP.** Non-oil revenues are expected to increase by 0.8 percent of GDP, of which 0.5 percent of GDP will come from indirect taxes. This will be achieved mainly through tax measures including reductions in tax exemptions (paragraphs 12 and 14 of the MEFP). The authorities will also begin reforming the direct tax system, though the impact will occur mostly in 2004.[11] Oil revenue is projected to increase by 0.7 percent of GDP because of higher prices and production ($1 on average

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[10]The reduction relates mainly to cuts in expenditures on goods and services (0.6 percent of GDP) and capital expenditures (0.6 percent of GDP) as agreed with the authorities.

[11]These measures are based on recent FAD technical assistance recommendations.

over 2002 and 20,000 barrels per day, respectively). The price benchmark for the OSA in 2003 has been set at $22 per barrel, which will allow for saving about 10 percent of oil revenue, and the OSA deposits are expected to rise to about $125 million.[12]

Sudan: Revenue Measures, 2003

(In billions of Sudanese dinars)

Eliminating VAT exemptions:	
Capital goods	12.0
Oil companies	6.0
Others	1.7
New excise SDD 25 per barrel of gazoil	8.5
Raising customs charges on exempted inputs from 2 to 3 percent	0.6
Eliminating the 5 percent defense tax	-17.1
Total	**11.8**
In percent of GDP	**0.3**

Sources: Sudanese authorities; and Fund staff estimates.

25. **Total expenditures are projected to rise by 1.6 percent of GDP.** The increase is caused by the foreign-financed Merowe dam project (0.5 percent of GDP), higher current transfers to the states (0.5 percent of GDP),[13] capital contributions and rent charges for the oil pipeline (0.8 and 0.4 percent of GDP, respectively),[14] and the wage and pension bill (0.3 percent of GDP). On the other hand, lending to agriculture will be reduced sharply (0.7 percent of GDP). The authorities intend to limit military spending at last year's level with possible reduction pending the outcome of the peace process. Finally, social spending will be protected at last year's level of 1.3 percent of GDP. The mission noted that the increase in the wage bill is high and that the cut in lending to agriculture may not be sustainable. The authorities explained that part of the increase in the wage bill is intended to rationalize the wage structure, particularly at the lower end of the wage scale, and clear pension arrears. They also explained that under a new policy, budgetary lending to agriculture will be phased out to encourage more banking system involvement in financing the agriculture sector.

[12]The savings in the OSA are recorded as oil revenue and as part of government deposits at the BOS.

[13]The increased transfer is intended to compensate the states for the revenue loss arising from abolishing agriculture taxes (mostly at the states level) by federal order at the beginning of 2002.

[14]Until last year, these payments were made in kind and off-budget. The authorities switched to cash payments in 2003 with the abolition of all netting operations.

Monetary and exchange rate policy

26. **Monetary policy will aim at containing broad money growth to about 18 percent, which will be the nominal anchor in 2003.** This target is consistent with the growth and inflation objectives, and some decline in velocity. The mission emphasized the need for a cautious approach to monetary policy going forward in light of uncertainties related to foreign exchange inflows, the impact of peace, and potential shifts in money demand. Accordingly, the monetary target will be reassessed during the mid-year review to make sure that it remains in line with the program's macroeconomic objectives.

27. **With the shift to broad money anchors, the mission emphasized the need for greater exchange rate flexibility** to better reflect market conditions and allow for stabilization of monetary aggregates. The authorities agreed and noted that they have dismantled the system of biweekly foreign exchange auctions at the BOS at end-December 2002, and have reduced the spread between the BOS's buying and selling rates from 1 percent to 0.5 percent. The BOS now sells foreign exchange directly in the interbank market. The authorities have also expressed their intention to begin the process for acceptance of Article VIII, Sections 2, 3, and 4 and will provide the staff with the information to conduct the necessary review in time for the next Article IV consultation.

28. **Absorbing excess liquidity and managing foreign exchange inflows will be a challenge to monetary policy in 2003.** Efforts will be intensified in the first half of 2003 to ensure that any excess liquidity is absorbed and that monetary aggregates move in line with the 2003 program (paragraph 24 of the MEFP). The authorities indicated that foreign exchange inflows are likely to continue, although with some uncertainty. They intend to rely on indirect monetary instruments as the primary means of sterilizing such inflows and, in exceptional situations, slowing the speed of international reserves buildup as long as the program's reserve target is met (paragraph 25 of the MEFP), allowing some exchange rate appreciation. Higher oil prices could also increase liquidity pressures. However, the authorities' continued commitment to save excess oil revenues would provide substantial relief to monetary policy as these revenues would be fully sterilized in the OSA at the BOS.

29. **To further enhance the effectiveness of monetary policy**, the authorities intend to establish a monetary operations unit at the BOS (paragraph 26 of the MEFP) with the responsibility of implementing, on a daily basis, the monetary policy guidelines through the coordinated use of the appropriate instruments (i.e., securities, financing windows, and foreign exchange operations). This will remedy the institutional rigidity that the BOS encountered in implementing the broad money targeting regime in 2002.

Trade regime

30. **The authorities intend to reduce taxes on imports, while maintaining a trade regime that is relatively free of quantitative import restrictions.** The 5 percent defense

tax on imports will be eliminated by midyear,[15] and the tariff schedule will be aligned with the one under the Common Market for Eastern and Southern Africa (COMESA) customs union agreement, expected to be finalized in 2004. With the elimination of the defense tax, the restrictiveness of Sudan's trade regime will decline to about the average level of industrial countries, with a further decline expected once the COMESA tariff schedule is adopted.

31. **The authorities were concerned about the budgetary impact of the new tariff reductions under COMESA**, particularly when substantial domestic resources would need to be mobilized to support peace and poverty reduction efforts. For this reason, they have requested Fund technical assistance to identify compensatory fiscal measures.

C. Structural Reforms for 2003

32. **The program's envisaged reforms are geared towards strengthening economic policy institutions and preparing for peace.** These reforms will form an integral part of the medium-term reform strategy discussed above and will include measures to strengthen tax revenue, improve expenditure management, formalize the medium-term budgeting process, initiate civil service reforms, strengthen the financial system, accelerate privatization, and strengthen poverty alleviation efforts (Table 2 in Attachment I).

33. **A comprehensive program to strengthen tax revenue will be launched** based on three key elements: broadening the tax base, reforming the direct tax system, and overhauling the investment incentive regime (paragraphs 12 to 14 of the MEFP). The program will incorporate the recommendations of the recent Fund TA mission on tax policy, but additional assistance is needed to modernize the direct tax administration. The mission noted that implementing the measures to curb exemptions could be challenging because of possible contractual obligations and domestic opposition. The authorities agreed on the need to overhaul the investment incentive regime to achieve fiscal sustainability. They are aware of the difficulties involved but believe they can implement the envisaged measures.

34. **Budget controls and monitoring and reporting systems will be strengthened.** The mission noted that while the deficit targets over the past few years have generally been met, this was often achieved through drastic expenditure cuts without consideration of priorities due to relatively weak budget controls and monitoring systems. The authorities assured the mission of their commitment to implement the reforms recommended by a recent FAD TA mission (paragraph 15 of the MEFP), but pointed out the technical challenges they will face, particularly with regard to improving the cash management system, and indicated that they will request Fund technical assistance.

35. **The authorities will further develop the rolling medium-term budget (MTB) framework.** In tandem with the 2004 budget cycle, a more detailed MTB (compared with the

[15]The fiscal projections incorporate the elimination of the defense tax.

summary attached to the 2003 budget) will be prepared, with the objective of stabilizing or even reducing the domestic non-oil fiscal deficit. In addition, a set of statements regarding key medium-term fiscal policies will be prepared as part of the MTB. The authorities noted that while they view the targeting of the domestic non-oil fiscal balance as an important medium-term objective, revenue from higher oil production in the future, particularly after peace, will need to be spent on domestic development, and it is impractical to assume that tax revenues can be raised proportionately to prevent the non-oil budget deficit from rising. The mission pointed out that the MTB framework is a flexible instrument that will help diversify the revenue sources while allowing the authorities to assess the fiscal sustainability in light of future permanent increases in oil production.

36. **The oil revenue saving mechanism will be further refined and integrated into the MTB framework.** Starting with the 2004 budget, the focus will be on formulating a budget that is in line with the domestic non-oil deficit objective, with oil revenue being budgeted to fill the gap. The latter, for a given oil production, will set the oil price benchmark for the OSA. The savings will be used if oil prices drop below the benchmark for a full quarter to smooth the fiscal adjustment within the year. If the oil price decline persists, the following year's budget will be adjusted accordingly. The authorities explained that, given Sudan's massive development needs, they do not intend to transform the OSA into a fund for future generations and were of the view that savings should be capped. The mission agreed that setting up a fund for future generations is not appropriate at present, but noted the need to significantly boost Sudan's international reserves, which would require continued savings for a considerable period ahead given the very low level of reserves at present.

37. **A civil service reform program is being prepared.** The mission stressed the need to formulate and implement a civil service reform to improve service quality and fiscal sustainability. The authorities indicated that they are devising such reforms in a medium-term context. In 2003, they intend to retrench employees in several ministries and reduce wage disparities within the public sector by temporarily capping salaries of higher-paid workers.

38. **Oil sector transparency will be further enhanced.** Starting January 2003, the authorities have stopped all netting operations and shifted to budgeted payments for all their obligations, including payments of the pipeline fees. Furthermore, the authorities have agreed by the end of 2003 to audit the accounts of all the subsidiaries of the SPC and will initiate a program to align their accounting systems with international standards (paragraph 19 of the MEFP). The authorities will continue to review domestic oil prices on a quarterly basis, making sure that they are maintained above international oil prices. In this context, the mission discussed the need for a more liberal pricing system for petroleum products and the importance of introducing an excise tax and extending the VAT on these products. The

authorities explained that the domestic oil market is highly concentrated and should be regulated to prevent price-fixing. Taxing petroleum products is under consideration.[16]

39. **Debt management capacity will be strengthened.** The authorities will formulate a public debt policy strategy and revamp the existing external and internal debt units (paragraph 22 of the MEFP). These steps, the mission emphasized, will be important for medium-term fiscal planning, particularly in view of prospects for substantial debt relief and a resumption of new foreign financing resulting in the wake of an agreement on peace. The authorities assured the mission of their strong commitment to this issue.

40. **Banking system reforms will continue.** Notwithstanding the progress achieved thus far in this area, the mission emphasized the need to develop a medium-term reform plan based on a comprehensive assessment of the present condition of the banking system. In this regard, the authorities reiterated their request for a financial sector assessment program (FSAP), which could form the basis of the reform plan.[17]

41. **The authorities will continue the strong privatization efforts in 2003.** Some of the key candidates for this year are the Bank of Khartoum group, El Nilein Bank, and the El Kadro Slaughterhouse.

42. **Poverty alleviation efforts will be intensified.** The World Bank has started to provide assistance to the authorities to build capacity to prepare a national poverty reduction strategy. They are assisting, in cooperation with the UNDP, in preparing an I-PRSP that will take stock of existing data and policies, launch broader processes of rethinking current strategies, and produce, once peace is in place, a time-bound roadmap for a full PRSP.

D. Preparing for Peace

43. **Efforts are underway to meet the challenges of peace while protecting macroeconomic stability.** The signing of the peace agreement will be followed by a 6-month disengagement period before an interim 6-year period begins.[18] The authorities have included allocations in the 2003 budget to meet the demands of the disengagement phase (mostly humanitarian assistance) and stand ready to mobilize additional resources, if necessary. Foreign aid is also expected to be mobilized by the time the peace agreement is finalized. The more substantive challenge, however, will be in meeting the demands of the interim period (reconstruction, rehabilitation, etc.), which will be critical to sustain the peace. The authorities will be working with the staff during the year to identify additional revenue

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[16]Taxing petroleum products will replace the existing "price differential" system where domestic prices are set at above recovery costs.

[17]An FSAP mission is scheduled to take place in 2003.

[18]The South will vote on self-determination at the end of the interim period.

sources over the medium term. The remaining financing gap will need to be covered by foreign aid. The mission emphasized the importance of building up international reserves to meet the potential increase in peace-related import demand.

V. Debt Service Capacity and Creditor Relations

44. Under the proposed program, Sudan's overall external debt service capacity for 2003 is estimated at $207 million, given the general improvement in Sudan's external position. The debt service to net current receipt ratio is projected to rise to 14 percent in 2003 (the average ratio from 1999 to 2001) compared with 7 percent in 2002 (Table 9). The increase in debt service would be facilitated mainly by an increase in foreign financing (Table 10). However, a sizable external financing gap could easily arise from declines in international oil prices or private inflows and, given the limited external financing and still low reserves, would almost certainly have to be filled through a compression in imports (most likely through exchange rate depreciation) and lower debt service payments.

45. Based on Sudan's projected debt service payment capacity, the payment to the Fund could be increased slightly in 2003. The authorities have proposed a modest increase (to $27 million compared with $13 million required to meet obligations falling due), in light of the expected demands of a likely peace agreement, as well as balance of payments uncertainties. Sudan is also expected to resume payments to the African Development Bank ($9 million) and the Arab Monetary Fund ($18 million) as part of its effort to normalize financial relations with key creditors. In addition, payments will continue to the World Bank, the Islamic Development Bank, the International Fund for Agricultural Development, the Arab Fund for Economic and Social Development, and a number of bilateral Arab funds, as most of these payments would result in net financing inflows.

46. The mission and the authorities held preliminary discussions about what it would take to clear Sudan's arrears to the Fund and, more broadly, to tackle its unsustainable external debt once a peace agreement is reached (see the accompanying report, "Sudan—Review of Overdue Financial Obligations to the Fund," for additional detail). The mission informed the authorities of the exceptional effort that would be needed to encourage bilateral donors and creditors to provide the resources necessary for Sudan to achieve external viability. In particular, arrears clearance would need to be accompanied by comprehensive debt relief under the enhanced HIPC Initiative.

VI. Program Duration and Monitoring

47. The program will cover one year ending in December 31, 2003. The staff proposes to maintain the present cycle of semi-annual Board reviews for end-June and end-December performance. This would also be consistent with FIN's current semi-annual review schedule of Sudan's overdue obligations to the Fund. However, the staff would continue to conduct quarterly review missions, and report any significant developments or deviations from the program to the Board during informal country matters sessions.

VII. Staff Appraisal

48. Sudan's economic performance under the 2002 SMP is encouraging, and the authorities' policy commitments under the 2003 SMP are welcome. Firm implementation of the latter should reinforce macroeconomic stability, sustain the economic reform momentum, and provide a strong basis for supporting an eventual peace agreement. In particular, the authorities' commitment to fiscal reforms represents a significant strengthening of the economic policy framework. It is also encouraging that the 2003 SMP policy package is rooted in a medium-term strategy, which will be further elaborated during the year in light of peace developments.

49. The authorities' commitment to maintain a tight budget target, which will support the attainment of the program's macroeconomic objectives, is welcome. Non-oil revenues are expected to increase as a result of tax measures, including through reforming the tax incentive regime. In addition, the authorities' intention to contain military spending is appropriate, and the ongoing peace efforts should help in shifting some of this spending to support the peace. The increase in the government wage bill in 2003 is high, notwithstanding the costs of the planned civil service reform measures. The staff urges the completion and early implementation of a civil service reform program to contain the wage bill. Finally, the staff notes that while the application of a higher VAT threshold in practice (compared with the one set by the law) will improve the VAT efficiency, this may undermine the transparency of the VAT regime. The VAT law should be amended at the earliest opportunity to reflect the higher threshold.

50. The authorities' commitment to protect social spending is encouraging, and every effort should be made to increase allocations to social programs to combat poverty. It is also important to set up a system to track pro-poor spending. Compiling and monitoring poverty-reducing expenditures would help improve targeting of the poor and the quality of pro-poor spending.

51. The authorities' approach to address fiscal sustainability in a comprehensive manner and their intention to frame fiscal policy within a medium-term context are positive developments. The emphasis on strengthening tax revenue, overhauling the investment incentive regime, and targeting the domestic non-oil budget balance as a key fiscal objective are significant steps towards achieving fiscal sustainability and supporting the peace process. These efforts are well complemented by the planned institutional reforms, including in particular, revamping the direct tax administration and strengthening cash and debt management capacities. Furthermore, the OSA should be instrumental in building up a sufficient savings cushion to ensure a smoother fiscal adjustment in the event of a persistent decline in world oil prices.

52. The measures to reinforce oil sector transparency are important commitments under the program. The authorities are urged to continue their efforts towards consolidating the accounts of all oil sector operations according to best international standards. It is also important to continue to review and adjust, if necessary, domestic prices of petroleum

products on a quarterly basis to prevent the emergence of implicit subsidies during periods of rising international oil prices.

53. BOS's continued efforts to improve its indirect monetary policy framework and institutionalize the broad money targeting regime are commendable. These reforms should facilitate the final move away from an exchange rate anchor regime and provide the institutional basis for a more flexible exchange rate system. In this context, the exchange rate should be allowed to fluctuate more freely reflecting market conditions, which will reinforce to markets the move away from a rigid exchange rate regime, and help stabilize the monetary aggregates and inflation. Finally, the authorities' intention to accept Article VIII, Sections 2, 3, and 4 is an important signal of their commitment to an open and market-based economy.

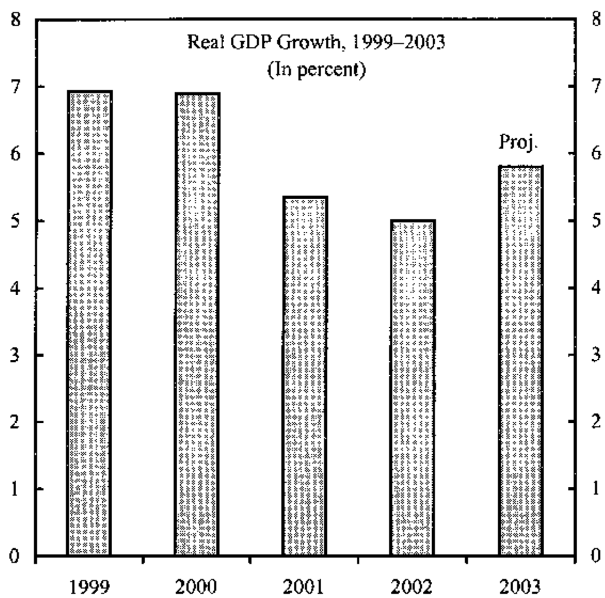
54. The staff welcomes the commitment to eliminate the defense tax on imports and the planned tariff reduction under the COMESA customs union agreement. These steps, coupled with Sudan's liberal nontariff trade regime, will put Sudan's trade regime among the most open in the region. However, it is likely that the revenue loss from the tariff reduction will be substantial and will come at a time of increased peace demands. Therefore, compensatory revenue sources will need to be identified so as to ensure that the fiscal policy stance is not weakened in the medium term.

55. Notwithstanding the authorities' strong commitment, the program faces several risks. The economy remains exposed to declines in international oil and primary commodity prices and swings in private capital flows (heightened by the Iraq war and its aftermath). The latter could possibly result in large exchange rate movements and challenge BOS's capacity to carry out effective monetary policy. Strengthening tax revenue, curbing exemptions, and reforming the IEA, will test the authorities, who could face domestic opposition to carrying out these measures. Finally, a peace agreement will test the authorities' resolve and capacity to maintain macroeconomic stability while meeting the demands of peace.

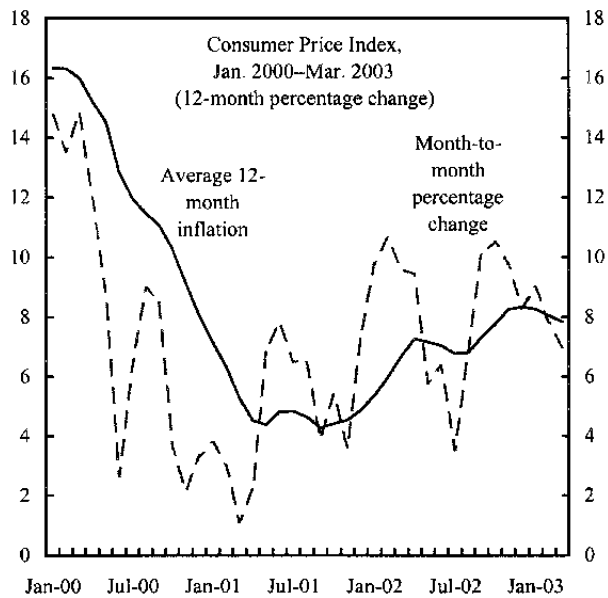
56. On balance, while there are areas for improvement, the staff regards the 2003 SMP as a strong effort. The policy commitments and proposed payments, which would provide a small reduction in arrears to the Fund, are in line with what would be required for a rights accumulation program, if the necessary financing assurances had been available. Staff, therefore, considers that the program provides an adequate basis for staff monitoring. As and when financing assurances become available, and provided that performance under the 2003 SMP is fully satisfactory, the staff would recommend that the Executive Board take account of that performance and performance under the 2002 SMP, in conjunction with the progress achieved previously, in determining the timetable for arrears clearance and a comprehensive resolution of Sudan's debt. With peace in place and satisfactory performance under the 2003 SMP, Sudan should be well placed to move forward with resolving its debt problem.

Figure 1. Sudan: GDP, Price, External, and Fiscal Developments, 1999–2003

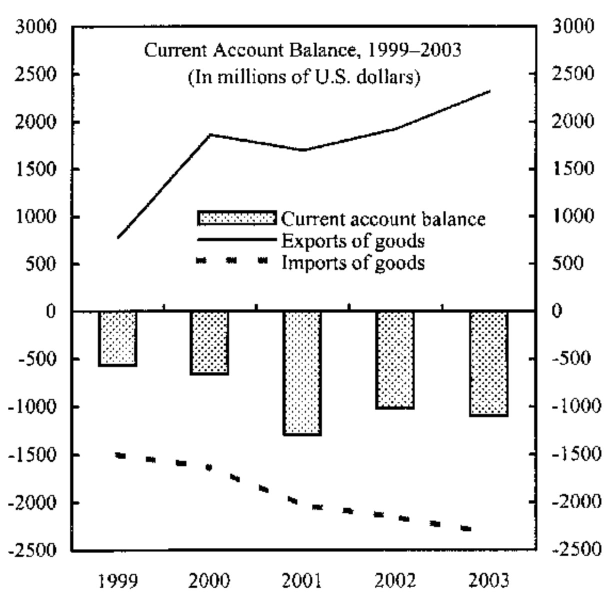
Real GDP growth declined in 2002 but is projected to rise in 2003



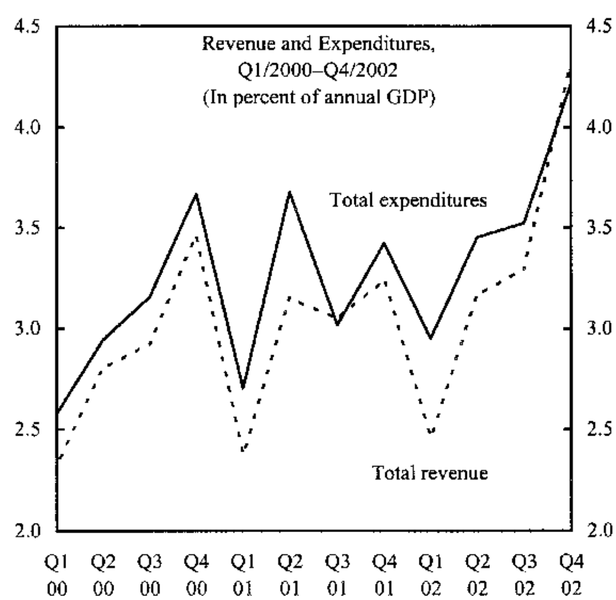
There has been a gradual rise in inflation in 2002



The external current account improved in 2002 owing to higher exports and increased private transfers



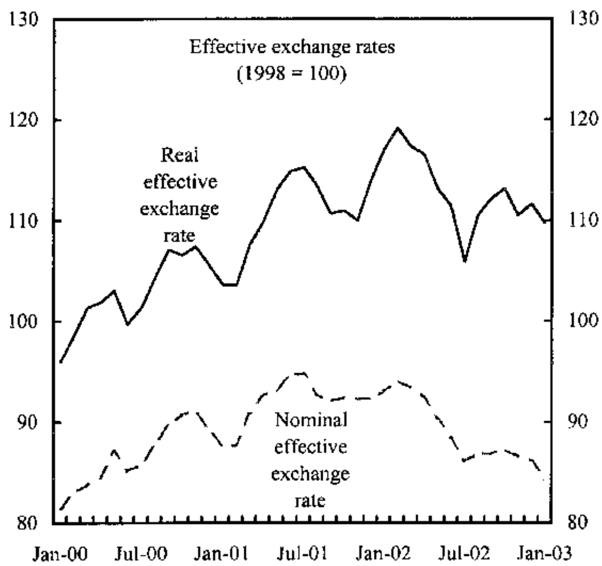
The fiscal outcome for 2002 is better than expected



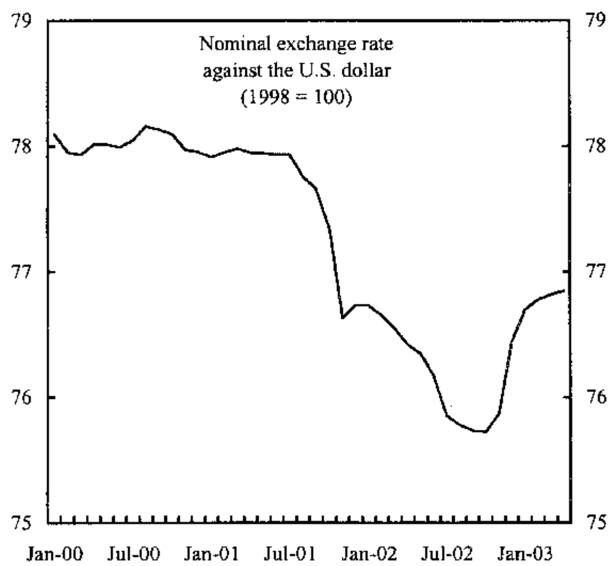
Sources: Sudanese authorities; and Fund staff estimates.

Figure 2. Sudan: Exchange Rate Indices and International Reserves, January 2000–April 2003

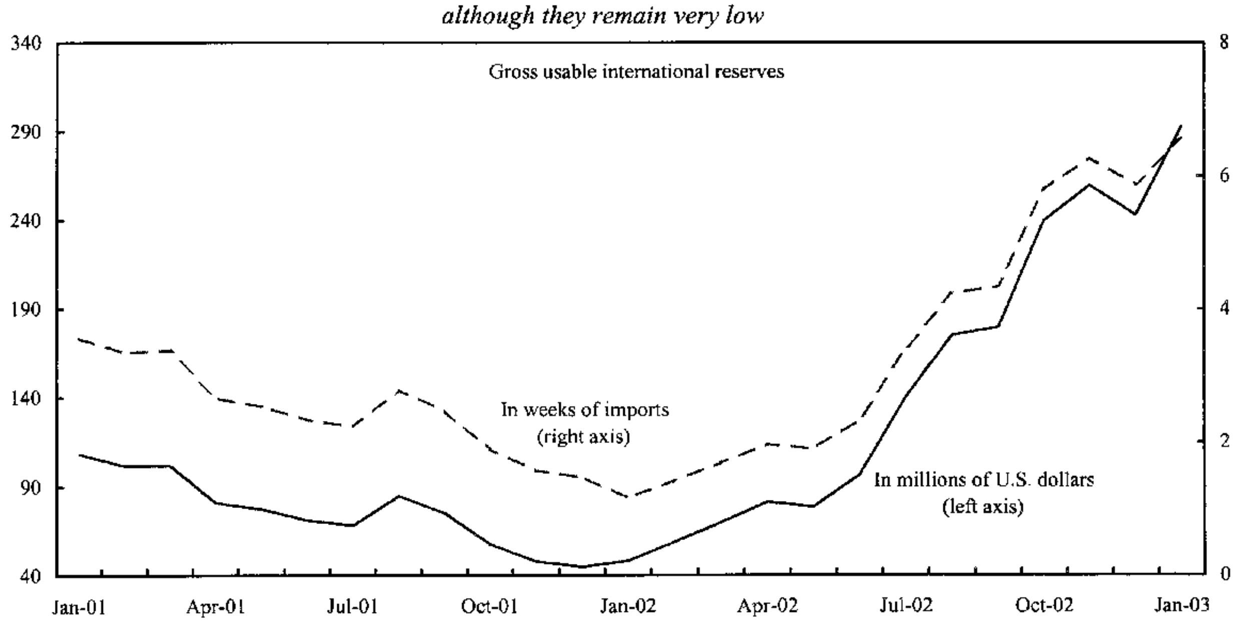
A depreciation in the U.S. dollar led to a depreciation in the real effective exchange rate in 2002



Large foreign exchange inflows and sales by the Bank of Sudan resulted in nominal appreciation since the third quarter of 2002



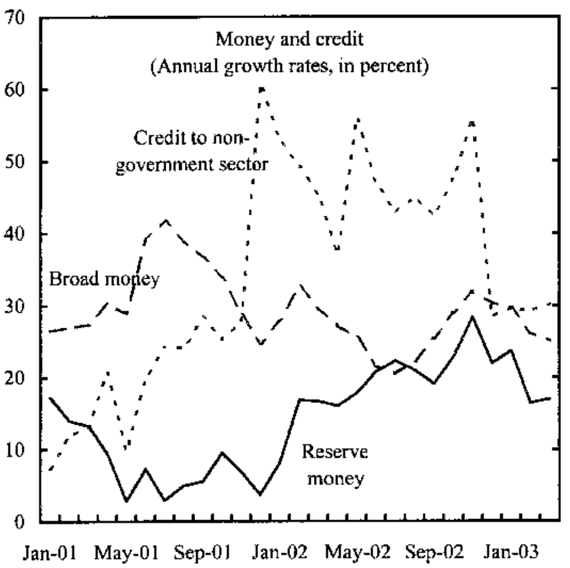
Strong foreign exchange inflows also led to a rapid buildup of international reserves in 2002, although they remain very low



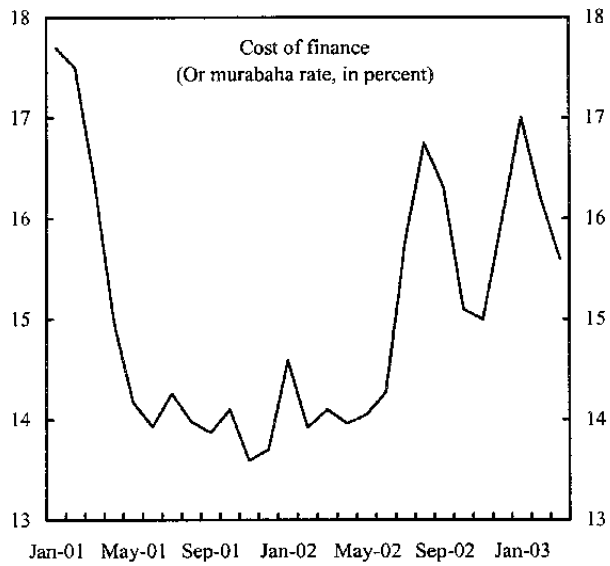
Sources: Bank of Sudan; and Information Notice System, IMF.

Figure 3. Sudan: Monetary Developments, January 2001–March 2003

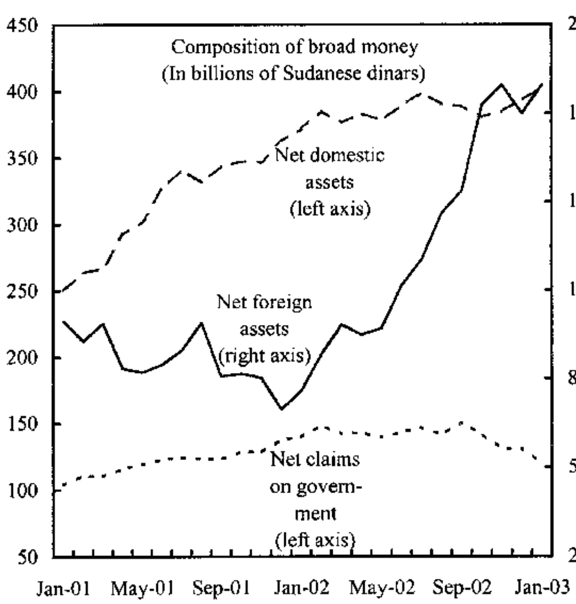
A tighter monetary policy since October 2002 has contained the growth rates of broad money and credit to the nongovernmental sector



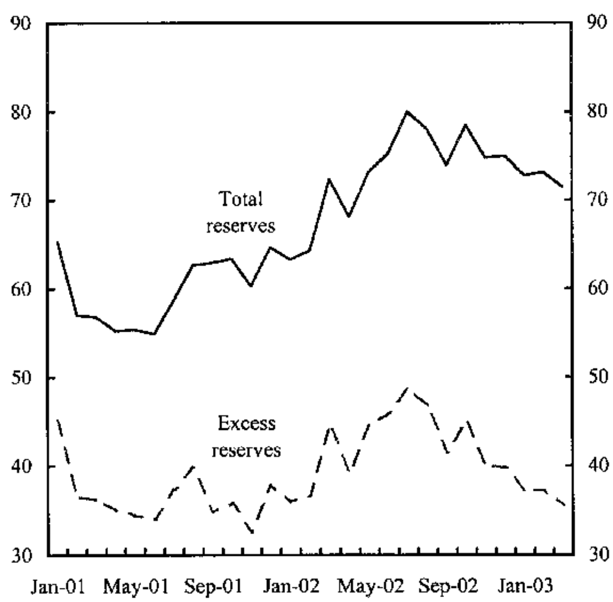
A tighter monetary policy has also resulted in a higher cost of finance



Large capital inflows have driven the growth of broad money in 2002



Excess reserves have been declining since mid-2002



Source: Bank of Sudan.

Table 1. Sudan: Quantitative Quarterly Benchmarks, 2002

(In billions of Sudanese dinars; unless otherwise indicated)

	Dec. 2001	Cumulative Change in 2002 1/					
		Q3			Q4		
	Actual 2/	Program	Progr. with Adjustor	Actual	Program	Progr. with Adjustor	Actual
BOS net domestic assets 3/	240.8	11.0	6.7	-12.0	13.7	3.6	-15.5
Domestic financing of the fiscal deficit 4/	...	28.3	24.0	28.1	26.3	16.2	5.9
Contracting or guaranteeing of external nonconcessional loans by government and BOS 5/	...	0.0	...	...	0.0	...	...
BOS gross usable reserves (in millions of U.S. dollars) 6/	44.9	58.4	74.9	134.7	78.0	116.5	198.7
Payments to the Fund (in millions of U.S. dollars)	...	18.0	18.0	18.0	24.0	24.0	24.0
Memorandum items:							
Broad money 3/	432.2	62.7	62.7	100.1	77.8	77.8	131.1
Central government social expenditure 7/	...	31.4	31.4	33.8	43.3	43.3	45.5
Oil saving account	...	...	...	4.3	...	...	10.1

Sources: Sudanese authorities; and Fund staff estimates.

1/ Cumulative change from the end of the previous year.

2/ Outstanding stock at year-end.

3/ Based on new presentation of the monetary data, consistent with IMF guidelines, adopted in January 2000. Net BOS financing is defined as borrowing by the central bank from the BOS (including GMCs) minus central government deposits at the BOS.

4/ Defined as total net borrowing by the government, including net borrowing from the Bank of Sudan (including GMCs and changes in deposits of the central government with the BOS), net sales of GMCs outside of the BOS, revenues from privatization, and repayments of internal domestic debts.

5/ This indicative target applies not only to debt as defined in point no. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274-(00/85), 8/24/00), but also to commitments contracted or guaranteed for, for which value has not been received. Debt will be deemed to be concessional when the currency-specific discount rate (determined by the market-related "commercial interest (00/85), 8/24/00), reference rates (CIRR)" as published by the OECD) applied to the contractual schedule of charges and principal payments, indicates a grant element of at least 35 percent. The indicative target excludes the financing of the Merowe hydropower project.

6/ In the new presentation of the Monetary Authorities' Accounts, gross usable reserves include foreign banknotes in the vaults of the BOS.

7/ Central government expenditure on medical care; health services; poor students' support; supplement to poor consumers of electricity; social and health insurance; and water, health, and education development.

Table 2. Sudan: Structural Benchmarks for 2002

Policy Area	Status of Implementation
By end-June 2002	
1. Prepare a first draft of a mechanism to smooth expenditures against fluctuations in oil prices, including through the preparation of the annual budgets in the context of a rolling three-year, medium-term budget.	Done.
2. Implement GFS classification on a quarterly basis.	Done.
3. Abolish netting by public enterprises and private sector entities of payments against claims.	Done.
4. Conduct a comprehensive review of all tax exemptions and calculate their fiscal cost.	Done.
5. Implement a system that will ensure cash payment, as budgeted, of oil-collateralized debt service payments in order to avoid in-kind lifting.	Done.
6. Complete the 2001 audit of the Sudan Petroleum Company (SPC) and the public oil sector.	Done.
7. Discontinue in-kind deliveries of petroleum products by the SPC to government agencies and the subsequent netting operations related to it, except for transactions in oil for the National Electricity Corporation and the Ministry of Defense, for which netting will be abolished in 2003.	Done.
8. Eliminate the ceilings on Murabaha rates in both domestic and foreign currency and the limit on the share of Murabaha financing in banks' credit.	Done.
9. Establish coordinating mechanism between monetary and fiscal policies.	Done.
10. Strengthen flash reporting system by including weekly estimates of key aggregate monetary variables.	Done.
By end-September 2002	
11. Finalize the design of a mechanism for the smoothing of expenditures against fluctuations in oil prices.	Done.
12. Compile data on budgetary arrears by collecting reports on arrears from all budgetary agencies on a monthly basis.	Done.
13. Prepare a plan for rationalizing exemptions.	Done.

Table 2. Sudan: Structural Benchmarks for 2002 (concluded)

Policy Area	Status of Implementation
15. Complete a proposal for introducing new instruments to replace GMCs and CMCs with Fund technical assistance.	Done.
16. Introduce and enforce a schedule of fees/fines on commercial banks that do not comply with NPLs provisioning and capital adequacy ratios.	Done.
17. Issue Bank of Sudan circular on money laundering.	Done.
By end-December 2002	
18. Increase the field audit capacity of the VAT department to 30 percent of the professional staff over a three-year period, with a first allocation of 20 qualified auditors in 2002.	Done.
19. Amend the VAT law to limit registration of small importers and traders, within the context of the 2003 budget.	Not done.
20. Undertake, with Fund technical assistance, a comprehensive review of direct taxation, including policy, legislation, administration, and incentive regime.	Done.
21. Complete the restructuring of El-Nilein Bank.	Done.
22. Conduct a study, with Fund technical assistance, examining introduction of a market-based mechanism for hedging agricultural finance risks, including possibly through the establishment of commodity future markets for agricultural products.	Not done; awaiting Fund technical assistance.
23. Draft revised I-PRSP, incorporating the action plans formulated with World Bank technical assistance.	Under way.

Table 3. Sudan: Selected Economic and Financial Indicators, 1999–2003

(Quota: SDR 169.7 million)
Population: 32.7 million (2002 est.)
Per capita GDP: US$401 (2002 est.)

	Actual 1/			Program	Actual	Proj.
	1999	2000	2001	2002		2003
	(Annual changes in percent)					
National income, production, and prices						
Nominal GDP (in billions of Sudanese dinars)	2,541	2,832	3,130	3,483	3,559	4,029
Real GDP growth	6.9	6.9	5.3	5.0	5.0	5.8
Real non-oil GDP growth	6.1	3.0	4.7	4.8	4.5	5.7
Average CPI inflation	16.0	8.0	4.9	6.0	8.3	7.0
12-month CPI inflation (end of period)	17.0	3.3	7.4	6.0	8.3	6.0
	(In percent of GDP)					
Investment and saving						
Gross domestic investment	17.3	18.7	18.7	18.5	19.5	21.0
Government sector	1.3	2.6	2.5	2.8	3.3	4.0
Nongovernment sector	16.0	16.1	16.2	15.7	16.2	17.0
Gross domestic saving	7.6	16.0	10.1	16.9	12.2	15.8
Government sector	1.2	3.0	2.4	1.8	3.5	5.3
Nongovernment sector	6.4	13.0	7.7	15.1	8.7	10.5
Net exports of goods and nonfactor services	-9.7	-2.7	-8.6	-1.6	-7.4	-5.2
Central government operations						
Total revenue	8.1	11.5	11.8	12.5	13.2	14.9
Total expenditure	8.9	12.4	12.8	13.6	14.1	15.7
Overall balance (cash)	-0.9	-0.8	-1.0	-1.0	-0.9	-0.9
	(Changes in percent of beginning broad money stock)					
Money and credit 2/						
Net foreign assets (excluding valuation changes)	5.6	10.7	-8.6	6.0	23.2	10.5
Net domestic assets	18.1	23.9	33.3	12.0	7.2	7.5
Net domestic credit	16.0	18.6	25.9	11.8	8.7	6.0
Of which						
Net claims on central government	12.0	2.9	9.0	4.2	-1.5	-1.3
Claims on nongovernment sectors	4.0	15.7	16.9	7.7	10.2	7.4
Other items (net)	2.1	5.4	7.4	0.2	-1.5	1.5
Broad money	23.7	34.6	24.7	18.0	30.3	18.0
Reserve money (change in percent)	34.6	35.3	3.7	15.0	22.0	16.2
Velocity (average)	10.7	9.2	7.7	6.9	7.0	6.5
	(In millions of U.S. dollars; unless otherwise indicated)					
External sector						
Exports, f.o.b.	780	1,864	1,699	1,839	1,927	2,324
Imports, f.o.b.	-1,500	-1,634	-2,031	-2,188	-2,153	-2,323
External current account balance 3/	-567	-661	-1,295	-1,116	-1,017	-1,098
In percent of GDP	-5.6	-6.0	-10.7	-8.5	-7.5	-7.2
Terms of trade (non-oil X/non-oil M)	1.6	0.4	-6.2	-5.8	-6.9	3.8
Real effective exchange rate (end of period, change in percent) 4/	19.3	9.5	7.5	...	-6.3	...
Official exchange rate (end of period, SD/US$)	256.9	257.4	261.4	...	261.7	...
Total external debt service (percent of current receipts) 5/						
Commitment basis	110.5	64.7	47.4	38.7	28.9	28.7
Actual payments	4.8	4.3	5.1	4.3	2.0	6.1
External debt (in billions of U.S. dollars)	18.3	19.4	20.2	22.7	20.9	21.6
BOS gross usable reserves (in millions of U.S. dollars)	53.4	135.0	44.9	123.0	243.6	383.6
In months of next year's imports	0.3	0.7	0.2	0.9	1.2	1.7
Crude oil export price (U.S. dollars per barrel)	19.8	27.8	21.5	20.0	23.2	24.5

Source: Fund staff estimates and projections based on information provided by the Sudanese authorities.

1/ National accounts data for 1999–2001 are staff estimates.
2/ Definition of broad money in 2001 is based on the new presentation of monetary aggregates, adopted in January 2000.
3/ On a cash basis and excluding public transfers.
4/ Since the beginning of the fiscal year.
5/ Exports of goods and nonfactor services and private transfers.

Table 4. Sudan: Summary Balance of Payments, 1999–2003

	1999	2000	2001	Est. 2002	Proj. 2003
	(In millions of U.S. dollars)				
Current account balance	-1,702.9	-1,840.4	-2,116.0	-1,540.9	-1,602.1
(Cash basis and excluding public transfers)	-566.7	-660.7	-1,294.7	-1,016.6	-1,098.1
Trade balance	-720.5	229.7	-331.9	-225.4	0.3
Exports, f.o.b.	780.0	1,863.8	1,698.7	1,927.4	2,323.7
Crude oil	275.9	1,297.8	1,268.0	1,396.5	1,693.8
Petroleum products	0.0	110.1	108.6	93.2	115.6
Non-oil products	504.1	455.9	322.1	437.7	514.3
Imports, f.o.b. 1/	-1,500.4	-1,634.2	-2,030.6	-2,152.8	-2,323.3
Foodstuffs	-275.7	-339.5	-416.3	-440.6	-506.1
Petroleum	-183.9	-108.0	-130.2	-131.1	-139.2
Other	-1,040.8	-1,186.7	-1,484.0	-1,581.2	-1,678.1
Services (net)	-257.1	-527.0	-714.1	-770.9	-795.7
Receipts	51.5	27.5	14.7	47.2	51.9
Payments	-308.6	-554.6	-728.8	-818.1	-847.7
Of which: oil transportation costs	-85.2	-251.4	-367.3	-437.4	-453.1
Income (net)	-1,212.4	-1,887.1	-1,442.6	-1,210.3	-1,396.4
Receipts	19.1	4.6	17.8	19.3	19.0
Payments	-1,117.9	-1,268.8	-892.3	-598.5	-637.4
Of which: public interest due 2/	-1,214.6	-1,253.4	-880.0	-582.9	-627.0
Oil-related expenses 3/	-113.6	-622.9	-568.1	-631.1	-778.1
Current transfers (net)	487.0	344.1	372.7	665.7	589.8
Private transfers	445.8	315.2	366.5	633.7	556.8
Public transfers	41.2	28.9	6.2	32.0	33.0
Capital account	0.0	20.6	1.9	2.1	0.0
Project aid	0.0	20.6	1.9	2.1	0.0
Financial account (net)	-59.7	-124.7	-52.4	-130.9	23.2
Gross disbursements	44.0	40.7	21.7	44.7	144.1
Of which: Merowe project	0.0	0.0	0.0	0.0	63.0
Amortization	-206.5	-264.7	-156.8	-170.5	-215.4
Short-term capital flows (net) 4/	107.6	117.4	119.8	122.4	128.5
Commercial banks NFA (increase -)	-4.8	-18.1	-37.1	-127.5	-34.0
Other private capital flows (including errors and omissions)	448.9	721.8	1,285.6	1,081.0	1,068.4
FDI, including oil-related	223.6	128.2	574.0	642.8	697.0
Other	225.3	325.9	711.6	438.2	371.4
Overall balance	-1,313.7	-1,222.6	-880.9	-588.6	-510.4
Change in official reserves (increase -)	-36.3	-109.3	0.0	-136.4	-152.6
IMF (net)	-10.0	-27.7	-23.8	-8.0	-12.6
Total payments to the Fund	-40.2	-62.5	-55.0	-24.0	-27.0
Change in arrears on charges	30.2	34.8	31.2	16.0	14.4
Other	-26.3	-81.6	23.8	-128.4	-140.0
Exceptional financing	1,350.0	1,331.9	880.9	725.0	663.0
Change in non-Fund arrears	1,350.0	1,331.9	880.9	684.4	648.0
Privatization receipts				40.6	15.0
Financing gap	0.0	0.0	0.0	0.0	0.0

Table 4. Sudan: Summary Balance of Payments, 1999–2003 (concluded)

	1999	2000	2001	Est. 2002	Proj. 2003
			(In percent of GDP)		
Memorandum items:					
Current account	-16.9	-16.7	-17.5	-11.4	-10.5
(Cash basis and excluding public transfers)	-5.6	-6.0	-10.7	-7.5	-7.2
Gross usable reserves (in millions of U.S. dollars)	53.3	134.9	44.9	243.6	383.6
(In months of next year's imports) 5/	0.3	0.7	0.2	1.2	1.7
			(Percent change)		
Exports (value)	30.9	139.0	-8.9	13.5	20.6
Non-oil export (value)	-15.4	-9.6	-29.3	35.9	17.5
Non-oil export (volume)	-12.5	-5.8	-23.0	40.0	5.0
Imports (value)	-9.8	8.9	24.3	6.0	7.9
Import volume	-14.7	2.2	31.6	1.3	0.9
Import volume (excluding imports of petroleum products)	-2.3	20.2	27.1	2.0	0.2
Terms of trade (non-oil X/non-oil M)	1.6	0.4	-6.2	-6.9	3.8
Nominal GDP (in billions of U.S. dollars)	10.1	11.0	12.1	13.5	15.2

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ Import figures were revised up to reflect improved coverage.
2/ Includes estimates of late interest accrued during the year and Fund special charges.
3/ Includes payments to oil companies related to profit-sharing arrangements.
4/ Net short-term trade and other credit facilities of the BOS and commercial banks.
5/ Total imports excluding oil pipeline-related imports.

Table 5. Sudan: Central Government Operations, 1999–2003

	Actual				Budget	Program
	1999	2000	2001	2002	2003	2003
	(In billions of Sudanese dinars)					
Total revenues	205.5	326.3	370.0	470.7	586.6	598.5
Tax revenue	153.3	157.4	188.7	213.4	268.5	260.9
Direct taxes	36.1	37.4	41.5	41.2	53.5	46.6
Indirect taxes	117.2	120.0	147.2	172.2	215.0	214.3
Taxes on international transactions	84.4	69.6	77.1	97.6	114.7	103.8
Excise duties	32.8	34.3	32.5	33.2	40.0	48.5
VAT	0.0	16.1	37.7	41.4	60.3	62.0
Nontax revenue	52.2	169.0	181.3	257.2	318.1	337.6
Departmental fees	9.4	9.2	10.3	13.0	18.4	18.4
National revenues	42.8	159.7	171.0	244.2	299.7	319.2
Non-oil	27.1	18.9	21.3	33.5	50.6	50.6
Oil	15.7	140.9	149.7	210.7	249.1	268.6
Crude oil	...	...	148.9	182.9	207.2	241.8
Of which: OSA	...	...	...	10.1	17.4	23.1
Profit from sales of petroleum products	...	...	0.8	27.7	41.9	26.8
Total expenditure	227.2	349.9	401.1	503.4	687.4	634.3
Current expenditure	195.0	275.4	322.5	384.8	501.4	472.9
Chapter one (wages and salaries)	80.4	105.9	131.6	165.1	199.0	196.5
Chapter two (other current spending)	101.8	142.8	165.9	186.8	244.4	219.3
Debt service paid	20.2	34.6	26.2	50.6	64.7	65.2
Goods and services	37.9	53.3	48.8	50.5	75.5	53.0
General reserve	24.9	36.8	59.5	50.9	45.7	45.7
Other	18.9	18.0	31.3	34.8	58.5	55.5
Chapter three (current transfers to states)	12.8	26.8	25.0	32.9	58.0	57.1
Capital expenditure	32.2	74.5	78.7	118.6	186.1	161.4
Domestically-financed	25.7	67.1	73.3	108.9	146.0	123.0
Foreign-financed	6.5	7.4	5.4	9.6	40.0	38.4
Overall deficit (cash basis)	-21.7	-23.6	-31.2	-32.7	-100.8	-35.8
Financing	21.7	23.6	31.2	32.7	100.8	35.8
Foreign financing	8.5	11.7	5.4	9.6	40.0	38.4
Domestic financing	26.6	8.3	39.3	6.0	60.8	-2.6
BOS	28.2	6.1	28.8	-22.0	...	-13.1
GMCs (net)	0.0	1.2	20.1	-17.4	...	3.3
Temporary advances	30.8	8.2	10.0	12.9	...	6.7
Deposits	-2.7	-3.3	-1.3	-17.6	...	-23.1
OSA				-10.1		-23.1
Other deposits	...	...	...	-7.5	...	0.0
DMBs	-3.0	1.2	2.4	15.5	...	5.5
Advances	-0.1	0.0	0.0	0.1	...	0.0
GMCs (net)	0.1	4.0	3.2	13.4	...	5.5
Deposits	-3.1	-2.8	-0.7	2.0	...	0.0
Nonbanks	1.5	1.0	12.7	9.7	...	8.0
Domestic arrear repayments	...	...	-7.0	-8.4	-9.0	-9.0
Privatization	...	...	2.5	11.1	17.0	6.0
Floats and discrepancies	-13.4	3.6	-13.6	16.3	0.0	0.0
Memorandum items:						
Non-oil revenue	189.8	185.5	221.1	287.7	379.4	356.7
Oil revenue (excluding the OSA) 1/	15.7	140.9	148.9	172.9	207.2	241.8
Non-oil domestic deficit	-37.4	-164.4	-180.1	-206.0	-268.0	-239.2
Domestic financing excluding the OSA	26.6	8.3	39.3	16.0	...	20.5
Nominal GDP (at factor cost)	2,541	2,832	3,130	3,559	4,029	4,029

Table 5. Sudan: Central Government Operations, 1999–2003 (concluded)

	Actual				Budget	Program
	1999	2000	2001	2002	2003	2003
	(In percent of GDP)					
Total revenues	8.1	11.5	11.8	13.2	14.6	14.9
Tax revenue	6.0	5.6	6.0	6.0	6.7	6.5
Direct taxes	1.4	1.3	1.3	1.2	1.3	1.2
Indirect taxes	4.6	4.2	4.7	4.8	5.3	5.3
Taxes on international transactions	3.3	2.5	2.5	2.7	2.8	2.6
Excise duties	1.3	1.2	1.0	0.9	1.0	1.2
VAT	0.0	0.6	1.2	1.2	1.5	1.5
Nontax revenue	2.1	6.0	5.8	7.2	7.9	8.4
Departmental fees	0.4	0.3	0.3	0.4	0.5	0.5
National revenues	1.7	5.6	5.5	6.9	7.4	7.9
Non-oil	1.1	0.7	0.7	0.9	1.3	1.3
Oil	0.6	5.0	4.8	5.9	6.2	6.7
Of which: export	...	...	...	2.4	2.9	3.7
Total expenditure	8.9	12.4	12.8	14.1	17.1	15.7
Current expenditure	7.7	9.7	10.3	10.8	12.4	11.7
Chapter one (wages and salaries)	3.2	3.7	4.2	4.6	4.9	4.9
Chapter two (other current spending)	4.0	5.0	5.3	5.2	6.1	5.4
Debt service paid	0.8	1.2	0.8	1.4	1.6	1.6
Goods and services	1.5	1.9	1.6	1.4	1.9	1.3
General reserve	1.0	1.3	1.9	1.4	1.1	1.1
Other	0.7	0.6	1.0	1.0	1.5	1.4
Chapter three (current transfers to states)	0.5	0.9	0.8	0.9	1.4	1.4
Capital expenditure	1.3	2.6	2.5	3.3	4.6	4.0
Domestically-financed	1.0	2.4	2.3	3.1	3.6	3.1
Foreign-financed	0.3	0.3	0.2	0.3	1.0	1.0
Overall deficit (cash basis)	-0.9	-0.8	-1.0	-0.9	-2.5	-0.9
Financing	0.9	0.8	1.0	0.9	2.5	0.9
Foreign financing	0.3	0.4	0.2	0.3	1.0	1.0
Domestic financing	1.0	0.3	1.3	0.2	1.5	-0.1
BOS	1.1	0.2	0.9	-0.6		
DMBs	-0.1	0.0	0.1	0.4		
Nonbanks	0.1	0.0	0.4	0.3		
Domestic arrear repayments	...	...	-0.2	-0.2		
Privatization	...	...	0.1	0.3	0.4	0.1
Floats and discrepancies	-0.5	0.1	-0.4	0.5	0.0	0.0
Memorandum items:						
Non-oil revenue	7.5	6.5	7.1	8.1	9.4	8.9
Oil revenue (excluding the OSA) 1/	0.6	5.0	4.8	4.9	5.1	6.0
Non-oil domestic deficit	-1.5	-5.8	-5.8	-5.8	-6.7	-5.9
Domestic financing excluding the OSA	...	...	...	0.4	...	0.5

Sources: Sudanese authorities; and Fund staff estimates.

1/ Oil revenue includes proceeds from crude oil sales and excludes profits from domestic oil sales.

Table 6. Sudan: Monetary Survey, 2000–03 1/

	Actual					Prog.	Actual	Prog.	Actual	Prel.	Prog.		
	Dec.	Dec.	Mar.	Jun.	Sep.	Sep.	Dec.	Dec.	Feb.	Mar.	Jun.	Sep.	Dec.
	2000	2001	2002			2002			2003		2003		
	(In billions of Sudanese dinars)												
Net foreign assets	-677.5	-696.5	-667.6	-685.5	-652.7	-675.1	-627.0	-669.7	-609.6	-620.2	-595.0	-588.0	-567.6
Bank of Sudan	-747.3	-777.1	-764.1	-781.3	-764.4	-760.7	-741.2	-755.6	-725.5	-722.8	-710.4	-706.4	-689.1
Commercial banks	69.8	80.6	96.6	95.8	111.7	85.6	114.2	85.9	115.9	102.6	115.4	118.4	121.4
Counterpart to valuation changes 2/	777.0	766.1	766.0	797.1	796.3	765.0	796.8	765.5	796.1	796.6	796.6	796.6	796.6
Net foreign assets (excluding valuation adjustment)	99.5	69.7	98.4	111.6	143.7	89.8	169.9	95.8	186.5	176.5	201.6	208.5	228.9
Net domestic assets	247.1	362.5	376.2	389.1	388.7	405.0	393.4	414.3	408.1	415.9	419.4	435.8	435.7
Net domestic credit	202.5	292.2	300.3	312.8	326.2	334.1	329.7	343.3	328.3	325.3	347.3	363.6	363.6
Net claims on central government	106.1	137.3	141.7	142.9	150.0	153.1	130.8	155.3	120.4	117.7	124.2	128.7	123.2
Bank of Sudan	108.2	137.0	144.5	138.8	139.5	143.8	115.0	145.0	108.6	103.6	104.4	106.9	101.9
Commercial banks	-2.1	0.3	-2.8	4.1	10.5	9.4	15.8	10.4	11.8	14.1	19.8	21.8	21.3
Claims on nongovernment sectors	96.4	154.9	158.7	169.9	176.2	181.0	198.9	188.0	207.9	207.6	223.1	241.7	240.4
Other items (net)	44.7	70.3	75.8	76.3	62.5	71.0	63.7	71.0	79.8	90.5	72.2	72.2	72.2
Broad money	346.7	432.2	474.5	500.7	532.4	494.9	563.3	510.0	594.6	592.3	621.0	644.3	664.7
Currency outside banks	142.1	153.8	161.4	163.8	172.6	175.3	193.6	183.6	197.7	198.2	209.2	218.8	233.3
Deposits	204.6	278.4	313.2	336.9	359.7	319.6	369.7	326.4	396.9	394.1	411.8	425.5	431.4
Memorandum items:													
Reserve money (in billions of Sudanese dinars)	221.5	229.8	248.8	259.5	259.3	256.4	280.3	264.3	293.3	289.9	305.9	311.3	325.8
Reserve money (annual percentage change)	35.3	3.7	16.7	20.8	19.1	17.8	22.0	15.0	18.1	16.5	17.9	20.0	16.2
Broad money (annual percentage change)	34.6	24.7	29.7	21.6	25.5	16.6	30.3	18.0	25.7	24.8	24.0	21.0	18.0
Excess reserves to reserve money (in percent)	18.2	16.5	17.9	17.7	16.0	15.7	14.2	14.7	14.0	13.6	11.9	11.2	10.5
Broad money multiplier	1.56	1.88	1.91	1.93	2.05	1.93	2.01	1.93	2.03	2.04	2.03	2.07	2.04
Velocity (average)	9.2	7.7	...	...	...	...	7.0	6.9	...	...	...	...	6.5
Usable international reserves/broad money (in percent)	10.0	2.7	3.8	5.1	8.9	5.5	11.3	6.3	14.9	15.1	15.3	15.4	15.3
Usable international reserves (in millions of U.S. dollars)	135	45	69.7	96.3	179.6	103	243.6	123	339.1	342.0	360	375	384

Sources: Sudanese authorities; and Fund staff estimates.

1/ Revised presentation, consistent with the IMF guidelines, adopted in January 2000.

2/ In 2003, calculated using the exchange rate projected for end-December.

Table 7. Sudan: Monetary Authorities' Accounts, 2000–03 1/

	Actual					Prog.	Actual	Prog.	Actual	Prel.	Proj.		
	Dec.	Dec.	Mar.	Jun.	Sep.	Sep.	Dec.	Dec.	Feb.	Mar.	Jun.	Sep.	Dec.
	2000	2001	2002			2002	2002	2002	2003	2003	2003		
	(In billions of Sudanese dinars)												
Net foreign assets	-747.3	-777.1	-764.1	-781.3	-764.4	-760.7	-741.2	-755.6	-725.5	-722.8	-710.4	-706.4	-689.1
Foreign assets	73.1	41.2	53.3	66.3	85.2	56.7	119.8	61.9	138.3	134.7	150.5	154.5	171.9
Foreign liabilities	820.4	818.3	817.5	847.6	849.5	817.5	861.0	817.5	863.8	857.5	861.0	861.0	861.0
Counterpart to valuation changes 2/	776.2	766.0	765.3	795.6	794.9	764.8	796.1	765.3	795.5	795.6	796.1	796.1	796.1
Net domestic assets	192.6	240.8	247.7	245.2	228.8	252.3	225.3	254.5	223.3	217.1	220.2	221.6	218.7
Net domestic credit	133.1	163.8	172.9	163.7	160.8	177.4	137.1	179.6	137.6	130.4	139.0	140.4	132.5
Net claims on central government	108.2	137.0	144.5	138.8	139.5	143.8	115.0	145.0	108.6	103.6	104.4	106.9	101.9
Claims	116.7	146.7	160.6	154.5	158.1	153.5	142.2	154.7	146.8	148.4	154.8	157.3	152.2
Temporary advances	8.0	18.0	30.7	29.7	34.2	30.6	30.9	27.0	34.3	34.2	36.3	40.3	37.6
GMCs	1.2	21.3	22.4	17.3	16.5	15.4	3.9	20.2	5.0	6.8	11.0	9.5	7.3
Long-term claims	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5
Deposits	8.4	9.7	16.1	15.6	18.6	9.7	27.3	9.7	38.2	44.8	50.4	50.4	50.4
Of which: OSA	...	...	...	...	4.4	...	10.1	...	16.0	30.0	33.2	33.2	33.2
BOS claims on public enterprises	17.1	14.8	13.6	8.6	6.1	15.0	5.7	15.0	5.7	5.7	17.7	16.5	14.7
BOS claims on banks	8.8	12.6	15.0	18.0	18.4	18.6	17.1	19.6	23.3	23.7	17.0	17.0	16.0
Money market instruments (CMCs)	-1.1	-0.6	-0.2	-1.7	-3.3	0.0	-0.8	0.0	-6.0	-2.7	0.0	0.0	0.0
Other items (net)	59.5	77.0	74.8	81.5	68.0	75.0	88.2	75.0	91.8	86.7	81.2	81.2	86.2
Reserve money	221.5	229.8	248.8	259.5	259.3	256.4	280.3	264.3	293.3	289.9	305.9	311.3	325.8
Currency outside banks	142.1	153.8	161.4	163.8	172.6	175.3	193.6	183.6	197.7	198.2	209.2	218.8	233.3
Reserves of commercial banks	65.7	64.7	72.3	75.2	74.0	69.1	75.0	68.1	76.5	75.3	77.6	77.3	77.4
Required reserves 1/	25.5	26.8	27.7	29.3	32.4	28.8	35.2	29.4	35.4	36.0	41.2	42.5	43.1
Excess reserves	40.3	37.9	44.6	45.9	41.5	40.3	39.8	38.8	41.1	39.3	36.4	34.7	34.2
Deposits at BOS included in broad money	13.7	11.3	15.1	20.4	12.7	12.1	11.7	12.5	19.2	16.4	19.1	15.1	15.1

Sources: Sudanese authorities; and Fund staff estimates.

1/ Revised presentation, consistent with IMF guidelines, adopted in January 2000.

2/ In 2002, calculated using the program exchange rate of SD 262.4 per US$.

Table 8. Sudan: Baseline Medium-Term Macroeconomic Scenario, 2000–08

	Actual 1/			Projections					
	2000	2001	2002	2003	2004	2005	2006	2007	2008
				(Change in percent)					
Production and prices									
Nominal GDP (in billions of Sudanese dinars)	2,832	3,130	3,559	4,029	4,440	4,857	5,331	5,873	6,471
Real GDP	6.9	5.3	5.0	5.8	6.5	5.3	5.3	5.0	5.0
Non-oil	4.3	4.7	4.5	5.7	6.1	5.3	5.3	5.0	5.0
Oil	284.1	14.0	12.8	6.7	11.4	5.0	5.0	5.0	5.0
Inflation (period average)	8.0	4.9	8.3	7.0	5.0	5.0	5.0	5.0	5.0
				(In percent of GDP)					
Investment and saving									
Gross domestic investment	18.7	18.7	19.5	21.0	21.1	21.4	21.3	21.2	21.1
Government sector	2.6	2.5	3.3	4.0	3.6	3.9	4.1	4.2	4.4
Nongovernment sector	16.1	16.2	16.2	17.0	17.5	17.5	17.2	17.0	16.7
Non-oil sector	13.3	13.8	14.0	14.8	15.5	15.5	15.2	15.0	14.7
Oil sector	2.8	2.4	2.2	2.2	2.0	2.0	2.0	2.0	2.0
Gross domestic saving	16.0	10.1	12.2	15.8	15.0	14.9	14.9	15.3	15.6
Government sector	3.0	2.4	3.5	5.3	4.4	4.8	5.3	5.5	5.6
Nongovernment sector	13.0	7.7	8.7	10.5	10.6	10.1	9.5	9.9	10.0
Net exports of goods and nonfactor services	-2.7	-8.6	-7.4	-5.2	-6.1	-6.5	-6.5	-5.9	-5.5
Central government operations									
Total revenue	11.5	11.8	13.2	14.9	14.1	14.1	14.3	14.1	13.8
Oil revenue	5.0	4.8	5.9	6.7	5.7	5.5	5.6	5.2	4.9
Non-oil revenue	6.5	7.0	7.3	8.2	8.4	8.6	8.8	8.9	9.0
Total expenditure	12.4	12.8	14.1	15.7	15.0	15.2	15.4	15.3	15.4
Current expenditures	9.7	10.3	10.8	11.7	11.3	11.3	11.2	11.1	10.9
Capital expenditure	2.6	2.5	3.3	4.0	3.6	3.9	4.1	4.2	4.4
Overall deficit (cash basis)	-0.8	-1.0	-0.9	-0.9	-0.9	-1.1	-1.0	-1.2	-1.5
Foreign financing	0.4	0.2	0.3	1.0	0.3	0.3	0.3	0.3	0.3
Domestic financing	0.4	1.3	0.2	-0.1	0.6	0.8	0.7	1.0	1.3
External sector									
Current account on a cash basis									
(in percent of GDP)	-6.0	-10.7	-7.5	-7.2	-6.2	-6.4	-6.2	-5.6	-5.1
External trade balance	2.1	-2.7	-1.7	0.0	-0.6	-1.0	-1.3	-0.8	-0.6
Exports	16.9	14.0	14.7	15.3	14.4	13.5	12.8	12.7	12.5
Imports	-14.8	-16.8	-16.4	-15.3	-15.0	-14.5	-14.0	-13.5	-13.0
Gross official reserves (months of imports)	0.7	0.2	1.2	1.7	2.2	2.4	2.6	2.7	2.9
Export volume (change in percent) 2/	-5.8	-23.0	40.0	5.0	4.2	4.4	4.7	4.7	4.7
Import volume (change in percent) 2/	20.2	27.1	2.0	0.2	5.5	1.6	2.2	0.9	2.1
Terms of trade (change in percent) 2/	0.4	-6.2	-6.9	3.8	0.4	-0.5	-1.2	-0.4	-0.1
Memorandum item:									
Crude oil export price (US$ per barrel)	27.8	21.5	23.2	24.5	21.5	20.0	19.0	19.0	19.0

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ National accounts data for 2000–02 are staff estimates.
2/ Non-oil transactions.

Table 9. Sudan: Indicators of Debt Service Capacity, 1999–2003

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

	1999	2000	2001	Est. 2002	Proj. 2003
Total debt service paid	101	158	160	77	207
Payments to the Fund	47	57	55	26	27
Charges and interest falling due	29	33	27	17	14
Charges settled	9	3	3	3	3
Reduction in overdue obligations	38	54	52	23	24
Overdue obligations to the Fund	1,554	1,451	1,371	1,475	1,462
Total debt service paid, in percent of:					
Exports of goods and nonfactor services	12.2	8.4	9.3	3.9	8.7
Net current receipts 1/	14.6	13.3	13.7	7.0	14.2
Gross official reserves	190	117	357	35	54
GDP	1.0	1.4	1.3	0.6	1.4
Payments to the Fund, in percent of:					
Exports of goods and nonfactor services	5.7	3.0	3.2	1.3	1.1
Net current receipts 1/	6.8	4.8	4.7	2.1	1.9
Gross official reserves	88.4	42.0	122.4	10.5	7.0
GDP	0.5	0.5	0.5	0.2	0.2
Quota 2/	20.2	25.6	25.8	11.1	11.5
External debt service	46.7	35.8	34.3	33.4	13.0
Overdue obligations to the Fund, in percent of:					
Exports of goods and nonfactor services	187	77	80	75	62
Net current receipts 1/	225	122	117	121	100
Gross official reserves	2,913	1,076	3,056	606	381
GDP	15	13	11	11	10
Quota 2/	916	855	808	869	862
External debt	8.5	7.5	6.8	7.1	6.8
Memorandum items:					
Exports of goods and nonfactor services	831	1,891	1,713	1,975	2,376
Net current receipts 1/	691	1,187	1,169	1,215	1,458
Gross official reserves	53	135	45	244	384
In months of imports of next year's imports	0.3	0.7	0.2	1.2	1.7
GDP	10,098	11,013	12,097	13,514	15,203
Quota (in millions of SDRs) 2/	169.7	169.7	169.7	169.7	169.7
External debt (including arrears) 3/	18,321	19,429	20,175	20,878	21,580
Exchange rate (US$/SDR, end of period)	1.373	1.303	1.257	1.360	1.378

Source: Fund staff projections.

1/ Current receipts adjusted for oil-related payments for services and transfers to foreign investors, and net of change in reserves.

2/ As percent of Eighth Review Quota.

3/ The stock of (late) interest payments in arrears and the projection of late interest payments were revised downward as a result of reconciliation of debt stock as per end-2001.

Table 10. Sudan: External Financing Requirements and Sources, 1999–2003

(In millions of U.S. dollars)

	Actual			Est.	Proj.
	1999	2000	2001	2002	2003
Gross financing requirements	1,987	2,243	2,279	1,880	2,003
External current account deficit (excluding official transfers)	1,744	1,869	2,122	1,573	1,635
Debt amortization	207	265	157	171	215
Medium- and long-term debt	207	265	157	171	215
Public sector	197	174	106	171	215
Multilateral 1/	54	54	51	62	70
Bilateral	143	120	52	109	145
Commercial banks	0	0	3	0	0
Private sector	10	91	51	0	0
Short-term debt 2/	0	0	0	0	0
Repayment of arrears	0	0	0	0	0
Gross reserves accumulation	26	82	-24	128	140
IMF repurchases and repayments	10	28	24	8	13
Payments to the Fund	-40	-63	-55	-24	-27
Change in arrears on charges	30	35	31	16	14
Expected financing	1,987	2,243	2,279	1,880	2,003
Official transfers and grants	41	50	8	34	33
Debt financing	44	41	22	45	144
Official creditors	44	41	22	45	144
Multilateral	24	23	22	17	56
Of which: Merowe project	0	0	0	0	63
Bilateral	21	17	0	28	89
Foreign direct investment, and errors and omissions	449	722	1,286	1,122	1,083
IMF purchases and disbursements	0	0	0	0	0
Accumulation of arrears (exceptional)	1,350	1,332	881	684	648
Other flows 3/	103	99	83	-5	95
Financing gap	0	0	0	0	0

Source: Sudanese authorities; and Fund staff estimates and projections.

1/ Excluding the IMF.

2/ Original maturity of less than one year. Stock at the end of the previous period.

3/ Includes all other net financial flows.

SUDAN: FUND RELATIONS

As of March 31, 2003

I. Membership Status: Joined 09/05/57; Article XIV

II. **General Resources Account**:	SDR Million	% Quota
Quota	169.70	100.00
Fund holdings of currency	527.90	311.08
Reserve position in Fund	0.01	0.01

III. **SDR Department**:	SDR Million	% Allocation
Net cumulative allocation	52.19	100.00
Holdings	0.07	0.13

IV. **Outstanding Purchases and Loans**:	SDR Million	% Quota
Stand-by Arrangements	205.32	120.99
Extended Arrangements	123.54	72.80
Contingency and Compensatory Financing Facility	29.33	17.28
Trust fund	59.23	34.90

V. Latest Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
Stand-by	06/25/1984	06/24/1985	90.00	20.00
Stand-by	02/23/1983	03/09/1984	170.00	170.00
Stand-by	02/22/1982	02/21/1983	198.00	70.00

VI. Projected Payments to the Fund: (SDR million; based on existing use of resources and present holdings of SDRs):

	Overdue[1]	Forthcoming				
	03/31/2003	2003	2004	2005	2006	2007
Principal	417.41	--	--	--	--	--
Charges/Interest	665.58	7.25	9.52	9.51	9.52	9.52
Total	1,082.99	7.25	9.52	9.51	9.52	9.52

[1]The projection of charges and interest assumes that overdue principal at the report date (if any) will remain outstanding, but forthcoming obligations will be settled on time.

VII. Exchange and Trade Arrangements

The legal tender is the Sudanese dinar, which replaced the Sudanese pound in proportion SDD 1=LSd 10 in 1999. Since October 1998, the exchange rate system has been unified—market participants determine the exchange rate and trade freely within a unified regulatory framework. The Bank of Sudan (BOS) administers exchange controls and actively transacts directly in the foreign exchange market at negotiated rates on a continuous basis. For the purposes of accounting for official transactions, the BOS calculates the official exchange rate as the median rate quoted by commercial banks on the previous day. This rate is regularly published by the BOS and is used mainly for customs and budgetary transactions.

The trade regime in Sudan has been gradually liberalized. With a few minor exceptions for religious and security reasons, all exports are free from nontariff restrictions. With the same exceptions, all imports are free from nontariff restrictions. As of January 1, 2001, Sudan uses three import tariff bands, plus a zero rate. The only surrender requirement still in effect is the surrender of proceeds from payments related to services in the petroleum sector. Sudan maintains one inoperative bilateral payments agreement with Egypt and an inoperative payment clearing account with the former Soviet Union.

VIII. Article IV Consultation

The last Article IV consultation discussions were held from June 25 through September 9, 2001. The Staff Report (EBS/01/179, 31/10/01) and the Recent Economic Developments (SM/01/324, 31/10/01) were discussed by the Executive Board on November 14, 2001.

IX. Technical Assistance

In January 1995, the Executive Board decided to resume Fund selective technical assistance (TA) to Sudan. Since then, there have been the following TA missions: (i) reform of indirect taxation (August 1995; March, May, and October 1997; May, October, and November 1998; October 1999; and November 2000); (ii) multisector technical assistance in statistics (September/October 1995); (iii) exchange system reform (April and November 1997; May and September 1998); (iv) monetary management and banking supervision (June and November 1997; May, September, and December 1998; May and October 1999; November 2000; and November 2002); (v) government finance statistics (June 1997 and May 1998); (vi) monetary statistics (July 1997; May 2000; and February 2001); (vii) balance of payments and monetary statistics (April 1999); (viii) expenditure control and management (September 1997; May 1998; May 2000; and November 2002); (ix) oil sector taxation (October 1999); (x) introduction of the VAT since October 1999; (xi) reform of direct taxation (November 2002); (xii) training course on financial programming and policies (April 2000); (xiii) monetary statistics (February 2000 and April 2001); and (xiv) GDP and CPI statistics (March and September 2002; and February 2003). Additionally, an MFD long-term banking supervision resident advisor has been assigned to the Bank of Sudan since May 2001.

X. Resident Representative

The Fund's resident representative in Khartoum was withdrawn in June 1990.

SUDAN: RELATIONS WITH THE WORLD BANK[1]

(As of April 2003)

The World Bank has no active lending portfolio in Sudan because of Sudan's default on its financial obligations to the Bank, which led to the suspension of disbursements in April 1993. As a result of discussions between the Bank and the Sudanese authorities on the need for Sudan to take steps towards normalizing its relations and establishing a track record with the Bank, the authorities started making "good faith" payments of $1 million per month to the Bank starting in July 1999. Monthly payments of an equivalent of $500,000 have been made since October 2002. The amount of payments has not been sufficient to prevent a continued accumulation of arrears, which stood at about $240 million at the end of 2002 (from $145 million at the end of 1999). Sudan's outstanding Bank debt, including arrears, is approximately $1.3 billion.

The Bank has been mostly absent from Sudan since 1992. In the 1970s and 1980s, the Bank was a major player in the reconstruction of Sudan, following the Addis Ababa peace agreement of 1972. In the past years, the Bank has occasionally supported small initiatives, on a grant basis, such as the UNICEF's data-collection effort. Over the last six months, as the prospects for peace have risen, the Bank has engaged the government in a policy dialogue on reforming agriculture, it has initiated a Country Economic Memorandum to start rebuilding its knowledge base, and has been working with other donors on reengagement strategies. More recently, the Bank and the IMF have provided technical resource persons for the discussions around wealth sharing in the peace process. In the coming months, the World Bank looks forward to working with the IMF, other multilateral development banks, and bilateral creditors to consider options for the clearance of arrears.

Contact: Ms. Jill Armstrong, Country Program Coordinator for Sudan,
Tel. no.: (202) 473-8471

[1]Prepared by World Bank staff.

Sudan: Data Quality

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
Real sector: National accounts	Historical data reported on time by the Central Statistics Office.	Broadly acceptable: real and nominal GDP by sector available with a 3-year lag.	1968 SNA still in use; oil sector value added calculation not completed; no real GDP by expenditure; 4-year delay in nominal GDP by expenditure; private consumption derived as a residual; estimations rather than surveys are used for most GDP components.	Rebuild the Central Bureau of Statistics' (CBS) institutional capacity; introduce the 1993 SNA; conduct census of agricultural production. Implement the project prepared by the peripatetic real sector expert.
	Last and current year estimates reported to missions by the Ministry of Finance (MOF).	Acceptable.	Estimates are based on incomplete data, in particular for oil value added, livestock, and fruit and vegetable production.	Improve coordination between MOF, CBS, and the ministry of agriculture.
Prices	Monthly CPI reported on time, with a minimal lag.	Acceptable: only CPI for Khartoum area available promptly; weekly CPI upon request.	CPI for Sudan as a whole available with a 4-month lag and its coverage still incomplete; the CPI is based on an outdated consumer basket; income-group indices are not regularly aggregated into CPI.	Conduct new household income and expenditure survey; reduce timing discrepancies and other reporting inefficiencies by individual states.
	Monthly Wholesale Price Index (WPI) reported on time, with a minimal lag.	Acceptable.	Weighting scheme is not available; WPI based on prices for 32 mainly agricultural commodities.	Introduce WPI methodology consistent with SNA.
Government finance	Monthly reporting of main budgetary items, generally on time; 1.5-month lag.	Good: main revenue and expenditure items reported; financing consistent with monetary accounts.	Only partial data on state budgets available; incomplete functional classification; MOF allocations to ministries are reported, but not their actual expenditure; slow progress on the introduction of the GFS classification.	Introduce the GFS classification; improve accounting and reporting procedures at MOF. Implement in full GFS (1997) TA mission recommendations.
Monetary accounts	Monthly reporting of balance sheets. Generally on time; 1.5-month lag.	Acceptable following recent STA missions to improve transparency and reliability of the monetary statistics.	Large and variable other items (net); frequent misclassification errors by commercial banks, in particular for consortium financing which prevents meaningful analysis of the composition of NDA.	Establish a working group to review the BOS's foreign assets; review and revise the guidelines related to consortium financing and ensure compliance. Implement the 2001 TA mission on monetary statistics recommendations, including improvement of commercial banks' other items net.

Type of Data	Scope and Timeliness of Reporting	Adequacy for Monitoring	Areas of Concern	Steps to Improve Integrity
	Weekly flash reports of key monetary aggregates; 1-week lag.	Good: estimates of usable reserves of BOS added in January 2003.	Some divergence between reserve money in balance sheets and end-of-month flash reports.	Include data on returns on investment deposits. Aim at full reporting of the BOS balance sheet.
External sector: foreign exchange reserves	Monthly reporting of BOS active balances. Generally on time; 0.5-month lag.	Acceptable but needs improvement: frequency of monitoring should increase to weekly; quality of data needs to be strengthened.	Gross usable reserves are part of BOS active balances, which also include unusable reserves earmarked for particular purposes (such as oil, medicine, and spare parts imports). The composition of the earmarked reserves and their potential usability in a case of a BOP need are not clear.	Clarify the items that qualify as international reserves in general, and those included in earmarked reserves in particular.
Exchange rate	Upon request; minimal lag.	Good: daily exchange rate available.		
Balance of payments	Quarterly full BOP data provided on time and during missions; 3-month lag.	Acceptable but needs improvement.	Incompleteness of data on some services (oil transportation costs), investment income (oil-related expenses and interest payments due on external public debt), transfers (workers' remittances), financial account (amortization due on external public debt), and FDI; large positive errors and omissions.	Introduce the revised reports form for commercial banks; improve data collection procedures; enforce the use of residency criterion; enhance institutional capacity of the BOS BOP compilation unit. Implement in full the recommendations of the 1999 TA in BOP statistics.
	Monthly trade data; upon request provided with a 2–3 month lag.	Acceptable but needs improvement.	Discrepancies between BOS data and customs data.	
External debt	Monthly payments to creditors. On time;1.5-month lag.	Good: BOS cash flow table is not available.	BOS cash flow table does not reflect exactly actual payments made by the MOF.	Eliminate timing and recording discrepancies between the BOS and the MOF.
	Other debt data; 10-month lag.	Good: coverage is comprehensive, although weaknesses in some areas persist.	BOS records are not reconciled with those of some creditors; data on Official Development Assistance not available; charges on interest in arrears not calculated; for some creditors interest on arrears not separated from delayed interest.	Reconcile the data with creditors; further disaggregate the data according to standard definitions.

Sudan: Core Statistical Indicators as of April 25, 2003 1/

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates (Rates of Charge)	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/ GNP	External Debt/ Debt Service 2/
Date of latest observation	04/22/03	02/27/03	02/27/03	04/03/03	04/03/03	04/03/03	03/2003	Q4/2002	Q4/2002	Q1/2003	1998	Q3/2002
Date received	04/25/03	03/31/03	03/31/03	04/14/03	04/14/03	04/14/03	04/14/03	03/2003	03/2003	04/2003	12/2001	11/2002
Frequency of Data	D	M	M	M	M	W	M/W	M	Q	M	A	A
Frequency of reporting	W	M	M	W	M	M	M	M	Q	M	A	A
Source of update	A (BOS)	A (BOS)	A (BOS)	A (BOS)	A (BOS)	A (BOS)	A (MOF)	A (BOS)	A (BOS)	A (MOF)	A (MOF)	A (BOS)
Mode of reporting	C (Fax)	C (Fax)	C (Fax)	C (Fax)	C (Fax)	C (Fax)	C (Fax)	C (Fax)	C/V (Fax)	C (Fax)	C/V (Fax)	C/V (Fax)
Confidentiality	B	B	B	B	B	B	B	B	B	B	B	B
Frequency of publication	M	M	M	M	M	M/W	M	M	Q	M	A	A

Abbreviations: Frequency: D-daily, W-weekly, M-monthly, Q-quarterly, A-annual. Mode of reporting: A-direct reporting by authorities; C-reporting by fax; V-staff visits. Confidentiality: B-for use by the staff and the Executive Board. BOS-Bank of Sudan, MOF-Ministry of Finance.

1/ (M) published monthly and (Q) quarterly in IFS; (W) weekly in BOS fact sheets. All data published annually in BOS's Annual Report.
2/ The latest external debt stock data (for end-2001) were provided by the authorities in June 2002.

Khartoum, May 15, 2003

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Köhler:

We have completed our discussions with Fund staff on the final review of the 2002 Staff-Monitored Program (SMP), concluding that we have successfully implemented the objectives of the program and exceeded expectations in several areas. Furthermore, we have reached agreement on a strong SMP for 2003 to which we are fully committed. We undertake this commitment on the eve of the signing of a peace agreement that will undoubtedly bring its dividends in terms of political stability but is also expected to bring challenges in economic terms.

By maintaining the momentum of successive SMP, since 1997, we believe that we will achieve the objectives agreed for 2003. This will further establish our track record of strong commitment to sound economic policies and thus strengthen the grounds for moving quickly to clear Sudan's arrears to the Fund and receive assistance under the HIPC initiative.

We look forward to the Executive Board's discussion of our performance under the 2002 SMP and endorsement of the strength of our policy commitment under the 2003 SMP. We sincerely hope that the Board will give formal recognition to our efforts in this regard and thereby establish a timetable for addressing Sudan's unsustainable debt situation.

Sincerely yours,

/s/
Elzubeir Ahmed Elhassan
Minister of Finance and National Economy

/s/
Sabir Mohammed Hassan
Governor
Bank of Sudan

SUDAN

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

I. RECENT MACROECONOMIC DEVELOPMENTS

1. This memorandum reviews the outcome of the 2002 Staff-Monitored Program, outlines the economic program for 2003, and sets out our medium-term policy objectives.

2. The economic environment in 2002 remained broadly in line with the program's projections, and all quantitative targets for end-December were met. Real GDP growth reached the program target of 5 percent, while the average CPI inflation rate rose to 8.3 percent compared with 6–7 percent under the program. Overall, the foreign exchange market was stable during the year.

3. The external current account deficit (on cash basis) improved in 2002 to 7.5 percent of GDP compared with 10.7 percent in 2001, reflecting mainly a surge in private transfers. Large private capital inflows, including foreign direct investment, continued to finance the current account deficit, allowing for a significant buildup in international reserves, albeit from a very low level. In addition, some non-oil exports, such as cotton and livestock, performed better than projected.

4. The fiscal outcome for 2002 was better than expected. The fiscal deficit reached 0.9 percent of GDP compared with the program target of 1 percent. Total revenue exceeded the year-end program projection on account of higher oil revenue. The performance of direct taxes was as projected, while shortfalls in indirect taxes reflected the effect of a still large number of tax exemptions granted under the Investment Encouragement Act (IEA). We believe that the revenue loss would have been larger without the tightening of VAT exemption criteria, which was put in effect in July 2002. Total expenditures were slightly below the program projection, reflecting lower-than-budgeted current spending, which more than offset a significant increase in capital outlays.

5. The oil revenue savings mechanism that was established in mid-2002 worked as anticipated. All oil revenues arising from oil prices exceeding the $20 per barrel benchmark were saved in a Bank of Sudan (BOS) account and reached about $40 million.

6. Monetary growth accelerated in the second half of 2002 mainly on account of an unexpected sharp increase in private capital inflows. Concerted efforts by the BOS to mop up liquidity in the last quarter of 2002 contained broad money growth to 30 percent, which otherwise could have reached about 35 percent by year-end. These measures included reduced temporary advances to the government and stepped-up sales of government securities and foreign exchange.

7. In May 2002, a managed-float and market-based exchange rate regime was adopted. A number of steps were implemented to increase the flexibility of the exchange rate system. The exchange rate band was widened from 1.5 to 2 percent, restrictions on import financing were abolished, and controls on the transfer of funds in and out of the country by nonbank

dealers were removed. Also, a system was set up to determine in advance the amount of foreign exchange to be sold in the BOS auction based on market conditions, the targeted buildup of international reserves, and monetary policy considerations. As a result, the exchange rate became more responsive to market developments. The exchange rate depreciated by 1.4 percent until September 2002 but appreciated by 1.2 percent towards the end of the year in response to strong foreign exchange inflows.

8. Significant progress was achieved on structural reforms in 2002. All structural benchmarks were implemented with the exception of preparatory work on hedging the risks of agricultural finance, which still awaits Fund technical assistance; finalizing a revised interim Poverty Reduction Strategy Paper (I-PRSP), but progress was achieved in cooperation with the UNDP and the World Bank; and amending the VAT law to limit registration, although, in practice, the VAT threshold has been raised. The privatization program was successful, generating about double the projected receipts and attracting significant interest from foreign investors.

II. Outlook and Policies for 2003

9. Building on the considerable success over the past six years in achieving and maintaining macroeconomic stability, we will strive to implement strong economic policies in 2003. The program envisages a GDP growth rate of 5.8 percent, an inflation rate of about 7 percent, and an increase in international reserve of $140 million (to 1.7 months of imports). Non-oil GDP growth is expected to rise to about 5.7 percent from 4.5 percent in 2002, reflecting the impact of higher investment spending, including foreign direct investment (FDI) and the commencement of the Merowe hydropower project.

10. The external current account deficit (on a cash basis) is projected to decline to 7.2 percent of GDP in 2003 from 7.5 percent in 2002, reflecting higher exports as well as improved terms of trade. Imports are expected to increase by 8 percent in line with FDI and other inflows, particularly in the Merowe hydropower and energy sector projects. Overall exports are projected to increase by 20 percent, owing to an expected increase in crude oil exports and a healthy pickup in non-oil export receipts. The current account deficit will be financed mainly by private capital inflows (mainly FDI) and to a lesser extent by disbursements from the Islamic Development Bank and a number of Arab funds.

11. We are committed to pursuing prudent fiscal policies in 2003. We aim to contain the budget deficit to no more than 0.9 percent of GDP to maintain macroeconomic stability. Domestic financing (excluding the accumulation of deposits in the oil savings account) will be limited to SDD 23.5 billion (0.5 percent of GDP), consistent with a restrained monetary program. However, we will protect outlays on social and development needs, especially in the areas of health, education, and agricultural infrastructure. In addition, we will address underlying fiscal weaknesses by strengthening tax revenue and improving expenditure management.

12. In 2003, we will develop and begin to implement a medium-term program to reform the direct tax system and modernize, with Fund technical assistance, its administration. To

broaden the tax base and reform the tax incentive regime of the IEA, we will enact in a mid-year supplementary budget the following measures:

a. Elimination of the 10 percent privileged tax rate on the income of professionals;

b. Elimination of direct tax privileges to companies operating in the free trade zones;

c. Application of the regular VAT mechanism on all VAT exemptions (including on the imports and sales of capital goods), except on water and electricity;

d. Elimination of tax privileges granted to oil-distribution companies; and

e. Submission to parliament of a proposal to subject the activities of companies operating under the IEA to a minimum business profit tax of 10 percent and eliminate exemptions for rehabilitation purposes.

13. In addition, to comply with the Common Market for Eastern and Southern Africa (COMESA) customs union agreement (expected to be enacted in 2004), we intend to:

a. Align capital goods imports exempted from customs duties under the IEA with the list that will be approved for a zero tariff rate under the COMESA agreement; all other capital goods imports under the IEA will be subject to the regular tariff schedule; and

b. Increase the customs charge on inputs imported under the IEA to the regular tariff rate that will be mandated under the COMESA agreement (these inputs are subject at present to a 3 percent charge).

14. To strengthen the administration of the IEA, a central committee will be established by the end of June 2003, with the sole authority to approve the concerned projects. The ministers of investment and finance will serve as cochairs and approve all decisions. In addition, companies operating under the IEA will be required to file for taxes and submit audited accounts; misfiling will result in the revocation of tax privileges. Finally, exemptions will be limited to a nonrenewable period of a maximum of 10 years for strategic projects and five years for nonstrategic projects.

15. To improve the budget execution process and expenditure management, a new budget formulation process will be formalized in time for the 2004 budget cycle, a cash management unit at the ministry of finance (MOF) will be established by end-December 2003, and the fiscal reporting system will be overhauled with the aim of producing accurate monthly consolidated accounts.

16. We will continue to improve our medium-term budget (MTB) framework. In tandem with the 2004 budget cycle, a more detailed MTB (compared to the summary presented to the parliament with the 2003 budget) will be prepared and will include detailed fiscal projections

and assumptions. In addition, we plan to include in the MTB a set of policy statements regarding the medium-term fiscal policies, with the objective of stabilizing or even improving the domestic non-oil fiscal balance.

17. The oil revenue saving mechanism has facilitated the buildup of international reserves, improved the conduct of monetary policy, and reduced the budget's dependence on oil revenue and its vulnerability to fluctuations in oil prices. The mechanism involved saving, in a BOS account, oil revenue arising from oil prices in excess of a price benchmark that is determined in the annual budget. This process will be further improved by integrating it in the medium-term budget framework, whereby the utilization of oil revenue, and hence the determination of the annual oil price benchmark, will be consistent with the non-oil domestic fiscal balance objective. In case of lower oil prices, an accumulated financing margin will be used to smooth the fiscal adjustment within the year. We envisage that this process would be fully transparent and integrated in the budget.

18. The 2003 program budget is based on an oil price assumption of $22 per barrel, which would allow, in conjunction with projected oil production, for maintaining the non-oil domestic deficit at the 2002 level. In the event of higher oil prices, we will limit expenditure to the programmed level and deposit the surplus revenue in the BOS, correspondingly reducing net credit from the BOS and our overall fiscal deficit.

19. We intend to build on the substantial transparency achieved thus far in the oil sector. In addition to the annual audit of the Sudan Petroleum Company (SPC), we intend, this year, to audit the 2002 accounts of all SPC subsidiaries and ensure that they are fully reflected in the SPC budget. Furthermore, we will initiate a program to align the accounting systems of all oil companies with international standards. These steps are necessary prior to full consolidation of oil sector accounts.

20. To prevent subsidies from inadvertently emerging during periods of rising oil prices, we will continue to review petroleum product prices on a quarterly basis, adjusting them as needed.

21. We intend to maintain our current open nontariff trade system and prepare, by mid-2003, a new medium-term tariff reform program. As a first step, the 5 percent defense tax on imports will be eliminated by midyear. The revenue loss is expected to be offset by the gains from abolishing the tax exemptions outlined in paragraph 12.

22. Strengthening debt (external and internal) management capacity is a key medium-term objective. To this end, we will formulate a public debt policy by end-2003. Furthermore, the existing external debt unit at the BOS will be strengthened, and the internal debt unit at the MOF will be reconstituted. Both units will report to the minister of finance. The tasks of the units will be to consolidate the monitoring and recording of public debt; carry out relevant analysis (including medium- to long-term sustainability analysis); certify, within the established guidelines, the contracting of new debt by public agencies and public guarantees; follow up debt service payments (including issuing payment notices and obtaining payment confirmation); and publish debt statistics. To help us undertake this initiative, we request Fund technical assistance.

23. The program envisages a broad money growth rate target of about 18 percent for 2003. This target is consistent with the GDP growth and inflation objectives, as well as a small decline in velocity. The monetary target and the projected buildup in foreign reserves should allow for an appropriate growth rate of credit to the nongovernmental sector. The broad money growth target will be reassessed during the program reviews to ensure that it remains in line with the program's macroeconomic objectives.

24. We will tighten monetary policy in the first half of 2003 to counter the effects of the excess liquidity that was carried over from the previous year. To achieve the inflation objective, we will reduce high power money emission in the first half of the year by reducing BOS lending to banks and the government and accelerating open market sales of securities by the BOS.

25. Continued large foreign exchange inflows will present a challenge to monetary policy in 2003. We believe that the high level of private capital inflows that occurred in the second half of 2002 are likely to continue, although with some dampening as a result of the Iraq war. In that event, we will continue to rely on indirect monetary instruments as the primary means of sterilizing such inflows. However, if the inflows exceed the BOS's capacity to effectively sterilize them, we could consider slowing the speed of reserves buildup as long as the program's reserve target is met.

26. To further enhance the effectiveness of monetary policy, we intend to establish a monetary operations unit at the BOS. The unit will be responsible for implementing, on a daily basis, the monetary policy guidelines through the coordinated use of the appropriate instruments (i.e., securities, financing windows, and foreign exchange). We also aim to further improve the weekly flash reporting system by including estimates of the remaining items of the central bank balance sheet.

27. We will continue our efforts in the area of banking system reform, particularly in implementing the central bank's reform program in 2003. We intend to submit to parliament amendments to the Law Regulating Banking Activity to ensure consistency with international and domestic developments, as well as to finalize the anti-money laundering law. With Fund technical assistance, we will take steps to introduce a market-based mechanism for hedging agricultural finance risks. However, in order to develop a medium-term reform plan based on a comprehensive assessment of the present condition of the banking system, we have requested that Sudan be considered for a financial sector assessment program (FSAP), which would form the basis of the reform plan.

28. We remain committed to a market-based managed-float exchange rate regime. We took additional steps in early 2003 to ensure that the exchange system is flexible and responsive to market forces. These include abolishing the foreign exchange auction system in favor of direct transactions in the interbank market and reducing the BOS exchange rate spread to 0.5 percent. Furthermore, we no longer maintain any restrictions on payments and transfers for current international transactions, and we intend to accept Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreements.

29. In 2003, we will intensify our efforts on poverty alleviation and rural development, including by improving coordination of the government's anti-poverty efforts. The government is revising its draft I-PRSP with assistance from the UNDP and the World Bank. We will initiate work on a full-fledged Poverty Reduction Strategy Paper covering all of Sudan after a lasting peace accord has been reached.

30. We will continue our strong privatization efforts in 2003. Some of the key candidates for this year are the Bank of Khartoum group and the El Kadro Slaughterhouse. Net proceeds of nearly SDD 6 billion are expected.

31. We are committed to civil service reforms, having already retrenched staff in several ministries in 2003. Furthermore, the increase in the wage bill is being used to reduce the large wage disparities among public sector employees.

III. Medium-Term Outlook

32. Over the medium term, we will continue to implement our structural reform program with the objective of boosting private sector-led growth in the non-oil sector. In the fiscal area, these reforms will include discretionary measures to boost non-oil revenue, measures to tighten budgetary control and increase the budgetary share of development and social spending, as well as institutional reforms to improve the budget process and strengthen federal/state fiscal relationships. With regard to reforms in the monetary sector, we will continue to improve the central bank's open market operations and to strengthen the banking system. In other structural areas, we will continue to take measures to promote private sector investment, including reform of the regulatory framework to make it more investor-friendly, as well as reform of the national irrigation schemes and measures to improve the provision of safe water and energy.

33. In the baseline scenario, real GDP is projected to grow annually at 5 percent over the medium term. Strong growth in the secondary sectors—mainly construction and utilities from the Merowe dam, rising FDI, and the coming on line of several power projects, but also manufacturing from the alleviation of power constraints—is likely to be key. Relatedly, public capital expenditures will rise, and the current account deficit will remain high, reflecting rising capital good imports (mostly FDI-related). However, the availability of foreign finance will depend on uncertain FDI inflows and remittances. This will pose a risk for sustained strong economic growth over the medium term.

34. With peace, we foresee a resolution to Sudan's external debt problems and strengthening our own relations with donors and creditors. Accordingly, the constraints on available foreign finance will diminish, which, in conjunction with an expected increase in FDIs and domestic resource mobilization, will enable significantly larger investments. This will support stronger growth in the secondary and tertiary sectors and results in projected annual growth of nearly 7 percent. Furthermore, rapid expansion in construction, commerce, and other services in the immediate post-conflict period will give a strong boost to aggregate growth.

IV. Relations with the Fund and Other Creditors

35. We remain principally committed to regularizing relations with all our creditors and, in particular, strengthening Sudan's relations with the Fund. Sudan made regular payments to the Fund as committed under the 2002 Staff-Monitored Program (SMP) (about $24 million), and we hope that our record of cooperation will be fully recognized. Notwithstanding that the demands of peace in 2003 will likely place a considerable burden on the resources of the government of Sudan, we will increase our payments to the Fund to $27 million in 2003. We will also continue to make the agreed payments to the World Bank and intensify our efforts towards reaching an agreement with the Arab Monetary Fund, the African Development Bank, and other creditors. Furthermore, we will work closely with a support group of creditors and donors, likely to be led by the United Kingdom.

V. Program Monitoring

36. Proposed quarterly quantitative indicative targets for the period for end-June, end-September, and end-December 2003 are set forth in Table 1 and quarterly structural benchmarks in Table 2. We will monitor financial and economic developments closely in the coming months and will, in consultation with Fund staff, implement any measures that may be needed to safeguard macroeconomic stability.

Table 1. Sudan: Quantitative Quarterly Indicative Targets, 2003

(In billions of Sudanese dinars; unless otherwise indicated)

	Dec. 2002	Cumulative Change During 2003 1/			
		Preliminary	Program		
	Actual 2/	Q1	Q2	Q3	Q4
BOS net domestic assets 3/	225.3	11.7	18.0	19.3	16.5
Domestic financing of the fiscal deficit 4/	...	7.4	15.7	20.6	20.6
Contracting or guaranteeing of external					
nonconcessional loans by the government and BOS 5/	0.0	0.0	0.0	0.0	0.0
BOS gross usable reserves (in millions of U.S. dollars) 6/	243.6	96.0	116.0	131.0	140.0
Payments to the Fund (in millions of U.S. dollars)	...	6.000	12.750	19.875	27.000
Memorandum items:					
Broad money 3/	563.3	33.8	57.7	81.0	101.4
Central government social expenditure 7/	...	13.1	24.5	38.8	53.0
Oil saving account	10.1	...	...	...	23.1

Sources: Sudanese authorities; and Fund staff estimates.

1/ Cumulative change from the end of the previous year.

2/ Outstanding stock at year-end.

3/ Based on new presentation of the monetary data, consistent with IMF guidelines, adopted in January 2000. Net BOS financing is defined as borrowing by the central bank from the BOS (including GMCs) minus central government deposits at the BOS excluding balances accumulated in the oil saving account (OSA).

4/ Defined as total net borrowing by the government, including net borrowing from the BOS (including GMCs and changes in deposits of the central government with the BOS excluding deposits in the OSA), net sales of GMCs outside of the BOS, revenues from privatization, and repayments of internal domestic debts.

5/ This indicative target applies not only to debt as defined in point no. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. Debt will be deemed to be concessional when the currency-specific discount rate (determined by the market-related "commercial interest (00/85), August 24, 2000), reference rates (CIRR)" as published by the OECD) applied to the contractual schedule of charges and principal payments, indicates a grant element of at least 35 percent. The indicative target excludes the financing of the Merowe hydropower project.

6/ In the new presentation of the Monetary Authorities' Accounts, gross usable reserves include foreign banknotes in the vaults of the BOS.

7/ Central government expenditure on medical care; health services; poor students' support; supplement to poor consumer of electricity; social and health insurance; and water, health, and education development.

Table 2. Sudan: Structural Benchmarks for 2003

Policy Area	Dates
1. Prepare a comprehensive program to reform the direct tax system.	End-Jun.
2. Strengthen the fiscal reporting system with the aim of producing accurate monthly consolidated accounts within three weeks of the end of the month. Develop a weekly flash reporting system estimating key fiscal data.	End-Jun.
3. Establish the debt management units (external and internal).	End-Jun.
4. Establish the monetary operations unit in the Bank of Sudan (BOS).	End-Jun.
5. Submit to parliament anti-money laundering law.	End-Jun.
6. Establish a Cash Management Unit at the ministry of finance.	End-Dec.
7. Prepare a rolling medium-term budget in tandem with the preparation of the 2004 budget.	End-Dec.
8. Enhance oil sector transparency by auditing the subsidiaries of Sudan Petroleum Company and initiating an accounting system reform program.	End-Dec.
9. Prepare a comprehensive external debt policy statement and guidelines.	End-Dec.
10. Submit to parliament amendments to the BOS Law and the Law Regulating Banking Activity.	End-Dec.
11. Complete preparations to point of sale for Bank of Khartoum.	End-Dec.
12. Conduct a study, with Fund technical assistance, examining the introduction of a market-based mechanism for hedging agricultural finance risks, including possibly through the establishment of commodity future markets for agricultural products.	End-Dec.

TECHNICAL MEMORANDUM OF UNDERSTANDING

1. This memorandum specifies the understanding reached with the Fund staff regarding the quantitative benchmarks and indicative targets for the 2003 Staff-Monitored Program (SMP).

2. The 2003 SMP relies on five quantitative quarterly indicative targets and an oil revenue adjustor. The quantitative indicative targets are: (i) ceilings on net domestic assets of the Bank of Sudan (BOS); (ii) ceilings on the domestic financing of the fiscal deficit; (iii) floors for the buildup of gross usable reserves of the BOS; (iv) ceilings on new nonconcessional external loans contracted or guaranteed by the government, and (v) floors for payments to the Fund. Broad money, floor for the central government social expenditures, and central government oil revenues will be monitored as memorandum items. All indicative targets are presented in Table 1, Attachment I.

3. The relevant definitions for the quantitative indicative targets and the oil revenue adjustor are set out hereafter.

4. **Net domestic assets (NDA) of the BOS** are defined as the sum of the Net Domestic Credit of the BOS, the net issue of money market instruments (central bank musharaka certificates, CMCs) and other items net (OIN) of the BOS.

5. The Net Domestic Credit of the BOS is defined as total credit to the central government (including government musharaka certificates (GMCs) and government finance certificates (GFCs)) minus total central government deposits with the BOS plus BOS claims on public enterprises plus BOS claims on banks. The definition of the central government comprises all accounts of the line ministries and agencies controlled by them (corresponding to Group no. 11, Group no. 12, and some accounts of the Group no. 19 in the BOS general ledger), the *Zakhat* funds (recorded under Group no. 13), and margin deposits placed with BOS by the central government against letters of credit issued by the BOS. The definition includes all oil-related accounts controlled by the government.

6. Net issues of CMCs by the BOS are classified as part of the NDA, in accordance with Fund standards, to facilitate the effects of money market operations on the monetary base.

7. The identification of all accounting balances recorded under OIN has been established with the help of the IMF's Statistics Department mission that visited Khartoum in May 2000 and is detailed in the corresponding mission report.

8. **Domestic financing of the fiscal deficit** is defined as total net domestic borrowing by the central government, including net borrowing from the banking system (including GMCs and GFCs), but excluding deposits accumulated in the oil savings account, net sales of GMCs and GFCs outside the banking system, revenues from privatization, and repayments by the central government of internal domestic debts to public agencies, banks, and private

companies. The definition of central government for the purpose of this criterion is the same as the one applied for the NDA of the BOS.

9. **BOS gross usable reserves** are foreign reserve assets, as defined in the balance of payments (BOP) manual, that are controlled by the BOS, are immediately and unconditionally available to the BOS for meeting BOP needs, and are not earmarked by the BOS for meeting specific payments. They consist of balances on accounts maintained with overseas correspondent banks and foreign exchange banknotes in the vaults of the BOS.

10. **Contracting or guaranteeing of new nonconcessional external loans** by the government applies not only to debt as defined in point no. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision no. 12274-(00/85), August 24, 2000), but also to commitments contracted or guaranteed for which value has not been received. Debt will be deemed to be concessional when the currency-specific discount rate (determined by the market-related "commercial interest reference rates (CIRR)" as published by the OECD) applied to the contractual schedule of charges and principal payments, indicates a grant element of at least 35 percent.

11. **Broad money** is defined as the sum of local currency circulating outside of the banks and banks' demand and time and savings deposits. It also includes transferable deposits and margin deposits against letters of credit placed by the local government, nonfinancial public enterprises, and the nonbank private sector with the BOS.

12. **Central government oil revenues from export proceeds** consist of the government's exports of crude oil, net of the deductions for operating costs and profit-sharing of the partners of the oil consortium, the government's services payments for transportation of its oil through the consortium pipeline, and the government's repayments to the Chinese National Petroleum Corporation for the construction of the Khartoum refinery.

13. **The oil revenue adjustor** applies as follows: oil revenue arising from an export price of over $22 per barrel for Nile oil exports, f.o.b. Port Sudan, will be deposited in a government account at the BOS. However, amounts will be transferred, if necessary, to the government, at least on a quarterly basis, to ensure that government oil export receipts are not less than the amounts targeted under the program. The program targets for domestic financing of the budget deficit and BOS NDA will be reduced, and the international reserve target will be raised by amounts corresponding to the accumulated deposits during the program period. In the event of shortfalls in oil revenue below the quarterly program targets, the accumulated balance at the BOS can be drawn down to make up the shortfall in revenue; correspondingly, the program targets for domestic financing of the budget deficit and BOS NDA will be raised and the international reserve target reduced. The adjustor will be reviewed at the regular program reviews.

14. **Central government social expenditure** corresponds to central government expenses on medical care; health services; poor students' support; supplement to poor

consumers of electricity; social and health insurance; and water, health, and education development.

Statement by Ismaila Usman, Executive Director for Sudan
June 6, 2003

Key Points

- *Policy Performance in 2002 was in line with the program.*
- *All quantitative benchmarks were met.*
- *All but few structural benchmarks were implemented.*
- *Agreed payments to the IMF of US\$24m were made.*
- *Real GDP growth target of 5 percent as per program was reached.*
- *Fiscal outcome was better though mainly on account of higher oil revenue.*
- *External current account improved because of higher commodity exports and increased private transfers.*
- *The conduct of monetary policy improved steadily and steps were taken to increase exchange rate flexibility.*
- *On the political front, peace negotiations are broadly on track with significant support from international mediators.*
- *Both an informal donor meeting in the Hague in April 2003, organized by the Dutch authorities and an informal workshop in May 2003 on "Solving Sudan's External Debt" organized by the U.K. authorities were well attended and showed positive indications from a number of bilateral and multilateral creditors and donors and the Paris Club.*
- *The program for 2003 which is a strong effort to consolidate macroeconomic stability, promote growth, and prepare for the challenges of peace, is the seventh successive program throughout which the Sudan paid to the Fund about US\$330 million. All previous six programs had been satisfactorily implemented. The performance under the 2002 SMP even more so.*
- *The Sudanese authorities have indicated their intention to accept Article VIII, Sections 3 and 4, to re-emphasize their commitment to an open market economy.*
- *The Sudanese authorities' efforts and strong commitment to adjustment and reforms over these years should therefore be recognized, and the performance under the 2002 SMP should count as a full year track record and together with a satisfactory performance under the 2003 SMP, should be recognized as being equivalent to a Rights Accumulation Program (RAP) in determining the timetable for arrears clearance and resolution of Sudan's debt.*
- *There is urgent need for Technical Assistance especially in the form of massive support in the fiscal, monetary and exchange rate management areas, in the desperate efforts to consolidate peace and strengthen institutions.*

Introduction

1. My Sudanese authorities extend their appreciation to the Executive Board, the Fund management and staff, and in particular, Mr. Ghiath Shabsigh and his team for all the support, encouragement and valuable advice which have been responsible for the positive progress they have registered over the years in spite of difficult circumstances. They agree with the thrust of the comprehensive and balanced staff report which they see as capturing the spirit and strength of their reform effort and they are in broad agreement with the recommendations contained therein. The authorities agree with the staff that their performance under the 2002 SMP and the strength of the 2003 new program, to which they are resolutely committed, are equivalent to that required under a RAP. They have continued to make payments to the Fund according to the agreed schedule, and have agreed to a small increase in these payments in 2003, allowing a further reduction in the stock of arrears. They are requesting the Fund Executive Board and indeed the international community to acknowledge this performance with a view to accelerating the process of clearing Sudan's arrears in order to enable the country to access the PRGF and HIPC debt relief simultaneously, once a peace agreement is in place. They also request that the Executive Board directs the IMF Finance Department to update the paper on Financing Options, the discussion of which last time had been inconclusive, and the Board agreed to revisit it at a later date.

Economic Performance Under the 2002 Staff Monitored Program (SMP)

2. The authorities delivered on their commitment to maintain a strong track record of policy performance. GDP growth was on target at 5 percent. All quantitative benchmarks under the 2002 SMP were met and structural reforms were broadly on track. The authorities agree with the staff that it is costly on the budget for the government to continue financing the agricultural sector directly and they are keen to have this role played by the private sector. They are therefore still waiting for Fund technical assistance which they requested since last year to help them on the preparatory work on mechanisms to hedge the risks of agriculture financing by the private sector.

3. Regarding the amendment of the VAT law, the authorities agree with the staff that given the limited revenue collection capacity, effort should be made to focus on large tax payers. Indeed the revenue department is already implementing this policy as VAT application and auditing is only undertaken for traders above a certain threshold. Amending the law requires a lengthy legislative process which will be completed in due course.

4. Preparation of an I-PRSP is well underway. A tripartite World Bank/UNDP/IMF mission visited Sudan and conducted a series of meetings with officials of relevant ministries. In addition, a workshop that brought together most stakeholders was held and both the Cabinet and the Parliament were briefed and their views noted on the PRSP preparation and the outcome of the workshop. It is intended to prepare a full PRSP, covering the whole country, with wide participation once peace is achieved.

5. Total expenditure was slightly more than targeted because of payment of pipeline fees which were previously made in kind and have been regularized, and unforeseen refugee-related expenditures, and some capital expenditure increases, all of which have now been taken account of. However, these unavoidable expenditure overruns were more than offset by better performance of non-tax revenue and the fiscal deficit was below program target. The non-oil domestic balance remained at its 2001 level and domestic financing was maintained at below target. The mechanism for saving oil revenue also worked as anticipated.

6. The conduct of monetary policy continued to improve as more experience was gained in broad money targeting and operational improvements were made within the central bank and between the central bank and the finance ministry. Nevertheless, owing to the lagging impact of monetary expansion in 2001 and early 2002, inflation increased to 8.3 percent compared to 6-7 percent under the program. Measures were taken to improve the health of the banking system: nonperforming loans declined, provisioning for nonperforming loans increased and the risk-weighted capital adequacy ratio remains above the recommended prudential level.

7. The authorities adopted a managed-float exchange rate system in early 2002, coupled with measures to further liberalize the exchange regime and to enhance transparency in foreign exchange operations. Consequently, the exchange rate began to respond to market conditions. Reflecting the authorities' determination to pursue prudent macroeconomic policies and structural reforms, and optimism on peace negotiations, Sudan remained attractive to foreign exchange inflows and the international reserve position improved. Oil and non-oil exports increased and the external current account thus improved.

8. Steady progress was made on structural reforms. The petroleum company was audited and netting operations were abolished, thereby improving transparency in fiscal operations. The direct tax and incentive regime was reviewed and a plan for rationalizing exemptions developed, which will be implemented in 2003. A number of public enterprises were privatized at double the speed that was anticipated by foreign investors and substantial privatization proceeds were realized. These privatizations included Duty Free Shops, Free Zones company, the Friendship Palace Hotel, the Real Estate Bank and the Atbara Cement factory.

9. The Bank of Sudan law has been ratified by Parliament and thus ensuring independence of the central bank. In addition, the central bank is intensifying efforts to strengthen banking supervision. The restructuring of El Nilein Bank was completed. Banking sector indicators improved and an anti-money laundering circular has also been issued.

The Authorities' Policy Commitments Under the 2003 SMP and the Medium-Term

10. To further accelerate economic growth while consolidating macroeconomic stability, the authorities agreed on a program for 2003 that will bring down inflation to 7 percent, improve non-oil GDP growth to 5.7 percent from 4.5 percent in 2002, reduce the current account deficit and further accumulate international reserves. The fiscal position will be strengthened by strong effort to control expenditures and mobilize revenue, limiting the non-

oil domestic deficit to 5.9 percent of GDP and the domestic financing (excluding oil savings deposits) to 0.5 percent of GDP.

Broad Money Targeting

11. In the face of challenges posed by large capital inflows and the possibility of higher oil prices, monetary and exchange rate policies will be geared at controlling expansion in broad money, improving the reserve position, and enhancing competitiveness. In this connection, a monetary operations unit in the Bank of Sudan (BOS) will be established with the responsibility of implementing monetary policy guidelines on a daily basis. The authorities concur with the staff on the need for the Bank of Sudan to introduce institutional changes that are needed to improve the speed and effectiveness of BOS's interventions. Nevertheless, they wish to underscore that targeting broad money remains a challenge in Sudan, given the ongoing monetization of the economy, and this challenge will intensify after the peace agreement. In the circumstances, they stress the need to exercise caution in setting monetary aggregates.

Payments to Creditors

12. The balance of payments is still recovering from the adverse developments of 2001. This notwithstanding, the authorities have agreed to increase payments to the Fund which will further reduce the stock of arrears. They also view it to be in their best interest to normalize relations with the two remaining regional institutions, and as such have resumed payments of US$12 million annually to the Arab Monetary Fund and are currently negotiating a payment of US$6 million annually to the African Development Bank. The authorities hope that their goodwill will persuade these two creditors to extend fresh assistance to The Sudan.

Structural Reforms

13. Structural reforms will be expedited particularly in the fiscal area. In line with recommendations made by FAD technical assistance missions, and with a view to reducing dependency on oil revenue, measures will be taken to broaden the tax base. In this regard, the investment incentive regime will be overhauled and the authorities intend to mobilize the necessary domestic support to curb tax exemptions. Expenditure management will be improved and the medium-term budgeting framework will be formalized. Civil service reform program will be prepared with assistance of the World Bank.

14. The strong effort in privatization will be maintained, with two more banks and a slaughter company expected to be privatized this year. The banking system will be further strengthened and an FSAP mission could help the authorities in this regard. Debt management capacity will also be strengthened, and poverty alleviation efforts intensified.

Trade Liberalization

15. With regard to trade liberalization, Sudan's trade regime will be about the average level of industrial countries once the defense tax is eliminated. Further reduction in tariff rates is envisaged under COMESA commitments. In this context, and given the already open trade regime, the authorities are concerned about the fiscal sustainability of further trade liberalization measures They are currently giving priority to expanding the revenue base and revenue mobilization effort, which are critically needed to finance the country's resource needs after the peace agreement.

Minimizing Oil Dependency in The Sudan

16. Sudan is making every effort to avoid the Dutch Disease that could emanate from abundance of oil resources, rendering non-oil sectors uncompetitive. Transparency will be further enhanced in the oil sector and the accounts of the subsidiaries of the oil company will be audited and their accounting systems aligned with international standards. The authorities are aware of the need to preserve the competitiveness of the non-oil sector. To this end, monetary and exchange rate policies will continue to be managed flexibly to achieve these goals and to diversify the economy away from dependency on the oil sector.

Oil Stabilization Account (OSA)

17. The oil stabilization account is operating smoothly and the oil revenue saving mechanism will be further refined and integrated into the medium-term budget framework. In this regard, the authorities are of the view that balances in the OSA should be accumulated against a set target and objective, and to this end, they feel that a set target of international reserves should be used to set a benchmark for accumulating balances in the OSA.

Non-Oil Fiscal Deficit

18. The authorities are also using the oil savings account to cushion public expenditures from wide fluctuations in oil prices, in addition to accumulating international reserves. Taxation of oil products to replace the current price differential system is under consideration and oil prices will be kept under review. Measures are being taken to broaden the non-oil tax base, thereby reducing dependency of the budget on oil revenue. Already, the proportion to GDP of non-oil revenue has increased from 6.5 percent in 2000 to a projected 8.9 percent in 2003. However, the authorities, fully aware of the challenges that lie ahead, particularly after the peace agreement, recognize that growth in non-oil revenue could trail behind expenditure pressures. In this regard, they wish to underscore the need that, to the extent that oil revenue grows in response to increased oil production, the non-oil deficit should be set flexibly in order to allow the rest of the economy to benefit from increased oil production.

Inter-generational Oil Account

19. In the event of more oil discoveries, the authorities will consider establishing an inter-generational account, in the long-term. At this stage, and given the massive development

needs of Sudan, the authorities intend to use oil proceeds for developing the country and diversifying the economy.

Preparation for Peace

20. Peace negotiations are always a difficult and protracted process, and The Sudan is not an exception, especially after such a prolonged conflict. Notwithstanding the complexities, peace negotiations are progressing, the authorities are eager to sign a peace agreement and the efforts of the international community in helping the parties reach an early agreement are commendable and should continue. Fund staff have provided and continue to provide valuable and indispensable advice on various aspects, including in particular, on resource sharing and central banking issues, at the negotiation meetings and the authorities are grateful for this advice. In fact, I recommend that such skills be developed within the Fund given that they have been of such invaluable assistance to the Sudan. The authorities hope the advice being provided on resource sharing will not crowd-out or obviate the urgency and significance of other Fund technical assistance to Sudan at this critical time.

21. The authorities are committed to meeting the challenges of peace while strengthening and consolidating macroeconomic stability and promoting growth. Measures being implemented to raise the revenue-to-GDP ratio in 2003 and the medium-term are essential in this regard as well as those geared towards controlling expenditures, including the wage bill. However, even with the best of efforts, it is clear that the authorities' initiatives alone will not enable them to deliver a peace dividend that is critical to sustaining lasting peace and to keeping Sudan as one country at the time of the referendum, six years after a peace agreement. The major obstacle being the Sudan's heavy debt burden, which in NPV terms represent 1,000 percent of total exports including oil, 1,400 percent of government revenue including oil, 135 percent of GDP, and most of it is in arrears, thus barring the country from accessing concessional resources and clouding the country's climate for foreign direct investment.

22. I, therefore, urge the Fund Executive Board and indeed the international community to urgently facilitate all efforts to resolve this issue. My authorities feel that following the peace agreement and given their strong track record, they deserve immediate clearance of arrears, and access to HIPC debt relief, and to concessional financing without delay, to facilitate delivering the peace dividends the Sudanese people have long been waiting for. The authorities welcome the recent and current efforts by Sudan's major creditors and donors that have expressed willingness to support efforts to mobilize the requisite resources for arrears clearance, debt relief and development and humanitarian assistance. They would like to thank, in particular, the bilateral and multilateral creditors and donors, and the Paris Club Secretariat for their support during the recent meetings in the Hague and in London and they urge that such efforts be concretized and accelerated to deliver quick assistance as soon as peace agreement has been signed. Within the Fund, I feel that time is now ripe to finalize our discussion on financing options as such consensus would feed positively into the efforts of creditors and donors.

23. Poverty runs deep, particularly in the war-torn areas. The government maintains firm commitment to tackling poverty and already, past efforts in economic reforms have resulted in improvements in some social indicators. The government recently appointed a Minister of State to co-ordinate anti-poverty efforts and several sectoral studies have already been undertaken. Social spending is on the increase. The authorities are accelerating the preparation of the I-PRSP, but do recognize that there are shortcomings in the absence of peace. They are catalyzing all the necessary expertise in this area, including from the World Bank and UNDP and are gearing toward launching a full-participatory PRSP covering the whole country once peace is achieved. With these efforts, the authorities are also preparing the road map to put to good use the resources to be released through debt relief and those to be mobilized for development and humanitarian assistance. In addition, they anticipate the alignment of a PRGF and PRSP to ensure that they maximize the flow of aid without undermining macroeconomic stability.

Sudan's Needs for Technical Assistance

24. To assist Sudan to further deepen and sustain its structural reforms and strengthen its capacity for macroeconomic management, the authorities urgently need and have already requested for massive technical assistance in a number of areas. In the fiscal area, Sudan is engaged, ahead of all countries in the region, in implementing very difficult initiatives which are also tied to the peace initiative. These include the establishment of a cash management unit within the ministry of finance, strengthening the expenditure management system, the development of a medium-term budget framework, strengthening direct tax administration, expediting the mobilization of domestic resources by identifying new sources of revenue to finance the needs of the country after peace and to undertake tariff reform in a manner that is revenue neutral. In the monetary area, there is need to develop market mechanisms for financing agriculture by the private sector, to further develop capacity at indirect monetary policy, and to undertake an FSAP. I urge the Fund, through the FAD and the MFD Departments to support the efforts of the authorities in these areas.

Conclusion

25. Sudan's policy implementation remains the strongest among all low-income countries with Fund programs, notwithstanding the absence of external financial support. The last few months witnessed an intensification of efforts aimed at finalization of peace negotiations between both parties, with strong encouragement and support from the international community, including the Fund. Peace will usher in a new era to meet the Sudanese people's high expectation for a peace dividend across the whole country, and in particular in the war-torn areas. The resources needed to fulfill these expectations are huge and need to be mobilized quickly. With the authorities' strong commitment and established track record, the country deserves to skip the right accumulation program (RAP), and is ripe for clearing arrears and accessing debt relief simultaneously straight away. The interest shown by the international community to help in clearing Sudan's arrears and resolving the country's debt problems remains encouraging and the time is approaching for delivering on these efforts. The Fund should catalyze this process by finalizing the discussion on financing options and preparing the ground to jump-start the process.