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SUDAN

2012 ARTICLE IV CONSULTATION

November 2012

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2012 Article IV consultation with Sudan, the following documents have been released and are included in this package:

- **Staff Report** for the 2012 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on July 23, 2012, with the officials of Sudan on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on September 7, 2012. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- **Informational Annex** prepared by the IMF.
- **Debt Sustainability Analysis** prepared by the staffs of the IMF and International Development Association.
- **Public Information Notice** (PIN) summarizing the views of the Executive Board as expressed during its September 21, 2012 discussion of the staff report that concluded the Article IV consultation.
- **Statement by the Executive Director** for Sudan.

The document listed below has been or will be separately released.

Selected Issues Paper

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION

September 7, 2012

KEY ISSUES

Context. The secession of South Sudan in July 9, 2011 translated into the loss of a sizeable portion of Sudan's economic potential and a daunting challenge of adjusting to a permanent external and fiscal shock.

Recent developments. In the aftermath of the South Sudan's secession, the economic situation deteriorated. Nonoil real GDP growth decelerated, inflation picked up, the overall fiscal balance widened, and the exchange rate depreciated considerably.

Recent economic reforms. The authorities adopted in late June 2012 a reform program centered on fiscal adjustment and exchange rate reform to address the monetary, fiscal, and external imbalances that have resulted from the secession of South Sudan.

Focus of the discussions. The discussions focused on the appropriateness of the recent economic reforms to address Sudan's economic problems and promote sustainable and inclusive growth.

Outlook. Strong implementation of reforms is key to maintaining macroeconomic stability and improving medium-term economic prospects. There are also downside risks from the unstable security situation, including tensions with South Sudan.

Policy recommendations. Action is needed on four fronts: (1) consolidating public finances; (2) unifying the foreign exchange rates and markets; (3) tightening monetary policy and strengthening the banking system; and (4) further liberalizing the economy and improving the business climate.

Approved By
Adnan Mazarei and Christian Mumssen

Discussions took place in Khartoum during May 13–24, 2012 and July 15–23, 2012. The team consisted of Messrs. Gemayel (head), Abdoun, Dridi (all MCD), Mrs. Flamini (FAD), Marcelino (FIN), and Gerling (SPR). The mission was assisted by Messrs. Jenkins (Resident Representative) and Yasin (local economist). Ms. Ngugi (OED) accompanied the May mission. The team met with Minister of Finance Ali Mahmood Abdulrasool, Minister of Oil Awad AlJaaz, Minister of Mining Kamal Abdelateef, Governor of the Central Bank Mohamed Khair Ahmed Al-Zubair and representatives of the private sector, civil society, and development partners.

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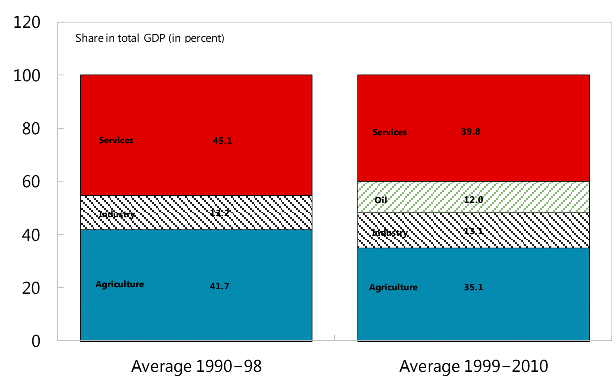
INTRODUCTION

1. **Deep-seated security issues have for years posed serious challenges to Sudan's economic prosperity.** Sudan has experienced an alternation of civilian and military governments and two protracted North-South wars that took a heavy toll on human life and economic resources. The Comprehensive Peace Agreement (CPA), signed on January 9, 2005 by the government of Sudan and the Sudan People's Liberation Movement/Army (SPLM/A) and the secession of South Sudan in 2011, have created a window of opportunity for peace and stability. However, further efforts are needed to address ongoing conflicts in bordering states.

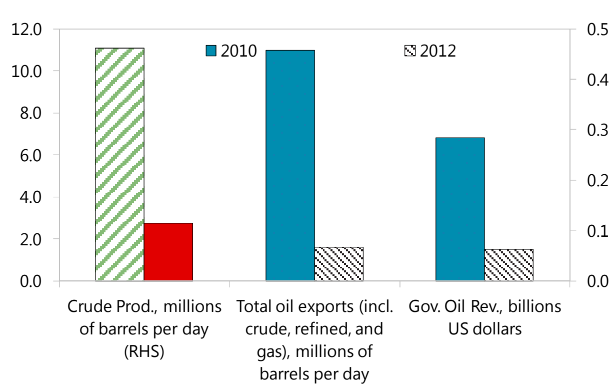
2. **The 2012 Article IV consultation is taking place at a unique juncture in the history of Sudan, following South Sudan's secession in July 2011.** The secession resulted in Sudan losing some three-quarters of its oil production, half of its fiscal revenues, and about two-thirds of its international payment capacity (Figures 1 and 2, and Box 1). Adjusting to a permanent shock of such magnitude is a daunting challenge and requires a strong policy response at a time when international financial support is very limited (Figure 6). Sudan's unstable security situation adds to this challenge.

Figure 1. Sudan: Oil Sector Contribution to GDP



Sources: Sudanese authorities; and staff calculations.

Figure 2. Sudan: Oil Production and Revenues



Sources: Soudanese authorities; and staff estimates and projections.

Box 1. Impact of the Secession of South Sudan

The secession of South Sudan is having a significant impact on the Sudanese economy. While Sudan's economy is relatively diversified and open, it has developed since 1999 a marked dependency on the oil sector that has substantially increased its vulnerability to external and fiscal shocks. The oil sector's contribution to GDP has been modest, hovering around 15 percent. However, it provided sizeable budget revenues and contributed a major share of the country's foreign exchange receipts. The economic and financial losses related to South Sudan's secession are substantial and have affected all the sectors of the economy.

Main Impacts of the Secession on Sudan's Economy

	2011	2012
Gross domestic product		
Overall (SDG billion)	19.4	48.8
Oil (SDG billion)	14.3	36.1
(percent of GDP)	8.4	19.0
Nonoil (SDG billion)	5.1	12.7
(percent of GDP)	3.0	6.7
Fiscal		
Net effect	3.6	12.4
Of which:		
Export revenues (SDG billion)	8.3	25.0
(percent of GDP)	4.8	13.1
Transfers to S.Sudan (SDG billion)	3.9	13.1
(percent of GDP)	2.6	6.3
Balance of payments		
Oil exports (US$ million)	3.7	6.6
(percent of GDP)	5.8	12.9

Sources: Authorities; and staff calculations and estimates.

- **Real sector:** The loss of output is concentrated in the oil sector and estimated at 75 percent, compared with 5–10 percent in the rest of the economy. In terms of value-added, the overall loss is about SDG 50 billion (26¼ percent of 2012 GDP), of which about 19 percent of GDP in the oil sector.

- **Fiscal sector**: The revenue loss for the government is estimated at SDG 12 billion (6¼ percent of GDP), corresponding to the foregone oil revenues net of the transfers to South Sudan and the savings on wages of South Sudanese civil servants.

- **External sector**: The main impact is related to the loss of oil exports estimated at about US$6.6 billion (12.9 percent of GDP) in 2012.

- **Monetary sector**: The July 2011 data indicate that the secession led to a downward adjustment of Sudan's official reserves by 17 percent (US$0.5 billion), and that of the stock of bank credit to the private sector by 7 percent (0.9 of GDP) corresponding to the amount of credit outstanding provided by the southern branches of Sudanese banks.

3. **After a year of uncertainty, the authorities approved in late June 2012 a comprehensive reform program to address the deterioration of the country's economic and financial situation.** The program—which builds on the authorities' Three-Year Emergency Program[1]—includes an exchange rate devaluation of about 66 percent, an increase in key taxes, a sharp reduction in fuel

[1] In mid-2011, the authorities adopted a Three-Year Emergency Program for 2012–14, which outlines a comprehensive strategy to address the economic and social challenges posed by the secession. Its objectives are to maintain fiscal and external sustainability, boost inclusive growth, and gradually reduce unemployment.

subsidies, cuts in non-priority spending, and a strengthening of the social safety nets.

4. The response to past IMF advice has been broadly satisfactory. Sudan implemented reforms under a series of 13 Staff-Monitored Programs (SMPs) between 1997 and 2011. Notable achievements include progress in restoring macroeconomic stability, liberalizing the economy, and improving economic management capacity. However, weaknesses persist in financial management, revenue mobilization, and monetary management.The Fund continues to support the authorities reform efforts through technical assistance and policy advice (Box 2).

Performance Under SMPs, 1997–2011

	1997–2005	2006–11	1997–2011
GDP growth	11.0	3.2	8.2
Oil 1/	19.6	-6.7	10.6
Non-oil	9.3	4.7	7.5
CPI inflation	15.4	11.4	14.5
Overall fiscal balance (percent of GDP)	-0.6	-3.9	-1.9
Non-oil primary balance (percent of non-oil GDP)	-5.1	-8.7	-6.7
Current account balance (percent of GDP)	-6.7	-4.9	-6.0

Sources: Sudanese authorities; and staff estimates.
1/ Starting in 1999.

5. The political situation remains fragile owing to persisting, albeit low intensity, protests following the announcement of government reforms, and the volatile security environment. Since South Sudan's secession, tensions and military skirmishes between the two countries have persisted. African Union–sponsored negotiations have recently led to a tentative agreement on oil-related issues. Implementation of this agreement is, however, contingent on reaching an agreement on borders security issues (Box 3).

Box 2. The Fund's Role in Sudan Since South Sudan Secession

Since the secession of South Sudan, Fund support to Sudan has consisted of the following:

- Intensive economic advice and technical assistance on policies to address the impact of the South's secession.
- Co-chairing with the World Bank the Technical Working Group on Sudan's external debt (see paragraph 49).
- Providing economic advice to the African Union High Implementation Panel (AUHIP) in charge of mediating between Sudan and South Sudan.
- Setting-up of an inter-departmental working group to ramp-up the Fund's work on Sudan prior to the secession of South Sudan.

Box 3. Oil-Revenue Agreement Between Sudan and South Sudan

Sudan and South Sudan reached in early August 2012 a preliminary agreement on oil-revenue sharing. Implementation of this agreement is, however, contingent on reaching an agreement on borders and other security issues. The agreement covers a period of 3 ½ years, starting from the resumption of oil production in South Sudan. It includes both a transitional financial arrangement (TFA)—a transfer from South Sudan—and pipeline-related fees. Under the agreement South Sudan will:

- Provide a TFA payment that totals US$3.028 billion over 3½ year period. The TFA payment is expressed in per barrel terms, as US$15/bl, based on the South Sudan's projection of an average of 150,000 bl/day of oil production. If production is higher, payments will be made at the rate of US$15/bl until cumulative payments reach US$3.028 billion.
- Pay pipeline-related fees averaging US$9.7/bl. These fees were also negotiated for this 3½ year period. Although—unlike the TFA payments—these will continue after the 3 ½ year period, after being renegotiated.

In addition, it was agreed that Sudan and South Sudan would initiate a joint outreach campaign to the international community, with four objectives:

- mobilize financing to compensate for Sudan's loss of oil revenue;
- garner support for debt relief for the two Sudans, in the context of the Zero Option (see paragraph 50);
- encourage financing for South Sudan's development needs; and
- lifting of sanctions on Sudan

RECENT DEVELOPMENT, OUTLOOK AND RISKS

A. Developments in 2011 and the First Half of 2012

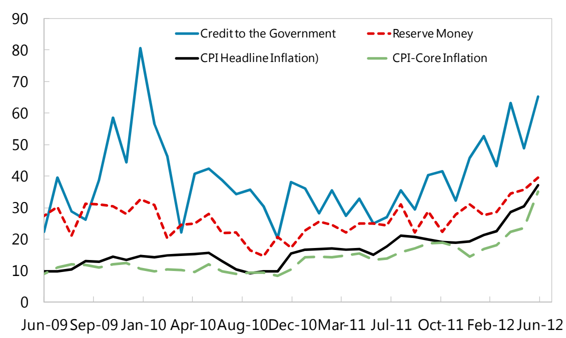
6. **Sudan's economic conditions deteriorated considerably in 2011 in the aftermath of South Sudan secession.** Nonoil real GDP growth decelerated to 3.4 percent and inflation picked up at about 18.5 percent (Figure 5 and Table 1). The overall fiscal deficit reached 1.3 percent of GDP (Table 3) and was mostly financed by the banking system, which resulted in reserve money growing 28 percent; credit to the economy was subdued at 8 percent (Tables 4 and 5). There was a contraction in the balance of payments with exports declining by 13 percent, reflecting the drop in oil exports which was only partially offset by the increase in gold exports. Imports declined by about 8 percent. This restructuring of the trade balance resulted in a current account deficit of about 0.5 percent of GDP (Table 2).

7. **Economic conditions continued to deteriorate in the first half of 2012.** The fiscal position weakened as revenue under-performed by some 30 percent,[2] compared to an execution rate of over 95 percent for spending. Reserve money and broad money grew 24 percent and 25 percent, respectively, much higher than in the first half of 2011

[2] This is mainly due to the fact that no agreement could be reached with South Sudan on oil transit fees, which represented almost 30 percent of total revenues in the original budget.

(Figure 3).[3] Relative to the first half of 2011, exports contracted considerably (-40 percent), which resulted in a widening of the trade deficit to an estimated $2.7 billion, compared to a surplus of about $2.2 billion in the first half of 2011. By end-July, 12-month inflation reached 41 percent.

Figure 3. Sudan: Credit to the Government; Inflation; and Reserve Money, 2009—12
(Change in percent)

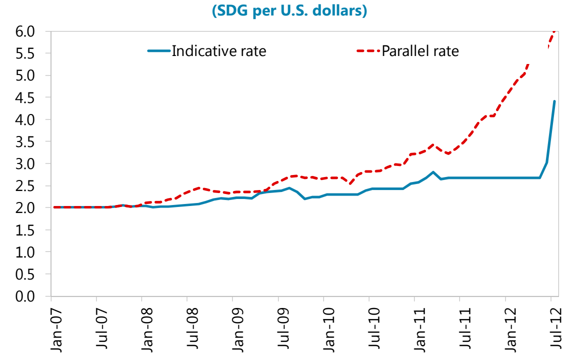


Source: Sudanese authorities.

8. In order to stop the erosion of the country's international reserves, the authorities introduced in 2011 some administrative restrictions. These include rationing foreign exchange, imposing restrictions on banks' excess reserves in foreign currency and on bank deposits in foreign currency. By year-end, official reserves stabilized at about US$1.3 billion (1.8 months of imports).[4]

9. Pressures on the Sudanese pound intensified pushing the premium on the US dollar to above 100 percent, and induced the authorities to devalue the exchange rate of the pound (Figure 4). At end-June, gross official reserves stood at about 2.7 months of imports, following the receipt by the central bank of Sudan (CBOS) of external support (Table 2).

Figure 4. Sudan: Official and Parallel Exchange Rates, 2007—12,
(SDG per U.S. dollars)



Source: Sudanese authorities.

10. Sudan's monetary system is characterized by moderate dollarization, with a dynamic curb foreign exchange market. Last year, foreign currency deposits as a ratio to broad money (M2) were on a downward trend from a peak of 16.5 percent in the first half of 2011 to reach a low 14 percent by end-May 2012, just before the step devaluation of the pound. The share of loans in foreign currency in total bank credit was about 10–15 percent. As a result of the devaluation, the balance sheets of the central bank and the commercial banks inflated by about 40 percent and 20 percent, respectively, and the share of loans in foreign currency rose to about 23 percent.

11. Financial sector indicators were mixed in the last two years. While the capital adequacy ratio rose from 10 percent in 2010 to 11 percent in March 2012, nonperforming loans (NPLs) remained high at 14 percent (Table 8). Also:

- Banks' liquidity remained high (37 percent).

[3] The increase is mainly due to the effects of the devaluation of the official exchange rate on the monetary aggregates. Excluding this effect, both reserve money and broad money would have grown by about 13 percent.

[4] Gross official reserves were recently revised to correct for a misclassification that involved the inclusion on the assets side of liability items corresponding to short-term external commitments. The new classification is consistent with the recommendations of the 2012 IMF multisector statistics technical assistance mission.

- Commercial banks' profitability was adversely affected by the high share of NPLs and the holding of large unremunerated excess reserves; the less liquid banks suffered also from the rising reserve requirements.

- Banks maintained large interest rate spreads and prudent lending reflecting rising risk aversion exacerbated by deteriorating economic conditions.

- Between December 2010 and March 2012, the return on assets dropped from 3.9 percent to 1.4 percent and the return on equity from 26½ percent to 8.1 percent.

12. The devaluation of the Sudanese pound is expected to have a notable impact on the banking system. Staff's preliminary estimates show that the capital adequacy ratio could fall below 10 percent and the NPLs ratio could exceed 15 percent. The NPLs ratio could deteriorate further during the next 12 months when the bulk of banks' loan portfolio in foreign currency reaches maturity.

B. Outlook and Risks

A fragile path to recovery

13. The economic situation is expected to continue to be difficult during the next 18 months (2012–13), clouded by the impact of South Sudan's secession and tight financing constraints:

- Non-oil GDP is expected to decline slightly in real terms, mostly reflecting a reduction in domestic absorption consistent with the fiscal adjustment, and the absence of offsetting gains on non-resource exports. The authorities expect an overall GDP growth of 2 percent in 2012 driven by a strong performance in the agriculture and gold sectors.

- As a result of the gradual fiscal consolidation, inflation is expected to average about 30 percent in 2012, before easing to 17 percent in 2013.

- The overall fiscal balance is expected to reach 3.7 percent of GDP in 2012 before narrowing to 3.2 percent of GDP in 2013, reflecting an improved non-oil primary balance.

- The current account deficit is expected to average 6.9 percent of GDP in 2012–13, with imports contracting by a cumulative 20 percent, and capital inflows, including FDI, dropping by an estimated 50 percent.

Medium-term outlook slightly positive, but with risks

14. The authorities' reform package of June 2012 is an important step toward restoring macroeconomic stability and reducing the economy's dependence on oil (Box 3). They would allow macroeconomic conditions to improve gradually starting in 2014, with non-oil growth picking up to about 4.5 percent, inflation declining to single digits, and the fiscal deficit dropping to about 1.5 percent of GDP.

15. Risks to the outlook are tilted to the downside. Increased tensions along the borders with South Sudan could lead to an increase in military spending, which would add pressure on the budget. Additional risk relates to a reform slowdown resulting either from a pickup in oil and gold production or social resistance to further reforms (Box 4). On the upside, the implementation of the recent tentative agreement with South Sudan on oil related issues or commitment from the international community to provide Sudan debt relief would lessen the country's fiscal and external constraints and facilitate the adjustment process.

Authorities' Views

16. The authorities broadly agreed with staff's assessment of the economic outlook and risks. While emphasizing the difficulty of the recently adopted reforms, they thought that these policies were needed to address the prevailing imbalances. They also acknowledged the need to sustain the reform process over the medium term.

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Box 4. Risk Assessment Matrix		
Nature/Source of Main Threats	**Overall Level of Concern**	
	Likelihood of Severe Realization of Threat in the Next 1–3 Years *(high, medium or low)*	**Expected Impact on Sudan if Threat is Realized** *(high, medium or low)*
1. Spillover from *wider regional unrest that leads to a sharp slowdown in the GCC and neighboring countries.*	***Low to Medium*** • Sudan would be exposed to a drop in remittances and demand for its exports. FDI may also be affected.	***Medium*** • A severe shock like this could further reduce GDP growth in Sudan and unemployment would rise. • Inflation could decelerate as a global recession leads to lower commodity prices.
2. *World commodity (especially food and fuel) price increases.*	***Medium*** • Geopolitical uncertainty in the Middle East is a non-negligible risk. • Sudan relies on imports of food, especially wheat, and some petroleum products.	***Medium*** • An increase in food and fuel prices could increase inflation further. • Subsidies would increase. • Sudan has weak social protection networks, so the impact on poverty could be significant.
3. *Insufficient capacity to implement the needed fiscal, exchange rate, and structural reforms.*	***Medium*** • Resource shortage, both human and financial, is a non-negligible risk. • Lack of resources has in past hindered the implementation of reform policies in a number of areas.	***Medium*** • Delays in implementing urgent reforms. • Uneven and disorderly implementation of key reforms.
4. *Persistent tensions between Sudan and South Sudan.*	***Medium-High*** • Tensions have in the past escalated into military skirmishes. This could happen again, until an agreement between the two parties is reached on post-referendum outstanding issues.	***Medium-High*** • Military and defense spending could take a toll on the budget. • Increasing deficit mostly monetized. • Inflation could accelerate.

POLICY DISCUSSIONS

Policy discussions took place in the context of difficult social, political and security conditions, and focused on the scope of the government's policies to address the impact of South Sudan's secession and their ability to stabilize the economy and support economic recovery.

17. Adjusting to the large economic shock incurred by Sudan is highly challenging. It requires the implementation of a two-tier reform strategy centered on: (i) short-term adjustment measures to mitigate the deterioration of economic conditions, and (ii) a medium-term reform program to refocus the economy on its non-resource sector.

18. Sudan's reform program aims to address the near-term challenges. Its underlying policy mix combines fiscal adjustment, increased exchange rate flexibility and a tightening of the monetary stance. Restoring macroeconomic stability and reinforcing economic conditions would require however strong and determined implementation of the reforms. Also, the severity of the fiscal and external shock compounded by the country's limited access to external financing will require additional efforts over the medium term in order to restore fiscal sustainability and improve international payment capacity.

Authorities' Views

19. The authorities agreed with the two-tier reform strategy to address their economic imbalances. They, however, noted some positive factors that could ease the country's financial constraints, including higher gold exports, a gradual pickup in oil production, and financial assistance from friendly countries.

Box 5. Key Measures Adopted in June 2012

Fiscal policy :

Revenue measures

- Increase the VAT from 15 to 17 percent
- Increase the development tax from 10 to 13 percent
- Increase the Business profit tax on the banking sector from 15 to 30 percent
- Increase stamp duties on financial transactions and international flights
- Repeal the negative list used to limit imports and impose instead import tariffs
- Enhance revenue collection and lift discretional tax exemptions

Expenditure measures

- Phase out fuel subsidies and strengthen social safety nets
- Liberalize the price of sugar
- Consolidate ministries at all levels of government

Social spending

- Raise the salary of civil servants and pensioners by 100 SDG per month (about 40 percent of minimum wage)
- More than doubling spending on social benefits
- Lower custom duties on main staples and exempt medicine

Monetary policy:

Exchange rate reform: The new foreign exchange regime is centered on four rates:

- **A central rate** of SDG 4.42 per US dollar that applies also to the importation of fuel products, the payment of government obligations, and valuation assessment at customs;
- **A subsidized rate for wheat** of SDG 2.9 per US dollar;
- **A gold exchange rate** used by the central bank in its gold transactions; and
- **A commercial banks rate** that applies to all other transactions and has three components: (i) *an indicative rate*;[1] (ii) *a variable incentive premium* set by the central bank (currently 15 percent); and (iii) *a flexibility factor* that allows banks to deviate from the sum of the indicative rate and the incentive by a range of ±4 percent.

Monetary policy: Increase the reserve requirement ratio from 15 percent to 18 percent and roll back CBOS deposits in commercial banks.

[1] The indicative rate is the weighted average of the previous day central rate and the average commercial banks rate excluding the incentive premium.

A. Containing the Deterioration of Economic Conditions

The revised 2012 budget goes a long way toward reducing near-term fiscal imbalances; however, reaching fiscal sustainability will require a determined continuation of the reform momentum.

20. Fiscal policy is confronted in the near term with the major challenge of adjusting to the loss of about 50 percent of government revenues. In view of Sudan's limited access to external financing and the need to contain monetary financing, achieving this objective requires bold action on both the revenue and expenditure sides.

21. The authorities' efforts to enhance revenue collection are encouraging. Given the pressing budgetary needs, the moderate tax increases are likely to be the most feasible course, although a concerted effort to expand the tax base through tax policy and administration measures is needed to raise revenues on a more sustainable basis. Staff is of the view that a diligent implementation of the revenue measures could yield additional revenues of about 1 percent of GDP higher than envisaged in the revised budget. It encouraged the authorities to provide the tax and customs directorates with adequate resources, while enhancing tax and customs administration in line with Fund technical assistance recommendations.

Tax Revenue
(In percent of Non-oil GDP)

	2011
Egypt	14.6
Ethiopia	11.3
Kenya	20.7
Malawi	21.1
Rwanda	13.4
Sudan	**7.6**
Tanzania	15.3
Uganda	12.4
Zambia	18.6

Sources: Country authorities; and staff estimates.

22. Staff stressed the need to rationalize the taxation of the expanding gold sector.[5] Government gold revenues are currently small and limited to the payment by the gold trading companies of a 15 percent business profit tax on their commission. While gold producers currently pay a 7 percent royalty, staff recommended subjecting them to the business profit tax.

23. Staff welcomed the replacement of the negative list by import tariffs, which will boost revenues. Over the medium term, it recommends a gradual reduction in the tariffs to reinforce the openness of the economy.

24. The authorities' reduction in fuel subsidies and the strengthening of social safety nets are important reforms.[6] The reduction in subsidies will create space for additional priority spending. Staff underscored, however, that the budgeted increase in social safety nets is not targeted, which could limit their efficiency, whereas the general wage increase in the civil service could be inflationary, due to its contagion effects on the rest of the economy. Finally, staff advised limiting transfers to states to 30 percent of total revenues, in line with constitutional provisions.

25. Staff encouraged the authorities to strengthen the government development budget. This budget has been reduced by 17 percent in nominal terms, which entails a large drop in real terms. Staff recommended: (i) a comprehensive appraisal of the investment budget, including procedures and project selection, to ascertain that priority projects are correctly funded; and (ii) the establishment of quarterly monitoring to improve the efficiency of execution.

[5] Gold exports amounted to some 29 tons (about US$1.4 billion) in 2011 and are projected at 50 tons in 2012 (about US$2.5 billion).

[6] The price increases are 47 percent for gasoline, 23 percent for diesel, 15 percent for LPG, while the price for jet fuel has been fully liberalized.

Authorities' Views

26. The authorities broadly agreed with staff's assessment. They considered their revenue projections to be realistic in light of the limited scope for raising revenue and in order to avoid undue spending pressure from other ministries. On gold taxation, they argued that taxing producers would be counterproductive as it would reenergize smuggling. They expressed their determination to phase out the fuel subsidy by end-2014 (SIP, Chapter 1). They also expressed their intention to streamline exemptions granted by law, and to gradually reduce transfers to states while developing better revenue collection at lower levels of government.

Monetary policy

27. In recent years, monetary conditions in Sudan have been mostly determined by the fiscal stance and market exchange rate developments (SIP, Chapter 2)**.** This situation has been exacerbated by the adverse effects of the secession of South Sudan: the abrupt rise in government financing needs, the loss in oil export proceeds, which affected the central bank's foreign reserves accumulation, and the marked erosion of the domestic currency in the curb market.

28. The deterioration of Sudan's external and fiscal accounts has affected the work of the banking system and weakened CBOS's independence. Monetary developments since South Sudan's secession were mostly driven by the need to accommodate the government financing requirements. The increased monetization of a fast growing fiscal deficit has adversely affected the ability of the central bank to contain inflation, resulting in core inflation rising by 44 percent in the 12-month period through July. The decision by the CBOS to reschedule about SDG 4 billion (about 2.3 percent of GDP) of its temporary advances to the government over a 100-year period has given more space to deficit monetization and circumvented existing laws.[7] At the same time, credit to the economy was hampered by the segmentation of the foreign exchange market, and by an increased risk aversion by banks, which prefer to lend to state owned enterprises, or invest in government securities whose interest rate although negative in real terms remains well above the level charged by banks and are in high demand.

29. The CBOS has taken steps in an attempt to lessen pressure on the exchange rate and safeguard external reserves. It has increased the required reserve ratio from 10 percent to 18 percent since the beginning of the year, and put in place administrative measures to tighten controls on banks and accommodate the government's financing requirements. All these measures have proven inefficient and counter-productive.

30. Staff underscored the importance of enhancing monetary management by the CBOS given the large bank excess liquidity.[8] Excess liquidity weakens the monetary transmission mechanism and undermines the use of monetary policy for stabilization purposes. Accordingly, staff recommended that the authorities:

[7] The existing Public Finance Law sets the central bank financing of the fiscal deficit at a maximum of SDG 1.5 billion.

[8] Excess liquidity in Sudan is a systemic problem that dates back to 1996 at the beginning of the exploitation of oil and has been persistent since then. It is the direct result of the oil-related fiscal expansion combined with the country's low financial deepening.

- Tighten the monetary stance by: (i) containing credit to the government, (ii) unwinding the CBOS deposits with commercial banks, and (iii) refrain from providing credit to the economy;

- Use reserve money rather than the exchange rate as an anchor to keep inflation under control;

- Refrain from raising the reserve requirements to stabilize the exchange rate. This measure increases taxes on banks and adversely affects their profitability. Also, in Sudan's context it has limited effects on exchange rate movements, which have their root in the expansionary fiscal policy and the increasing monetization of the deficit.

- Restore the monetary transmission mechanism by giving to commercial banks the appropriate opportunities to recycle their unused deposit liabilities. This could be achieved through the organization of a competitive auction system of CBOS securities and the reactivation of the interbank market as a first step toward the development of open market operations.

31. Financial stability remains key in ensuring the success of the government's economic and financial reforms. In that respect, staff recommended a comprehensive assessment of Sudan's banking system to determine the short and medium term effects of the financial and economic implications of South Sudan's secession on banks' balance sheets and vulnerability. Such assessment would help identify the reforms that are needed to improve the sector's competitiveness, efficiency and resilience, and enhance its development.

32. The CBOS's current role in the gold market is a burdensome distraction from its core and demanding responsibility of maintaining price stability. Prior to the CBOS' intervention in the gold market in early 2011, a significant part of the gold was smuggled abroad and sold at sub-value. The CBOS is the sole exporter of gold and has recently built a gold refinery to increase the value added of gold and boost its international reserves. Staff urged the CBOS to gradually withdraw from this activity.

Authorities' Views

33. The authorities concurred with staff on the need to tighten the monetary stance. They indicated that they will gradually reduce the monetization of the deficit as the government revenue base improves. With respect to gold, they argued that the CBOS will continue to play an active role until this industry is well established and the mining industry's regulatory framework finalized.

Exchange rate policy

34. In recent years, the curb market exchange rate has gradually become very important. Following South Sudan's secession and the subsequent drop in the oil revenues, this role became preponderant, heavily influencing overall economic conditions, including external trade flows and the domestic inflation dynamics. This also resulted in the depreciation of the equilibrium real exchange rate. Based on available data up to June 2012, various indicators suggest that the exchange rate is overvalued, though the magnitude of the overvaluation remains uncertain (Box 6).[9]

35. In this context, the recent large devaluation of the official exchange rate reveals the strong determination of the monetary authorities to move to a more flexible exchange rate regime and bridge the gap with the curb market.[10] While staff's preliminary qualitative assessment, conducted prior to the recent devaluation, has found major vulnerabilities that threaten external stability and competitiveness, staff strongly recommended unifying the official market by eliminating the other three rates (central rate, subsidized rate, and gold rate), a measure which would likely facilitate convergence with the curb market rate (SIP, Chapter 3). Such an option is consistent with the authorities' strong preference for a managed float regime and could be envisaged provided the commercial banks rate is kept flexible enough to remain in line with economic fundamentals; such increased flexibility is warranted, as evidenced by the end-July increase in the gap between the two rates to about 10–15 percent, after narrowing considerably when the new regime was introduced in late June. Staff pointed that the exchange regime and administrative restrictions could give rise to multiple currency practices and exchange restrictions under Article VIII.

Authorities' Views

36. The authorities agreed with staff's assessment and the need for greater exchange rate flexibility. They indicated that they will continue to monitor market conditions to ensure that convergence with the curb rate is achieved. They justified the existence of special rates by the need to limit the burden of the devaluation on the government's obligations. With respect to the special rate for gold, they indicated that they will gradually bring it in line with the commercial banks rate.

[9] Data problems related to the secession of South Sudan prevent a meaningful application of quantitative methods, including CGER procedures.

[10] While the devaluation of the central bank's indicative rate is about 66 percent, the effective devaluation of the commercial banks rate is about 88 percent.

Box 6. External Stability Assessment

Staff's assessment finds major vulnerabilities and secession-induced permanent adjustment needs that threaten external stability and competitiveness.

The secession of South Sudan resulted in a structural shift in the balance of payments dynamics. Over the past decade, the current account was driven by developments in the oil sector—both exports and FDI. For the medium-term, the BoP is expected to shrink as a result of the drop in oil exports and limited alternative source of financing. Accordingly, the current account will depend on Sudan's ability to develop its non-oil export base.

Based on available data up to June 2012, several indicators suggest that the *exchange rate* is overvalued, though the magnitude of the overvaluation remains uncertain:

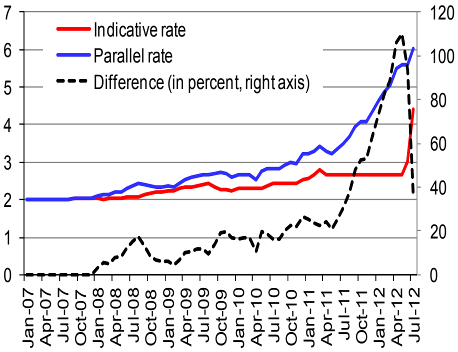
- current account dynamics have worsened permanently;
- the curb rate has become the main denominator and its gap to the official rate had widened (Box Figure 1);
- the REER and NEER were on an appreciating trend, leaving them way above historical levels as well as above the steadily depreciating REER and NEER based on the curb rate (Box Figure 2);
- reserves had suffered of protracted exchange market interventions in one direction (see Box Figure 3); and
- growing external arrears add to an already unsustainable external public debt burden.

Against this background, on June 25, the authorities have allowed for a corrective outright exchange rate depreciation of the CBOS indicative rate from 2.67 to 4.42 SDG/USD and of the commercial banks rate from 2.88 to 5.45 SDG/USD. This reduced the gap to the curb rate from over 100 to 23 and 93 to 3 percent (Box Figure 1) and undid a major part of the REER overvaluation (Box Figure 2). Until end-July, however, the gap has widened again to 40 and 15 percent, respectively, making the case for continued exchange rate flexibility to assure that the official rate goes in line with fundamentals.

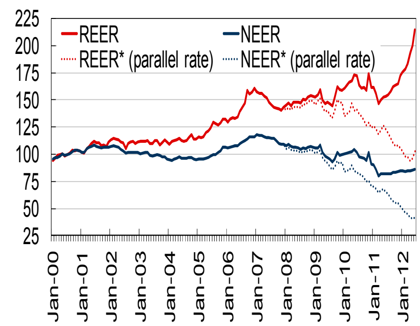
Second, qualitative *competitiveness* indicators point to significant structural and institutional bottlenecks, calling for substantial structural reforms to improve the business climate –especially facilitating cross-border trading, accelerating financial sector development, investing in infrastructure to reduce production and distribution costs, and improving governance, political stability and overall security.

Finally, *reserve levels* are too low as judged by traditional rules of thumb and a new methodology for assessing the adequacy of reserve holdings. The latter makes the case for a coverage of more than 4 months of 2011 imports.

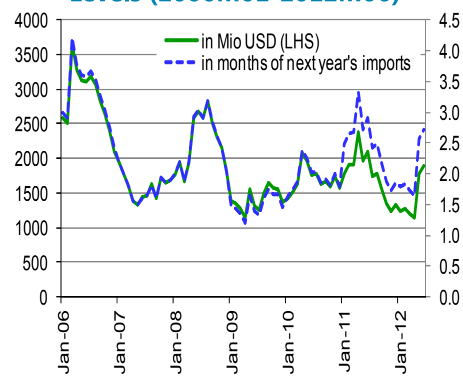
Box Figure 1. Average Monthly Exchange Rate (2007M01-2012M07)



Box Figure 2. REER and NEER (2000M01-2012M06)



Box Figure 3. Average Monthly Reserve Levels (2006M01-2012M06)



B. Economic Transformation

Medium-term reforms should aim to refocus the economy on its non-resource sector by strengthening economic fundamentals and improving the business environment and growth inclusiveness.

37. The authorities' development strategy outlined in the three-year economic plan projects a relatively fast economic recovery. The plan identifies potential sources of growth and assumes a timely implementation of comprehensive reforms that would significantly enhance economic performance.

38. In staff's view, Sudan's medium-term challenge is to regenerate most of the lost economic and financial potential while minimizing the adjustment cost on the economy. This would require a gradual transformation of the economy into a more competitive economy that could generate the foreign exchange it needs to cover its imports requirements and expand, and to deliver the tax revenues that the government needs to operate.

The required policies

39. *Fiscal reform* should continue in the context of a medium-term budgetary framework, anchored on a fiscal deficit target of 2 percent of GDP that would ensure steady progress toward a long-term primary surplus via continued structural consolidation, while boosting potential growth through increased infrastructure investment. This strategy would limit inflationary financing in the short- and medium-term, while keeping the non-oil primary deficit at about 5 percent of GDP, and ensure progress toward fiscal sustainability in the long-term. The fiscal reforms should be centered on: (i) a revision of the government revenue model; (ii) a rationalization of public spending and a streamlining of the civil service; and (iii) the overhaul of state finances (SIP, Chapter 4).

- The new government revenue model could be achieved through gradually eliminating tax exemptions and improving taxpayer compliance management. Also, the implementation of an ambitious privatization program could generate some additional transitory resources that could be used to finance the needed increase in government investment;

- Improving the efficiency and quality of public spending, including developing a well-targeted safety net system. In particular, the subsidy reform momentum should be maintained in the context of the 2013 budget and the related savings should be used to strengthen the social safety nets and the investment program.[11] Also, subjecting public enterprises to hard budget constraints would require a comprehensive restructuring of the public sector, and streamlining the civil service will necessitate the organization of a census to identify the reforms that are needed to rationalize government services.

[11] The subsidy reform is expected to generate savings of more than 0.6 percent of GDP during H2-2012.

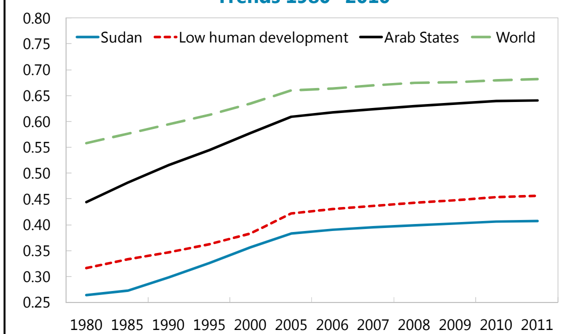
Topic Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Starting a Business	126	123	-3
Dealing with Construction Permits	130	127	-3
Getting Electricity	107	104	-3
Registering Property	41	40	-1
Getting Credit	166	152	-14
Protecting Investors	155	153	-2
Paying Taxes	103	99	-4
Trading Across Borders	151	151	No change
Enforcing Contracts	148	146	-2
Resolving Insolvency	84	84	No change

Source: World Bank *2012 Doing Business Report*

- Overhauling and reforming state finances in order to reduce the states' dependence on central transfers remains the key component of the fiscal reform. It will necessitate shifting to a model that improves revenue collection capacity and rationalizes expenditure control at the state level while rebalancing federal transfers toward capital spending and the delivery of basic social services.

40. The monetary and banking sector should be enhanced by an increased reliance on indirect monetary management and a comprehensive restructuring of the banking system. In the monetary area, the directed credit allocations should be terminated, and central bank securities should be used to manage liquidity, reactivate the interbank money market and develop open market operations. Also, the CBOS should strengthen its monetary policy committee by increasing its economic monitoring capabilities. In the banking area, a comprehensive evaluation of the banking system should be undertaken to enhance the legal, regulatory, and institutional framework in line with international practice, and remove impediments to financial deepening. Also, banking supervision should be strengthened, including through enhanced training of supervisory staff.

Sudan: Human Development Indicators Trends 1980–2010



Source: UNDP, 2011.

Authorities' Views

41. The authorities agreed with staff on the importance of continuing fiscal consolidation and structural reforms to ensure the economy will move to a sustainable growth path.

C. Promoting Competitiveness and Inclusive Growth

Promoting competitiveness and inclusive growth will require reforms on a number of fronts while simultaneously continuing to safeguard macroeconomic stability.

42. The business environment needs to be more conducive to private sector development (Figures 7 and 8)**.** According to the World Bank's *Doing Business Report*, regulations governing investment and banking in Sudan are opaque and subject to frequent change, discouraging entrepreneurial activity. In order to boost the economy and ensure sustained and inclusive growth, government policies need to remove impediments to private sector investments and promote a wage policy linking wages to the economy's productivity. Also, encouraging exports would contribute to rebalance the country's external accounts. While active internal demand management policies would help increase the country's export potential, they would need to be accompanied by supporting policies, including provision of advice and services to exporters that could be provided by specialized agencies and banks.

43. Staff emphasized the importance of strengthening small- and medium-size enterprises (SMEs) and opening up the economy. SMEs could be a key driver in promoting economic diversification. Opening up the economy to foreign investors would: (i) attract external resources to finance badly needed investments that would increase employment and the country's economic potential; and (ii) enhance the local know-how, the best recipe for private sector development. To support these actions, the government should focus on developing the physical infrastructure and human capital, and improving basic public services. These actions would generate over time productivity gains, reduce policy uncertainty and bolster investor confidence.

44. Unemployment remains high (above 20 percent, mostly affecting youth and women) and poverty is widespread. The UNDP estimates that currently, about 47 percent of Sudan's population lives below the poverty line of less than one U.S. dollar a day. While Sudan has made progress in each of the Human Development Indicators, it remains classified amongst the bottom of developing countries and lags behind in achieving the Millennium Development Goals. Staff urged the authorities to begin to address labor supply issues by: (i) conducting a skills assessment aimed at identifying market needs; and (ii) reforming technical and vocational training programs and enhancing the quality of general and technical education (SIP, Chapter 5).

45. Sudan's membership in the Common Market for Eastern and Southern Africa and the Greater Arab Free Trade Area has been beneficial and is an important step towards its integration into the world economy. Also, a greater economic integration with South Sudan in the form of a common market would boost trade and economic productivity of the two countries. Such project would require however a close coordination at the policy and institutional levels including the harmonization of economic policies, and the integration of the countries' transportation infrastructure and network.

Authorities' Views

46. The authorities agreed with the staff's assessment. They noted that their current strategy aims to accelerate structural reforms in order to create new sources of growth and income to compensate for the loss of oil revenues. In addition to revitalizing the agriculture sector, which remains the backbone of Sudan's economy, they are placing greater emphasis on the large untapped potential of the mining sector as evidenced by the sharp increase in gold production.[12] They also believe that oil production could increase over the medium-term through enhanced recovery of existing oil wells and the discovery of new ones.

[12] Gold production has increased nearly seven fold, from 4 tons in 2008 to 29 tons in 2011, and is projected to further increase to 50 tons in 2012.

DEBT ISSUES

47. Sudan is in debt distress with the bulk of its external debt in arrears. A debt sustainability analysis (DSA) based on the joint IMF-WB LIC debt sustainability framework and discussed with the authorities indicates that at end-2011, all debt indicators exceeded their thresholds (Annex 1).[13] Arrears clearance and debt relief will be needed to bring Sudan's external debt to a sustainable level and gain access to external financing. Staff strongly recommended to: (i) establish broad support for debt relief under the Enhanced HIPC Initiative, which requires enhancing its dialogue with creditors and donors; (ii) continue to cooperate with the IMF on economic policies; and (iii) limit borrowing on non-concessional terms as much as possible.

48. Sudan's arrears to the Fund totaled SDR 983.3 million at end-July. Staff welcomed the payments made so far in 2012 totaling US$6.7 million against obligations falling due of SDR 2.49 million (or US$3.85 million). Staff strongly encourages the authorities to continue making payments to the Fund, to make them on a regular basis, and to increase them as their payment capacity improves.

49. The technical group on Sudan's external debt (TWG) co-chaired by the Fund and the Bank was created in late 2010 to advance the technical work on debt relief. Since then it met five times. It facilitated the reconciliation of debt data between Sudan and its creditors,[14] made presentations on arrears clearance and the debt relief process, and developed debt relief scenarios.

Authorities' Views

50. The authorities agreed with staff's assessment and advice. However, they expressed frustration that the debt relief remains an elusive goal, and feel subject to unfair treatment by the international financial community. They stressed that as a result of the slow progress of negotiations with South Sudan, they may consider the fallback debt option of apportioning the debt between the two countries.[15]

[13] See Sudan—Staff Report for the 2012 Consultation—DSA.

[14] As of end-July 2012, more than 92 percent of Sudan's external debt has been reconciled.

[15] Prior to South Sudan's secession, the two countries had reached an agreement on the so-called "zero option," under which Sudan would retain all the external liabilities after the secession of South Sudan, provided that: (i) South Sudan joined Sudan in outreach efforts for debt relief for Sudan, and (ii) the international community gave firm commitments to the delivery of debt relief within two years. Absent such a commitment by July 2013, Sudan's debt would be apportioned between the two countries.

OTHER ISSUES

51. Since the 2010 Article IV consultation, Sudan has introduced measures that may be inconsistent with its obligations under Article VIII of the IMF's Articles of Agreement. These measures include the new exchange regime, as well as other distortionary measures that inhibit current account convertibility.[16] Staff is currently assessing these measures to determine whether they give rise to multiple currency practices (MCPs) or exchange rate restrictions under Article VIII.

52. Staff welcomed the progress achieved on the Interim-Poverty Reduction Strategy Paper (I-PRSP), which was adopted by the Parliament in late June 2012. The government is preparing to share it soon with the IMF and the World Bank.

53. Sudan's current statistical database is broadly adequate for surveillance and program monitoring, but needs further improvements. Staff urged the authorities to enhance the status and resources of the Central Bureau of Statistics, giving the Bureau the authority to produce and disseminate official statistics and coordinate the national statistical work program.

54. The authorities expressed an interest in a successor SMP. Staff pointed out that the recent economic measures could form the basis for initiating discussions on a SMP. These discussions could start later this year.

STAFF APPRAISAL

55. Against the backdrop of internal tensions and conflicts, Sudan managed in the past 15 years to promote economic growth and improve economic conditions. The 2011 *Assessment of Engagement Under the SMPs* confirmed Sudan's satisfactory macroeconomic performance and its progress on key structural reforms under successive SMPs.

56. The secession of South Sudan has translated into a severe economic shock that resulted in the loss of a sizeable portion of the country's economic potential and international payment capacity. To deal appropriately with this shock, staff encourages the authorities to: (i) stabilize the macroeconomy in the near term; and (ii) over the medium term recalibrate the economy in line with the country's reduced economic and financial potential. In view of Sudan's limited access to international markets, this strategy will need to rely mainly on domestic resources.

57. The authorities' reform program and the underlying policy mix is a positive step towards consolidating economic conditions and curbing inflation. Over the medium-term, the challenge remains to sustain these adjustment efforts in order to regenerate most of the lost economic potential by gradually building a more competitive and self-reliant economy.

[16] These include rationing foreign exchange and earmarking it to selected sectors, and introducing restrictions on banks' excess reserves in foreign currency with the central bank and on bank deposits in foreign currency.

58. Staff welcomes the policies underlying the revised 2012 budget. It commends the authorities' decision to substantially reduce fuel subsidies, and strongly supports the reinforcement of the social safety nets and the marked reduction in non-priority spending. On the revenue side, staff considers the increase in tax rates as appropriate given the pressing need to mobilize revenues, but urges the authorities to step up efforts to widen the tax base.

59. Staff urges the authorities to develop a medium-term budget framework, to strengthen budgetary execution and control, and to overhaul and reform state finances. Staff recommends enhancing tax policy and revenue administration by reducing tax exemptions and improving tax compliance. Given the government's leading role as the wage setter in the economy, it advises linking the average wage in the civil service to the nonoil economy's productivity, a measure that would gradually boost competitiveness and improve the external trade balance. Staff also encourages the authorities to pursue the phasing-out of subsidies and develop a well targeted safety net system. It also recommends imposing a profit tax on gold producers as the sector develops.

60. Enhancing the effectiveness of monetary policy necessitates a better coordination between the monetary and fiscal authorities. Bringing inflation under control will require greater de facto central bank independence in order to contain and gradually reduce the monetization of the fiscal deficit.

61. Staff underscores the importance of enhancing monetary management at the CBOS. Staff recommends using reserve money as an anchor to tighten credit to the government and ensure sufficient credit to the private sector, eventually bringing inflation under control. Noting the systemic nature of bank excess liquidity, it recommends refraining from raising the reserve requirements ratio as the latter is largely ineffective, and could only adversely affect banking intermediation and profitability. To restore the monetary transmission mechanism, staff advises the CBOS to provide the commercial banks with the appropriate opportunities to recycle their unused deposit liabilities, which could be achieved through the organization of a competitive auction system of CBOS own securities.

62. The authorities' step devaluation of the official exchange rate is welcome. staff notes that the commercial banks rate is less overvalued than other official rates and is thus closer to market conditions. Staff strongly recommends to unify the existing four official rates and to extend the commercial banks rate to all transactions. Staff advises, however, that greater exchange rate flexibility will be an important element in facilitating the required adjustment and safeguarding foreign exchange reserves. It encourages the authorities to end the use of the premium incentive practice and gradually repeal all the existing administrative restrictions.

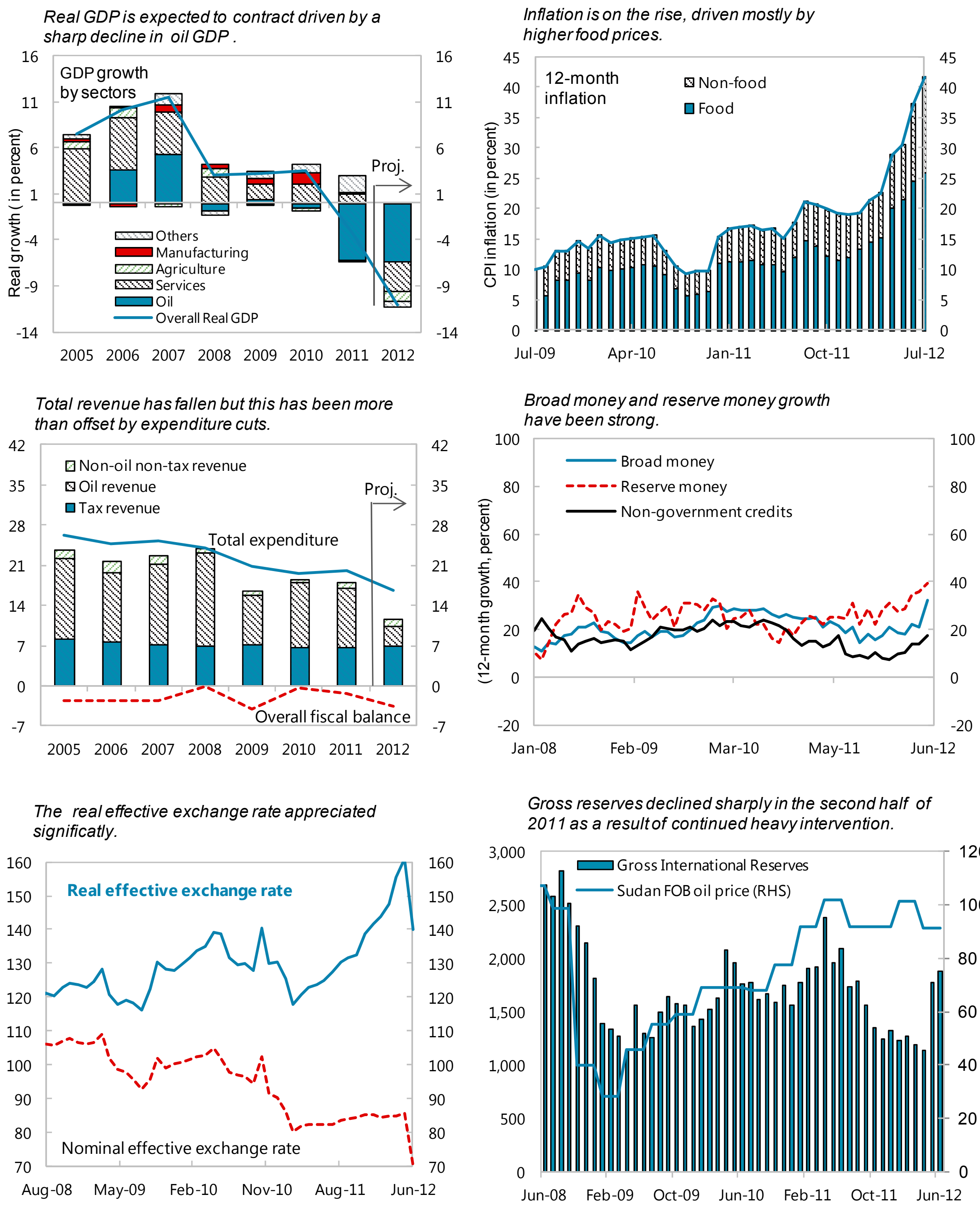
63. Stepping up structural reforms will help address the underlying structural challenges facing the economy. Key reforms include: (i) a comprehensive civil service reform, (ii) banking sector restructuring, (iii) ambitious privatization program, and (iv) improving governance.

64. Sudan is in debt distress and its arrears continue to constrain access to external financing. The authorities should continue to contain the contracting or guaranteeing of non concessional external borrowing, and reach out to donors to garner support for debt relief. Staff encourages the authorities to continue to strengthen their cooperation with the Fund on policies and payments.

65. The support of the international community is critical to the success of Sudan's reform strategy. Its absence could jeopardize the maturing of the economy, cap its growth potential, and worsen its poverty profile. Staff strongly encourages the authorities to enhance their dialogue with creditors and donors. Also, the authorities' implementation of sound macroeconomic policies would be critical in catalyzing much needed support by assuring donors that their resources are being put to effective use.

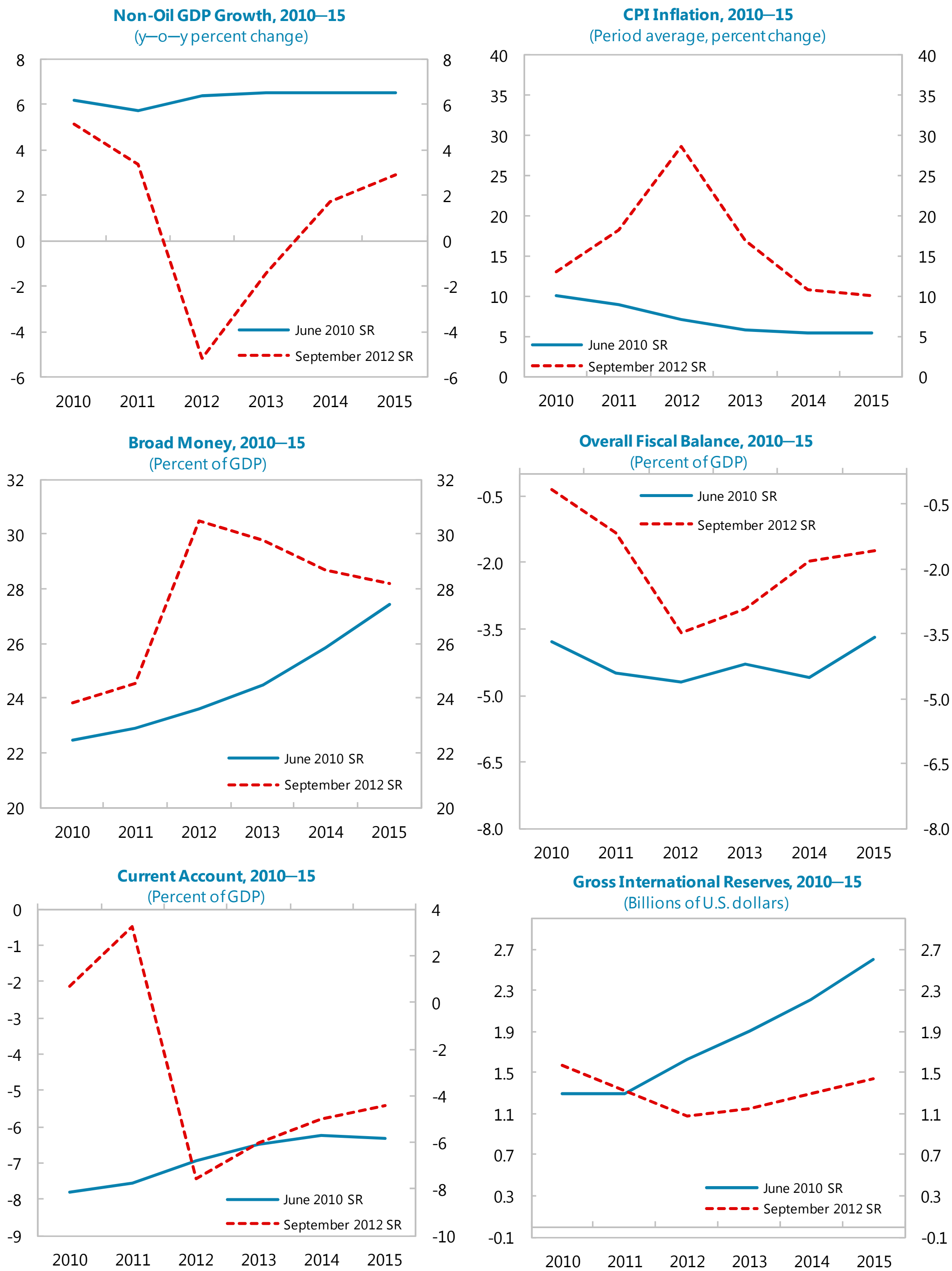
66. It is recommended that the next Article IV Consultation with Sudan takes place on the standard 12-month cycle.

Figure 5. Sudan: Selected Economic Indicators, 2005–12



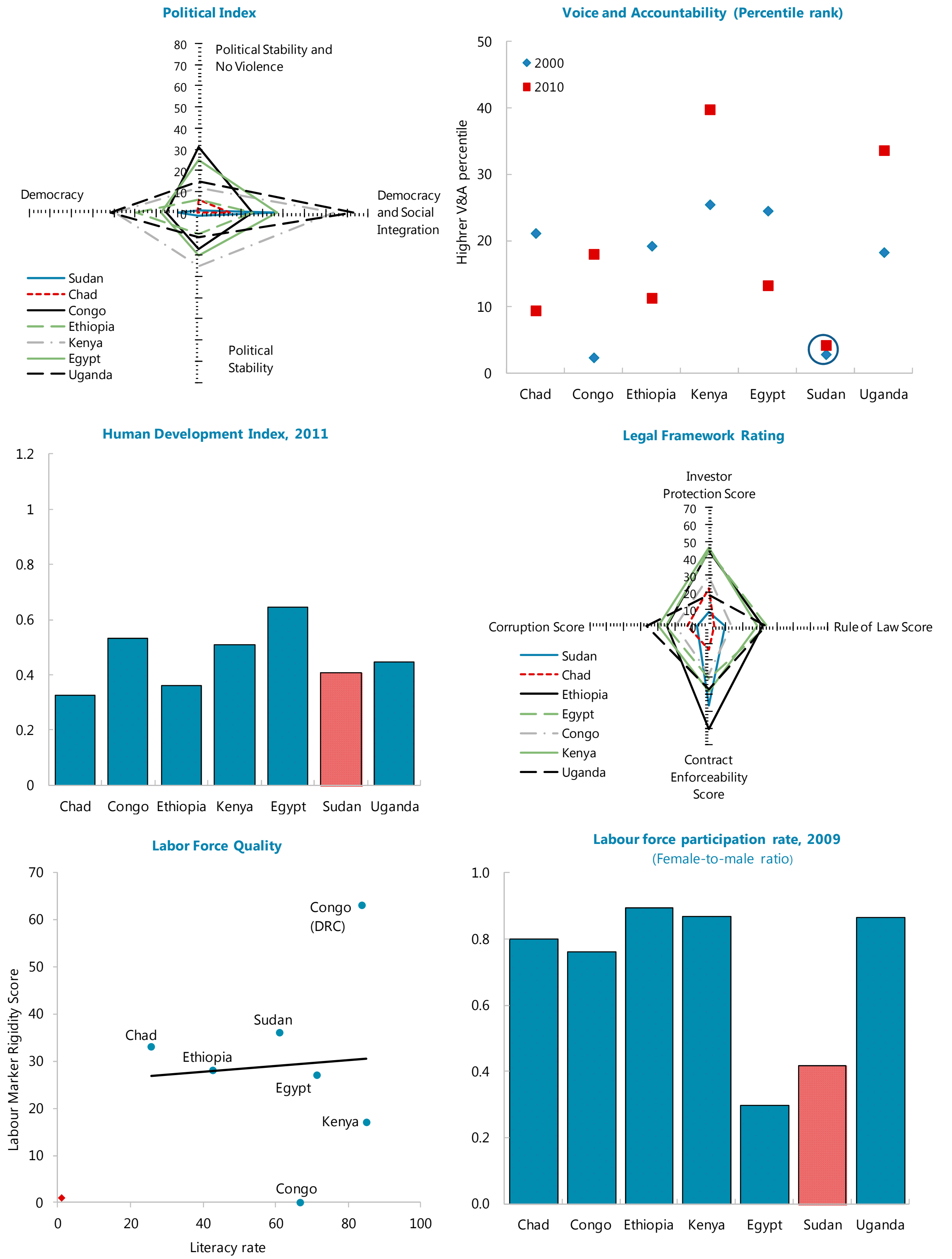
Sources: Authorities; and staff estimates and projections.

Figure 6. Sudan: Comparison 2012 and 2010 Article IV Staff Reports



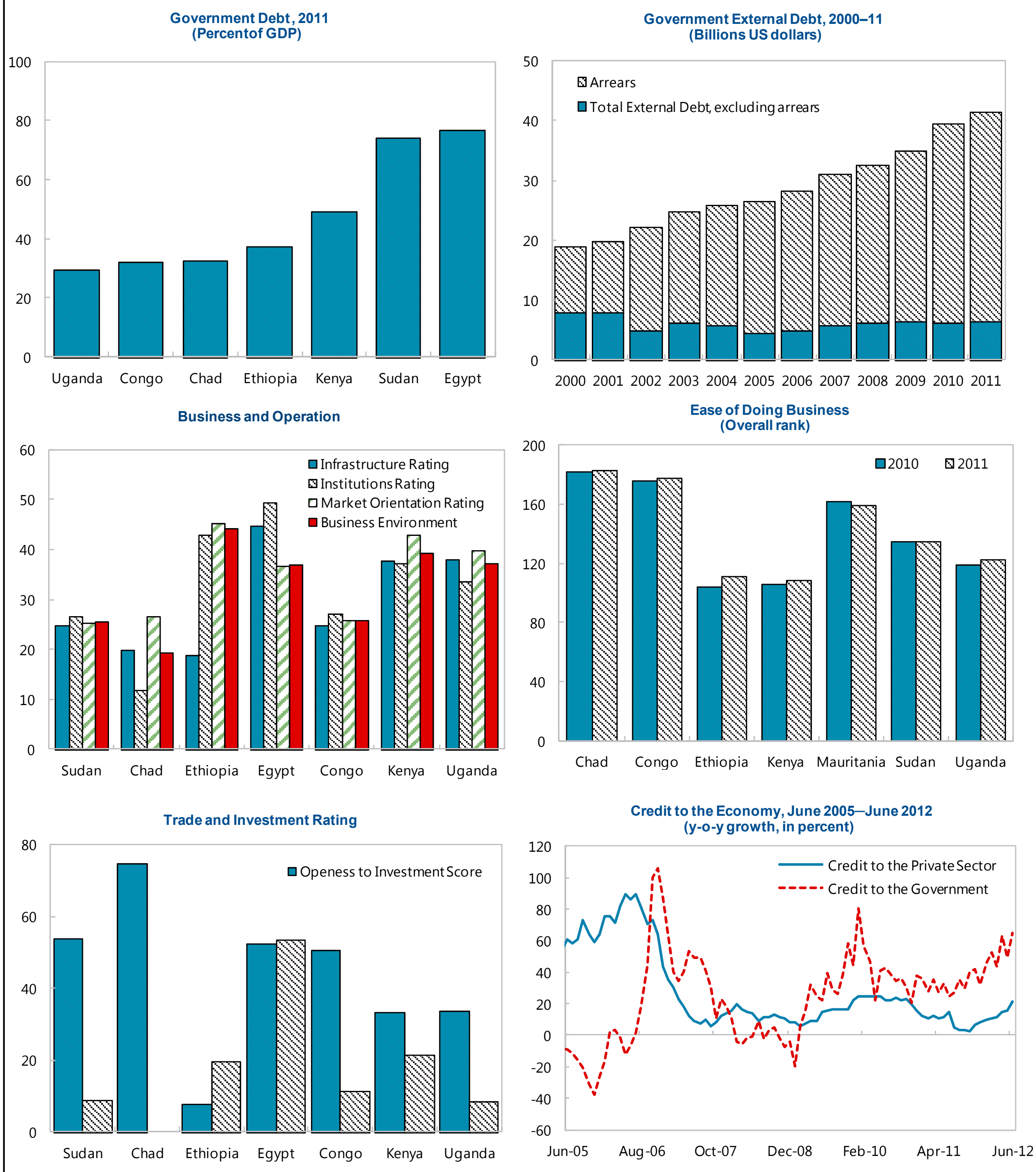
Sources: Sudanese authorities; and staff estimates and projections.

Figure 7. Sudan: Selected Political and Social Indicators



Sources: Worldwide Governance Indicators; Global Competitiveness Indicators; UNDP Human Development Indicators; World Bank Development Indicators; and Business Monitor International.

Figure 8. Sudan: Selected Economic and Financial Indicators



Sources: Worldwide Governance Indicators; Business Monitor International; Sudanese authorities; and staff estimates.

Table 1. Sudan: Selected Economic Indicators, 2008–13

	2008	2009	2010	2011	2012	2013
				Prel.	Proj.	
Output and prices			(Annual changes in percentage)			
Real GDP (at factor costs) 1/	3.0	3.2	3.5	-3.3	-11.1	-0.6
Oil GDP 1/	-4.5	3.0	-3.9	-36.0	-58.2	14.5
Nonoil GDP 1/	4.8	3.3	5.1	3.4	-5.1	-1.4
Agriculture	3.3	-0.8	-1.2	-0.9	-3.9	1.3
Other	5.6	5.2	8.0	5.1	-5.6	-2.5
Consumer prices (period average)	14.3	11.2	13.1	18.3	28.6	17.0
Food	29.1	12.2	15.8	20.4	...	...
Core CPI	8.0	10.1	9.9	16.0	...	...
Nonoil GDP deflator	12.4	16.2	14.0	14.9	27.8	19.2
Oil GDP deflator	53.2	-42.1	60.9	62.0	27.4	22.5
Investment and saving			(In percent of GDP, unless otherwise specified)			
Gross disposable income	93.4	94.1	95.3	97.4	98.5	98.2
Gross domestic expenditure	94.6	103.7	97.4	97.9	105.8	104.6
Final consumption	76.3	85.1	81.4	82.2	90.7	89.0
Gross capital formation	18.3	18.6	16.0	15.7	15.1	15.6
Gross Savings	16.4	8.6	13.9	15.2	7.8	9.2
Government operations						
Revenue and Grants	24.0	16.5	19.3	18.7	12.9	14.1
Revenues	24.0	16.5	18.6	17.9	11.5	12.7
Of which: Oil revenues	16.4	8.7	11.3	10.3	3.5	4.4
Tax revenue	6.8	7.1	6.7	6.7	6.9	7.1
Total expenditure	24.1	20.7	19.6	20.0	16.6	17.3
Current expenditure	20.7	17.8	17.0	18.2	15.3	15.9
Wage bill	5.3	5.6	5.0	5.7	5.9	5.9
Subsisdies	1.4	0.2	0.9	2.9	2.9	2.4
Transfers	10.2	8.1	7.8	6.5	3.6	3.6
Capital expenditure	3.4	2.9	2.6	1.8	1.3	1.4
Overall balance	-0.1	-4.2	-0.4	-1.3	-3.7	-3.2
Nonoil primary balance	-5.5	-5.5	-4.1	-5.3	-5.9	-5.8
In percent of nonoil GDP	-7.1	-6.4	-4.9	-6.1	-6.2	-6.2
Monetary sector			(Annual changes in percentage, unless otherwise specified)			
Broad money	16.4	24.1	24.9	17.7	38.4	17.4
Reserve money	22.2	28.1	17.2	27.8	39.5	20.3
Credit to the economy	15.6	20.2	16.4	8.0	18.1	15.0
Velocity (Non oil GDP/M2 ratio, eop)	3.8	3.7	3.6	3.6	3.1	3.1
Net claims on government as a ratio to Nonoil GDF	8.0	9.6	11.0	12.3	14.7	15.1
Credit to the economy as a ratio to Nonoil GDP	17.5	17.6	17.0	15.5	15.2	14.8
External sector			(In percent of GDP)			
Exports of goods (in US$, annual change in percer	30.9	-36.0	57.0	-12.9	-55.4	9.4
Exports of oil	21.8	12.9	16.5	13.1	3.0	3.9
Imports of goods (in US$, annual percent change)	6.6	3.6	3.1	-7.5	-17.6	-3.6
Merchandise trade balance	7.8	-1.2	5.7	4.3	-3.7	-2.5
Current account balance	-2.0	-10.0	-2.1	-0.5	-7.4	-6.5
Ext. debt service (in percent of exp.of G&S.)						
Commitment basis	20.1	34.1	22.7	24.4	50.4	45.7
Cash basis	3.0	5.3	3.0	2.4	9.7	8.5
Total external debt	60.2	66.0	60.9	64.8	84.9	96.7
Total external debt (in US$ billion)	32.6	34.9	39.5	41.4	43.7	45.6
Gross international reserves (in millions of U.S. dol	1,816	1,370	1,566	1,325	1,074	1,155
In months of next year's imports of goods and sei	2.1	1.5	1.8	1.8	1.5	1.6
Memorandum items:						
Nominal GDP (in millions of SDGs)	113,041	121,613	149,544	170,656	190,408	228,535
Nominal nonoil GDP (in millions of SDGs)	87,986	105,416	126,435	149,758	180,578	212,880
Nominal GDP (in $US million)	54,082	52,840	64,850	63,997	51,549	47,130
Exchange rate: SDGs per U.S. dollar						
End of period	2.18	2.24	2.48	2.68	...	...
Period average	2.09	2.30	2.31	2.67	...	...
(percent change)						
NEER (2007=100, pa)	-6.7	-5.4	-1.3	-16.0	...	...
REER (2007=100, pa)	0.1	3.1	7.7	-4.9	...	...

Sources: Sudanese authorities; and staff estimates and projections.

1/ In the calculation of the growth rates: 2010 aggregates are related to unified Sudan; 2011 aggregates include South Sudan for the first half of the year; and 2012 aggregartes are related to post-secession Sudan.

Table 2. Sudan: Balance of Payments, 2008–17
(In Millions of US Dollars)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
				Prel.			Proj.			
Current account balance	-1,065	-5,264	-1,383	-303	-3,836	-3,042	-2,784	-2,737	-2,811	-2,754
Current account balance (on cash basis)	311	-3,663	261	1,330	-2,290	-1,496	-1,238	-1,191	-1,265	-1,208
Trade balance	4,212	-634	3,711	2,751	-1,910	-1,197	-900	-837	-882	-990
Exports, f.o.b.	12,628	8,087	12,700	11,063	4,939	5,406	5,983	6,381	6,727	7,176
Oil exports	12,052	7,067	10,991	8,679	1,591	1,918	2,382	2,600	2,770	2,972
Crude oil	11,804	6,839	10,702	8,378	1,536	1,852	2,299	2,510	2,674	2,869
Petroleum products	249	228	289	301	55	66	83	90	96	103
Non-oil products	576	1,020	1,709	2,384	3,348	3,488	3,601	3,781	3,957	4,204
Of which: Gold	112	403	1,018	1,442	2,558	2,727	2,846	2,970	3,064	3,201
Imports, f.o.b.	-8,416	-8,722	-8,989	-8,312	-6,849	-6,603	-6,883	-7,218	-7,609	-8,166
Foodstuffs	-1,204	-1,474	-2,128	-1,699	-1,100	-1,102	-1,147	-1,193	-1,246	-1,325
Petroleum products	-640	-293	-385	-662	-1,653	-1,202	-733	-681	-609	-576
Machinery and transport equipments	-3,757	-3,424	-3,215	-2,892	-1,944	-2,038	-2,450	-2,622	-2,822	-3,074
Manufactured goods	-1,743	-2,243	-1,832	-1,610	-1,273	-1,355	-1,599	-1,711	-1,837	-1,990
Other	-1,073	-1,288	-1,429	-1,450	-879	-906	-953	-1,011	-1,096	-1,201
Services (net)	-1,755	-1,507	-2,063	-1,389	-1,133	-1,009	-1,006	-1,041	-1,098	-1,184
Receipts	510	400	259	764	641	702	777	828	873	932
Of which : Oil fees charged to South Sudan	0	0	0	0	0	0	0	0	0	0
Payments	-2,265	-1,907	-2,321	-2,153	-1,774	-1,710	-1,783	-1,870	-1,971	-2,115
Income (net)	-3,907	-4,135	-5,162	-2,778	-1,957	-2,030	-2,135	-2,182	-2,224	-2,204
Receipts	42	37	138	108	91	81	77	82	90	164
Non-oil payments	-1,798	-1,765	-1,932	-1,886	-1,877	-1,881	-1,886	-1,893	-1,903	-1,915
Public interest due 1/	-1,579	-1,681	-1,716	-1,701	-1,687	-1,684	-1,684	-1,685	-1,688	-1,694
Of which: interest cash payments	-204	-80	-72	-67	-140	-138	-138	-139	-142	-148
Other payments	-219	-84	-217	-185	-191	-196	-202	-208	-214	-221
Oil related expenses 1/	-2,151	-2,406	-3,368	-1,000	-171	-229	-326	-372	-411	-453
Current transfers (net)	385	1,012	2,131	1,112	1,164	1,193	1,256	1,322	1,393	1,624
Private	-286	355	940	439	461	522	591	668	753	999
Official	671	657	1,191	673	704	671	665	655	640	625
Of which: TFA transfers	…	…	…	0	0	0	…	…	…	…
Capital account and Financial Account	-1,872	2,795	-1,451	-955	1,106	1,484	1,450	1,444	1,539	1,463
Capital account	156	160	174	162	103	108	131	129	131	137
Financial account (net)	-2,028	2,635	-1,625	-1,116	1,004	1,376	1,319	1,315	1,407	1,326
Disbursements	485	978	575	606	1,136	631	642	675	713	764
Amortization	-382	-492	-485	-445	-402	-381	-405	-347	-286	-302
O/w: Cash payments	-278	-182	-322	-216	-402	-381	-405	-347	-286	-302
Net foreign assets of banks (increase -)	-198	421	-429	313	100	200	-50	-100	-150	-175
Investors' net income-cost oil	-2,486	-1,338	-1,648	-1,366	-707	-702	-705	-704	-683	-680
Foreign direct investment and portfolio (net)	2,567	2,682	2,900	2,666	1,710	1,793	2,176	2,145	2,189	2,282
Other net capital flows	-2,013	383	-2,539	-2,890	-833	-165	-339	-353	-375	-563
Public	-1,422	-473	-1,289	-1,340	-598	-655	-725	-773	-815	-869
Private	-592	857	-1,250	-1,550	-235	490	385	420	439	306
Errors and omissions	2,148	52	-1,784	-781	0	0	0	0	0	0
Overall Balance	-789	-2,418	-4,618	-2,039	-2,729	-1,558	-1,335	-1,294	-1,272	-1,291
Overall Balance (on cash basis)	690	-507	-2,811	-176	-1,183	-12	212	252	274	255
Financing	789	2,418	4,618	2,039	1,989	1,558	1,335	1,294	1,272	1,291
Change in net international reserves (increase -)	-422	351	-189	235	420	-13	-239	-281	-305	-288
Gross reserves	-126	446	-195	240	251	-82	-132	-150	-148	-106
Gross usable reserves (increase -)	-126	446	-195	240	251	-82	-132	-150	-148	-106
Gross earmarked and other reserves (increase -)	0	0	0	0	0	0	0	0	0	0
Short-term foreign liabilities (increase +)	-246	-84	18	0	175	75	-100	-125	-150	-175
IMF (net)	-50	-11	-11	-5	-7	-7	-7	-7	-7	-7
Disbursements	0	0	0	0	0	0	0	0	0	0
Repayments	-50	-11	-11	-5	-7	-7	-7	-7	-7	-7
Exceptional financing	1,212	2,067	4,807	1,804	1,570	1,571	1,573	1,575	1,577	1,579
Of which : Change in arrears	1,212	2,067	4,807	1,804	1,570	1,571	1,573	1,575	1,577	1,579
Memorandum items:					(In percent of GDP)					
Current account balance (accrual basis)	-2.0	-10.0	-2.1	-0.5	-7.4	-6.5	-5.8	-5.4	-5.2	-4.8
Current account balance (cash basis)	0.6	-6.9	0.4	2.1	-4.4	-3.2	-2.6	-2.4	-2.4	-2.1
Excluding official transfers (cash basis)	-0.7	-8.2	-1.4	1.0	-5.8	-4.6	-4.0	-3.6	-3.5	-3.2
Non-oil current account (on cash basis)	-16.6	-15.2	-10.8	-8.9	-4.0	-4.2	-5.3	-5.4	-5.6	-5.4
Current transfers (net)	0.7	1.9	3.3	1.7	2.3	2.5	2.6	2.6	2.6	2.8
Of which: Private transfers	-0.5	0.7	1.4	0.7	0.9	1.1	1.2	1.3	1.4	1.7
Gross International reserves (in US$ Million)	1,816	1,370	1,566	1,325	1,074	1,155	1,287	1,437	1,585	1,691
In months of next year's imports	2.1	1.5	1.8	1.8	1.5	1.6	1.7	1.8	1.9	1.9
					(Annual changes in percent, unless otherwise specified)					
Exports of goods (value)	30.9	-36.0	57.0	-12.9	-55.4	9.4	10.7	6.6	5.4	6.7
Non-oil exports of goods (value)	25.3	77.1	67.5	39.5	40.4	4.2	3.3	5.0	4.7	6.2
Imports of goods (value)	6.6	3.6	3.1	-7.5	-17.6	-3.6	4.2	4.9	5.4	7.3
Nominal GDP (in millions of U.S. dollars)	54,082	52,840	64,850	63,997	51,549	47,130	48,019	50,635	53,716	57,859
Crude oil exports (volume, in millions of barrels)	144.2	144.3	151.3	87.5	18.0	31.0	36.9	39.6	42.6	45.4
Sudanese crude oil price (U.S. dollars per barrel)	81.3	47.4	70.7	95.8	89.7	84.7	82.7	82.4	79.8	79.0

Sources: Sudanese authorities; and staff estimates and projections.

Table 3. Sudan: Government Operations, 2008–17
(In Millions of SDGs)

	2008	2009	2010	2011 Prel.	Budget 2012	Proj. 2012	2013 Proj.	2014 Proj.	2015 Proj.	2016 Proj.	2017 Proj.
Revenues and grants	27,110	20,121	28,789	31,884	19,353	24,587	32,225	37,898	41,851	45,839	50,482
Revenues	27,075	20,073	27,814	30,572	17,438	21,989	28,972	34,252	37,983	41,849	46,455
Tax revenues	7,680	8,619	10,008	11,426	11,195	13,091	16,167	18,686	21,174	24,138	27,571
Income, profits and capital gains	849	928	1,136	1,061	1,390	1,280	1,509	1,716	1,933	2,173	2,426
Property	35	12	14	36	71	71	84	95	107	120	134
Goods and services	4,761	5,163	5,966	6,877	6,631	8,002	9,814	11,313	12,731	14,395	16,384
International trade and transactions	1,978	2,505	2,882	3,443	3,096	3,731	4,752	5,551	6,391	7,436	8,613
Other	57	10	10	10	8	8	9	11	12	14	15
Oil revenues	18,531	10,531	16,880	17,519	3,957	6,612	10,109	12,500	13,356	13,829	14,417
Sales to refineries	4,155	4,417	4,569	6,500	...	6,447	7,594	9,639	10,304	10,705	11,201
Oil exports revenues	14,376	6,115	12,311	11,019	...	166	2,515	2,862	3,051	3,125	3,216
Other nontax revenues	864	923	925	1,627	2,286	2,286	2,695	3,065	3,453	3,881	4,466
Property income	533	528	504	879	1,208	1,208	1,425	1,620	1,825	2,051	2,290
Administrative fees	283	365	405	708	726	726	856	974	1,097	1,233	1,376
Other (nontax oil revenues)	48	30	16	41	352	352	415	472	531	597	800
Grants	36	47	976	1,312	1,915	2,599	3,253	3,646	3,868	3,990	4,028
Total expenditure	27,205	25,198	29,337	34,147	29,578	31,561	39,638	43,588	47,262	51,716	56,619
Expense (current expenditure)	23,367	21,626	25,437	31,115	27,066	29,049	36,447	39,438	41,868	45,243	49,499
Wages	5,951	6,836	7,516	9,763	11,149	11,149	13,379	15,385	17,383	19,121	20,842
Goods and services	2,919	2,375	2,417	2,603	2,251	2,251	2,994	3,593	4,311	4,742	5,216
Interest due	1,088	1,254	1,669	2,210	3,080	2,243	3,654	4,236	4,772	4,995	5,557
Foreign interest due	107	214	167	179	819	519	670	755	818	886	955
Domestic interest due	981	1,040	1,502	2,031	2,244	1,724	2,984	3,481	3,954	4,109	4,602
Subsidies	1,555	265	1,367	4,880	2,639	5,459	5,458	3,518	777	696	619
Fuel subsidies	1,231	0	1,276	4,822	...	4,866	4,865	2,835	0	0	0
Other subsidies	324	265	90	58	...	593	593	683	777	696	619
Transfers	11,575	9,799	11,655	11,037	6,779	6,779	8,186	9,245	10,215	10,504	11,570
South	6,159	4,485	5,867	4,820	...	0	0	0	0	0	0
North	5,396	5,288	5,755	6,187	...	6,671	8,056	9,096	10,044	10,314	11,359
Current	3,169	3,486	3,843	4,278	...	4,197	4,834	5,457	6,027	6,188	6,815
Capital	2,227	1,802	1,912	1,909	...	2,474	3,222	3,638	4,018	4,126	4,543
Other transfers	85	26	27	29	...	108	130	150	170	191	212
Other expenditures	279	1,097	814	623	1,168	1,168	2,776	3,461	4,411	5,186	5,695
Net acquisition of NFA (capital expenditure)	3,838	3,572	3,900	3,032	2,512	2,512	3,192	4,149	5,394	6,473	7,120
Operating balance (accrual basis)	3,743	-1,505	3,352	769	-7,713	-4,461	-4,222	-1,540	-17	596	983
Overall accrual balance	-94	-5,077	-548	-2,263	-10,225	-6,974	-7,413	-5,690	-5,411	-5,877	-6,137
Overall accrual balance (including discrepancy)	-94	-5,077	-548	-2,263	...	-6,974	-7,413	-5,690	-5,411	-5,877	-6,137
Nonoil primary balance 2/	-6,222	-6,728	-6,158	-9,123	...	-11,222	-13,220	-12,931	-12,890	-13,801	-13,943
Financing (accrual basis)	94	5,077	548	2,263	10,225	6,974	7,413	5,690	5,411	5,877	6,137
Foreign financing	214	1,120	207	427	...	2,712	1,218	1,305	1,943	2,662	2,974
Disbursements	1,013	2,252	1,327	1,615	...	4,195	3,064	3,524	3,992	4,447	4,920
Principal repayment (-))	799	1,132	1,119	1,188	...	1,483	1,846	2,220	2,049	1,785	1,946
Domestic financing	-171	3,712	110	1,667	...	4,595	6,702	4,607	3,791	3,803	3,826
Bank financing	-302	2,975	3,536	4,053	...	6,488	5,975	4,297	4,369	4,565	4,663
O/w: OSA	869	-585	-330	1	...	0	0	0	0	0	0
Nonbank financing	971	808	-1,946	-1,421	...	-1,084	727	309	-579	-762	-837
Accounts payable (net arrears accumulation)	-839	-71	-1,480	-965	...	-809	0	0	0	0	0
Accumulation of arrears	471	522	0	0	...	0	0	0	0	0	0
Repayment of arrears (-)	1,310	593	1,480	965	...	809	0	0	0	0	0
					(In percent of GDP)						
Revenues and grants	24.0	16.5	19.3	18.7	10.2	12.9	14.1	14.4	14.0	13.7	13.5
Revenues	24.0	16.5	18.6	17.9	9.2	11.5	12.7	13.0	12.7	12.5	12.5
Tax revenues	6.8	7.1	6.7	6.7	5.9	6.9	7.1	7.1	7.1	7.2	7.4
Oil revenues	16.4	8.7	11.3	10.3	2.1	3.5	4.4	4.7	4.5	4.1	3.9
Other nonoil nontax revenues	0.8	0.8	0.6	1.0	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Grants	0.0	0.0	0.7	0.8	1.0	1.4	1.4	1.4	1.3	1.2	1.1
Total expenditure	24.1	20.7	19.6	20.0	15.5	16.6	17.3	16.6	15.8	15.4	15.2
Expense (current expenditure)	20.7	17.8	17.0	18.2	14.2	15.3	15.9	15.0	14.0	13.5	13.3
Wages	5.3	5.6	5.0	5.7	5.9	5.9	5.9	5.8	5.8	5.7	5.6
Goods and services	2.6	2.0	1.6	1.5	1.2	1.2	1.3	1.4	1.4	1.4	1.4
Interest	1.0	1.0	1.1	1.3	1.6	1.2	1.6	1.6	1.6	1.5	1.5
Subsidies	1.4	0.2	0.9	2.9	1.4	2.9	2.4	1.3	0.3	0.2	0.2
Transfers	10.2	8.1	7.8	6.5	3.6	3.6	3.6	3.5	3.4	3.1	3.1
Other	0.2	0.9	0.5	0.4	0.6	0.6	1.2	1.3	1.5	1.5	1.5
Net acquisition of NFA (capital expenditure)	3.4	2.9	2.6	1.8	1.3	1.3	1.4	1.6	1.8	1.9	1.9
Operating balance (accrual basis)	3.3	-1.2	2.2	0.5	-4.1	-2.3	-1.8	-0.6	0.0	0.2	0.3
Overall accrual balance	-0.1	-4.2	-0.4	-1.3	-5.4	-3.7	-3.2	-2.2	-1.8	-1.8	-1.6
Nonoil primary balance as a ratio to Nonoil GDP	-7.1	-6.4	-4.9	-6.1	...	-6.2	-6.2	-5.3	-4.7	-4.5	-4.1
Financing (accrual basis)	0.1	4.2	0.4	1.3	5.4	3.7	3.2	2.2	1.8	1.8	1.6
Foreign financing	0.2	0.9	0.1	0.3	...	1.4	0.5	0.5	0.6	0.8	0.8
Domestic financing	-0.2	3.1	0.1	1.0	...	2.4	2.9	1.8	1.3	1.1	1.0
O/w: Net accumulation of arrears	-0.7	-0.1	-1.0	-0.6	...	-0.4	0.0	0.0	0.0	0.0	0.0

Sources: Sudanese authorities; and staff estimates and projections.

1/ Nonoil balances exclude oil revenues, grants, transfers to South, oil related transfers to Northern states and pipelines fees paid by the government.

Table 4. Sudan: Monetary Survey, 2008-13
(In Millions of SDGs)

	2008	2009	2010	2011	2012			2013
					March	June	Dec.	
					Act.		Proj.	
Net foreign assets	-2,504	-5,213	-4,187	-6,056	-6,161	-6,884	-4,081	-4,188
Bank of Sudan	-4,580	-6,381	-6,429	-7,770	-7,853	-11,787	-9,826	-9,963
Commercial banks	2,076	1,169	2,242	1,713	1,692	4,903	5,745	5,775
Net domestic assets	25,489	33,732	39,799	47,970	50,938	58,727	62,089	71,910
Net domestic credit	22,394	28,610	35,481	41,707	43,981	50,626	53,987	63,808
Net claims on general government (NCGG)	6,998	10,107	13,949	18,443	19,103	22,987	26,516	32,216
NCGG excluding IMF	3,652	6,628	10,164	14,217	14,887	16,028	19,556	32,216
Bank of Sudan (Central Government)	5,480	7,187	9,971	12,399	12,377	16,303	17,473	20,672
Deposits of GOSS (with Bank of Sudan)	9	3	2	0	0	0	..	..
Commercial banks (central government)	1,527	2,923	3,980	6,044	6,726	6,684	9,044	11,544
Claims on nongovernment sectors	15,396	18,503	21,532	23,264	24,877	27,639	27,471	31,592
Public enterprises	1,703	2,287	2,810	2,821	2,961	3,002	..	..
Private sector	12,711	15,513	17,959	19,427	20,878	23,553	..	..
Other sectors	983	703	763	1,016	1,038	1,084	..	..
Other items (net)	3,095	5,121	4,318	6,263	6,957	8,102	8,102	8,102
Broad money	22,985	28,519	35,612	41,914	44,777	51,843	58,008	68,122
Money	16,571	19,447	24,748	29,729	31,352	36,755	..	..
Currency in circulation	6,775	8,066	10,068	12,850	12,980	13,372	..	..
Demand deposits	9,796	11,381	14,680	16,879	18,372	23,383	..	..
Domestic currency	6,855	7,939	9,755	12,000	13,194	13,462	..	..
Foreign currency	2,941	3,442	4,925	4,879	5,179	9,921	..	..
Quasi-money	6,414	9,072	10,864	12,185	13,425	15,088	..	..
Domestic currency	6,216	8,369	10,380	10,894	12,236	12,580	..	..
Foreign currency	198	702	484	1,291	1,189	2,508	..	..
	(In percent of beginning of the period money stock)							
Money	13.6	12.5	18.6	14.0	3.9	16.8	..	..
Quasi-money	2.8	11.6	6.3	3.7	3.0	6.9	..	..
Net foreign assets	1.2	-11.8	3.6	-5.2	-0.2	-2.0	4.7	-0.2
Net domestic assets	15.2	35.9	21.3	55.7	17.6	63.7	33.7	16.9
Net claims on government	-1.4	13.5	13.5	12.6	1.6	10.8	19.3	9.8
Credit to the economy	10.5	13.5	10.6	4.9	3.8	10.4	10.0	7.1
Nonfinancial public enterprises	4.7	12.2	8.6	4.1	3.5	9.8	..	..
Private sector	3.6	2.5	1.8	0.0	0.4	0.5	..	..
	(Changes in percent)							
Broad money	16.4	24.1	24.9	17.7	6.8	23.7	38.4	17.4
Money	19.3	17.4	27.3	20.1	5.5	23.6	..	..
Currency in circulation	20.1	19.1	24.8	27.6	1.0	4.1	..	..
Demand deposits	18.8	16.2	29.0	15.0	8.8	38.5	..	..
O/w: Public enterprises	-58.3	120.3	31.5	28.6	-4.6	36.7	..	..
Private enterprises	26.5	22.0	24.0	11.9	9.4	30.5	..	..
Quasi-money	9.5	41.4	19.8	12.2	10.2	23.8	..	..
O/w: Public enterprises	-84.5	297.9	23.3	-13.7	-11.5	-1.4	..	..
Private enterprises	49.6	29.1	19.5	8.3	12.0	16.2	..	..
Deposits	14.9	26.2	24.9	13.8	9.4	32.3	..	..
Domestic currency	14.6	24.8	23.5	13.2	11.1	13.8	..	..
Foreign currency	16.4	32.0	30.5	15.9	3.2	101.4	..	..
Net foreign assets	-8.7	108.2	-19.7	44.6	1.7	13.7	-32.6	2.6
Net domestic assets	13.3	32.3	18.0	20.5	6.2	22.4	29.4	15.8
Net claims on government	-3.9	44.4	38.0	32.2	3.6	24.6	43.8	21.5
Credit to the economy	15.6	20.2	16.4	8.0	6.9	18.8	18.1	15.0
Nonfinancial public enterprises	71.3	34.3	22.9	0.4	4.9	6.4	..	..
Private sector	8.0	22.0	15.8	8.2	7.5	21.2	..	..
Ratio of Money to M2	72.1	68.2	69.5	70.9	70.0	70.9	..	..
Ratio of Currency in Circulation to M2	29.5	28.3	28.3	30.7	29.0	25.8	..	..
Ratio of Private sector deposits to M2	64.5	63.5	63.0	59.9	61.3	63.2	..	..
Net claims on government as a ratio to GDP	6.2	8.3	9.3	10.8	..	..	13.9	14.1
Net claims on government as a ratio to NHGDP	8.0	9.6	11.0	12.3	..	..	14.7	15.1
Credit to the economy as a ratio to GDP	13.6	15.2	14.4	13.6	..	..	14.4	13.8
Credit to the economy as a ratio to NHGDP	17.5	17.6	17.0	15.5	..	..	15.2	14.8
Velocity 1 (GDP, eop)	4.9	4.3	4.2	4.1	..	..	3.3	3.4
Velocity 2 (NHGDP, eop)	3.8	3.7	3.6	3.6	..	..	3.1	3.1
CBOS's gross foreign assets/M2 ratio	24.6	16.4	16.3	12.4	10.7	23.3	17.6	16.7
Foreign currency deposits/M2 ratio	13.7	14.5	15.2	14.7	14.2	24.0	..	..
Reserve money growth (annual changes, pa)	22.2	28.1	17.2	27.8	28.5	39.5	39.5	20.3
Money multiplier (average)	2.3	2.2	2.2	2.2	2.1	2.0	2.0	2.0

Sources: Sudanese authorities; and staff estimates and projections.

Table 5. Sudan: Summary Accounts of the Monetary Authorities, 2008–13
(In Millions of SDG)

	2008	2009	2010	2011	2012			2013
					March	June	Dec.	
					Act.		Proj.	
Net foreign assets	-4,580	-6,381	-6,429	-7,770	-7,853	-11,787	-9,826	-9,963
Gross foreign assets	4,078	3,180	4,040	3,693	3,360	8,561	9,188	11,345
O/w: Gross international reserve	3,056	1,971	2,093	3,547	3,210	8,327	8,061	10,007
o/w: SDR holdings	0	442	480	537	536	885	...	...
Foreign liabilities	8,658	9,562	10,470	11,463	11,212	20,349	19,014	21,308
O/w: Short term foreign liabilities	5,137	5,457	6,003	6,474	6,234	12,134	10,797	11,546
O/w: IMF-related liabilities	3,521	4,105	4,466	4,988	4,977	8,214	8,216	9,761
Net domestic assets	15,309	20,151	22,530	28,372	29,466	37,446	38,638	44,620
Net domestic credit	7,595	9,322	12,376	15,227	15,313	19,622	20,813	24,669
Net claims on general government (NCGG)	5,480	7,187	9,971	12,399	12,377	16,303	17,473	20,672
NCGG excluding IMF	2,134	3,707	6,186	8,173	8,161	9,344	10,513	12,403
Claims	7,276	8,259	10,563	13,154	13,693	17,596	18,228	21,427
O/w: Government Musharka Certificates	583	577	1,565	2,217	2,140	2,427	4,556	6,446
IMF on lent	3,345	3,480	3,785	4,226	4,216	6,958	6,960	8,270
Deposits	1,796	1,072	591	755	1,316	1,294	755	755
Of which: OSA	915	330	0	1	1	1	...	...
Deposits of Govt. of Southern Sudan	9	3	2	0	0	0	...	...
BOS claims on public enterprises	435	340	346	397	525	643	655	786
BOS claims on banks	1,649	1,779	1,997	2,372	2,352	2,627	...	...
Money market instruments (CICs)	39	19	63	58	58	48	58	58
Other items (net)	7,714	10,829	10,154	13,145	14,152	17,825	17,825	19,950
Reserve money	10,768	13,789	16,164	20,661	21,672	25,707	28,812	34,657
Currency outside banks	6,775	8,066	10,068	12,850	12,980	13,372	17,920	21,555
Reserves of commercial banks	3,495	5,387	5,448	6,365	6,974	9,280	10,006	12,011
Required reserves	880	763	1,356	1,537	1,946	2,627	...	...
Excess reserves	2,615	4,623	4,092	4,827	5,029	6,653	...	...
Cash in vault	565	766	829	810	987	1,052	...	...
Excess reserves on deposits	2,615	4,623	4,092	4,827	5,029	6,653	...	...
Deposits at BOS included in broad money	498	337	648	1,446	1,718	3,055	2,016	2,425
Memorandum items								
Gross international reserves (GIR; US$)	1,816	1,370	1,566	1,325	1,199	1,884	1,824	1,905
Net international reserves (NIR, US$)	-536	-1,066	-853	-1,093	-1,130	-861	-619	-293

Sources: Sudanese authorities; and staff estimates and projections.

Table 6. Sudan: Summary Accounts of the Commercial Banks, 2008–13
(In Millions of SDG)

	2008	2009	2010	2011	2012			2013
					March	June	Dec.	
					Act.		Proj.	
Net foreign assets	2,076	1,169	2,242	1,713	1,692	4,903	5,745	5,775
Gross foreign assets	2,690	2,221	3,494	2,489	2,487	6,387	7,026	7,298
Gross foreign liabilities	614	1,053	1,252	776	795	1,484	1,281	1,522
Net domestic assets	14,092	20,682	23,700	26,626	29,243	33,027	35,544	44,064
Reserves	3,453	5,750	5,831	6,838	7,043	10,281	10,006	12,035
O/w: Cash in vaults	565	766	829	810	987	1,054	1,130	1,359
Required reserves	966	745	1,318	1,646	1,930	2,805	..	..
Other reserves	1,757	3,930	3,400	3,950	3,899	6,165	..	..
Net claims on central government	1,527	2,923	3,980	6,044	6,726	6,684	9,044	11,544
Claims	2,293	3,594	4,907	6,132	6,764	6,720	9,132	11,632
O/w: GMCs	2,293	3,594	4,907	6,132	6,764	6,720	9,132	11,632
Deposits	766	671	927	88	38	36	88	88
Claims on state & local government	0	76	145	613	639	669	613	613
Claims on non-government sectors	14,961	18,163	21,186	22,254	23,713	26,327	26,816	30,806
Private sector	12,711	15,513	17,959	19,427	20,878	23,553	..	..
Non-financial Public enterprises	1,268	1,947	2,464	2,424	2,436	2,359	..	..
Non-bank financial institutions	982	627	618	403	399	415	..	..
Other items, net	-5,850	-6,231	-7,441	-9,123	-8,878	-10,934	-10,934	-10,934
Unclassified assets	7,252	6,938	7,690	8,179	8,219	9,228	..	..
Unclassified liabilities	7,823	6,431	7,602	8,195	8,402	10,974	..	..
Capital accounts	5,248	6,678	7,478	9,036	8,659	9,128	..	..
Other (incl. discrepancies)	31	60	52	70	36	60	..	..
Deposits	15,711	20,117	24,896	27,623	30,080	35,416	38,662	46,686
Demand deposits	9,326	11,148	14,117	16,159	17,280	22,252	...	...
Domestic currency	6,393	7,807	9,278	11,280	12,101	12,331	..	..
Foreign currency	2,933	3,341	4,840	4,879	5,179	9,921	..	..
Quasi-money deposits (Time & saving)	6,385	8,968	10,778	11,459	12,800	13,163	...	...
Domestic currency	6,187	8,367	10,380	10,893	12,236	12,579	..	..
Foreign currency	198	601	398	566	564	584	..	..
Liabilities to BOS	456	1,657	902	721	855	2,514	2,627	3,152
Memorandum items								
Deposits with commercial banks	16,476	20,788	25,823	27,711	30,118	35,452	38,750	46,774
Central government	766	671	927	88	38	36	88	88
Other sectors	15,711	20,117	24,896	27,623	30,080	35,416	38,662	46,686
State and local government deposits	215	315	412	521	915	822	..	..
Demand deposits	190	281	350	371	513	602	..	..
Time and savings deposits	25	34	62	150	401	220	..	..
Public enterprises deposits	669	1,697	2,037	1,995	1,703	1,819	..	..
Demand deposits	399	622	712	852	691	692	..	..
Time and savings deposits	270	1,074	1,325	1,143	1,011	1,127	..	..
Private sector deposits	14,827	18,105	22,446	25,107	27,463	32,774	..	..
Demand deposits	8,738	10,246	13,056	14,942	16,075	20,958	..	..
Time and savings deposits	6,089	7,859	9,390	10,165	11,387	11,816	..	..
Time deposits	1,470	2,100	2,297	3,165	3,431	3,518	..	..
Savings deposits	4,619	5,759	7,093	7,001	7,957	8,298	..	..
				(Ratios in percentage)				
Banks' credit to deposits ratio	95.2	90.3	85.1	82.8	81.0	76.2	70.9	67.3
Bank reserves as a ratio to bank deposits	24.6	29.6	24.3	25.9	26.4	29.1	..	..
Reserve requirements as a ratio to bank deposits	5.3	3.7	5.2	5.5	6.5	7.4	..	..
Excess reserves as a ratio to bank deposits	15.9	22.2	15.8	17.4	16.7	18.8	..	..
Banks' cash to deposit Ratio	3.4	3.7	3.2	2.9	3.3	3.0	..	..
GMC as a ratio to Bank reserves	87.7	77.7	119.9	127.0	134.5	101.0	..	..
GMC as a ratio to Bank excess reserves	65.6	66.7	90.1	96.3	97.0	72.4	..	..

Sources: Sudanese authorities; and staff estimates and projections.

Table 7. Sudan: Medium-Term Macroeconomic Outlook, 2010–17

	2010	2011	2012	2013	2014	2015	2016	2017
		Est.	Proj.					
Production and prices								
Nominal GDP (billions of SDGs)	149.5	170.7	190.4	228.5	263.2	299.1	334.9	372.9
Nominal GDP (billions of US$)	64.8	64.0	51.5	47.1	48.0	50.6	53.7	57.9
Nonoil GDP billions of US$)	54.8	56.2	48.9	43.9	44.2	46.2	49.2	53.1
Nonoil GDP (percent of total GDP)	84.5	87.8	94.8	93.1	92.0	91.3	91.6	91.8
	Annual changes in percent							
Real GDP growth								
Oil Sector	-3.9	-36.0	-58.2	14.5	6.8	5.4	6.6	7.0
Non-oil sector	5.1	3.4	-5.1	-1.4	1.8	2.9	3.7	4.5
CPI Inflation (period average)	13.1	18.3	28.6	17.0	10.8	10.1	8.4	6.8
Core CPI (Period average)	9.9	16.0	…	…	…	…	…	…
GDP deflator	20.2	20.3	25.3	19.8	11.6	9.2	7.6	6.1
Nonoil GDP deflator	14.0	14.9	27.8	19.2	11.7	9.4	8.1	6.5
Oil GDP deflator	60.9	62.0	27.4	22.5	8.5	6.5	1.2	1.5
Income, expenditure and saving	In percent of GDP							
Gross national income (GNI)	92.0	95.7	96.2	95.7	95.5	95.6	95.8	96.3
Gross disposable income (GDI)	95.3	97.4	98.5	98.2	98.1	98.2	98.4	99.1
Gross domestic expenditure (GDE)	97.4	97.9	105.8	104.6	103.9	104.3	104.0	103.7
Final consumption	81.4	82.2	90.7	89.0	87.5	87.5	87.1	86.8
Gross capital formation	16.0	15.7	15.1	15.6	16.4	16.9	16.9	17.0
Gross Savings	13.9	15.2	7.8	9.2	10.9	11.4	11.7	12.2
Central government operations								
Total revenue and grants	19.3	18.7	12.9	14.1	14.4	14.0	13.7	13.5
Revenue	18.6	17.9	11.5	12.7	13.0	12.7	12.5	12.5
o/w: Oil revenue	11.3	10.3	3.5	4.4	4.7	4.5	4.1	3.9
Grants	0.7	0.8	1.4	1.4	1.4	1.3	1.2	1.1
Total expenditure	19.6	20.0	16.6	17.3	16.6	15.8	15.4	15.2
Current expenditure	17.0	18.2	15.3	15.9	15.0	14.0	13.5	13.3
Capital expenditure	2.6	1.8	1.3	1.4	1.6	1.8	1.9	1.9
Overall balance	-0.4	-1.3	-3.7	-3.2	-2.2	-1.8	-1.8	-1.6
Money and banking	Annual changes in percent, unless otherwise specified							
Broad money	24.9	17.7	38.4	17.4	10.9	11.6	12.3	11.2
Reserve money	17.2	27.8	39.5	20.3	10.2	8.4	6.7	5.1
Credit to the economy	16.4	8.0	18.1	15.0	15.0	15.0	14.3	14.3
Credit to the economy as a ratio to NHGDP	17.0	15.5	15.2	14.8	15.0	15.3	15.6	15.9
Velocity (NHGDP/Average M2 ratio)	4.0	3.9	4.0	3.4	3.4	3.4	3.4	3.4
External sector	In percent of GDP, unless otherwise specified							
External trade balance	5.7	4.3	-3.7	-2.5	-1.9	-1.7	-1.6	-1.7
Exports, f.o.b.	19.6	17.3	9.6	11.5	12.5	12.6	12.5	12.4
Non-oil exports	2.6	3.7	6.5	7.4	7.5	7.5	7.4	7.3
Imports, f.o.b.	-13.9	-13.0	-13.3	-14.0	-14.3	-14.3	-14.2	-14.1
Current account balance	-2.1	-0.5	-7.4	-6.5	-5.8	-5.4	-5.2	-4.8
Gross useable reserves (in months of imports)	1.8	1.8	1.5	1.6	1.7	1.8	1.9	1.9
Public debt	71.9	76.3	98.8	111.4	113.4	112.0	110.2	107.0
External debt	60.9	64.8	84.9	96.7	98.6	97.3	95.4	92.1
Domestic debt 1/	11.0	11.6	14.0	14.7	14.7	14.7	14.8	14.9
Total debt in US$ billion	46.1	48.8	49.8	52.0	54.1	56.5	59.1	61.8
Memorandum item:								
Crude oil export price (U.S. dollars per barrel) 2/	70.7	95.8	89.7	84.7	82.7	82.4	79.8	79.0
Crude oil production (million barrels per year)	168.5	106.1	42.0	48.2	51.5	54.3	58.0	62.1
Crude oil exports (million barrels per year)	151.3	87.5	18.0	31.0	36.9	39.6	42.6	45.4

Sources: Sudanese authorities; and staff estimates and projections.
1/ Staff estimates and projections
2/ Sudanese oil blends. Projections are based on the latest WEO assumptions (based on future prices).

Table 8. Sudan: Financial Soundness Indicators for the Banking Sector, 2006–12

	Dec-06	Dec-07	Dec-08	Dec-09	Dec-10	Dec-11
	(In percent, unless otherwise indicated)					
Capital Adequacy						
Regulatory capital to risk-weighted assets 1/	19.7	22.0	10.5	7.1	10.0	13.0
Regulatory Tier I capital to risk-weighted assets 1/	17.4	20.0	8.7	6.1	8.9	11.0
Asset composition and quality						
Loans to nongovernment to total assets	46.3	50.7	51.1	52.3	51.8	-
Gross NPLs to gross loans	19.4	26.0	22.4	20.5	14.4	12.6
NPLs net of provisions to gross loans	17.0	22.0	17.9	17.9	10.4	7.6
NPLs net of provisions to capital	63.7	85.0	71.0	74.8	43.7	33.3
Loans provisions to NPLs	14.0	15.0	20.0	23.9	31.7	39.8
Foreign currency loans to total loans	26.0	13.2	15.8	20.4	13.7	9.0
Deposits and investment accounts to total assets	60.0	55.5	57.4	63.2	63.9	63.5
Foreign currency deposits to total deposits	22.0	21.4	21.2	19.2	22.0	18.7
Off- balance sheet commitments to assets	33.0	32.5	34.4	28.0	31.5	29.8
Earnings and Profitability						
ROA (before tax)	3.6	3.7	3.0	3.8	3.9	4.2
ROE(before tax)	35.4	26.5	23.3	25.5	26.5	27.8
Liquidity						
BOS deposits to total assets	8.0	8.6	9.1	12.7	10.8	13.1
Required reserves to total assets	4.0	3.0	2.9	2.1	3.2	3.5
Required reserves to total reserves	39.0	34.8	26.0	14.5	25.5	23.9
Cash in vault to total assets	1.0	2.5	2.2	2.0	1.9	2.1
Liquid assets to total assets	25.0	25.6	28.0	34.2	35.3	36.3
Liquid assets to total short-term liabilities	75.0	75.0	85.0	97.0	98.2	93.8

Source: Central Bank of Sudan.

1/ Data for December 2006 refer only to 27 of the 30 existing banks (exclude Sudanese Argiculture Bank, Capital Bank, and Industrial Development Bank).

Table 9. Sudan: Millennium Development Goals

	1990	1995	2000	2005	2010	Target 2015
Goal 1: Eradicate extreme poverty and hunger						
Employment to population ratio, 15+, total (%)	47	47	48	48	49	..
Employment to population ratio, ages 15-24, total (%)	32	28	28	27	27	..
GDP per person employed (constant 1990 PPP $)	2466	2578	3044	3565	4429	..
Income share held by lowest 20%	..	..	..	..	7	..
Malnutrition prevalence, weight for age (% of children under 5)	..	32	38	32	32	16
Poverty gap at $1.25 a day (PPP) (%)	..	..	..	..	5	..
Estimated poverty incidence (% of total population)	..	..	..	..	47	23
Proportion of population below minimum level of dietary energy consumption	..	..	..	..	28	14
Goal 2: Achieve universal primary education						
Youth literacy rate (& ages 15-24)	65			77		25
Persistence to last grade of primary, total (% of cohort)	..	..	77	..	..	..
Primary completion rate, total (% of relevant age group)	..	..	37	43	58	..
Total enrollment, primary (% net)	40	..	44	..	71	100
Goal 3: Promote gender equality and empower women						
Proportion of seats held by women in national parliaments (%)	22	20	18	15	26	..
Ratio of female to male primary enrollment (%)	77	80	85	87	90	100
Ratio of female to male secondary enrollment (%)	79	..	96	94	88	..
Ratio of female to male tertiary enrollment (%)	69	90	92	..	..	..
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	22	20	18	..	..	..
Goal 4: Reduce child mortality						
Immunization, measles (% of children ages 12-23 months)	57	51	58	69	90	100
Mortality rate, infant (per 1,000 live births)	78	75	72	69	66	53
Mortality rate, under-5 (per 1,000 live births)	125	119	114	109	103	41
Goal 5: Improve maternal health						
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	87	79	67	57	..
Births attended by skilled health staff (% of total)	69	86	87	..	..	90
Contraceptive prevalence (% of women ages 15-49)	9	10	7	8	9	..
Maternal mortality ratio (modeled estimate, per 100,000 live births)	1000	930	870	800	730	134
Pregnant women receiving prenatal care (%)	..	..	60.0	64	56	..
Unmet need for contraception (% of married women ages 15-49)	..	..	..	6	..	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases						
Incidence of tuberculosis (per 100,000 people)	172	192	..	119	119	..
Prevalence of HIV, female (% ages 15-24)	..	..	..	..	1.3	..
Prevalence of HIV, male (% ages 15-24)	..	..	..	..	0.5	..
Prevalence of HIV, total (% of population ages 15-49)	0.1	0.2	0.3	0.6	1.1	..
Tuberculosis case detection rate (%, all forms)	..	2	31	33	50	..
Goal 7: Ensure environmental sustainability						
CO2 emissions (kg per PPP $ of GDP)	0.0	0.0	0.0	0.0	0.0	..
Forest area (% of land area)	32.1	..	29.7	29.6	29.4	..
Improved sanitation facilities (% of population with access)	33	33	34	..	..	67
Improved water source (% of population with access)	64.0	67.0	69.0	60.0	..	82.0
Marine protected areas (% of territorial waters)	0	0.0	0.0	0.0	0.0	..
Net ODA received per capita (current US$)	32	8.0	7.0	48.0	47.0	..
Goal 8: Develop a global partnership for development						
Debt service (PPG and IMF only, % of exports, excluding workers' remittances)	5.0	10.0	13.0	8.0	4.0	..
Internet users (per 100 people)	0.0	0.0	0.0	1.3	10.2	..
Mobile cellular subscriptions (per 100 people)	0.0	0.0	0.0	5.0	41.0	..
Telephone lines (per 100 people)	0.0	0.0	1.0	1.0	1.0	..
Fertility rate, total (births per woman)	6	6	5	5	4	..
Other						
GNI per capita, Atlas method (current US$)	510	390	320	610	1270	..
GNI, Atlas method (current US$) (billions)	13.6	11.7	11.1	23.3	55.3	..
Gross capital formation (% of GDP)	11.2	14.1	18.3	28.9	23.3	..
Life expectancy at birth, total (years)	53	54	57	60	61.0	..
Literacy rate, adult total (% of people ages 15 and above)	..	..	..	..	78	100
Population, total (billions)	0	0	0	0	0	..
Trade (% of GDP)	11	15	33	46	39	..

Source: World Development Indicators, 2011.

Table 10. Sudan: Payment Indicators, 2007–12

(In millions of SDRs; unless otherwise indicated)

	2007	2008	2009	2010	2011	2012	Payment scenarios			
							2012			
					Prel	Proj.	Proj.	Proj.	Proj.	Proj.
Overdue obligations to the Fund 1/	1,020.6	994.5	991.1	990.1	986.4	984.7	984.5	982.6	976.3	970.1
Obligations falling due	16.9	11.5	3.8	2.9	3.2	2.5	2.5	2.5	2.5	2.5
Payments to the Fund 1/	32.8	32.0	7.2	7.5	3.4	4.2	4.4	6.3	12.6	18.8
Payments to the Fund (US$ mn)	4/ 50.6 5/	50.0	11.0	11.2 6/	5.0	6.7	7.0	10.0	20.0	30.0
Payments to the Fund as percent of:										
Overdue obligations to the Fund	3.2	3.2	0.7	0.8	0.3	0.4	0.4	0.6	1.3	1.9
Obligations falling due	194.7	277.0	190.2	254.8	104.9	167.5	176.0	251.4	502.9	754.3
Current account receipts	0.4	0.3	0.1	0.1	0.0	0.1	0.1	0.1	0.3	0.4
Current account receipts 2/	0.5	0.4	0.1	0.1	0.1	0.1	0.1	0.1	0.3	0.4
Gross usable reserves	3.0	2.8	0.8	0.7	0.4	0.6	0.6	0.8	1.7	2.5
Net international reserves	5.2	6.1	2.6	4.0	(0.2)	(0.3)	(0.3)	(0.4)	(0.8)	(1.3)
Fiscal revenue 3/	1.0	0.7	0.3	0.2	0.1	0.2	0.2	0.3	0.6	1.0
Total debt service paid	14.3	9.4	4.0	2.8	1.7	1.2	1.3	1.9	3.7	5.6
Memorandum items (US$ mn):										
Gross usable reserves	1,690.0	1,816.1	1,370.2	1,565.6	1,325.2	1,180.9	1,180.9	1,180.9	1,180.9	1,180.9
Net international reserves	981.2	819.5	428.5	282.0	(2,483.8)	(2,396.2)	(2,396.2)	(2,396.2)	(2,396.2)	(2,396.2)
Current account receipts 2/	9,357.7	13,442.4	8,557.1	10,887.7	10,316.8	7,038.8	7,038.8	7,038.8	7,038.8	7,038.8
Fiscal Revenue 3/	5,185.0	7,097.0	4,327.3	5,127.9	5,784.0	3,118.9	3,118.9	3,118.9	3,118.9	3,118.9
Total debt service paid (SDRs)	230.2	340.2	177.6	270.2	195.2	338.6	338.6	338.6	338.6	338.6
Total debt service paid	355.0	532.0	273.1	405.8	288.4	539.3	539.3	539.3	539.3	539.3

Source: Fund staff estimates and projections.

1/ The change in stocks of overdue financial obligations may differ from obligations falling due net of payments made to the Fund. Payments made to the Fund do not reflect adjustments resulting from burden-shared refunds, SCA-1 and SCA-2 refunds, retroactive reductions in rates of charge, and end-year balance in Sudan's SDR account.

2/ Current account receipts, excluding oil earnings not accruing to the government.

3/ Domestic fiscal revenue, net of transfers to the states.

4/ Includes the payment of US$21.1 million (equivalent to SDR 14 million) received on January 2, 2007.

5/ Includes the payment of US$8.5 million (equivalent to SDR 5.4 million) received on January 2, 2008.

6/ Includes the payment of US$5.5 million (equivalent to SDR 3.54 million) received on January 4, 2011.

INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

September 7, 2012

Prepared By

Middle East and Central Asia Department
(In Consultation with Other Departments)

CONTENTS

ANNEX I. SUDAN: RELATIONS WITH THE FUND

(As of July 31, 2012)

Membership Status

Joined 09/05/1957; Article VIII.

General Resources Account

	SDR Million	Percent Quota
Quota	169.7	100.00
Fund holdings of currency (Exchange Rate)	352.42	207.67
Reserve Tranche Position	0.01	21.47

SDR Department

	SDR Million	Percent Quota
Net cumulative allocation	177.99	100
Holdings	125.35	70.43

	SDR Million	Percent Quota
Quota	2927.3	100.00
Fund holdings of currency	2298.9	78.53
Reserve position in Fund	628.4	21.47

Outstanding Purchases and Loans

	SDR Million	Percent Quota
Stand-by Arrangements	116.86	68.86
Trust Fund	59.23	34.9
Extended Arrangements	65.83	38.79

Latest Financial Arrangements

Type	Date of Arrangement	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Stand-By	Jun 25, 1984	Jun 24, 1985	90.00	20.00

	SDR Million	Percent Quota
Quota	2927.3	100.00
Fund holdings of currency	2298.9	78.53
Reserve position in Fund	628.4	21.47

Projected Payments to Fund

	Overdue	Forthcoming				
	31-Jul-12	2012	2013	2014	2015	2016
Principal	241.92					
Charges/interest	741.36	1.19	2.34	2.34	2.34	2.34
Total	983.29	1.19	2.34	2.34	2.34	2.34

	Forthcoming				
	2009	2010	2011	2012	2013
Principal		8.28			
Charges/interest	0.04	0.09	0.31	0.31	0.31
Total	**0.04**	**0.09**	**0.31**	**0.31**	**0.31**

Exchange Rate Arrangement

The legal tender is the Sudanese guinea, which replaced the Sudanese dinar in proportion SDG 1=SDD 100 in mid-2007. After the completion of a currency conversion to the new Sudanese guinea the Bank of Sudan (BOS) has allowed greater exchange rate flexibility than in 2006 and early 2007, suggesting a return to a floating exchange rate arrangement. Sudan maintains (i) an exchange restriction and a multiple currency practice arising from the imposition by the government of a cash margin requirement for most imports and (ii) an exchange restriction arising from the imposition of an absolute ceiling on foreign exchange for travel, subject to Fund approval under Article VIII, Sections 2(a) and 3. These restrictions were approved by the Board to end-June 2010. In addition, Sudan has recently introduced additional exchange measures and staff is currently assessing these measures to determine their compliance with Article VIII.

Sudan is on a 12-month consultation cycle. The last Article IV consultation discussion was concluded by the Executive Board on June 7, 2010.

FSAP Participation

The FSAP work took place during October 9–14, 2004 and was completed during December 1–14, 2004. The Financial System Stability Assessment report was discussed by the Executive Board on April 29, 2005.

Resident Representative

The Fund's resident representative office in Khartoum was opened in October 2005, as a shared post with Djibouti. It was converted to a full post in September 2006.

Technical Assistance

In January 1995, the Executive Board decided to resume Fund technical assistance to Sudan. The following table contains a summary of the technical assistance provided since 2004. This assistance has been provided both from headquarters and from the IMF's Middle East Technical Assistance Center (METAC).

Sudan: Technical Assistance from the Fund, 2004–12

Subject	Type of Mission	Timing	Counterpart
Fiscal Affairs Department			
Revenue administration assessment (including METAC)	Short-term	February and October 2005, May and August 2006 , January 2007	Ministry of Finance (MOF)
Expenditure control and management	Short-term	April 2006	MOF
Restructuring of headquarters (METAC)	Short-term	November 2007	MOF
Installation of STX (METAC)	Short-term	March 2008	MOF
Tax and customs administration	Short-term	August 2006	MOF
Cash management and budget classification (GFS) (including METAC)	Short-term	February 2004, May and September 2004, June and October 2005, April and October 2006, April, September and November 2007	MOF
Public Finance Management Diagnostic	Short-term	October 2006, June 2007	MOF
Implementing a TSA and improving cash management (including METAC)	Short-term	June and July 2008	MOF
Self Assessment and Audit (METAC)	Short-term	March 2008	MOF
Reorganization of the MOF and Public Finance Management Reforms	Short-term	January and February 2009	MOF
Strengthening Tax and Customs Administration	Short-term	January 2009	MOF
Fuel subsidy reform	Short-term	April 2012	MOF
Monetary and Capital Markets Department			
Introduction of new national currency	Short-term	February and April 2005, January 2006, February and April 2007	Central Bank of Sudan (CBOS)
Monetary management and banking supervision	Short-term	March and April 2006	CBOS
Islamic compliant monetary instruments	Short-term	August 2006, May 2007	CBOS
Monetary policy operations	Short-term	September 2004, June 2006	CBOS
Banking supervision (METAC)	Short-term	August 2005	CBOS
Central bank organization	Resident Advisor	September 2005, Feb. 2006- August 2007	CBOS
Microfinance supervision and regulation	Short-term	December 2005	CBOS
Liquidity management and forecast	Short-term	March 2006, November 2007	CBOS
Payment systems	Short-term	November 2007	CBOS
Bank regulation	Short-term	March and April 2006, May 2007	CBOS
Banking operations	Short-term	April and July 2006	CBOS
Banking supervision	Short-term	August, September and December 2006	CBOS
Implementation of Islamic financial services board standards	Short-term	April 2008	CBOS
Currency handling and reform	Short-term	November 2006	CBOS
Statistics Department			
National accounts, CPI and PPI statistics	Short-term	April 2007	Central Bureau of Statistics

			(CBS)
Real sector statistics and CPI statistics (METAC)	Short-term	March and September 2007, March 2008	CBS
Balance of payments statistics	Short-term	September 2006, January 2007	CBOS
General data dissemination system (GDDS)	Short-term	June 2006, August and September 2007	CBS, MOF and CBOS
Assessing technical assistance needs in economic statistics (with METAC)	Short-term	May-June 2005	CBS, MOF and CBOS
Government Financial Statistics	Short-term	October 2005, March 2007, July 2008	MOF
Monetary and Financial Statistics	Short-term	December 2005, June 2006, July 2007, July 2008	CBOS
Multisector Statistics	Short-term	April/May 2012	CBOS,MOF,CBS TAT
Legal Department			
Payment system law	Short-term	September 2007	CBOS

ANNEX II. SUDAN: RELATIONS WITH THE WORLD BANK

(As of July 31, 2012)

1. The World Bank's International Development Association (IDA) has no active lending portfolio in Sudan because of the country's default on its financial obligations to IDA, which led to the suspension of disbursements in April 1993. After discussions between the World Bank and the Sudanese authorities on the need for Sudan to take steps toward normalizing its relations and establishing a track record with the World Bank, the authorities have been making small, intermittent debt service payments since mid-1999. The amount of payments has not been sufficient to prevent a continued accumulation of arrears, which currently stand at about US$ 695.6 million and are growing.

2. The World Bank was a major player in the reconstruction of Sudan following the Addis Ababa peace agreement of 1972, but was mostly absent from Sudan between 1993 and 2002. As the prospects for peace with the South rose in 2003, the World Bank formulated a strategy for a potential reengagement. Following the signing of the Comprehensive Peace Agreement (CPA) on January 9, 2005 by the Government of Sudan and the Sudan People's Liberation Movement, the World Bank became the administrator for two large Multi-Donor Trust Funds (MDTFs) that support the CPA, and built up its program of non-lending support. Fifteen MDTF partners[1] have contributed US$ 790 million in paid-in funds to the MDTFs. MDTF-supported projects initially experienced implementation challenges, as have all development and recovery programs in Sudan, but performance has steadily improved. Significant results are being seen on the ground, including the successful MDTF-supported launch of the CPA-mandated new national currency and the completion of the 5th Population Census, though daunting challenges remain—most notably low capacity, especially at the state level and in the South.

3. The World Bank's Interim Strategy Note (ISN) for Sudan was discussed by the World Bank's Board in April 2008. The ISN aims to support the Government of National Unity and the Government of Southern Sudan to sustain peace and reduce conflict by meeting the commitments contained in the CPA, Darfur Peace Agreement, and the Eastern Sudan Peace Agreement—particularly in war-affected and marginalized areas and in the fields of governance, basic services, and pro-poor economic growth. The ISN aims to help Sudan take important steps toward the achievement of the longer-term strategic vision enshrined in the CPA: promoting peace in Sudan by making it attractive through development, shared prosperity, and a reformed system of governance which serves all Sudanese.

4. The entry points for World Bank support—through management of the MDTFs and non-lending activities—vary according to the diverse conditions facing different regions of Sudan. At the National level, a focus on stabilizing peace entails a major role for

[1] Partners having paid in funds to the MDTFs are: Netherlands, Norway, United Kingdom, European Commission, Canada, Sweden, Germany, Finland, Spain, Denmark, Italy, Egypt, Iceland, Greece, and the World Bank. The World Bank contributed (from IBRD surplus) US$5 million to each of the MDTFs.

analytical work and policy dialogue on implementing key provisions of the CPA (pro-poor growth, good governance and decentralization, empowerment), and—in the Three Areas and the East—on pro-peace development projects and building capacity for community-driven development and local service delivery. In Darfur, the World Bank works with partners, as security allows, to assess development and recovery needs and to make ready rehabilitation and development programs to be implemented in the event of peace. In the South, the main focus is on helping to build a competent, responsive and stable government based on good governance, rule of law, and transparency, while promoting efforts to empower and decentralize service delivery to the states, counties, and communities. Another key objective is to help Southern Sudan develop a long-term strategy to transform itself into a well-integrated, self-reliant, and viable economic unit that begins to harness its vast and rich natural resources for the welfare of its people. The substantial financial support through the MDTFs and the World Bank's analytical and advisory services will be mobilized to meet these objectives.

5. With national elections recently completed, the focus of CPA implementation is now on preparations for the referendum in Southern Sudan due in early 2011.

6. IDA's financial reengagement requires clearance of Sudan's outstanding arrears. The clearance of these arrears can only be undertaken once a firm and comprehensive agreement among preferred creditors is in place. Such an agreement would also include significant reductions in bilateral debts, so as to make the total debt service obligations sustainable. Following the eventual clearance of IDA arrears, an exceptional IDA allocation for Sudan as a post-conflict country would be sought, and the World Bank would prepare another strategy document which would include, *inter alia*, a pipeline of projects.

7. The World Bank has completed a series of major non-lending products since the CPA, including a Public Expenditure Review, Diagnostic Trade Integration Study (on behalf of its Integrated Framework partners) and most recently a Country Economic Memorandum on sustainable and broad-based growth. Major non-lending products planned to be completed and delivered by the end of calendar 2010 include an Investment Climate Assessment focusing on the needs of small firms, an Environment and Natural Resources study, a Country Integrated Fiduciary Assessment, and for Southern Sudan studies on strengthening good governance and on States' own revenue potential.

To enrich this menu of policy and analytical support, the World Bank will seek to deepen dialogue—and open up space for civil society participation in such dialogue—in areas such as: developing a Darfur reconstruction and development strategy; making decentralization work; transforming Southern Sudan into an integrated and viable economic unit; and local area development. The World Bank's Financial Market Integrity Unit will continue its technical support to build capacity to combat money laundering through a proposed multi-phase program.

ANNEX III. SUDAN: RELATIONS WITH THE AFRICAN DEVELOPMENT BANK

(As of July 31, 2012)

Group's Portfolio and Arrears

1. Since its first intervention in 1971 in Sudan, the Bank Group (AfDB) has approved to date 33 operations amounting to a total net commitment of UA291 million.[1] The Bank also approved grants for emergency assistance under the Special Relief Fund in 2001, 2003 and 2008 amounting to a total of USD2.0 million. In terms of sector distribution, the portfolio is dominated by agriculture (54%), followed by infrastructure (28.6%), multi sector (8.9%), finance (6%) and social sectors (2.5%).

2. The Bank ongoing operation is the Institutional Capacity Building for Poverty Reduction and Good Governance Project (ICBPRGGP), approved in March 2007 for US$15 million in the form of a grant. Expected to be closed by end-2012, a major accomplishment of the ICBPRGGP was the completion in 2010 of the Sudan Baseline Household Survey (NBHS) for both the North and the South, which was instrumental in the subsequent preparation of the Interim Poverty Reduction Strategy Paper (I-PRSP) for Sudan and National Development Plan for South Sudan.

3. The AfDB has not been in a position of undertaking much needed regular investment activities in the country since 1995 because of arrears. As at end-July 2012, the arrears to the Bank stood at UA 207 million, of which UA 81.7 million from the African Development Fund (ADF) window and UA 125.4 from the African.

Sudan: Arrears to the AfDB Group as of 31 July 2012

(Thousands UA)

	Total	Principal	Charges
ADF	81,656.48	58,687.87	22,968.62
ADB	125,387.86	61,714.67	63,673.18
Total	207,044.34	120,402.54	86,641.80

Strategy and Programming

4. The Bank has maintained field presence and sustained policy dialogue with the Government of Sudan and Development Partners. It has conducted technical assistance and capacity building activities, using grant resources that are not affected by the arrears situation of the country.

5. Given the arrears situation of Sudan, the Country Brief serves as the appropriate programming document. The last Country Brief was approved in November 2010. The new Country Brief 2012/2013 is under preparation, based on the Interim Poverty Reduction Strategy Paper 2011-2013. It is expected to be presented to the Board in September 2012. Sudan is eligible to resources of ADF-12 (2011-2013) and the Supplemental Support Window (Pillar 1) of the Fragile States Facility (FSF), conditional upon arrears clearance.

6. In the last couple of years, the Bank's strategic engagement with Sudan has focused

[1] For June 2012, the exchange rate between the Unit of Account (UA) and the US Dollar (USD) : UA1 = USD1.51.

on: (i) accelerating a peaceful settlement of critical post-referendum economic issues with South-Sudan, by providing technical assistance to the African Union High-Level Implementation Panel (AUHIP); (ii) technical assistance, capacity building and donor coordination aimed at accelerating the process arrears clearance and debt relief for the reengagement of Sudan with the international community; and (iii) sustaining dialogue and conducting analytical work to prepare the ground for effective full-fledged support in addressing the development challenges of Sudan.

7. In this context, progress was made on a number of issues and initiatives, including: (i) Participations in meetings of the Technical Working Group; (ii) the Peer Learning Workshop on Arrears Clearance and Debt Relief held in May 2011 in Khartoum; (iii) Approval of two new operations, namely the Darfur Water Project for Conflict Resolution and Peace approved in January 2012 through the African Water Facility and the Capacity Enhancement for Debt Management and Resource Mobilization Project approved in March 2012 through the Targeted Support Window (Pillar 3) of the Fragile States Facility (FSF).

ANNEX IV. SUDAN: STATISTICAL ISSUES

(As of July 31, 2012)

Assessment of Data Adequacy for Surveillance
General: Sudan's current statistical data base appears broadly adequate for surveillance and program monitoring, but needs further improvements, including upgrading the base year, coverage, periodicity and timeliness of national accounts data; improving labor market and direct investment data; and more detailed and comprehensive fiscal accounting. Enhancing the status of the Central Bureau of Statistics (CBS) with the authority and resources to compile and disseminate official statistics and coordinate the national statistical work program is important for further statistical improvements, and should be addressed within the context of the ongoing work in developing a five-year National Strategy for the Development of Statistics (2012-16). Retooling of the CBS' computing infrastructure should also be accorded high priority.
National accounts: The CBS lacks a comprehensive data collection program, and relies largely on administrative reporting which is not optimal for national accounts compilation. Economic surveys were last conducted in the 1970s and 1980s, and the benchmarks derived from these surveys inform current estimates of value added. The compilation of GDP by activity depends heavily on indirect indicators of growth rates and price indicators that are less appropriate. Informal activities are not covered, and are likely to be significant in areas such as retail trade and construction. Sudan's national accounts data are based on the *System of National Accounts 1968 (SNA 1968)*, and the base year of the existing GDP constant price series (by activity and by expenditure) is 1981. National accounts statistics are compiled with a lag exceeding three years; and there are no national accounts or industrial production data at sub annual frequencies. On the expenditure side, data are lacking on final consumption by households, investment, and changes in stocks. The adoption of updated statistical guidelines *(SNA 2008*), rebasing of the national accounts, and developing procedures to improve the timeliness of GDP estimates should be among the core medium-term objectives of Sudan's national accounts work program. There is an urgent need to increase funding to the CBS and to rebuild its capacity for conducting household, agricultural and enterprise surveys.
Price statistics: Practices in the production of the Consumer Price Index (CPI) are good. Monthly CPI data (base year=2007) are provided shortly after the end of each month. However, the CBS should begin developing plans for a new household expenditure survey to facilitate weight updates to the existing CPI. The CBS is developing for the first time, a quarterly producer price index (PPI) for manufactured goods. STA's recent multisector statistics mission (April 2012) conducted a preliminary assessment of the methods and procedures for compiling the PPI; and issues regarding the frame and the sample size were raised with the authorities. The mission also advised on how the base year weights would need to be adjusted to reflect the reduced contributions of oil to the Sudan economy.

Government finance statistics: Government finance statistics reported to MCD are broadly adequate for program monitoring, with the main revenue, expenditure, and financing items reported on a monthly basis with a lag of about one month. The reported statistics are for the central government only, and do not include the states and publicly owned corporations. Data are submitted using an economic classification and, while the allocation of resources by MOFNE to the various ministries is reported, their actual expenditures are not.

STA's recent multisector statistics mission (April 2012) noted that there has been no significant progress in implementing GFS classifications at the level of state governments and all other sub-national governments and extra budgetary funds. The responsibility for GFS compilation and dissemination is not assigned to any specific unit within the MOFNE. The mission also found that there are no comprehensive data reconciliations on government claims on and liabilities to the banking system; and the recording of "arrears securities" is not in line with the *GFSM* guidelines. The compilation of consolidated GFS for the general government with the objective of producing the statement of government operations should be a key priority.

Monetary and financial statistics (MFS): Sudan has received significant technical assistance to improve the collection, compilation, and dissemination of monetary and financial statistics. STA's recent multisector statistics mission (2012) found that all major recommendations made by the previous MFS mission in 2007 have been implemented. The current coverage of Sudan's monetary statistics includes the CBOS and 32 commercial banks, which constitute the other depository corporations (ODCs). Due to South Sudan's secession, the Bank of South Sudan (BOSS) and the conventional banks operating in South Sudan were excluded from the coverage of the CBOS and the ODCs, respectively, beginning with July 2011 data. The revised monthly statistical return has been used by all commercial banks to report data for compiling monetary statistics. However, stronger efforts are needed to improve the consistency in reporting of inter-bank data and the timeliness of data reporting and dissemination. The STA 2012 mission also identified areas for further improvement.

Going forward, the CBOS should also develop a work program for collecting and compiling data on insurance corporations and pension funds for inclusion in Sudan's monetary statistics.

External sector statistics: Daily exchange rate data are posted on the CBOS' web page with minimal lags. There are several areas for improvement in the external accounts, particularly with regard to direct investment (DI), remittances, goods and services, capital transfers and oil statistics. The lack of survey data continues to affect the compilation of important balance of payments and IIP items such as direct investment. The BOS's foreign exchange balances include reserves earmarked for particular purposes such as medicine, oil, and spare part imports, but the composition of these reserves and their potential usability in the event of a balance of payment need is not clear There is a need for clarification on items that qualify as reserves assets in general, and those earmarked reserves in particular. Compilation of the data template on international reserves and foreign currency liquidity should be initiated.

Medium-term oil production projections and data on amortization of private sector debt need substantial improvement. The authorities have made some progress in improving oil projections, but appear reluctant to provide more detailed information on the phasing-in and expected production levels of new blocks and on amortization of debt in the oil sector.

STA's recent multisector statistics mission assisted the CBOS in improving the compilation of a number of balance of payments and IIP items, including in particular, the calculation of reserve asset positions that were incorrectly recorded with a negative sign for some months in 2011. The mission also advised on the treatment of external debt arrears in the balance of payments and the IIP, and recommended steps for initiating the collection of data on capital transfers. METAC is providing ongoing support in the implementation of the DI survey.

Data Standards and Quality

Sudan participates in the General Data Dissemination System (GDDS) since August 2003. GDDS metadata and plans for improvement need to be updated. No data ROSC is available.

Reporting to STA

Annual data reported for the *Government Finance Statistics Yearbook* cover only budgetary central government up to 1999. No monthly and quarterly fiscal data are reported for the *International Financial Statistics (IFS).* The reporting of external trade statistics for inclusion in the *Direction of Trade Statistics (DOTS)* database is done with significant lags. National accounts data are not provided for publication in the *IFS*. The CBOS has compiled and reported to STA for publication in the *IFS,* the Standardized Report Forms (SRFs) 1SR for the central bank and 2SR for ODCs. However, timeliness of data reporting and dissemination should be improved. The CBOS also reports to STA, quarterly balance of payments and annual IIP data. As a follow up the STA's recent multisector statistics mission, the authorities should submit updated GDDS metadata for dissemination on the Dissemination Standards Bulletin Board.

Sudan: Table of Common Indicators Required for Surveillance

(As of August, 2012)

	Date of latest observation	Date received	Frequency of Data[7]	Frequency of Reporting[7]	Frequency of publication[7]
Exchange Rates	8/28/2012	8/28/2012	D	D	D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	June 2012	7/19/2012	M	M	M
Reserve/Base Money	June 2012	7/19/2012	M	W	M/W
Broad Money	June 2012	7/19/2012	W	W	M/W
Central Bank Balance Sheet	June 2012	7/19/2012	M	M	M
Consolidated Balance Sheet of the Banking System	June 2012	7/19/2012	M	M	M
Interest Rates[2]	12/31/05	1/09/06	W	M	M/W
Consumer Price Index	July 2012	8/8/2012	M	M	M
Revenue, Expenditure, Balance and Composition of Financing[3] – General Government[4]	2012:Q2	August 2012	M	M	M
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2012:Q1	May 2012	A	A	A
External Current Account Balance	2012:Q1	May 2012	Q	Q	Q
Exports and Imports of Goods and Services	2012:Q1	May 2012	M	M	M
GDP/GNP	2011	May 2012	A	A	A
Gross External Debt	2012:Q1	May 2012	A	A	A
International Investment Position [6]	2011	June 2012	A	A	A

[1]Includes reserve assets pledged or otherwise encumbered as well as net derivative positions.
[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.
[3] Foreign, domestic bank, and domestic nonbank financing.
[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.
[5] Including currency and maturity composition.
[6] Includes external gross financial asset and liability positions vis-à-vis nonresidents.
[7] Daily (D); Weekly (W); Monthly (M); Monthly/Weekly (M/W); Bi-monthly (B); Quarterly (Q); Annually (A); Irregular (I); Not Available (NA).

INTERNATIONAL MONETARY FUND

SUDAN

STAFF REPORT FOR THE 2012 ARTICLE IV CONSULTATION—DEBT SUSTAINABILITYANALYSIS

September 7, 2012

Approved By
Adnan Mazarei and Christian Mumssen (IMF) and Jeffrey D. Lewis (IDA)

Prepared by the staffs of the International Monetary Fund (IMF) and the International Development Association (IDA)

The 2012 debt sustainability analysis (DSA) confirms that Sudan continues to be in debt distress.[1] External and domestic debt ratios have continued to worsen owing to further accumulation of new external arrears, increased domestic borrowing and the permanent deterioration of macroeconomic fundamentals after the secession of South Sudan in July 2011. Debt dynamics under the baseline scenario are projected to remain unfavorable—with all debt ratios but one breaching their indicative thresholds even through the long term. It will thus be critical for Sudan to follow sound economic policies consistent with a prudent borrowing strategy, and to garner support for debt relief.

[1] The DSA was prepared jointly by IMF and World Bank staffs and discussed with the authorities. It uses the joint Fund-Bank Low-Income Country (LIC) Debt Sustainability Framework (DSF). Sudan's fiscal year runs from January 1 to December 31.

BACKGROUND

1. **2011 marks a watershed for Sudan.** The secession of South Sudan has translated into a sharp contraction of Sudan's revenue and export base, exacerbating an already difficult economic situation. This permanent shock is severely affecting Sudan's macroeconomic outlook, sharply reducing its debt servicing capacity. Prior to South Sudan's secession, the two countries have reached an agreement on the so-called zero option, under which Sudan would retain all the external liabilities after the secession of South Sudan, provided that (i) South Sudan joined Sudan in outreach efforts for debt relief for Sudan, and (ii) the international community gave firm commitments to the delivery of debt relief within two years from the secession. Absent such a commitment by July 2013, Sudan's external debt would be apportioned based on a formula to be determined. Agreement on any debt apportionment, however, would likely require a consensus view from Sudan's entire pool of creditors, which spans multilateral, Paris Club bilateral, non-Paris Club bilateral, and commercial lenders. This would require extensive negotiations and may prove to be very difficult.

2. **Sudan is potentially eligible for debt relief under different initiatives**—including the Heavily Indebted Poor Countries Initiative (HIPC) Initiative, since it is included in the list of ring-fenced countries. Sudan has made good progress toward finalizing the technical work required to advance towards the decision point of the HIPC Initiative. The government has taken three important steps: (i) it has reconciled over 90 percent of the end-2010 external debt stock in collaboration with creditors; (ii) Parliament has approved an ambitious interim-PRSP in June 2012; and (iii) Sudan has implemented 13 Staff-Monitored Programs (SMPs) with the Fund since 1997, establishing a sound track record of cooperation on economic policies and payments. Furthermore, Sudan has indicated its desire to continue demonstrating a strong commitment to cooperation with the Fund on policies and the payment of arrears, also formally in the framework of a new SMP (for which negotiations could start later this year). Meanwhile, the government is collaborating with the World Bank on an Interim Strategy Note, which would determine the development objectives for the next two years.

3. **Re-engagement with key development partners is a necessary step towards a comprehensive arrears clearance and debt relief strategy.** This is important because even after traditional debt relief according to Paris Club Naples Terms,[2] HIPC Initiative and debt relief under the Multilateral Debt Relief Initiative (MDRI) on remaining eligible debt of IDA and the African Development Fund (AfDF),[3] Sudan will likely be left with a sizeable stock of external debt. This debt will either need to be

[2] Paris Club members provide a reduction of pre-cutoff date bilateral non-official development assistance and commercial debt up to 67 percent in present value terms. Other non-multilateral creditors generally join with comparable actions.

[3] MDRI is provided by the IDA, AfDF, and IMF at the HIPC Initiative's completion point. Eligible for MDRI assistance are debt obligations contracted before end-December 2003 for IDA and end-December 2004 for the IMF and AfDB that are still outstanding at the HIPC Initiative's completion point date. All of Sudan's current debt to IDA and the AFDF qualifies for MDRI since it has been contracted prior to the cut-off date.

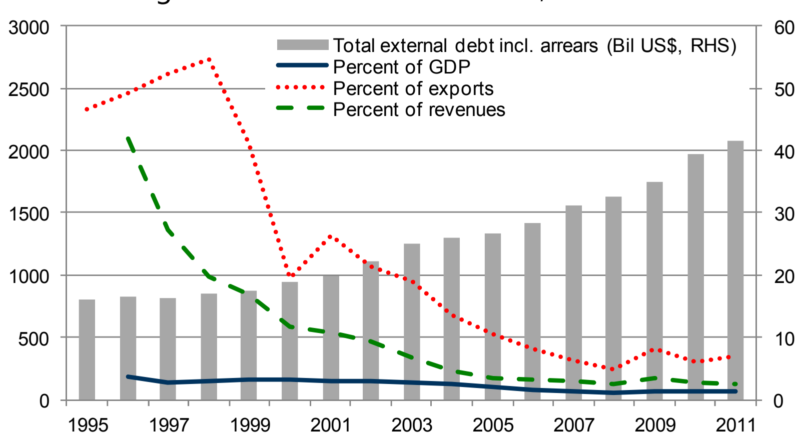
serviced or addressed through further debt relief (MDRI-like[4] or beyond-HIPC debt relief).[5] It thus remains critical to secure comprehensive support from the international community for debt relief. The qualification for debt relief will be announced at the appropriate time.

STRUCTURE OF DEBT

EXTERNAL DEBT

4. At end-2011, Sudan's stock of external debt amounted to about US$41.5 billion in nominal terms (65 percent of GDP), of which 84 percent was in arrears (Figure 1 and Table 4). The structure of external debt had not changed since the early 2000s. The bulk of the external debt is public and publicly guaranteed (PPG) (adding to US$39.9 billion, with 87 percent in arrears). From this total, Sudan owns 73 percent to bilateral creditors (roughly equally divided between Paris and non-Paris Club creditors) and 13 percent to multilateral and commercial creditors. Private external debt to suppliers amounted to US$1.6 billion.

Figure 1. Stock of External Debt, 2000–11



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

5. The present value (PV) of Sudan's total external PPG debt at end-2011 stood at US$71 billion, or the equivalent of 112 percent of GDP, 605 percent of exports and 625 percent of revenues (Table 4). Note that the 2012 deterioration of almost all external debt indicator ratios is a denominator effect, reflecting the sharp drop in GDP, exports and government revenues as a result of the secession, as well as the substantial currency depreciation.[6]

[4] None of Sudan's debt to the Fund would be eligible for MDRI debt relief. However, following the approach developed for Liberia's debt relief, "MDRI-like" debt relief could be provided if the necessary financing is secured at the appropriate time."

[5] Paris Club members can provide debt relief on a voluntary basis.

[6] The official rate was depreciated by 66 percent at end-June alone, which explains the large residual BOP financing in 2012 (also see footnote 3 in Table 4).

6. The core of Sudan's debt strategy was to keep new nonconcessional external borrowing under the US$700 million ceiling in line with the last SMP. In 2010 and 2011, Sudan indeed only contracted US$419 and US$857 million of new PPG loans, of which 64 and 77 percent, respectively, were nonconcessional. New debt was mainly directed to projects in the agriculture, services and energy sector (Table 1) and mainly provided by either multilateral or non-Paris Club creditors (Table 2). There has not been any new private external debt in decades.

Table 1. Use of New Debt (in percent)

	2010	2011
Agriculture	47.9	35.8
Services	39.0	8.6
Energy	12.6	55.6
Health	0.6	-

Source: Sudanese authorities.

Table 2. Creditors of New Debt (in percent)

	2010	2011
Multilateral	-	82.0
Bilateral	100.0	18.0
Paris Club	-	-
Non-Paris Club	100.0	18.0
Commercial	-	-

Source: Sudanese authorities.

7. Repayments on outstanding debt continued to a few selected creditors giving new loans, leading to a further accumulation of external arrears. For some time now, debt repayment has been partial even in the case of creditors providing new loans. In 2010 and 2011, Sudan's total actual PPG debt service amounted to US$395 and 288 million, respectively, which only partially covered total due PPG debt service of US$2.2 and 2.1 billion (including late interest and penalties on arrears). The PPG disbursements amounted to US$575 and 606 million, respectively, and no private external debt was serviced.

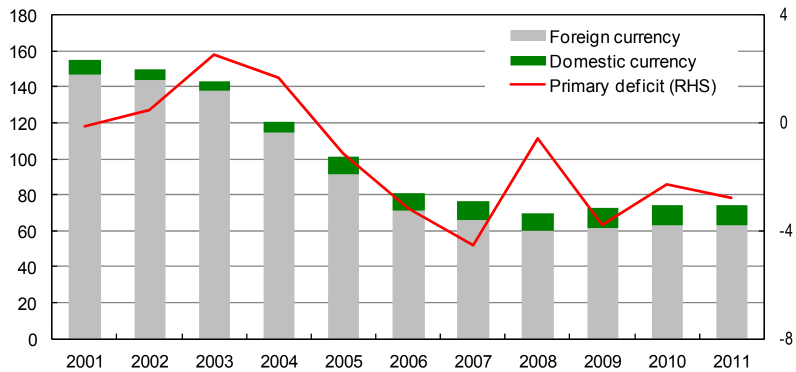
DOMESTIC PUBLIC DEBT

8. Domestic public debt is relatively small (11.5 percent of GDP at end-2011), but has been increasing. It increased from SDG 2.1 billion in 2000 to SDG 6.3 billion in 2005 and SDG 19.8 billion in 2011, mainly due to primary deficits continuously financed by domestic resources. In 2011, about 66 percent of domestic debt arose from medium-term obligations, while long- and short-term debt accounted for 19 and 15 percent of total, respectively.

TOTAL PUBLIC DEBT

9. All in all, total public debt continued to increase in recent years. It reached SDG137 billion (74 percent of GDP) at end-2011, from SDG65 billion in 2005, and SDG49 billion in 2000 (Figure 2). This increase in total public debt was mainly the result of an increase in the stock of debt denominated in foreign currency, including a devaluation effect. Hence, at end-2011, the PV of public sector debt-to-GDP ratio stood at 124 percent of GDP (Table 6).

Figure 2. Stock of Public Debt, 2001–11 (In percent of GDP)



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

UNDERLYING ASSUMPTIONS

10. This DSA reflects the secession-induced reduction of Sudan's economic potential, whilst extrapolating the current debt dynamics (Box 1). Data underlying this DSA was provided by the Sudanese authorities or estimated and projected by Fund and World Bank staffs. The external debt data for 2010 and onwards were reconciled with information obtained during the 2011 debt reconciliation exercise. This DSA refrains from presenting alternative scenarios based on speculations about the magnitude of possible external debt relief (which are crucially dependent on export prospects that are currently very volatile) or apportionment settlement between Sudan and South Sudan.

11. The macroeconomic and debt outlooks underlying this DSA differ widely from the previous DSA. This difference is mainly on account of: (i) substantially deteriorated post-secession fundamentals; (ii) natural resource projections accounting for the post-secession oil potential and the sharp increase of gold exploitation; (iii) updated debt evolution based on the reconciled end-2010 debt stock; and (iv) assumption of Sudan remaining current on debt service falling due on disbursed outstanding debt (DOD), and not on the creditors that still disburse only. Ample exploration studies on the country's mineral deposits are currently under way that might change the natural resource outlook in future DSAs.

Box 1. Macroeconomic Assumptions 2012–32

Natural resources. With the secession-induced loss of ¾ of oil production, the oil sector's dominance of the Sudanese economy abated significantly. Oil now accounts for only 3 to 5 percent of GDP, 20 to 25 percent of government revenue, and 35 to 40 percent of exports. At the same time, there has been an increase in gold production, with gold exports having tripled since 2009.

- The *production* outlook is informed by discussions with the Ministries of Oil and Mining. As for oil, owing to waning mature fields (higher quality Nile blend) and other technical production problems, 2012 production is expected to sharply decline by 60 percent to 117 to 120 thousand barrels per day (bpd). Enhanced recovery in existing fields and further exploration will likely help production to increase again starting in 2013, with a peak expected in 2020 at near 240 thousand bpd, before a gradual decline to about 144 thousand bpd begins in 2030. Meanwhile, annual production of gold is projected to increase by 3 percent per year until 2020 and to decline by 3 percent after 2026.
- The *price* outlook is guided by the IMF's latest World Economic Outlook (WEO) figures for the medium term and the World Bank's Commodity Market Review for the longer term. Overall, prices are expected to remain stable and average around US$83 per barrel for Sudanese crude over the medium term before settling to around US$79 per barrel in the longer term.

Real sector. The real GDP growth rate is expected to gradually increase to 4.2 percent until 2017 and then to average 4.6 percent over 2018–32. Given the smaller post-secession oil sector, real GDP growth will mainly reflect non-oil GDP growth in the presence of renewed macroeconomic stabilization, new attempts at structural reform and finance-constrained low infrastructure investments. Inflation, as measured by the GDP deflator, is a projected to grow in line with CPI inflation over the long term, implying stable terms of trade. After averaging 13.6 percent over the medium term, inflation will gradually come down to 6 percent by 2032.

Fiscal sector and domestic debt. The projected fiscal deficit averages 2.3 percent of GDP during the period 2012–17, reflecting a combination of factors, including: (i) some improvements in tax revenue collection; (ii) a progressive increase in oil revenues; (iii) the continuation of current public wage and employment policies; (ii) a gradual phasing out of fuel subsidies; (iv) slight decrease of current spending shares on transfers to states; and (v) rising capital expenditure outlays. During 2018–32, the fiscal deficit is expected to average some 2.6 percent of GDP, reflecting (i) a gradual increase in tax revenues, against the backdrop of decreasing oil revenues, (ii) the continuation of current expenditure policies, and (iii) increasing interest payments. Owing to continued limited access to international financing, the projected budget deficit wills will be financed mostly domestically, assuming no further accumulation of arrears.

External sector and financing. The balance of payments is expected to benefit of export growth until 2020 and then to gradually contract, mainly on account of a continued dominance of natural resource exports and limited prospects for the development of other exports, and the maintenance of limited foreign direct investment, aid inflows and access to international financing. These assumptions lead to a decline over time in the current account deficit (incl. official transfers), a contraction in the reserves coverage, and an import coverage averaging 3.1 percent of GDP or 2 months of imports over 2018–32.

External debt. Reflecting continued limited access to international finance and a deteriorating debt service capacity, disbursements of new loans are projected at about 1.3 percent of GDP during 2012–17, and 1.2 percent during 2018–32. In line with the recent portfolio of new contracted debt, the share of new concessional loans is kept at around one third. Starting in 2012, Sudan is assumed to remain current on scheduled debt service on disbursed outstanding debt (including new borrowing), but continue to fail to service obligations arising from the stock of arrears (i.e., late interest and penalties as well as arrears themselves).

EXTERNAL SECTOR DSA

BASELINE SCENARIO

12. In the baseline scenario, the outcome for the main debt ratios continues to show a sustained breach of indicative thresholds for poor performers[7] well into 2032—even substantially worse than in the 2010 DSA (Figure 3, Tables 3 and 4). This worsening of the debt ratios is due mainly to the secession-induced deterioration in fundamentals and to the more complete external debt portfolio compiled at the 2011 reconciliation exercise. Going forward after a denominator-driven deterioration in 2012, external debt indicators persist at very high levels primarily because of the growing stock of arrears rather than because of new debt. In the long term, all external debt indicator ratios (except those relating to collapsing exports) exhibit a declining trend (Figure 1). They remain nevertheless well above the policy-dependent debt burden thresholds. The only exception is the debt service-to-revenue ratio which shows some improvement towards the end of the projected period. This improvement must be interpreted with caution, however, since the DSA does not assume any external arrears clearance strategy and timeline.

TABLE 3. SUMMARY OF DEBT BURDEN THRESHOLDS FOR EXTERNAL PUBLIC DEBT 1/

	Indicative threshold	2012	2022	2032
PV of debt-to GDP	*30*	170	114	75
PV of debt-to-exports	*100*	1567	1046	1432
PV of debt-to-revenues	*200*	1468	1011	657
Debt service-to-exports	*15*	37	23	36
Debt service-to-revenues	*18*	35	22	16

Source: IMF staff calculations and estimates.
1/ Threshold over which countries considered as weak policy performers (i.e. countries with a CPIA ≤ 3.25) would have at least a 25 percent chance of having a prolonged debt distress episode in the coming year.

[7] According to the World Bank Country Policy and Institutions Assessment (CPIA), Sudan is classified as a country with poor quality of policies and institutions. Its average CPIA rating for 2009–11 is 2.42 on a scale from 1 to 6 and below the operational cutoff of 3.25 for medium performers.

ALTERNATIVE SCENARIO AND BOUND TESTS

13. The alternative scenario[8] and standard stress tests to the baseline scenario confirm the robustness of the baseline scenario and thus of the debt distress rating for Sudan. More specifically, the findings are:

- The *alternative scenario* (Table 5, Scenario A1) is a financing scenario that points to Sudan's external debt not being very vulnerable to new public loan terms (i.e. a 2 percentage points higher interest rate). Relative to the baseline, all debt burden indicators would only marginally deteriorate. The reason is that Sudan's debt dynamics are driven more by the massive stock of arrears than the burden of contracting new debt.

- The *bound tests* (Table 5, Scenarios B1 to B6) corroborate Sudan's vulnerability to a range of unexpected external shocks. The PV of debt-to-GDP, PV of debt-to-revenue and debt service-to-revenue ratios turn out to be most vulnerable to a One-time depreciation shock than the PV of debt-to-exports and debt service-to-exports ratio to an exports shock.

PUBLIC SECTOR DSA

BASELINE SCENARIO

14. In the baseline scenario, debt stock and service indicators under the total public DSA mirror those under the external DSA (Figure 4 and Table 6).[9] In 2012, owing to the sharp currency depreciation, the PV of public sector debt-to-GDP ratio jumps to a relatively high level at over 180 percent, before declining over the medium term to reach about 156 percent in 2017. These results are due to the projected strengthening in real GDP growth and the reduction in the fiscal deficit envisaged in the 2013–17 projections. The debt service-to-revenue ratio is projected to only decline from 42 to 36 percent between 2012 and the end of the projection horizon.

ALTERNATIVE SCENARIO AND BOUND TESTS

15. The alternative scenario and standard stress tests to the baseline scenario support the robustness of the baseline scenario. In particular:

- The *alternative scenarios* (Table 7, Scenarios A1-A3) highlight that Sudan's public debt sustainability depends on improving its fiscal soundness and growth potential, particularly in the

[8] This DSA does not show the historical scenario, in which the main variables that determine debt dynamics (namely, real GDP growth; inflation, measured by changes in the U.S. dollar GDP deflator; the non-interest external current account in percent of GDP; and non-debt-creating flows in percent of GDP) are usually assumed to remain at their 10-year historical averages. The reason is that secession-induced structural breaks in the time series undermine the validity of the historical scenario.

[9] The 2012 level of the public debt stock indicators (PV of debt-to-GDP and PV of debt-to-revenue) is substantially higher than those reported last year. This upward jump reflects adverse developments in both external debt (the buildup in external arrears and the contraction of new external loans)—and domestic debt and the further accumulation of sizeable domestic arrears in 2012.

non-oil economy. The no reform scenario (A2), where the primary balance is projected to remain unchanged from the relatively high 2012 level, points to the vulnerability of Sudan's public debt trajectory to large fiscal imbalances. The PV of debt-to-GDP and debt service-to-revenue ratios for 2032 would be 89 and 34 percent, respectively. However, a permanently lower GDP growth (A3) would bring even more diversion from the baseline, leaving the PV of debt-to-GDP and debt service-to-revenue ratios for 2032 at over 120 and 50 percent, respectively.

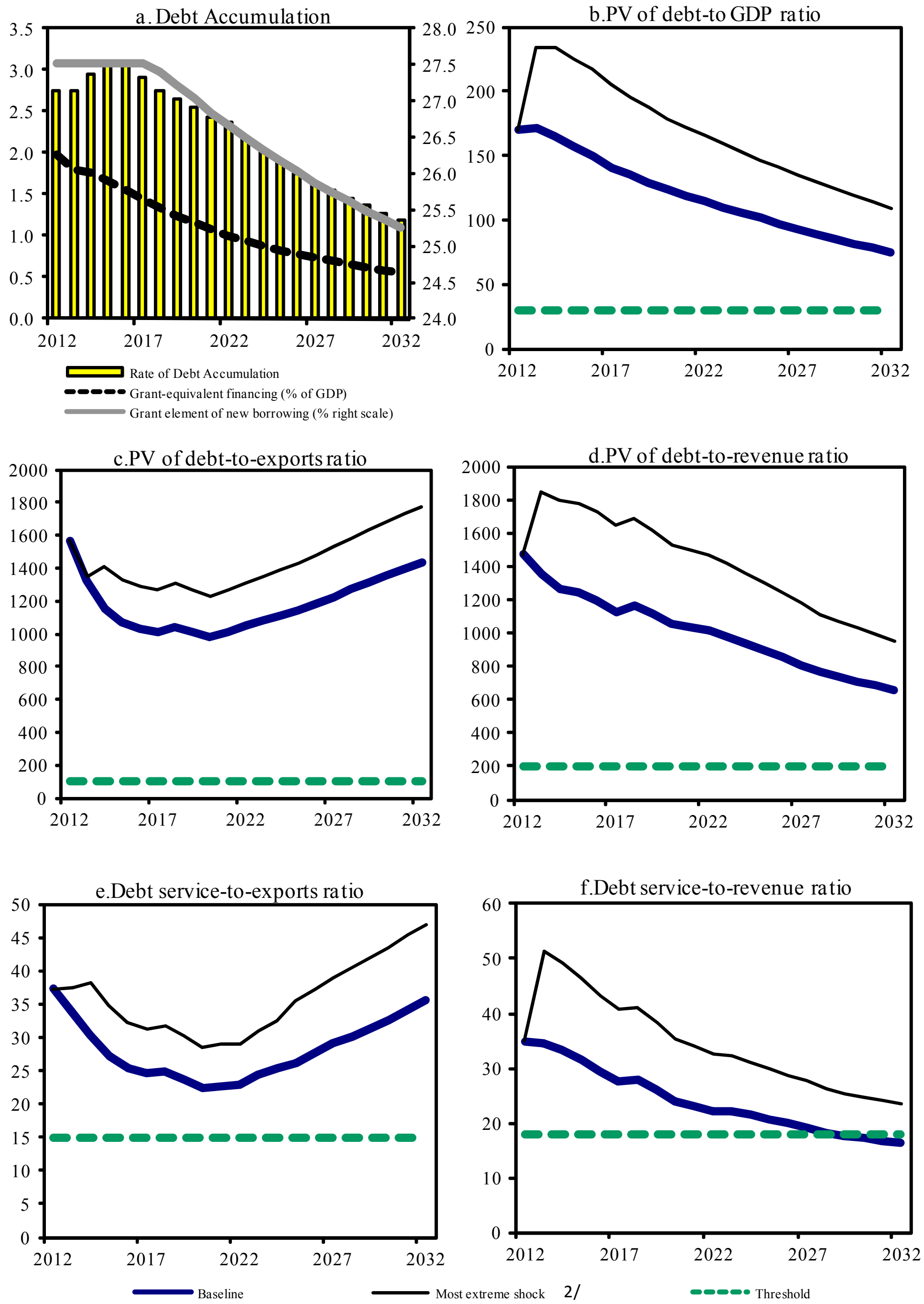
- The *bound tests* (Table 7, Scenarios B1-B5) point to a one-time 30 percent real depreciation in 2013 (B4) giving rise to the worst scenario for all three debt indicators. The PV of debt-to-GDP and the PV of debt-to-revenue would be almost 130 and over 1100 percent in 2032. The debt service-to-revenue ratio would increase to 56 percent in 2032.

CONCLUSION

16. Sudan remains in debt distress. All external debt burden ratios remain well above the indicative thresholds (except for the debt service-to-revenue ratio at the end of the projection horizon) during the projection period. In addition, the overall public sector debt dynamics remain unsustainable in light of the current size and projected dynamics of the domestic debt stock. Even after traditional and HIPC Initiative assistance, Sudan is likely to be left with a sizeable external debt, which will either need to be serviced or addressed through further assistance (such as Paris Club "beyond HIPC" bilateral debt relief, Multilateral Debt Relief Initiative (MDRI) or MDRI-like debt relief). The risk rating therefore remains unchanged with respect to the previous 2010 DSA.

17. Prudent public debt and macro policies, especially under a successor SMP, are critical to secure access to possible debt relief under the Enhanced HIPC Initiative and MDRI. Sudan's debt strategy should continue to focus on avoiding reliance on nonconcessional borrowing, securing external support on highly concessional terms, and increasing the grant element of external borrowing received to finance necessary development and infrastructure expenditures. Recourse to non-concessional borrowing further increases the future debt burden, undermining debt sustainability even after possible debt relief. To effectively address the vulnerabilities highlighted in the DSA, Sudan should focus on strengthening its external and fiscal stance and on providing a more stable political and business environment.

Figure 3. Sudan: Indicators of Public and Publicly Guaranteed External Debt under Alternatives Scenarios, 2012-32 1/2/



Sources: Country authorities; and staff estimates and projections.

1/ The secession-induced structural breaks in the time series undermine the historical scenario, which is therefore omitted from the figures.

2/ The most extreme stress test is the test that yields the highest ratio in 2022. In figure b. it corresponds to a One-time depreciation shock; in c. to a Exports shock; in d. to a One-time depreciation shock; in e. to a Exports shock and in figure f. to a One-time depreciation shock.

Table 4. Sudan: External Debt Sustainability Framework, Baseline Scenario, 2009-32 1/
(In percent of GDP, unless otherwise indicated)

	Actual 2009	Actual 2010	Actual 2011	Historical Average 6/	Standard Deviation 6/	Projections 2012	2013	2014	2015	2016	2017	2012-2017 Average	2022	2032	2018-2032 Average
External debt (nominal) 1/	**64.3**	**65.4**	**65.0**			**100.9**	**104.4**	**102.6**	**100.4**	**97.4**	**93.2**		**82.7**	**62.1**	
o/w public and publicly guaranteed (PPG)	61.4	63.0	62.5			97.8	100.9	99.2	97.0	94.2	90.2		80.2	60.3	
Change in external debt	1.5	1.1	-0.4			35.9	3.5	-1.8	-2.3	-3.0	-4.2		-1.7	-2.0	
Identified net debt-creating flows	6.5	-14.3	-2.6			13.0	3.9	-0.9	-1.8	-2.5	-3.2		-2.5	-3.0	
Non-interest current account deficit	**6.7**	**-0.5**	**-2.2**	**1.3**	**3.2**	**4.1**	**2.8**	**1.9**	**1.9**	**1.9**	**1.9**		**1.8**	**-0.2**	1.1
Deficit in balance of goods and services	4.1	-2.5	-2.1			5.8	4.6	3.7	3.6	3.6	3.9		3.3	1.2	
Exports	16.1	20.0	18.5			10.8	13.0	14.3	14.7	14.5	14.0		10.9	5.2	
Imports	20.1	17.4	16.4			16.7	17.6	17.9	18.3	18.1	17.9		14.3	6.4	
Net current transfers (negative = inflow)	-1.9	-3.3	-1.7	-3.6	2.0	-2.3	-2.5	-2.6	-2.6	-2.6	-2.8		-2.3	-1.7	-2.1
o/w official	-1.2	-1.8	-1.1			-1.4	-1.4	-1.4	-1.3	-1.2	-1.1		-0.8	-0.5	
Other current account flows (negative = net inflow)	4.6	5.3	1.6			0.5	0.7	0.9	0.9	0.9	0.8		0.7	0.3	
Net FDI (negative = inflow)	**-5.1**	**-4.5**	**-4.2**	**-6.1**	**2.0**	**-3.3**	**-3.8**	**-4.5**	**-4.2**	**-4.1**	**-3.9**		**-3.2**	**-1.4**	-2.6
Endogenous debt dynamics 2/	**4.8**	**-9.3**	**3.8**			**12.3**	**5.0**	**1.7**	**0.6**	**-0.4**	**-1.2**		**-1.1**	**-1.5**	
Contribution from nominal interest rate	3.4	2.6	2.9			3.3	4.3	3.8	3.5	3.3	3.0		2.3	1.4	
Contribution from real GDP growth	-2.1	-1.8	2.2			8.9	0.7	-2.1	-3.0	-3.7	-4.2		-3.4	-2.9	
Contribution from price and exchange rate changes	3.6	-10.1	-1.3			…	…	…	…	…	…		…	…	
Residual (3-4) 3/	**-5.0**	**15.4**	**2.3**			**22.9**	**-0.5**	**-0.9**	**-0.5**	**-0.5**	**-1.0**		**0.8**	**1.0**	
o/w exceptional financing	-3.9	-7.4	-2.8			-3.0	-3.3	-3.3	-3.1	-2.9	-2.7		-2.0	-1.1	
PV of external debt 4/	...	...	114.4			172.8	174.7	168.1	161.1	153.2	143.8		116.8	76.5	
In percent of exports	...	...	618.7			1596.0	1347.7	1176.5	1095.2	1054.8	1027.2		1069.0	1466.9	
PV of PPG external debt	**...**	**...**	**111.9**			**169.7**	**171.2**	**164.7**	**157.8**	**150.0**	**140.8**		**114.3**	**74.6**	
In percent of exports	**...**	**...**	**605.4**			**1567.2**	**1321.0**	**1152.4**	**1072.5**	**1032.9**	**1005.6**		**1046.3**	**1431.6**	
In percent of government revenues	**...**	**...**	**624.5**			**1468.2**	**1353.9**	**1265.4**	**1240.1**	**1197.5**	**1127.0**		**1011.0**	**657.1**	
Debt service-to-exports ratio (in percent)	**25.8**	**17.1**	**18.3**			**37.7**	**34.1**	**30.8**	**27.6**	**25.6**	**25.0**		**23.3**	**36.7**	
PPG debt service-to-exports ratio (in percent)	**25.6**	**17.0**	**18.1**			**37.3**	**33.7**	**30.4**	**27.2**	**25.2**	**24.6**		**22.8**	**35.5**	
PPG debt service-to-revenue ratio (in percent)	**24.9**	**18.2**	**18.7**			**34.9**	**34.6**	**33.3**	**31.5**	**29.3**	**27.6**		**22.0**	**16.3**	
Total gross financing need (Billions of U.S. dollars)	3.1	-1.0	-1.9			2.5	1.6	0.9	0.9	0.8	0.9		0.9	0.5	
Non-interest current account deficit that stabilizes debt ratio	5.2	-1.6	-1.9			-31.9	-0.7	3.7	4.2	4.9	6.1		3.5	1.9	
Key macroeconomic assumptions															
Real GDP growth (in percent)	3.2	3.5	-3.3	5.4	4.2	-11.1	-0.6	2.1	3.0	3.9	4.7	0.3	4.3	4.7	4.6
GDP deflator in US dollar terms (change in percent)	-5.4	18.6	2.0	11.5	8.4	-9.4	-8.0	-0.2	2.3	2.1	2.9	-1.7	1.6	1.4	1.6
Effective interest rate (percent) 5/	5.2	5.0	4.4	5.0	0.4	4.1	3.9	3.7	3.6	3.5	3.4	3.7	2.9	2.3	2.7
Growth of exports of G&S (US dollar terms, in percent)	-35.4	52.7	-8.7	26.4	27.5	-52.8	9.4	12.4	8.6	4.7	3.8	-2.3	-1.2	-1.2	-0.5
Growth of imports of G&S (US dollar terms, in percent)	-0.5	6.4	-7.5	22.4	26.6	-17.9	-3.7	4.1	7.6	4.8	6.5	0.3	-0.5	-2.0	-0.8
Grant element of new public sector borrowing (in percent)	...	...	...	...	...	27.5	27.5	27.5	27.5	27.5	27.5	27.5	26.7	25.3	26.2
Government revenues (excluding grants, in percent of GDP)	16.5	18.6	17.9			11.6	12.6	13.0	12.7	12.5	12.5		11.3	11.4	11.5
Aid flows (in Billions of US dollars) 7/	0.4	0.6	0.7			1.0	0.9	0.9	0.9	0.9	0.9		0.8	0.6	
o/w Grants	0.0	0.4	0.5			0.7	0.7	0.7	0.7	0.6	0.6		0.5	0.4	
o/w Concessional loans	0.3	0.2	0.2			0.3	0.2	0.2	0.2	0.2	0.2		0.2	0.2	
Grant-equivalent financing (in percent of GDP) 8/	...	...	...			2.0	1.8	1.8	1.7	1.6	1.4		1.0	0.6	0.9
Grant-equivalent financing (in percent of external financing) 8/	...	...	...			55.2	64.9	64.4	63.2	61.8	60.1		52.6	40.0	48.7
Memorandum items:															
Nominal GDP (Billions of US dollars)	52.8	64.8	64.0			51.5	47.1	48.0	50.6	53.7	57.9		79.0	143.2	
Nominal dollar GDP growth	-2.3	22.7	-1.3			-19.5	-8.6	1.9	5.4	6.1	7.7	-1.1	5.9	6.2	6.2
PV of PPG external debt (in Billions of US dollars)			71.3			73.1	74.5	75.9	77.4	78.9	80.5		88.9	105.3	
(PVt-PVt-1)/GDPt-1 (in percent)						2.8	2.7	3.0	3.1	3.1	2.9	2.9	2.4	1.2	1.9
Gross workers' remittances (Billions of US dollars)	2.3	2.2	1.4			1.5	1.6	1.8	1.9	2.1	2.4		2.7	3.2	
PV of PPG external debt (in percent of GDP + remittances)	...	...	109.5			164.9	165.5	158.9	152.1	144.4	135.2		110.6	73.0	
PV of PPG external debt (in percent of exports + remittances)	...	...	542.1			1239.3	1045.5	917.7	853.5	815.1	775.9		800.3	997.7	
Debt service of PPG external debt (in percent of exports + remittances)	...	...	16.2			29.5	26.7	24.2	21.6	19.9	19.0		17.4	24.7	

Sources: Country authorities; and staff estimates and projections.

1/ Includes both public and private sector external debt.

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

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

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

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

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

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

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

Table 5. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-32 1/
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
PV of debt-to GDP ratio								
Baseline	170	171	165	158	150	141	**114**	75
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2012-2032 2/	170	158	159	154	148	141	**115**	78
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	170	155	156	151	145	137	**111**	73
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	170	158	160	155	149	141	**114**	74
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	170	141	136	131	126	119	**96**	63
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	170	158	159	154	148	140	**113**	73
B5. Combination of B1-B4 using one-half standard deviation shocks	170	128	116	112	107	101	**82**	55
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	170	234	233	226	217	205	**166**	108
PV of debt-to-exports ratio								
Baseline	1567	1321	1152	1073	1033	1006	**1046**	1432
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2012-2032 2/	1567	1222	1110	1045	1020	1005	**1056**	1502
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	1567	1216	1101	1033	1005	987	**1022**	1402
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	1567	1353	1411	1324	1289	1267	**1313**	1778
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	1567	1216	1101	1033	1005	987	**1022**	1402
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	1567	1220	1112	1043	1016	998	**1033**	1408
B5. Combination of B1-B4 using one-half standard deviation shocks	1567	1163	1032	968	942	925	**954**	1340
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	1567	1216	1101	1033	1005	987	**1022**	1402
PV of debt-to-revenue ratio								
Baseline	1468	1354	1265	1240	1198	1127	**1011**	657
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2012-2032 2/	1468	1253	1219	1208	1183	1126	**1020**	690
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	1468	1225	1199	1185	1156	1098	**980**	638
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	1468	1253	1233	1218	1189	1129	**1009**	649
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	1468	1111	1044	1031	1006	955	**852**	555
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	1468	1250	1221	1206	1178	1118	**998**	646
B5. Combination of B1-B4 using one-half standard deviation shocks	1468	1012	888	876	855	811	**722**	481
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	1468	1849	1794	1772	1730	1642	**1465**	955

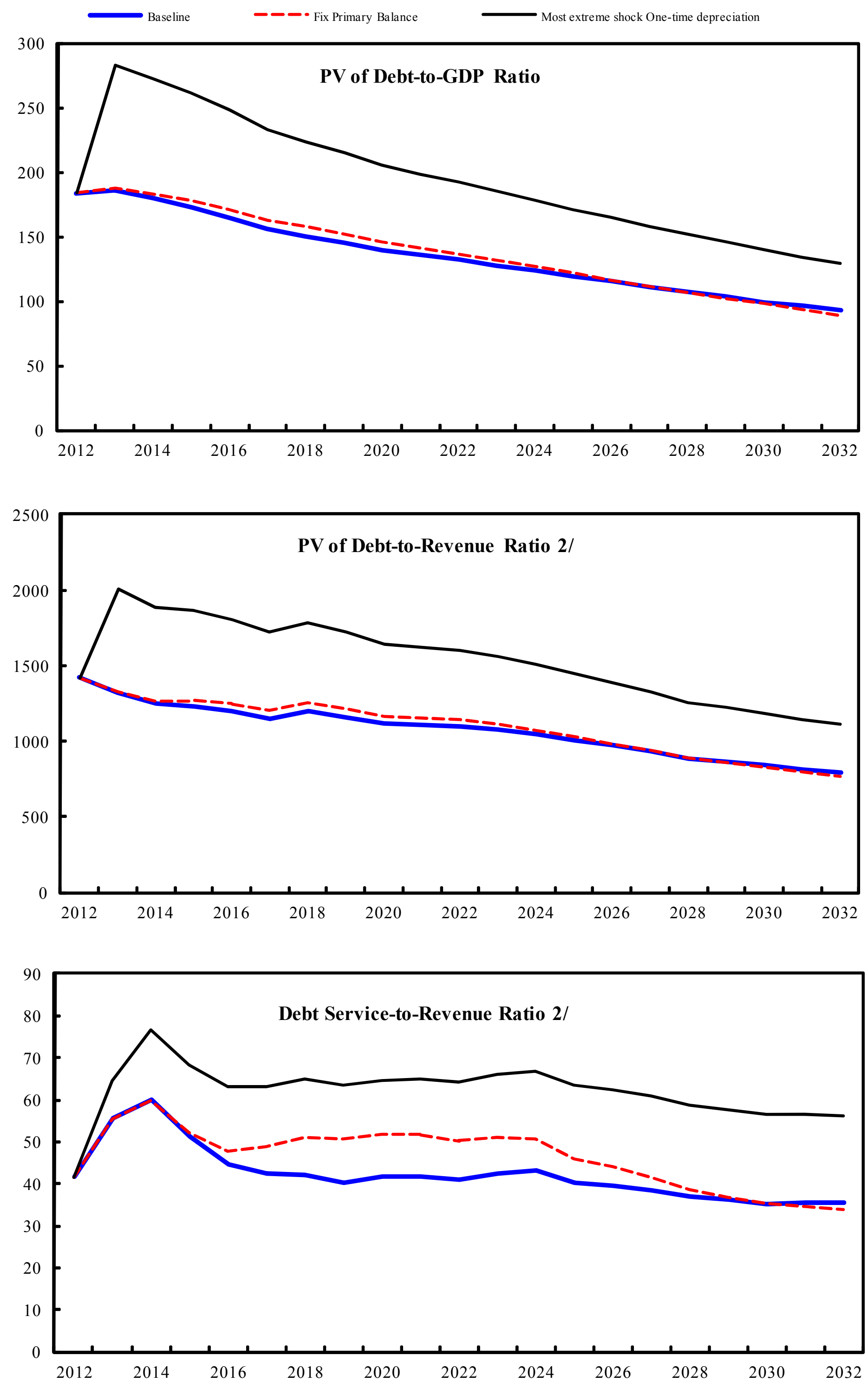
Table 5. Sudan: Sensitivity Analysis for Key Indicators of Public and Publicly Guaranteed External Debt, 2012-32 (continued)
(In percent)

	Projections							
	2012	2013	2014	2015	2016	2017	**2022**	2032
Debt service-to-exports ratio								
Baseline	37	34	30	27	25	25	**23**	36
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2012-2032 2/	37	34	30	27	25	25	**24**	41
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	37	34	30	27	25	24	**23**	34
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	37	37	38	35	32	31	**29**	47
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	37	34	30	27	25	24	**23**	34
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	37	34	30	27	25	25	**23**	36
B5. Combination of B1-B4 using one-half standard deviation shocks	37	33	29	26	24	23	**21**	29
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	37	34	30	27	25	24	**23**	34
Debt service-to-revenue ratio								
Baseline	35	35	33	31	29	28	**22**	16
A. Alternative Scenarios								
A1. New public sector loans on less favorable terms in 2012-2032 2/	35	35	33	31	29	28	**23**	19
B. Bound Tests								
B1. Real GDP growth at historical average minus one standard deviation in 2013-2014	35	34	33	31	29	27	**22**	16
B2. Export value growth at historical average minus one standard deviation in 2013-2014 3/	35	35	33	32	30	28	**22**	17
B3. US dollar GDP deflator at historical average minus one standard deviation in 2013-2014	35	31	29	27	25	24	**19**	14
B4. Net non-debt creating flows at historical average minus one standard deviation in 2013-2014 4/	35	35	33	32	29	28	**22**	16
B5. Combination of B1-B4 using one-half standard deviation shocks	35	29	25	23	21	20	**16**	10
B6. One-time 30 percent nominal depreciation relative to the baseline in 2013 5/	35	51	49	46	43	41	**32**	23
Memorandum item:								
Grant element assumed on residual financing (i.e., financing required above baseline) 6/	26	26	26	26	26	26	**26**	26

Sources: Country authorities; and staff estimates and projections.

1/ The secession-induced structural breaks in the time series undermine the historical scenario, which is therefore omitted from the table.
2/ Assumes that the interest rate on new borrowing is by 2 percentage points higher than in the baseline., while grace and maturity periods are the same as in the baseline.
3/ Exports values are assumed to remain permanently at the lower level, but the current account as a share of GDP is assumed to return to its baseline level after the shock (implicitly assuming an offsetting adjustment in import levels).
4/ Includes official and private transfers and FDI.
5/ Depreciation is defined as percentage decline in dollar/local currency rate, such that it never exceeds 100 percent.
6/ Applies to all stress scenarios except for A1 (less favorable financing) in which the terms on all new financing are as specified in footnote 2.

Figure 4. Sudan: Indicators of Public Debt Under Alternative Scenarios, 2012-32 1/2/



Sources: Country authorities; and staff estimates and projections.

1/ The secession-induced structural breaks in the time series undermine the historical scenario, which is therefore omitted from the figures.
2/ The most extreme stress test is the test that yields the highest ratio in 2022.
3/ Revenues are defined inclusive of grants.

Table 6. Sudan: Public Sector Debt Sustainability Framework, Baseline Scenario, 2009-32
(In percent of GDP, unless otherwise indicated)

	Actual			Average 5/	Standard Deviation 5/	Estimate	Projections								
	2009	2010	2011			2012	2013	2014	2015	2016	2017	2012-17 Average	2022	2032	2018-32 Average
Public sector debt 1/	72.5	74.0	74.1			111.8	115.6	113.9	111.8	109.0	105.0		97.7	78.1	
o/w foreign-currency denominated	61.4	63.0	62.5			97.8	100.9	99.2	97.0	94.2	90.2		80.2	60.3	
Change in public sector debt	3.1	1.5	0.1			37.7	3.9	-1.7	-2.2	-2.7	-4.0		-1.0	-1.9	
Identified debt-creating flows	0.6	-7.7	-3.7			33.0	0.0	-5.4	-5.9	-6.4	-7.4		-3.4	-2.2	
Primary deficit	0.1	-3.3	-2.5	-3.5	2.3	-0.6	-1.8	-2.8	-2.9	-2.6	-2.5	-2.2	-0.5	0.8	-0.2
Revenue and grants	16.5	19.3	18.7			12.9	14.1	14.4	14.0	13.7	13.6		12.0	11.6	
of which: grants	0.0	0.7	0.8			1.4	1.4	1.4	1.3	1.2	1.1		0.7	0.3	
Primary (noninterest) expenditure	16.7	16.0	16.2			12.4	12.3	11.6	11.2	11.1	11.0		11.5	12.4	
Automatic debt dynamics	0.5	-4.3	-1.0			33.6	1.8	-2.6	-3.0	-3.8	-4.9		-3.0	-3.0	
Contribution from interest rate/growth differential	-1.3	-10.1	-5.5			-4.4	-14.1	-10.6	-9.3	-7.5	-6.9		-6.7	-5.6	
of which: contribution from average real interest rate	0.9	-7.7	-8.1			-13.7	-14.8	-8.3	-6.0	-3.3	-2.1		-2.6	-2.0	
of which: contribution from real GDP growth	-2.2	-2.4	2.5			9.2	0.7	-2.3	-3.4	-4.2	-4.9		-4.1	-3.6	
Contribution from real exchange rate depreciation	1.8	5.8	4.6			38.0	15.9	8.0	6.3	3.7	2.0		...	...	
Other identified debt-creating flows	0.0	-0.2	-0.2			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Privatization receipts (negative)	0.0	-0.2	-0.2			-0.1	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Recognition of implicit or contingent liabilities	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Debt relief (HIPC and other)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Other (specify, e.g. bank recapitalization)	0.0	0.0	0.0			0.0	0.0	0.0	0.0	0.0	0.0		0.0	0.0	
Residual, including asset changes	2.5	9.2	3.8			4.7	3.8	3.7	3.7	3.7	3.5		2.5	0.3	
Other Sustainability Indicators															
PV of public sector debt	...	...	123.5			183.6	185.9	179.4	172.5	164.9	155.7		131.8	92.5	
o/w foreign-currency denominated	...	...	111.9			169.7	171.2	164.7	157.8	150.0	140.8		114.3	74.6	
o/w external	...	...	111.9			169.7	171.2	164.7	157.8	150.0	140.8		114.3	74.6	
PV of contingent liabilities (not included in public sector debt)	...	...	...			...	...	...	...	...	...		...	...	
Gross financing need 2/	7.9	2.8	3.9			5.8	7.2	7.1	5.6	4.8	4.6		5.9	6.5	
PV of public sector debt-to-revenue and grants ratio (in percent)	…	…	660.8			1421.3	1321.4	1245.9	1230.6	1201.6	1147.1		1099.9	795.0	
PV of public sector debt-to-revenue ratio (in percent)	…	…	689.2			1589.2	1470.1	1378.5	1355.7	1315.9	1246.3		1165.6	814.2	
o/w external 3/	…	…	624.5			1468.2	1353.9	1265.4	1240.1	1197.5	1127.0		1011.0	657.1	
Debt service-to-revenue and grants ratio (in percent) 4/	41.5	26.8	29.4			41.6	55.5	60.0	51.2	44.5	42.6		40.9	35.6	
Debt service-to-revenue ratio (in percent) 4/	41.6	27.7	30.7			46.5	61.7	66.4	56.4	48.8	46.2		43.3	36.4	
Primary deficit that stabilizes the debt-to-GDP ratio	-3.0	-4.7	-2.6			-38.2	-5.6	-1.1	-0.7	0.1	1.4		0.5	2.7	
Key macroeconomic and fiscal assumptions															
Real GDP growth (in percent)	3.2	3.5	-3.3	5.4	4.2	-11.1	-0.6	2.1	3.0	3.9	4.7	0.3	4.3	4.7	4.6
Average nominal interest rate on forex debt (in percent)	5.4	5.1	4.5	5.1	0.5	4.2	4.0	3.8	3.7	3.5	3.4	3.8	2.9	2.3	2.7
Average real interest rate on domestic debt (in percent)	5.3	-6.5	-4.8	-2.2	4.3	-13.4	-8.1	-2.5	-0.3	1.2	2.5	-3.4	0.7	0.9	0.6
Real exchange rate depreciation (in percent, + indicates depreciation)	3.1	11.1	7.9	0.5	7.5	65.1	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, in percent)	4.2	18.8	18.0	11.7	5.5	25.5	20.8	12.9	10.3	7.8	6.4	13.9	6.6	6.1	6.4
Growth of real primary spending (deflated by GDP deflator, in percent)	-0.2	0.0	0.0	0.2	0.3	-0.3	0.0	0.0	0.0	0.0	0.0	-0.1	0.1	0.1	0.1
Grant element of new external borrowing (in percent)	...	...	...	…	…	27.5	27.5	27.5	27.5	27.5	27.5	27.5	26.7	25.3	...

Sources: Country authorities; and staff estimates and projections.

1/ Indicate coverage of public sector, e.g., general government or nonfinancial public sector. Also whether net or gross debt is used.

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

3/ Revenues excluding grants.

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

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

Table 7. Sudan: Sensitivity Analysis for Key Indicators of Public Debt 2012-32

	Projections							
	2012	2013	2014	2015	2016	2017	2022	2032
PV of Debt-to-GDP Ratio								
Baseline	184	186	179	173	165	156	132	92
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	184	174	162	151	142	132	100	51
A2. Primary balance is unchanged from 2012	184	187	183	178	171	163	137	89
A3. Permanently lower GDP growth 1/	184	188	183	178	172	164	148	122
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	184	183	178	171	163	154	130	91
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	184	187	182	174	166	157	132	93
B3. Combination of B1-B2 using one half standard deviation shocks	184	178	171	163	156	147	123	84
B4. One-time 30 percent real depreciation in 2013	184	282	272	261	248	233	192	129
B5. 10 percent of GDP increase in other debt-creating flows in 2013	184	196	188	180	171	161	134	93
PV of Debt-to-Revenue Ratio 2/								
Baseline	1421	1321	1246	1231	1202	1147	1100	795
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	1421	1241	1131	1090	1043	983	845	437
A2. Primary balance is unchanged from 2012	1421	1330	1269	1267	1248	1201	1142	767
A3. Permanently lower GDP growth 1/	1421	1333	1269	1266	1250	1206	1230	1042
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	1421	1300	1235	1219	1190	1136	1087	784
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	1421	1326	1261	1244	1213	1157	1105	797
B3. Combination of B1-B2 using one half standard deviation shocks	1421	1273	1190	1171	1139	1084	1026	726
B4. One-time 30 percent real depreciation in 2013	1421	2007	1888	1860	1809	1718	1600	1108
B5. 10 percent of GDP increase in other debt-creating flows in 2013	1421	1393	1305	1283	1248	1187	1122	802
Debt Service-to-Revenue Ratio 2/								
Baseline	42	55	60	51	45	43	41	36
A. Alternative scenarios								
A1. Real GDP growth and primary balance are at historical averages	42	53	56	44	37	34	24	0
A2. Primary balance is unchanged from 2012	42	55	60	52	48	49	50	34
A3. Permanently lower GDP growth 1/	42	56	61	53	46	45	48	56
B. Bound tests								
B1. Real GDP growth is at historical average minus one standard deviations in 2013-2014	42	55	60	51	44	42	40	34
B2. Primary balance is at historical average minus one standard deviations in 2013-2014	42	55	60	52	47	45	42	36
B3. Combination of B1-B2 using one half standard deviation shocks	42	54	57	48	43	40	36	29
B4. One-time 30 percent real depreciation in 2013	42	65	77	68	63	63	64	56
B5. 10 percent of GDP increase in other debt-creating flows in 2013	42	55	59	65	57	57	45	37

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

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IMF Executive Board Concludes 2012 Article IV Consultation with Sudan

On September 21, 2012, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Sudan.[1]

Background

The secession of South Sudan on July 9, 2011 has translated for Sudan into the loss of a sizeable portion of its economic potential and a daunting challenge of adjusting to a permanent fiscal and external shock.

Sudan's economic conditions deteriorated in 2011, with nonoil real GDP growth decelerating to 3.4 percent and inflation picking up at about 18.5 percent. Delays in responding to the fiscal shock resulted in an overall fiscal deficit of 1.3 percent of GDP, despite a low execution rate of the investment budget. The deficit was mostly financed by the banking system, which resulted in reserve money growing at 28 percent. Credit to the economy was subdued, growing only about 8 percent.

External developments led to a contraction of the balance of payments in 2011. Exports declined by an estimated 13 percent reflecting the drop in the second half of 2011 of oil exports, which was only partially offset by the increase in gold exports. Imports also declined by an estimated 7.5 percent. This restructuring of the balance of payments resulted in a current account deficit of ½ percent of GDP. In order to stabilize the domestic currency and stop the

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

draw-down on the country's foreign exchange reserves, the authorities introduced various administrative restrictions. These measures were, however, unsuccessful in preventing the depreciation of the exchange rate in the curb market.

Economic conditions continued to deteriorate in the first half of 2012. The fiscal position weakened in the first half as revenue under-performed by some 30 percent, reflecting the lack of agreement with South Sudan on oil transit fees, compared with an execution rate of 95 percent for spending. Both reserve money and broad money grew by 24 percent, much higher than in the first half of 2011. By end-July, 12-month inflation exceeded 40 percent. Pressures on the Sudanese pound intensified, pushing the premium on the US dollar over 100 percent by end-June 2012.

After several months of hesitation, the authorities adopted in June 2012 a reform package that included a step devaluation of the official exchange rate (66 percent), an increase in taxes, a bold reduction in energy subsidies, cuts in non-priority spending and an expansion of the social safety nets. These measures are a positive step towards restoring macroeconomic stability and addressing Sudan's macroeconomic imbalances. However, reaching fiscal sustainability and enhancing growth potential will require a determined continuation of the reform momentum. Stepping up structural reforms will also help address the underlying structural challenges facing the economy. Key reforms include: (i) a comprehensive civil service reform, (ii) banking sector restructuring, (iii) ambitious privatization program, and (iv) improving governance.

Executive Board Assessment

Executive Directors noted Sudan's daunting policy challenges, particularly the need to restore macroeconomic stability and growth prospects after the secession of South Sudan. They commended the authorities' commitment to prudent policies, and welcomed the adoption of a comprehensive reform program to tackle these challenges. Directors agreed that a determined implementation of the policy agenda, supported by adequate resource mobilization at home and abroad, will be essential to improve the economic outlook for the medium term and beyond.

Directors considered that fiscal adjustment grounded on a sound medium-term framework is central to macroeconomic stabilization, and welcomed the recently-announced measures to enhance revenue collection and rationalize expenditure. They recommended a phase-out of remaining fuel subsidies in parallel with a strengthening of the social safety net, greater public sector wage restraint, and better public expenditure management. Efforts should also focus on widening the tax base, improving tax administration, and streamlining the taxation of extractive industries. In addition, reforms of state finances remain necessary to put the overall fiscal position on a sounder footing.

Against a backdrop of high inflation and exchange rate pressures, Directors saw merit in further monetary tightening. They encouraged the central bank to refrain from deficit monetization and step up reforms to enhance the effectiveness of monetary policy. In this regard, Directors called for a switch to a reserve money anchor, improved coordination between the monetary and fiscal authorities, and greater independence for the Bank of Sudan. Development of the interbank market and auctions of central bank securities could also help promote intermediation and absorb excess bank liquidity. Directors invited the authorities to discontinue central bank gold-trading operations, unify the official foreign exchange rates, and pursue greater exchange rate flexibility.

Welcoming the adoption of the Interim Poverty Reduction and Growth Strategy, Directors stressed the importance of reforms to improve the business climate and boost private-sector-led growth. In this regard, priorities include further economic liberalization and diversification, restructuring or privatization of public enterprises, and civil service and governance reforms. They also agreed that a comprehensive assessment of the banking system should be undertaken with a view to enhancing its development, efficiency, and resilience.

Directors called on the authorities to further strengthen their cooperation with the Fund on policies and payments, and supported continued Fund engagement with Sudan. They encouraged the authorities to continue making payments to the Fund, to make them on a regular basis, and to increase them as their payment capacity improves. Noting that Sudan's outstanding arrears constrain its access to external financing, Directors encouraged the authorities to step up their dialogue with creditors and donors to garner support for debt relief. A few Directors called for exceptional efforts by the international community, including the Fund, to support Sudan in this endeavor.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Sudan: Selected Economic Indicators, 2008–13

	2008	2009	2010	Prel. 2011	Proj. 2012	Proj. 2013
Real sector	(Annual changes in percentage)					
Real GDP (at factor costs) 1/	3.0	3.2	3.5	-3.3	-11.1	-0.6
Oil GDP 1/	-4.5	3.0	-3.9	-36.0	-58.2	14.5
Nonoil GDP 1/	4.8	3.3	5.1	3.4	-5.1	-1.4
Consumer prices (period average)	14.3	11.2	13.1	18.3	28.6	17.0
Gross capital formation (in percent of GDP)	18.3	18.6	16.0	15.7	15.1	15.6
Gross Savings (in percent of GDP)	16.4	8.6	13.9	15.2	7.8	9.2
Public finance	(In percent of GDP)					
Revenue and Grants	24.0	16.5	19.3	18.7	12.9	14.1
Of which: grants	0.0	0.0	0.7	0.8	1.4	1.4
Total expenditure	24.1	20.7	19.6	20.0	16.6	17.3
Overall balance	-0.1	-4.2	-0.4	-1.3	-3.7	-3.2
Nonoil primary balance (in percent of nonoil GDP)	-7.1	-6.4	-4.9	-6.1	-6.2	-6.2
Balance of payments	(In percent of GDP)					
Current account balance	-2.0	-10.0	-2.1	-0.5	-7.4	-6.5
Exports of goods (in US$, annual change in percent)	30.9	-36.0	57.0	-12.9	-55.4	9.4
Imports of goods (in US$, annual percent change)	6.6	3.6	3.1	-7.5	-17.6	-3.6
Gross international reserves (in millions of U.S. dollars)	1,816	1,370	1,566	1,325	1,074	1,155
In months of next year's imports of goods and services	2.1	1.5	1.8	1.8	1.5	1.6
Total external debt	60.2	66.0	60.9	64.8	84.9	96.7
Total external debt (in US$ billion)	32.6	34.9	39.5	41.4	43.7	45.6
Monetary sector	(Annual changes in percentage)					
Broad money	16.4	24.1	24.9	17.7	38.4	17.4
Credit to the economy	15.6	20.2	16.4	8.0	18.1	15.0
Exchange rate: SDGs per U.S. dollar						
End of period	2.18	2.24	2.48	2.68	…	…
Period average	2.09	2.30	2.31	2.67	…	…

Sources: Sudanese authorities; and staff estimates and projections.
1/ In the calculation of the growth rates: 2010 Aggregates are related to unified Sudan; 2011 Aggregates include South Sudan for the first half of the year; and 2012 aggregates are related to post-secession Sudan.

Statement by Moeketsi Majoro, Executive Director for Sudan
September 21, 2012

The secession of South Sudan on July 9, 2011 has taken a toll on the macroeconomic stability of Sudan owing to significant loss of oil revenues and foreign currency reserves, which in turn have precipitated unprecedented economic challenges, amidst an unsustainable debt situation, which the international community is yet to come forward to help resolve. My authorities face protracted balance of payments problems with a widening current account deficit, growing pressure on the exchange rate and inflation, a high fiscal deficit, and a growing debt burden. The loss of a significant part of oil sector activity calls for urgent search for alternative sources of growth and employment, against the backdrop of persistent border security tensions, constrained access to international financial resources, and high levels of poverty and unemployment, especially among the youth. My authorities are committed to undertaking necessary policy adjustments and structural reforms to restore and sustain macroeconomic stability, as well as enhance growth. In this regard, they seek technical and financial support from development partners to facilitate an adequate and timely response to this evolving and permanent shock to the economy.

Economic growth and diversification

Sudan's economic activity is expected to remain weak in the near term. However, my authorities have put together the Five-Year Strategic Plan 2012-2017 aimed at enhancing growth and development in the context of loss of significant fiscal resources. The target is to achieve 6 percent growth by 2016 supported by increased private sector participation. In addition, to enhance youth employment, the plan targets to build capacity through training programs and expanded microfinance. Moreover, the plan articulates a Three-Year Emergency Program that spells out the policy adjustment and reforms required to restore macroeconomic stability.

Plans are underway to diversify the sources of growth away from oil production. A key focus is to enhance agricultural production to meet domestic consumption needs especially of wheat and cooking oil, and to expand exports of cotton and animal products. As a result, there has been an increase in the size of cultivated land both in irrigated and rain-fed areas. Also efforts are underway to enhance agricultural productivity through strategic partnerships with China, Brazil and Australia. Furthermore, my authorities have extended and annexed the Green Revolution Plan 2008-11, a plan dedicated to diversify economic activity into agriculture, as part of the Five-Year Strategic Plan.

My authorities are increasing investments in the oil sector to enhance production through increased prospecting and expanded refining activity. Their target is to increase oil production from the current 115,000 to 180,000 barrels per day by end 2012 from new discoveries and use of more efficient technology. There are also plans to expand three refineries in Khartoum, Elobayed, and Port Sudan to serve the domestic market. Further, efforts are being made to enhance exploration and mining of gold, with three companies, Hassai Gold Mine, Dalgo Gold Mines, and Ariab Mining Company, currently involved in production and plans are advanced to set up a gold refinery and establish a commodity market for gold in the near future.

Fiscal policy and reforms

My authorities have revised the FY2012 budget and decided on revenue and expenditure measures to reduce the budget deficit. In preparing the budget, my authorities had initially taken into account expected flows of oil transit fees meant to finance one third of the budget but with delays in finalizing the negotiations on oil revenue sharing with South Sudan, it became difficult to fill the significant budget hole. The measures spelt out in the revised budget include, on the expenditure side, a cut in the number of constitutional posts, a reduction in privileges and entitlements of constitutional post holders, prioritizing government spending, tightening government procurement while encouraging purchases from the local market, rationalizing allocation of fuel to government departments, and continuing with liquidation and privatization of government companies. Revenue measures include an increase in development tax on imports from 10 to 13 percent except for capital commodities, production inputs, and some essential commodities, an increase in VAT from 15 to 17 percent and an increase in business profit tax from 15 to 30 percent.

To cushion the impact of these measures on the vulnerable population, the budget proposes to lift fuel subsidies gradually, reduce customs duty levied on dry milk and edible oil, retain tax and duty exemptions on imported wheat, flour, sugar, pharmaceutical drugs and food additives, and increase the number of poor households benefiting from the direct government support from 500,000 to 750,000.

My authorities recognize that gold and agricultural sectors are potential sources of raising tax revenue. However, at the moment, they fear that imposing taxes may result in smuggling of gold, and consequently loss of foreign reserves, as the sector is presently dominated by small artisans. In addition, imposing agricultural tax is not considered appropriate as it would mean taxing the poor who derive their livelihood from agriculture.

Last month my authorities reached an agreement with South Sudan on the outstanding issues around oil transit fees and transitional financial assistance. The transit fee has been set at US$11 per barrel for the crude oil from Unity state and US$9.10 for Upper Nile state oil for a period of three and half years. In addition, a payment of US$3 billion was agreed upon as part of the transitional financial assistance expected to cover one third of the authorities' budget for the oil revenue lost in the first six months of FY2012. However, implementation of the deal is dependent on Sudan and South Sudan agreeing on the remaining issues under the CPA 2005, especially border security.

Monetary policy

Inflationary pressure has recently increased but my authorities are committed to take policy measures to rein in inflationary expectations. Inflation increased from 30 percent in May 2012 to 37 percent in June and 42 percent in July. My authorities attribute this sharp increase to imported inflation mainly because of the heavily depreciated parallel exchange rate that is used widely in payments of international transactions. They also view the purchase of gold by the Central Bank of Sudan (CBOS) at the parallel rate, and selling at the official rate as a key channel of injecting liquidity and increasing inflationary pressure. CBOS is taking various measures to reduce money supply including by raising banks' cash reserves and undertaking open market operations.

My authorities are committed to a flexible exchange rate regime but prefer a gradual and comprehensive approach to avoid escalating inflation. The first quarter of 2012 saw the parallel exchange rate depreciate significantly as a result of deterioration in the balance of payments, increased speculative activities, and foreign currency substitution needs. Various measures have been taken to stabilize the exchange rate including by rationing imports and increasing exports of gold and agricultural products. My authorities have also received foreign deposits from friendly partners aimed to build official foreign reserves. Further, to align the official exchange rate with the parallel rate, both the indicative rate and the commercial banks trading rate have depreciated significantly.

Debt relief

My authorities have made significant progress on the technical aspects of the debt relief process. In addition to successful debt reconciliation, the IPRSP has now been passed by parliament and is ready for sharing with the IMF and World Bank. Further, my authorities have continued to demonstrate their commitment to normalizing their relationship with the Fund by continually making payments to clear their arrears with the Fund, albeit with a reduction in the amounts paid mainly because of the challenging economic situation. Despite the progress made so far and the continuing commitment to engage with the Fund through the Staff Monitored Program, there are growing concerns on the feasibility of reaching the decision point of debt relief before the expiry of the "*Zero Debt Option*" in July 2013, and the implications that this would have on the goal for "*Two Viable States*". My authorities are keen to see political issues surrounding the debt relief resolved as soon as possible.

Relationship between Sudan and South Sudan

With regard to the Comprehensive Partnership Agreement (CPA) 2005, there are outstanding issues between Sudan and South Sudan that are yet to be agreed upon. They include security arrangements, border demarcations, the final status of the contested Abyei area, cross-border trade, and the status of nationals residing in both countries. My authorities are committed to a successful and timely conclusion of these issues to ensure peaceful coexistence and improved trade relations which are critical for viability of the two states.

Conclusion

My authorities are facing critical challenges in restoring macroeconomic stability and revamping economic growth. While they have shown commitment to policy adjustment and implementation of the reform agenda, maintaining the momentum is threatened by limited access to external resources. Furthermore, the failure to move quickly to decision point in the debt relief process is constraining needed development financing. My authorities are thankful for the continued policy advice and technical support from the Fund, and are seeking your support in overcoming the considerable challenges facing the country.