International Monetary Fund

Sudan and the IMF

Sudan: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

Country's Policy Intentions Documents

May 15, 2008

The following item is a Letter of Intent of the government of Sudan, which describes the policies that Sudan intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Sudan, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

May 15, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

Sudan has maintained close cooperation with the IMF over the last decade. This cooperation has helped us implement economic policies that aim at maintaining economic stability, fostering growth, and reducing poverty—which are necessary to promote peace and reconciliation throughout the country.

Progress under the current 18-month SMP has generally been good, notwithstanding important challenges. Sudan, like several other countries in the region, suffered some of the worst floods in decades—resulting in significant damage to agricultural land, infrastructure, and households. The government also continued to meet the challenges of implementing numerous peace agreements, disarmament, and fiscal decentralization.

We recognize that there have been some policy shortcomings, in particular related to public financial management. The attached Memorandum of Economic and Financial Policies (MEFP) sets out our 2008 program, which contains important measures to address these shortcoming; indeed, some of these measures have already been implemented. We are committed to maintaining macroeconomic stability and advancing the reform agenda, which will focus on fiscal and financial sector reforms. The Government believes that the policies and measures set forth in the attached MEFP are adequate to achieve the objectives of the program, but it stands ready to take additional measures that may be appropriate for this purpose. The Government intends to make these understandings public and authorizes the IMF to publish this letter, the attached MEFP, and the IMF staff report.

We are committed to a process of economic integration, both within Sudan and with the international community. But our success will in part depend on the level of support from multilateral institutions and development partners. We remain hopeful that the international community will recognize the important efforts that we have made over the past decade with respect to cooperation on policies and payments, and take concrete action on debt relief for Sudan comparable to that provided to numerous other countries.

Sincerely yours,

s/	s/
Dr. Awad Al-Jaz Minister of Finance and National Economy Ministry of Finance and National Economy	Dr. Sabir Mohamed Hassan Governor Central Bank of Sudan

ATTACHMENT I: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

May 15, 2008

1. This memorandum sets out the economic and financial policies and objectives of the Government of National Unity (GNU) for 2008. These policies will be pursued in the context of an IMF staff-monitored program (SMP).

I. RECENT DEVELOPMENTS

2. The past year has brought a mix of challenges and opportunities with respect to economic growth and development. The government endeavored to maintain its focus on enabling high levels of growth with low inflation, and in this respect success was achieved. Oil production registered a substantial increase, non-oil growth was relatively strong, and inflation declined relative to end-2006. The government was also successful in carrying out a smooth conversion from the dinar to the new Sudanese pound. The year was not without challenges, however. Sudan, like several other countries in the region, suffered some of the worst floods in decades—resulting in significant damage to agricultural land, infrastructure, and households. The government also continued to meet the challenges of implementing numerous peace agreements, disarmament, and fiscal decentralization.

3. Sudan's real GDP growth in 2007 is estimated at about 10 percent with non-oil growth at just under 8 percent—compared with 11 and 10 percent, respectively, in 2006. A substantial gain in oil production to some 484,000 barrels per day helped bolster this strong overall performance. Nonoil growth, while still relatively strong, declined relative to 2006, largely on account of tight private sector credit, a decrease in foreign direct investment, and the continuing impact of regional developments. Notably, however, consumer price inflation declined from nearly 16 percent at end-2006 to just under 9 percent by end-2007. The exchange rate remained relatively stable in nominal terms vis-à-vis the US dollar, but depreciated by some 15 percent relative to the Euro. In real effective terms, the Sudanese pound fell by 2 percent during 2007.

4. Boosted by the rise in oil production and a surge in international oil prices, the external current account deficit dropped from 13.5 percent of GDP in 2006 to 11 percent in 2007. Exports of crude oil rose by 54 percent in volume terms and by over 66 percent in value terms relative to 2006. Of particular note, Dar Blend crude—which encountered a number of quality and marketing problems in 2006 and early 2007—gained momentum in the second half of the year with both export volumes and prices showing a marked improvement. Nonoil exports, on the other hand, continued to decline, dropping by some 19 percent compared with 2006, with sharp declines in sesame, cotton, and livestock exports. The growth rate of imports in dollar terms registered some 9 percent—about half the growth rate seen in 2006. The decline in import growth may be related to a similar decline in foreign direct investment, which dropped by about US$500 million compared with 2006. Net international reserves of the central bank fell to a low of US$563 million in May, but

recovered to just under US$1 billion by the end of the year. In light of continued sanctions, the central bank also moved to shift the bulk of foreign exchange reserves from the U.S. dollar to Euro.

5. The fiscal deficit on a cash basis (inclusive of ORSA accumulation) improved steadily during the year, dropping from an annualized 6 percent of GDP at end-March 2007 to an estimated 3.1 percent by end-December. However, a revenue shortfall in the first half of the year (due to lower-than-expected oil receipts) combined with the repayment of arrears accumulated in 2006 led to a squeeze in the budget. In the continued absence of commitment control measures this led to a sizeable accumulation of new arrears in 2007—despite a recovery of oil revenues in the second half of the year and a drawdown of resources from the Oil Revenue Stabilization Account. This was reflected in a fiscal deficit, on a commitment basis, of 5.4 percent of GDP by the end of the year.

6. The accumulation of government arrears rippled through the financial system in the form of a rapid rise in nonperforming loans (NPLs). NPLs net of provisions have risen from 17 percent at end-2006 to an estimated 23 percent by end-2007. Continued weakness in two large banks—Omdurman National Bank (ONB) and Bank of Khartoum—remain at the heart of the problem. The need for action on ONB is well understood, and the central bank has taken steady action to improve supervision and move ONB back to financial health. An independent audit will be a critical element toward an eventual restructuring. Bank of Khartoum, on the other hand, has taken steps to merge with a strategic partner, which should help to address deficiencies in the bank's balance sheet. Remaining commercial banks have made steady progress in reducing their outstanding stock of NPLs and strengthening their balance sheet. This process will hopefully accelerate as the government moves to address overdue payment obligations.

7. Growth in monetary aggregates was slow during the year—reflecting the overhang of government arrears and weakness in the financial sector. The drop in money and credit growth that followed the surge in government arrears in late 2006 and early 2007 and the intervention of Omdurman Bank continued through much of the year. The central bank responded forcefully to alleviate the credit crunch through purchase of government securities from the banking system and increasing central bank deposits in commercial banks. The decline in monetary aggregates appears to have bottomed-out in late 2007. Broad money, reserve money, and private sector credit began to recover in the fourth quarter—growing at 10 percent, 13 percent, and 16 percent, respectively, by end-December.

II. Performance under the SMP During 2007

8. Program performance under the first six months of the SMP was uneven. Importantly, the government did meet the target on domestic financing of the central government, and the ceiling on nonconcessional borrowing by a significant margin. Moreover, Sudan repaid the IMF over US$50 million in 2007—in line with its commitment under the SMP and enough to

reduce the overall stock of obligations. Three quantitative targets, however, were not met, due to a combination of difficult economic and financial challenges and some shortfalls in public financial management. Specifically, the ceiling on growth of net domestic assets was not met, reflecting the need to address a credit crunch that threatened overall growth prospects—a policy deemed appropriate given relatively low inflation during the second half of 2007. Due to shortfalls in public financial management, the government did not meet the target for net reduction in domestic arrears. The central bank was also not able to meet the target for accumulation of net international reserves (NIR).

9. A number of important structural reforms were completed in 2007, but there were also some delays. On the positive side, the 2008 budget was prepared using the GFSM 2001 framework, which has facilitated a notable improvement in transparency and timely monitoring of arrears. Bold steps were also made with respect to reining-in tax exemptions, widening the tax base, and improving tax administration:

- The Investment Encouragement Act has been amended to completely halt the granting of new tax holidays.
- A 3 percent net profit tax has been imposed on exempt corporations to bring them into the tax net as well as ensure fair competition with new investors who will now be taxed at the standard 15 percent rate.
- No new VAT exemptions were granted via ministerial decree.
- A unique turnover criterion was adopted for defining medium and large size taxpayers.
- A reorganization of the tax chamber is underway with a view to establishing a functions-based headquarters structure.

10. These positive steps notwithstanding, several key public financial management reforms (such as establishment of a centralized debt unit and commitment controls to limit expenditures by budget units) were delayed. Moreover, there was also a delay in beginning an independent audit of Omdurman Bank—which was to begin by the end of 2007 as a first step toward restructuring and/or privatization of the bank.

III. Medium-Term Outlook and Challenges

11. Meeting Sudan's medium-term challenges will require macroeconomic stability, a strong commitment to reform, and flexibility in dealing with a rapidly changing economic landscape. We would highlight in this context that Sudan has only recently emerged from a long period of civil conflict. The demands of implementing the Comprehensive Peace Agreement (CPA), the Darfur Peace Agreement (DPA), and the Eastern States Peace Agreement (ESPA) are substantial. The commitments made under these agreements must be

met even if—as has been the case in recent years—the international community fails to fully meet earlier pledges of support. These peace-related demands are likely to increase given the pressing need to proceed with demobilization, and to provide support to the United Nations/African Union Mission in Darfur (UNAMID). Meeting these obligations while simultaneously undertaking critical infrastructure and pro-poor spending limits our maneuverability on a number of economic and financial policies. The situation would be improved considerably if the international community would both recognize our accomplishments and fully honor the commitments made to help support the peace process.

12. The medium-term macroeconomic framework envisages growth of about 7-8 percent, based on prudent macroeconomic policies designed to ensure single digit inflation, enable non-oil growth, and rebuild international reserves. Increasing production of oil will provide one source of growth, but we also anticipate robust activity in nonoil sectors—including construction, manufacturing, transport, and services. We will also seek to boost the performance of our agricultural sector through market reforms, investment, and removal of transport, finance, and input bottlenecks.

13. In addition to targeting high and sustainable levels of growth, the government's medium-term policies will focus on poverty alleviation and development. To this end, we have developed a work plan to prepare a national Poverty Reduction Strategy Paper (PRSP). We expect the final PRSP to be ready before the end of the year. The PRSP will place heavy emphasis on relevant and flexible policies to ensure a macroeconomic framework consistent with post-conflict challenges, decentralization, an enabling environment for private sector growth, and capacity and institution building. We are also pleased to report that the Central Bank of Sudan, in cooperation with the World Bank, has initiated a microfinance unit. The unit focuses on creating financial access for the poor, setting up the legislative and organizational framework for microfinance work, and establishing an information network for microfinance providers.

IV. Policies for 2008

14. The challenges to economic and financial management are not expected to diminish in 2008. Already, new volatility in international commodity markets is bringing both benefits (in terms of higher oil prices) and problems (higher food prices which are feeding through to inflation). Government policies in 2008 will need to be flexible in light of changing conditions, but with a consistent focus on: (i) maintaining strong, non-inflationary growth; (ii) addressing past weaknesses in public financial management; and (iii) ensuring the safety and soundness of the financial system.

A. Real Sector

15. The program envisages real economic growth of 8 percent in 2008. Oil GDP is expected to grow by about 4 percent in 2008, reflecting relatively stable levels of production compared with the end of 2007. With due attention to resolving government arrears and

enabling a further recovery of private sector credit, nonoil growth is expected to rise to about 9 percent in real terms. Given recent increases in international commodity prices—which have already made an impact in January-March, average inflation for the year is expected to reach about 9.5 percent.

B. Monetary and Exchange Rate Policies

16. The coming year presents a number of important challenges for monetary policy. On the one hand, rising inflationary pressures will need to be contained to preserve macroeconomic stability. On the other hand, sustained nonoil economic growth will require sufficient liquidity in the banking system to allow for a further recovery of credit to the private sector. Achieving a balance between these two objectives will require coordination between the central bank and the government with respect to the payment of domestic arrears (which will alleviate current pressures on the banking system), and a careful eye with respect to price developments. The program will target a broad money growth rate of 25 percent and reserve money growth of 18 percent in 2008—consistent with GDP growth and inflation objectives, and an increase in money demand reflecting the reintegration of the south. We will closely monitor monetary developments to ensure that broad money growth remains in line with the inflation objective.

17. The exchange rate will be allowed to move in line with fundamental forces, and foreign exchange interventions will focus primarily on serving government and market needs. Given the lumpiness of foreign exchange movements related to oil production and FDI flows, occasional limited intervention may be needed to smooth short-term volatility. However, in light of the need to rebuild foreign exchange reserves to prudent levels, the central bank will avoid resisting sustained and fundamental pressures on the pound.

C. Fiscal Policy and Reforms

18. Restoring confidence in public financial management will be a central objective of fiscal policy during 2008. Given the difficulties that have emerged in the past from a mismatch between expenditure commitments and available resources, the government is committed to strictly adhering to the fiscal stance outlined in the 2008 budget and addressing the stock of domestic arrears accumulated in 2007. To the extent that additional resources become available through either higher oil production or prices, the additional GNU revenues will be used to either rebuild the Oil Revenue Stabilization Account (ORSA) or to pay down the sizeable government arrears that were accumulated in 2007. The latter option, in particular, is seen as essential to alleviating pressure on banks and private firms, creating room for new private sector credit, and enhancing the prospects for nonoil growth. To further bolster public financial management and increase transparency, the government has recently taken the following measures:

- Identified the size of domestic arrears, assessed vulnerability of key holders, and prioritized arrears repayments.

- Operationalized a centralized domestic debt unit that will compile and monitor on a monthly basis the stock of domestic debt by debt instrument, and on a quarterly basis the stock of domestic arrears.

- Implemented commitment controls that limit expenditures by budget units to quarterly cash plans.

19. The fiscal deficit (excluding oil revenues accumulating in the ORSA) for 2008 will be contained to no more than SDG 4,100 million on a cash basis, and to no more than SDG 2,943 million on a commitment basis. All standing orders, guarantees, sanadats, and other obligations coming due will be paid, and no new domestic arrears will be created in 2008. Moreover, we intend to repay SDG 1,156 million of the existing stock of arrears, with the remaining SDG 1,457 million to be repaid in 2009–10. Fiscal revenues are expected to reach SDG 24.8 billion in 2008,[1] including some SDG 14.4 billion in oil revenue reflecting the substantial increase in international oil prices that has emerged since the budget was approved. Total central government expenditures are programmed to be SDG 28.9 billion in 2008.

20. To further increase revenue collection in 2008 and beyond and to improve transparency, the government will undertake the following measures:

- Prepare a risk-based audit strategy providing for comprehensive joint income tax-VAT post audits for not less than 20 percent of all self-assessed corporate tax returns submitted for 2008 (structural measure for June 2008).

- Introduce Tax Identification Numbers (TIN) for all corporate and individual income taxpayers (structural measure for June 2008).

- Submit to parliament a modified Customs Law that provides valuation guidelines for questionable assessments (structural measure for June 2008).

- Align the budget preparation and execution of the social security fund, government universities, and the student support fund with GFSM 2001 classification (structural measure for November 2008).[2]

[1] Important with respect to the revenue target are expected gains in VAT collection. Performance of VAT will be evaluated during the next IMF review in September.

[2] This would be an important first step toward a consolidated presentation of government budget accounts, as mandated in the Comprehensive Peace Agreement.

- Prepare studies on the impact of removing VAT exemptions on capital goods, while providing for deferral of VAT payment for new businesses, and on the potential revenue impact of raising the VAT registration threshold from the current SD 100,000 to 120,000-150,000.

21. The government is fully aware of the risks associated with oil revenue projections given the volatility of international oil prices, and the uncertainties with respect to production and shipment. Flexibility and frequent review of expenditures and commitments will thus be needed to ensure that the deficit stays at or below the agreed level. Specifically, if oil revenues are lower-than-programmed, we will (to the extent that such resources are available) compensate for the revenue shortfall by drawing from the ORSA, or otherwise reduce spending to maintain the fiscal deficit unchanged. If oil revenues exceed programmed levels (specifically, from Nile blend), the additional useable revenue will be deposited in the ORSA or used to reduce the stock of domestic arrears from 2007.

D. Balance of Payments

22. The external current account deficit (cash basis) is expected to narrow significantly to some 7 percent of GDP, compared with a deficit of 11 percent in 2007. The improvement mirrors a sharp increase in oil exports, as Sudan benefits from the recent, sustained surge in international oil prices. Non-oil exports, however, are unlikely to rise significantly given continued infrastructural bottlenecks, the real effective appreciation of the pound in recent years, and strong domestic demand for agricultural and manufactured goods. Imports are also expected to rise by about 22 percent in dollar terms—mainly in the form of materials and capital goods required for the implementation of large scale projects financed by loans and FDI. Food imports are also expected to register a substantial increase, however, given the recent sharp rise in international commodity prices. With the net increase in foreign exchange inflow generated by the improvement in the current account, we anticipate being able to rebuild net international reserves of the central bank to a level of US$1.5 billion (1.4 months of imports) by the end of 2008. The government will also continue to seek external financing on the most concessional terms possible.

E. Financial Sector

23. We will continue our plans to restructure and strengthen the banking system. An independent audit of Omdurman Bank—consistent with international good practices—has already begun. On the basis of this audit we intend to formulate by end-September a strategy for restructuring and/or privatizing the bank (structural measure). Similarly, we will require remaining problem banks to submit a time-bound action plan to accumulate sufficient provisions to reduce net nonperforming loans and to raise their capital adequacy ratio to meet existing prudential standards (structural measure for June 2008).

V. Relations with the Fund and Other Creditors

24. **External debt issues**. In 2008, Sudan's debt service capacity will be constrained by the burden of implementing the various peace agreements, addressing the damage of the 2007 floods, paying off domestic arrears, rebuilding foreign exchange reserves, and addressing critical poverty and reconstruction requirements. Further shortfalls or delays in donor assistance or a negative shock to oil prices would further limit our capacity to service our obligations. Based on the available data, the end-2007 stock of public and publicly-guaranteed debt is estimated at over US$28 billion in nominal terms, up by about US$8 billion since end-2000. We wish to convey to the international community that Sudan has made every effort at cooperation on policies and payments for more than a decade, and in that context met all the conditions and requirements for debt relief. We remain hopeful that the international community will recognize our track record, accord us equality of treatment, and take concrete action on debt relief for Sudan comparable to that provided to numerous other countries.

25. **External financing**. Sudan continues to suffer from limited access to concessional loans because of the difficulties in resolving our debt and arrears situation. Given our sizeable external debt, we have sought more concessional terms for new loans in recent years. We have had some success in this regard, but some new borrowing is nonconcessional. We are unable to put critical infrastructure, reconstruction, and social development projects on hold indefinitely, however. These projects are an essential component of our strategy to unite the country after the signing of multiple peace agreements. Consequently, we have had to make recourse to non-concessional borrowing in recent years. We are keenly aware of the concern of other creditors regarding this borrowing, and of the risks it may pose over the medium- and long-term. We will therefore seek to limit the contracting or guaranteeing of such obligations as much as possible. For 2008, we will limit such contracting to US$700 million.

26. **Payments to the Fund**. In addition to cooperation with the Fund on matters of economic policy, Sudan's payments to the Fund have exceeded program levels under the SMP, and in this context we achieved a reduction in the stock of external obligations. Payments to the Fund amounted to US$50.6 million in 2007, and the Fund's preferred creditor status will be maintained by ensuring that our payments continue in 2008 to exceed obligations falling due. To demonstrate our continued cooperation, we will make minimum payments of US$50 million in 2008. Further, we intend to move to a monthly payment basis. We would hasten to point out, however, that these payments—while demonstrating our good intentions—are not a solution to Sudan's arrears to the Fund. We appeal to the international community in this context to recognize our accomplishments, act in accordance with the principle of equal treatment, and work toward a rapid resolution of Sudan's debt and arrears problem.

VI. Program Targets and Monitoring

27. The proposed semi-annual quantitative targets for the periods up to end June 2008, and end-December 2008 are set forth in Table 1, and the structural benchmarks are detailed in Table 2. We will closely monitor financial and economic developments in coming months and will implement any measures that may be needed to safeguard macroeconomic stability in consultation with the Fund staff.

28. To ensure the effective monitoring of the program, the relevant ministries, the CBOS, and the Central Bureau of Statistics will compile and share with the Fund staff all economic and financial data necessary, on a timely basis, as specified in the Technical Memorandum of Understanding (TMU) of July 2007 and the attached Addendum to the TMU.

Table 1. Sudan: Quantitative Targets for 2007 and 2008

	2007 1/			2008 1/		
	Dec.			Mar	Jun	Dec.
	Target	Target w/adj.	Prel.	Indic. Target	Target	Target
	(In millions of Sudanese pounds, unless otherwise indicated)					
Central Bank of Sudan net domestic assets (Ceiling) 3/	1,689	599	1,764	215	352	815
Domestic financing of the central government (Ceiling) 3/	3,060	1,973	1,926	127	333	2,346
Reduction in the stock of domestic arrears of the central government (Floor) 1/ 2/ 3/	380		-2,193	0	400	1,156
Net international reserves (in millions of U.S. dollars) (Floor) 3/	-83	458	-403	129	260	519
Contracting or guaranteeing of external nonconcessional debt by the government or the central bank (in millions of U.S. dollars) (Ceiling)	700		145	…	…	700
Payments to the Fund (in millions of U.S. dollars) (Floor)	50		51	12.5	25.0	50
Memorandum items:						
Broad money	4,289		1,843	799	2,621	4,978
Reserve money	1,411		998	144	572	1,607
Net central bank claims on government of Southern Sudan	133		129	0	0	0
Government oil export revenues	6,523		7,610	2,969	5,937	11,874
Of which: Net oil savings account (OSA) accumulation	0		32	164	329	664

Sources: Sudanese authorities; and Fund staff estimates.

1/ Cumulative flow during 2007 and 2008.

2/ Any new domestic arrears incurred during January–June should be cleared by end-June, and those incurred during July–December should be cleared by end-December. Arrears are defined as overdue financial obligations of the central government outstanding for 90 days or more.

3/ Subject to an adjustor (asymmetric) to take account of oil production and/or prices being more than assumed in the program.

Table 2. Status of 2007 Structural Measures Under the SMP

Measures Under the SMP	Objective	Timing 1	Status
1. Ministry of Finance to issue a decree establishing that line ministries cannot undertake commitments without permission of Ministry of Finance.	Expenditure control	July 15, 2007	Met
2a. Provide to Fund staff the stock of domestic debt, including arrears, at end-2006, by type of instrument (loans from BOS, GICs, GMCs, standing orders, guarantees, development sanadats, and securitized arrears (debt extinction sanadats)).	Stop build-up of public debt	June 26, 2007	Met
2b. Establish a centralized domestic debt unit that will compile and monitor on a monthly basis the stock of domestic debt by debt instrument, and on a quarterly basis the stock of domestic arrears (payments due for over 3 months) by debt instrument and provide on a quarterly basis accounting data on expenditure committed and expenditure paid, by main budgetary items and chapters.	Stop build-up of public debt	July 1, 2007	Met pro forma, but was not operational.
3a. Establish a zero-balance Treasury Single Account in line with recommendations of the FAD Public Financial Management mission of October 2006.	Expenditure control	August 15, 2007	Met except for zero balance aspect--due to problems with existing software.
3b. Implement commitment controls that limit expenditures by line ministries to monthly or quarterly cash plans, which reflect likely cash availability rather than budgeted allocations.	Expenditure control	September 1, 2007	Not met
4. Adopt for the 2008 budget the full economic and functional classifications of the GFSM 2001.	Improve budget execution	December 2007	Met
5. Reduce VAT exemptions granted by ministerial decree to achieve an additional SD 15-20 billion in revenue on an annual basis.	Broaden tax base and raise revenue	December 2007	Not met. However, numerous income tax exemptions were eliminated in the 2008 budget.
6. Continue to suspend the granting of any new VAT or income tax exemptions by the Ministry of Finance.	Raise revenue	Continuous	Met
7a. Ministry of Finance to prepare a program to progressively reduce income tax holidays for new investments under the IEA.	Broaden tax base and raise revenue	October 2007	Met/surpassed--exemptions for new investment eliminated.
7b. Recommendations of the program to be incorporated and implemented as part of the 2008 budget.	Broaden tax base and raise revenue.	December 2007	Met
7c. Implement an accelerated depreciation mechanism, and approve a single profit tax rate for implementation in 2009.	Broaden tax base and raise revenue.	December 2007	Met/surpassed--single rate as of Jan. 1, 2008.
7d. Existing exemptions to be grandfathered, but eliminated at the time of expiration (no renewal).	Broaden tax base and raise revenue.	December 2007	Met
8. Implement self-assessment (based on IMF technical assistance recommendations) for business income tax, starting with taxpayers covered under the Large Taxpayer Office (LTO).	Improve tax administration	January 2008	Met
9. Provide to the Fund the 2004 and 2005 financial audits of Sudapet.	Transparency	October 2007	Not met
10. Begin publication on the MOFNE website the following information (one month lag): volume of oil production; total volume of crude oil exports; volume of government oil exports; volume of input to refineries; volume of petroleum product production; import/export of products.	Transparency	December 2007	Partially met--some data not available, other data exceeds lag time by 1-2 months.
11. Begin an audit of Omdurman Bank by a local affiliate of one of the internationally recognized auditing firms. The audit should be consistent with international good practices and following international auditing standards as established by the International Auditing and Assurance Standard Board.	Financial sector soundness	December 2007	Not met.
12. Commercial banks to undertake and submit to central bank well-specified actions plans to achieve full compliance with existing regulations on capitalization and provisioning.	Financial sector soundness	December 2007	Met
13. Remove the central bank floor on cash margins for sight letters of credit (SLC) and import credits.	Current account liberalization.	December 2007	Met

1/ Unless otherwise specified, measures are for end-month.

Table 2 (concluded). Structural Measures for 2008 Under the Staff Monitored Program

Measures Under the SMP	Objective	Timing [1]
1. Operationalize a centralized domestic debt unit that will compile and monitor on a monthly basis the stock of domestic debt by debt instrument, and on a quarterly basis the stock of domestic arrears (payments due for over 3 months) by debt instrument and provide on a quarterly basis accounting data on expenditure committed and expenditure paid, by main budgetary items and chapters.	Expenditure control	**Prior Action**
2. Implement commitment controls that limit expenditures by budget units to monthly or quarterly cash plans, which reflect likely cash availability rather than budgeted allocations.	Expenditure control	**Prior Action**
3. Provide to the Fund a summary of the 2004 and 2005 financial audits of Sudapet.	Transparency	**Prior Action**
4. Begin an audit of Omdurman Bank by a local affiliate of one of the internationally recognized auditing firms. The audit should be consistent with international good practices and following international auditing standards as established by the International Auditing and Assurance Standard Board.	Financial sector soundness	**Prior Action**
5. Prepare and share with IMF staff a risk-based audit strategy providing for comprehensive joint income tax-VAT post audits for not less than 20 percent of all self-assessed corporate tax returns submitted for 2008.	Raise revenue	June 2008
6. Introduce Tax Identification Numbers (TIN) for all corporate and individual income taxpayers.	Raise revenue	June 2008
7. Submit to parliament a modified Customs Law that provides valuation guidelines for questionable assessments.	Raise revenue	June 2008
8. Align the budget preparation and execution of the social security fund, government universities, and the student support fund with GFSM 2001 classification.	Transparency	November 2008
9. Based on results of audit of Omdurman Bank, the government will prepare a restructuring/privatization plan for the bank.	Financial sector soundness	September 2008
10. Central bank to require remaining problem banks to submit a time-bound action plan to accumulate sufficient provisions to reduce net nonperforming loans and to raise the capital adequacy ratio to meet existing prudential standards.	Financial sector soundness	June 2008

1\ Unless otherwise specified, measures are for end-month.

ATTACHMENT II: ADDENDUM TO TECHNICAL MEMORANDUM OF UNDERSTANDING

The Technical Memorandum of Understanding (TMU) of July 27, 2007 remains operational with the following amendments to paragraphs 5 and 9, as well as Table 1.

5. **Net international reserves** (NIR) are total gross non-earmarked official foreign reserve assets on active accounts plus reserve assets of the government of Southern Sudan in the central bank minus official short-term liabilities (i.e., no more than one year maturity). The assets are maintained on accounts with overseas correspondent banks and foreign exchange banknotes in the vaults of the central bank. Short-term liabilities are comprised of the following items: (i) short-term liabilities, as noted in the balance sheet of the Central Bank of Sudan; (ii) IMF deposit accounts; (iii) nonresident deposits; and (iv) (overdrawn) foreign correspondent accounts.

9. **Oil revenue adjustor** (symmetric). The gross programmed government oil revenue from crude oil exports is based on the program's assumptions about oil prices (f.o.b. Port Sudan) and quantities to be exported (see Table below). Accrued revenue is the cumulative government oil revenue inflows based on actual shipments at current international prices (f.o.b. Port Sudan).[3] Accrued government oil revenue in excess of the programmed amounts is deposited in an oil savings account (OSA), a locked sub-account within net credit to the government at the CBOS, or used to clear domestic arrears.

The oil revenue adjustor will work as follows:

- If the accrued government revenue from crude oil exports exceeds the programmed amount (either because of the price and/or volume exceed the programmed levels), then:
  - If deposited in the OSA, the program targets for domestic financing of the budget deficit and NDA will be reduced, and the international reserves target will be increased, by the difference between the accrued and the programmed amounts.
  - If used to reduce domestic arrears, the program target for arrears clearance will be increased by the difference between the accrued and the programmed amounts. The targets for international reserves, domestic financing of the budget, and NDA will remain unchanged.

[3] As compiled monthly by the Ministry of Finance and Economy (MOFNE).

- If the government revenue from crude oil exports falls short of the programmed amount, the program target for international reserves will be reduced by the difference between the programmed and the accrued amounts, and the target for arrears clearance will be reduced by one-half of the difference between the programmed and accrued amounts.

- If within a given quarter the accrued oil revenue that goes to the budget falls below the planned amount (either because of the price and/or volume are less than the programmed levels), appropriate amounts will be withdrawn from the OSA (subject to these resources being available) to ensure that cumulative oil revenues for use in the budget match the cumulative amounts planned in the fiscal program, and the targets for NDA and net credit to government will be increased by the difference between the programmed and accrued amounts. If such resources are not available from the OSA, the government will undertake appropriate expenditure adjustment to ensure that the deficit does not exceed the targeted level of SDG 3,354 million (cash basis) in 2008.

Table 1. Sudan: Government oil revenues from crude exports

		2008				
		Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.	Year Prog.
Nile blend crude (including crude from Block 5A)						
Price (f.o.b. Port Sudan)	US$/barrel	87.5	87.5	87.5	87.5	87.5
Volume exported	Million barrels	9.1	9.2	9.3	9.3	36.9
Export revenue \1	US$ millions	799	801	813	816	3,230
Of which: OSA accumulation	US$ millions	82	82	84	84	332
Dar blend crude						
Price (f.o.b. Port Sudan)	US$/barrel	69.5	69.5	69.5	69.5	69.5
Volume exported	Million barrels	10.3	9.8	9.9	9.9	40.0
Export revenue \1	US$ millions	696	666	671	673	2,707
Of which: OSA accumulation	US$ millions	0.0	0.0	0.0	0.0	0.0
Memo item:						
Revenue from crude exports	US$ millions	1,495	1,468	1,485	1,489	5,937
Revenue from crude exports	SDG millions	2,991	2,935	2,969	2,979	11,874
Of which: programmed OSA accumulation	SDG millions	164	165	167	168	664
Oil export revenue for use in the budget	SDG millions	2,827	2,770	2,802	2,811	11,210

1\ Net of SPC fees.