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March 22, 2021

**Statement by Mr. Bhalla and Mr. Singh on Sudan
(Preliminary)
Executive Board Meeting
March 24, 2021**

1. We thank the staff for their useful and timely update and Ms. Mannathoko and Mr. Ismail for their detailed statement. We also recognize that economic conditions remain extremely challenging and the political environment is yet fragile. It is, however, encouraging that the government has moved forward on important structural reforms, and more importantly the new cabinet's endorsement of the reforms. We commend the authorities for their bold reform measures amid the pandemic, including exchange rate unification, removal of fuel subsidies, tax measures, and increase in electricity tariffs, which will go a long way in building fiscal buffers.
2. It is reassuring that the macroeconomic and structural policies under the Staff Monitored Program (SMP), as revised in the context of the first review, remain consistent with UCT quality. It needs to be recognized that breach of the benchmarks on the Central Bank of Sudan's NDA and NIR reflects the sale of monetary gold and purchase of foreign exchange to fund the payment to the victims of terrorist attacks (related to the USS Cole), which contributed to a significant increase in the money supply, inflation and exchange rate depreciation. Thus, it is clear that the country missed the benchmarks due to unusual obligations it faced while the country was already reeling under the forex liquidity crunch. Further, we have to acknowledge the harsh reality that the reform-led short-term economic hardships due to the removal of subsidies have led to an increase in protests, which may turn the biggest risk to the programme.
3. Though only one of the 6 structural benchmarks was met, significant progress was made on the remaining measures, which needs to be appreciated because structural reforms are difficult to implement during the pandemic and Sudan may not be an exception. We would encourage the authorities to update the full list of SOEs as soon as possible while ascertaining the ownership of certain SOEs owned by the security sector. We also

underscore the urgency to strengthen AML/CFT regime to establish/restore the correspondent banking relationships

4. While recognizing that Sudan has one of the lowest tax revenue-to-GDP ratios in the world, whether a more progressive income tax and increase in VAT rates have been accompanied by improved tax administration, which is vital to avoid leakages. Further, it may be important to evaluate if the increase in the elevated VAT rate for the telecommunications sectors from 25 to 40 percent, would have an adverse input cost effect for the user sectors, given that telecom is a key infrastructure sector.
5. Regarding the progress towards the Decision Point under the Enhanced HIPC Initiative, we agree with the staff view that the authorities must continue to demonstrate strong performance under the SMP, including improved quantitative performance to establish a satisfactory track record; reach out to creditors to reconcile the end-2020 debt stock; and adopt a poverty reduction strategy. It is equally important that financing assurances for HIPC debt relief must be received from creditors.
6. We also urge the authorities to avoid making selective payments to other creditors. Keeping in view Sudan's continued cooperation on policies and payments with the Fund, we support the staff proposal that no new remedial measures are needed at this time.
7. We are encouraged to know that the staff considers that the SMP entails forward-looking policy commitments and conditionality of UCT quality and we endorse the views of the staff.