

**EXECUTIVE  
BOARD  
MEETING**

EBS/23/15

February 21, 2023

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Republic of South Sudan—Third Review Under the Staff-Monitored Program, Request for Disbursement Under the Rapid Credit Facility, and Program Monitoring with Board Involvement**

Board Action:	Executive Directors' <b>consideration</b> (Formal)
Tentative Board Date:	<b>Wednesday, March 1, 2023</b>
Proposed Decision:	Page 20
Publication:	Yes*
Questions:	Mr. Hobdari, AFR (ext. 36276) Mr. Zymek, AFR (ext. 38045) Mr. Yamada, AFR (ext. 36040) Mr. Alfi, AFR (ext. 39732)
Document Transmittal in the Absence of an Objection and in accordance with Board policy:	After Board Consideration—World Trade Organization

\*The authorities have indicated that they consent to the Fund's publication of this paper.





# REPUBLIC OF SOUTH SUDAN

## THIRD REVIEW UNDER THE STAFF-MONITORED PROGRAM, REQUEST FOR DISBURSEMENT UNDER THE RAPID CREDIT FACILITY, AND PROGRAM MONITORING WITH BOARD INVOLVEMENT

February 21, 2023

### EXECUTIVE SUMMARY

**Dire and deteriorating humanitarian situation.** About two-thirds of South Sudan's population is experiencing severe food insecurity, the highest level since independence. This is a result of multiple compounding factors, including severe multi-year floods due to climate shocks, inter-communal violence in parts of the country, and the impact of Russia's war in Ukraine that is contributing to high global food and fuel prices.

**Mixed record of reform implementation.** Significant reforms have been introduced since the start of the Staff-Monitored Program (SMP) in March 2021, including the unification of the official and parallel exchange rates and increased transparency of oil revenue and government operations. Fiscal pressures, however, led to the temporary resumption of overdrafts from the central bank and a return to the use of oil advances to finance the budget during the final quarter of FY2021/22, causing several quantitative targets for the third SMP review to be missed. The authorities have taken corrective steps in recent months to restore fiscal discipline and rein in money growth, which has stabilized the exchange rate and domestic prices.

**Request for Rapid Credit Facility and Staff-Monitored Program with Board Involvement.** The authorities have requested a disbursement of 35 percent of quota (SDR 86.1 million or about US\$115.7 million) through the Food Shock Window (FSW) of the Rapid Credit Facility (RCF) to address urgent balance-of-payments needs, partly arising from the global food shock. The authorities plan to channel part of the FSW disbursement via the World Food Programme (WFP) and International Organization of Migration (IOM) making use of their systems to provide immediate humanitarian assistance to address food insecurity. To help guide their reform agenda aimed at maintaining macroeconomic stability and debt sustainability and improving governance and transparency, the authorities have also requested completion of the existing SMP and a new nine-month Staff Program Monitoring with Board Involvement (PMB) to lay the ground for an eventual Extended Credit Facility.

**Staff's view.** Staff supports the authorities' request for the RCF given the urgent nature of the BOP need and based on strong policy commitments under the PMB articulated in the attached Memorandum of Economic and Financial Policies. South Sudan has adequate capacity to repay the Fund, but subject to risks. The main downside risk to the program, although with low probability, is a potential return to full-scale civil conflict due to the very difficult humanitarian conditions. A fall in oil prices or a prolonged slump in oil production are additional downside risks. On the upside, peace dividends could prove higher than expected.

Approved By  
**Catherine Pattillo**  
**(AFR) and Guillaume**  
**Chabert (SPR)**

An IMF team conducted a hybrid mission during November 7–17, 2022. The mission team visiting Juba in person comprised Mr. Hobdari (head), Mr. Alfi, Ms. Muehlschlegel, Mr. Zymek (all AFR), Mr. Jenkinson (Resident Representative, Juba Office), Mr. Chany (Local Economist, Juba Office), and Mr. Garang (Senior Advisor, OED). Mr. Atashbar (SPR), Ms. Ferrero, and Mr. Yamada (both AFR) participated in the mission remotely from headquarters. The team met with Minister of Finance and Planning Mr. Dier Tong Ngor, Bank of South Sudan Governor Mr. Johnny Ohisa Damian, and other high-level government officials. Staff also had productive discussions with representatives of the donor and business communities. Mr. Fernando Morán Arce and Ms. Mireille Nsanzimana (both AFR) contributed to the preparation of this report.

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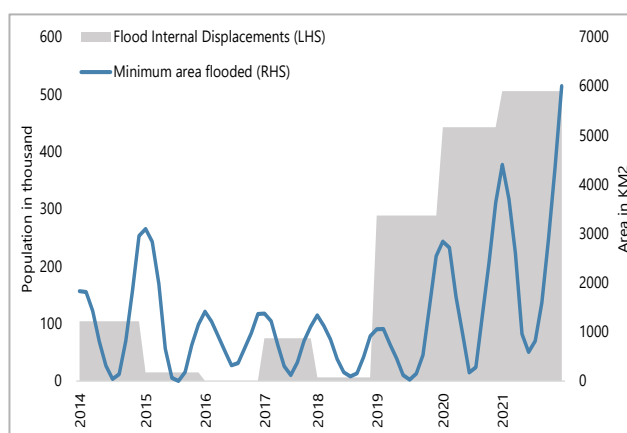
## CONTEXT

**1. South Sudan's peace process remains incomplete and, owing to delays in the implementation of key milestones, the parties in the unity government have proposed a two-year extension of the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS).** The presidential and parliamentary elections are now expected to take place at the end of 2024, and a revised road map of key milestones has been agreed, including in relation to economic and public financial management (PFM) reforms envisaged in Chapter IV of the agreement. The international partners have urged the authorities to implement in a timely manner the steps envisaged in the revised road map.

**2. Four consecutive years of intense flooding and the fallout from Russia's war in Ukraine have exacerbated an already-dire humanitarian situation.**

Average flooding levels and the number of flood-related displacements have been large by historical standards, and increasing, since 2019 (Text Figure 1). In 2022, the floods are estimated to have affected nearly 1 million people by end-September and destroyed livestock, crops, roads, schools, and health facilities in 8 out of 10 states in the country. Flooding and increased inter-communal violence, particularly in Upper Nile, have led to a rise in the number of internally displaced people to 2.2 million (in addition to 2.3 million refugees in neighboring countries). The combination of insecurity, flooding, and rising prices of staples has resulted in deteriorating food security with about 8.3 million people (about two-thirds of the population) experiencing acute food insecurity.<sup>1</sup>

**Text Figure 1. Republic of South Sudan: Flooded Area and Flood-Related Internal Displacements**



Sources: NASA, Internal Displacements Monitoring Centre, and IMF staff calculations

**3. Important economic reforms were introduced since the start of the SMP in March 2021, although the performance has been mixed in recent months.** Initial reforms included the liberalization of the FX market and unification of the official and parallel market exchange rates since August 2021, eliminating a premium of over 200 percent between the official and parallel market exchange rate at the beginning of the SMP. In addition, all domestic salary arrears that stood at 5 months in January 2021 have now been cleared, and the authorities have introduced revenue and customs administration reforms that have resulted in a real-term increase in non-oil revenue collection by 74 percent between FY2021/22 and FY2020/21. However, there have been delays in the implementation of public financial management reforms and the authorities resorted to temporary

<sup>1</sup> See [WFP Country Brief for Republic of South Sudan, September 2022](#).

resumption of overdrafts from the central bank and a return to the use of oil advances to finance the budget during the final quarter of FY2021/22. The authorities have taken corrective steps in recent months to restore fiscal discipline and rein in money growth, which has stabilized the exchange rate and domestic prices (see ¶18 for details).

**4. The authorities have requested a Rapid Credit Facility (RCF) disbursement through the new Food Shock Window (FSW) to address urgent BOP needs and a nine-month Staff Program Monitoring with Board involvement (PMB) to establish a policy track record toward a Fund-supported program.** The pressing need to raise social and development spending, including to address food insecurity, the burden imposed by highly non-concessional past borrowing, and the imperative to raise reserves from their current low levels all contribute to urgent BOP needs. An FSW disbursement would help prevent imminent economic disruption. However, South Sudan faces considerable economic development and reform challenges that can only be overcome through sustained efforts by the authorities in collaboration with their development partners (Annex I). In view of the country's protracted BOP needs, the authorities have also requested a nine-month PMB to establish a policy track record towards an Extended Credit Facility (ECF).

## RECENT ECONOMIC DEVELOPMENTS

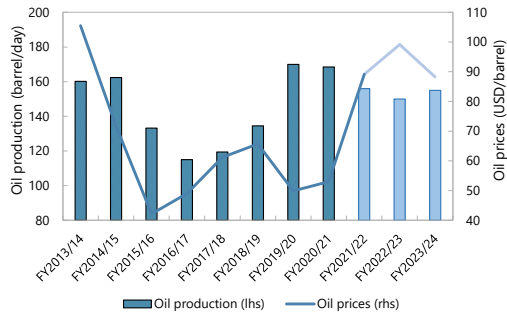
**5. The economy has experienced consecutive years of negative growth as the COVID-19 pandemic and flooding have hampered oil and agricultural production (Text Figure 2 and Table 1).** After reaching 170 thousand barrels/day (bpd) in FY2019/20, oil production has been on a downward path and is expected to average 150 thousand bpd in FY2022/23. Despite some peace dividends, agricultural production has been stagnant and below its pre-civil war peak, in large part due to the damage from recent devastating floods. The decrease in oil and agricultural production led to an estimated drop in real GDP by 2.9 percent in FY2021/22.

**6. Fiscal pressures proved greater than anticipated in the authorities' FY2021/22 budget, offsetting the gains from higher revenues and leading to policy slippages.** Higher oil prices increased oil revenues in FY2021/22 from SSP 544 billion in the budget to an estimated SSP 853 billion (27 percent of GDP), more than offsetting the decline in oil production. With non-oil revenues at SSP 83 billion (3 percent of GDP) also outperforming the SSP 58 billion anticipated in the budget, total revenues are estimated to have exceeded the budget by over 55 percent (Table 2). However, expenditure outturns exceeded the budget by a similar magnitude. This is partly due to an increase in peace-related spending, such as salaries for parliamentarians in the National Assembly that was constituted in August 2021 and operational expenses arising from the unification of armed forces, which caused an above-trend growth in expenditure during the year. The large growth in operational expenses, however, is not expected to persist in future years due to the ad-hoc nature of these expenses and their relation to the peace agreement that is expected to be completed in 2024. Moreover, significant transfers to Sudan continued despite the end of the Transitional Financial

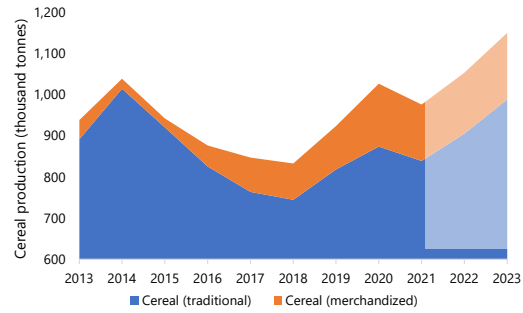
Arrangement (TFA),<sup>2</sup> while oil resources earmarked for capital spending doubled to 20,000 bpd during the second half of the financial year. Together with large principal repayments, this created sizeable unanticipated financing needs, causing the authorities to resort to oil advances and monetary financing in the second half of FY2021/22.

**Text Figure 2. Republic of South Sudan: Recent Economic Developments**

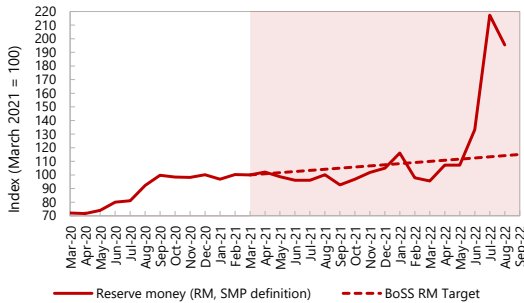
*Despite higher oil prices, oil production declined further with a recovery only expected from FY2023/24...*



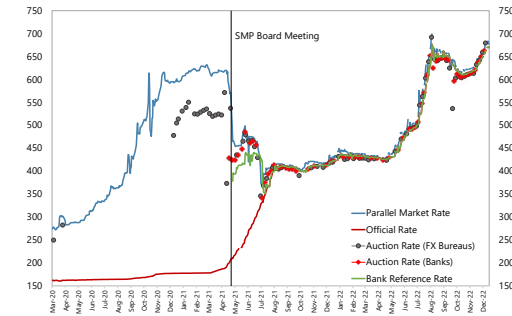
*...while agricultural production remains below pre-conflict levels.*



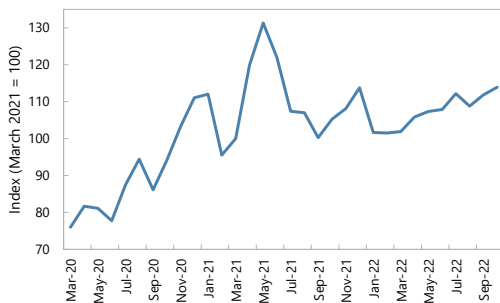
*After remaining steady since mid-2020, reserve money increased by 72 percent between April and July 2022...*



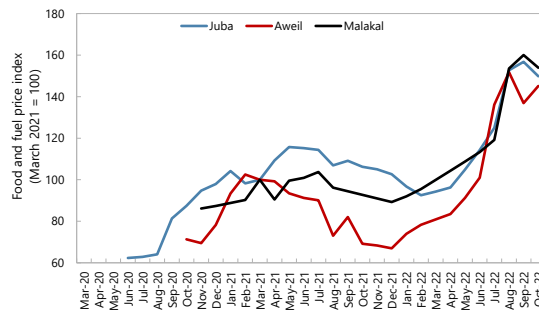
*...triggering a depreciation of the SSP. However, the parallel and official exchange rates remain unified.*



*Juba CPI inflation accelerated from April...*



*...with food and fuel price inflation increasing sharply across different local markets.*



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

<sup>2</sup> Negotiations about the terms of South Sudan’s usage of Sudan’s oil pipelines are ongoing. Absent further information, staff assumes that transfers to Sudan continue at a rate of 22,000 bpd over the medium term, with the excess value of these transfers over the value of contractually agreed oil transit fees accumulating as a debt by Sudan. As of the end of FY2021/22 the cumulative debt by Sudan amounted to US\$300 million (4 percent of South Sudan’s GDP) and would increase by about US\$500 million per year at current oil prices until agreement is reached.

**7. The growth in reserve money in the wake of resumed monetary financing led to a sharp depreciation of the exchange rate, which has offset the disinflationary benefit of moderating global food prices since April.** After remaining significantly below the 10 percent annual growth target of the Bank of South Sudan (BoSS) for most of the period since March 2021, reserve money increased by about 72 percent between April and July 2022. This large monetary expansion triggered a 50 percent depreciation of SSP, consistent with the close relationship between reserve money and the exchange rate in South Sudan (Annex II). Historical evidence suggests that changes in the value of the SSP fully pass through into domestic food prices within 6 months.<sup>3</sup> Consistent with this, CPI inflation has accelerated since April, and food and fuel prices in Juba and other cities have registered sharp increases, reflecting both the exchange rate depreciation and the lagged effect of the initial rise in global food prices in Spring 2022.

**8. Performance against the quantitative targets for the third review of the SMP has been mixed.** While the floors on arrears clearance and reserve accumulation for end-August 2022 were met, the ceilings on the central government cash deficit, borrowing from the central bank, reserve money growth and contracting of sovereign guarantees or non-concessional external loans were missed (Table 5a). This reflects the temporary resumption of overdrafts from BoSS, which had previously not been used since September 2020, and a return to the use of oil advances for bridge financing of the budget.<sup>4</sup> Under new leadership since August 2022, the Ministry of Finance and Planning (MoFP) and the BoSS have taken steps to reverse these setbacks, including the implementation of more stringent cash management practices and the cessation of monetary financing. The latter has stabilized the exchange rate in the market in recent months. Further corrective actions are envisaged as part of the proposed PMB.

**9. The authorities have met one structural benchmark (SB) for the third review and implemented the other three with a delay (Table 6).** The BoSS has signed an MoU with the Auditor General to facilitate the appointment of an international external audit firm for the audits of the BoSS financial statements from CY2022 onwards. The MoFP has published on its website the Auditor General's report on the spending out of the April 2021 RCF disbursement and has published budget implementation reports for FY2020/21 and FY2021/22 and for Q1 of FY2022/23. An international auditor completed in December 2022 a stock take of all of South Sudan's outstanding external loan agreements and the report has been published by the authorities as prior action for the RCF and PMB.

## OUTLOOK AND RISKS

**10. The short-term outlook is for continued robust non-oil growth but declining oil production and high inflation, with the oil sector recovering and inflation declining over the**

<sup>3</sup> See Box 1 in [IMF Country Report No. 22/266. Republic of South Sudan 2022 Article IV Consultation and Second Review Under the Staff-Monitored Program](#).

<sup>4</sup> In addition to the oil pre-sales to the National Investment and Development Bank, there have been two other oil pre-sale advances to the Eastern and Southern African Trade Development Bank and to EuroAmerican Reconciliation of these instruments have recently come to light, and reconciliation of these instruments is still in progress.

**medium-term contingent on supportive macroeconomic policies (Tables 1–4).** Real GDP is projected to stagnate with a growth rate of -0.4 percent in FY2022/23. As flooding recedes, oil production is expected to recover from FY2023/24, and the main engine of the economy is projected to shift gradually from oil to agricultural production over time. South Sudan’s highly favorable natural endowments leave ample scope for agricultural productivity growth as domestic security conditions improve.<sup>5</sup> Average inflation is expected to rise to 16.5 percent in FY2022/23 mainly due to the recent SSP depreciation, and gradually decline to single digits on the assumption that the restoration of prudent money growth proves lasting.

**11. Sizeable medium-term BOP gaps remain.** This reflects several factors, including social and development spending needs, debt service obligations on a large stock of non-concessional external debts, and the need to raise reserves from their current low level of below one month of imports, against a background of a projected decline of oil prices and a downward trend for international aid. While aid was temporarily bolstered in recent years, in the face of the Covid-19 pandemic and the fallout from the war in Ukraine, it is ultimately expected to resume its secular decline from very high levels. The value of exports, after peaking in FY2021/22 and FY2022/23 thanks to high oil prices, is projected to decline gradually thereafter. In addition, continued transfers to Sudan in excess of transit fees, while improving the current account balance, constrain the government’s fiscal space and the resources available to support imports. BOP gaps above 2 percent per year are projected over the medium term (Table 4).<sup>6</sup>

**12. Risks to the outlook are on the downside (Annex III).** Debt is assessed as sustainable but at high risk of unsustainable dynamics. This assessment is contingent on the current assumptions about fiscal consolidation, oil revenues, and GDP growth. The assumptions reflect data from the authorities, a debt stocktake performed by an external auditor, and staff projections, and result in a large decrease in the debt-to-GDP ratio over the next 20 years. The scenario is also underpinned by a supportive package of economic policies and reforms agreed under the proposed PMB. However, the risks to this outlook are largely on the downside. The main downside risk, although with low probability, is a potential return to full-scale civil conflict. A recent surge in violence in Upper Nile State illustrates that the peace process is fragile and could unravel. A fall in oil prices or a prolonged slump in oil production could lead to a shortfall of public revenue and trigger policy slippages, while the discovery of undisclosed government liabilities could render debt unsustainable.<sup>7</sup> South Sudan also remains highly exposed to climate shocks.

<sup>5</sup> See [Special Report of the 2021 FAO/WFP Crop and Food Security Assessment Mission to Republic of South Sudan](#).

<sup>6</sup> The World Bank provides grants to South Sudan but given the high risk of debt distress rating no concessional financing is expected from MDBs. Continued engagement with the Fund through a PMB is expected to affect positively donor confidence.

<sup>7</sup> The risk of the discovery of additional unknown government liabilities has been mitigated by the conclusion of a debt stocktake by an external independent auditor whose findings have been submitted to the MoFP and will be published as a prior action for the RCF and PMB.

## PROGRAM MONITORING WITH BOARD INVOLVEMENT

**13. The authorities and staff agreed on macroeconomic policies and reforms underpinning a 9-month PMB.** A package of measures underpinning the PMB will (i) safeguard macroeconomic stability to foster strong and inclusive growth through fiscal policies that maintain debt sustainability while enhancing social spending, a monetary policy that grows the money supply predictably and facilitates the accumulation of FX reserves, and financial policies that address the long-standing undercapitalization of domestic banks; and (ii) improve transparency and economic governance through a number of measures. Capacity development from the Fund and other development partners will guide the implementation of the policies and reforms underpinning the PMB.

### A. Fiscal Policy for Sustainable and Inclusive Growth

**14. Maintaining public debt sustainability will guide fiscal policy under the PMB.** Targeting debt sustainability is appropriate for the time being, until the authorities are ready to adopt a more fully-fledged fiscal anchor in line with practice of other resource-rich countries (Annex IV). To keep debt on a sustainable path without recourse to monetary financing or the accumulation of new arrears, the authorities will need to close a significant fiscal financing gap in FY2022/23. Staff analysis of the budget approved by Parliament implies a projected surplus of about 3 percent of GDP. However, debt amortization is projected to be 5 percent of GDP and, absent a new settlement with Sudan, South Sudan will continue to build credit with Sudan for deliveries of crude oil in excess of transit fees. After accounting for the borrowing from the BoSS to clear expenditure arrears in July-August 2022 and the projected FSW disbursement discussed in ¶29, staff estimates a fiscal financing gap of about 2.9 percent of GDP in FY2022/23. To help close this gap without recourse to monetary financing, the authorities are weighing several different measures (MEFP ¶19) while limiting spending authorizations to available cash from oil and non-oil revenue (see ¶17 below):

- Increasing revenues.** There is significant scope to increase non-oil revenues, which are currently well below the level in peer countries.<sup>8</sup> The ongoing revenue and customs administration reforms—which includes an e-tax system that provides a portal for online registration, filing, and payment – should continue to increase non-oil revenue collection. The authorities are exploring additional avenues for raising revenues, primarily from customs, including: (i) gradually adjusting upwards the exchange rate used for assessing the customs value of imported goods from the current rate of 90 SSP/US\$ (compared to over 700 SSP/US\$ currently prevailing in the market); (ii) increasing the custom duty rates for some products to align tariffs with the rates prevailing in the East African Community, of which South Sudan is a member; (iii) reviewing tax exemptions at the discretion of MoFP, which currently amount to a reported 20 percent of gross customs revenues on average (0.1 percent of GDP); and (iv) expanding further the digitalization of the tax system. The pace of these measures will need to be carefully balanced against their potential inflationary impact. For example, staff estimates suggest that raising the customs exchange rate to 200 SSP/US\$ would create up to SSP 1.9 billion in additional revenues per month (or about

<sup>8</sup> See [IMF Country Report No. 21/70](#).

0.5 percent of GDP on an annual basis) but would also raise inflation by 4 percentage points within two quarters.

- **Reducing expenditures.** There is scope to reduce planned expenditures, primarily by reducing the amount of crude oil allocated to the oil-for-infrastructure scheme and cutting back on planned savings in the Future Generation Fund and the Oil Stabilization Fund. Cutting the oil-for-infrastructure allocation from 20,000 barrels to 15,000 barrels per day would free up SSP108.6 billion (2.1 percent of GDP). In addition, the authorities are seeking intermediation from international partners to reach agreement with Sudan both on receiving payment for credits accumulated for the delivery of oil in excess of transit fees following the completion of the TFA, and on an equitable oil transit arrangement going forward. The possibility of a new agreement on transit arrangements with Sudan represents a possible fiscal upside relative to baseline projections.

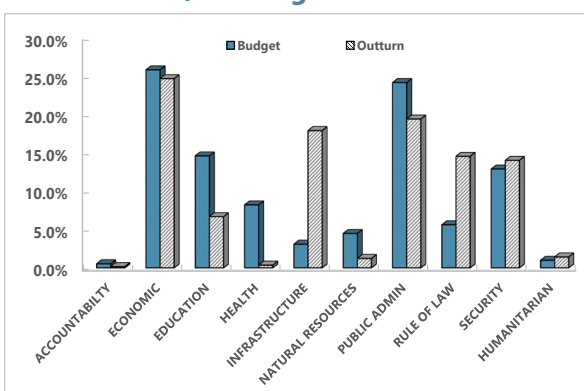
**15. Social spending will be ringfenced.** Spending on health, education, and social and

humanitarian aid was low at an average of 3.4 percent of GDP during FY2018/19–FY2021/22. Moreover, budget outturns show that the already-low levels of budgeted social spending tend to be crowded out by overspending in other sectors (Text Figure 3). As a result, South Sudan’s population relies primarily on off-budget support from international donors for the provision of basic nutrition and healthcare needs.<sup>9</sup> The PMB sets a floor for priority social spending, defined as spending by the health, education, and social and humanitarian sectors as a quantitative target (Table 5b), to ensure that funds

dedicated to these critical sectors in the budget remain ringfenced. In addition, the authorities have committed to channel US\$20 million of the FSW disbursement to the WFP and IOM to address food insecurity. The remainder of the part that is proposed to go to the budget (see ¶29 below) will be used predominantly to finance spending by the Ministry of General Education and Instruction and the Ministry of Health, in line with the allocations made in the FY2022/23 budget (LOI ¶4).

**16. The authorities are exploring options to increase public salaries sustainably.** Salaries for government employees have been one of the few poverty-reducing instruments at the authorities’ disposal. However, public salaries remain very low by regional standards<sup>10</sup> and their purchasing power will be eroded further by double-digit inflation in FY2022/23. The authorities are deliberating

**Text Figure 3. Republic of South Sudan: FY2021/22 Budget and Outturns**



Sources: South Sudanese authorities, and IMF staff calculations.

<sup>9</sup> The reported value of off-budget international donor support amounted to US\$1.4 billion (about 25 percent of GDP) in FY2021/22 ([UNORCHA, October 2022](#)), and is expected to remain at similar levels in FY2022/23.

<sup>10</sup> See [IMF Country Report No. 2021/246](#).

a strategy to raise public salaries in a deficit-neutral manner so as not to increase the fiscal financing gap (MEFP ¶19), a strategy that is supported by IMF staff.

**17. To avoid the recurrence of salary and other expenditure arrears, cash management is being strengthened.** The authorities have cleared all domestic salary arrears as of end-August 2022 and reduced foreign-currency salary arrears to 24 months with a plan to clear a further 6 months of foreign-currency arrears in FY2022/23. The PMB sets a floor on salary payments to central government workers, to establish timely salary payments as a key cash management priority. To avoid the recurrence of arrears or the need for expensive short-term borrowing, the authorities are taking steps to minimize unexpected mismatches between spending needs and cash availability. To that end, the Cash Management Unit (CMU) has started to prepare monthly cash plans with TA from AFRITAC East, which are being used by the Cash Management Committee (CMC) to guide spending authorizations in line with budget allocations. Moreover, line ministries are being given responsibility for the execution of their budget allocations, to mitigate the risk of overspending by individual sectors relative to their allocations (MEFP ¶116) and, with TA from AFRITAC East, the MoFP and BoSS are collaborating to progress the creation of a Treasury Single Account (TSA).

**18. Monitoring of public investment spending is being improved.** Public investment accounted for one-third of spending in FY2021/22, up slightly relative to the outcome in FY2020/21. Although South Sudan's infrastructure requires significant further investment, the authorities' readiness to consider curbs in investment spending in FY2022/23 is welcome in light of competing spending needs, including on health, education, social assistance and public salaries. Moreover, the oil-for-infrastructure project is being moved from the Office of Presidential Affairs to the Ministry of Roads and Bridges to facilitate greater oversight as part of the budgetary process. The authorities are also taking steps to operationalize the Public Procurement and Disposal Authority (PPDA) including the appointment of its Board of Directors as a prior action for the RCF and PMB (MEFP ¶117). The appointment of the PPDA Board will allow it to adopt the Public Procurement Regulations and Standard Procurement Documents, which have been prepared with World Bank assistance.

**19. The authorities have renewed their commitment to refrain from contracting non-concessional external borrowing or expensive oil advances and are receiving Fund TA to strengthen the governance and institutional framework for debt management.** Although the Constitution and the Public Finance Management Act require that all external borrowing is approved by Parliament, no formal procedure for borrowing or debt monitoring, recording, and reporting exists. The Loan Committee at the MoFP does not have power to approve nor monitor new debt contracts and the newly established Debt Management Unit is not fully operationalized. A multi-part FAD-MCM TA on debt management and strategy is underway to assess the weaknesses of the current debt management framework and provide recommendations to address them. The development of a time-bound action plan to strengthen the institutional framework for debt issuance and management and formulate a debt management strategy has been set as a structural benchmark for the first review of the PMB (MEFP ¶118 and Table 6). Financing needs should be addressed through fiscal consolidation, the development of a domestic market, and concessional borrowing. Consistent with the commitments under the PMB, non-concessional loans should only

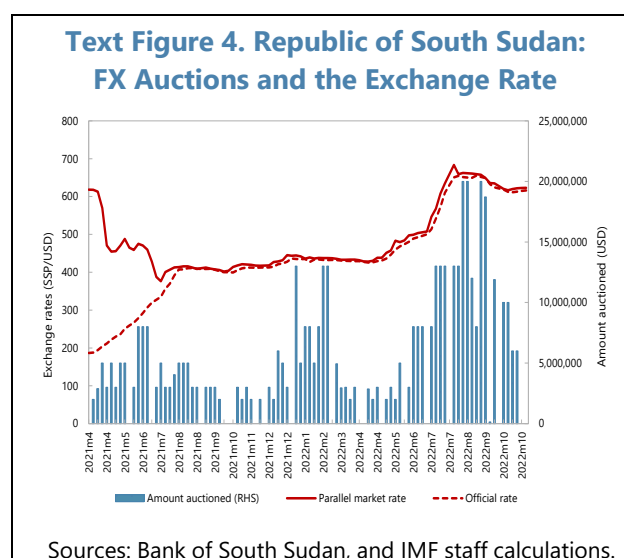
be considered for cases linked either to debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating, or for financing of critical investment projects with a high social and economic return integral to the authorities' national development program or for critical health or social spending and for which concessional financing is not available. The attached DSA shows the debt dynamics under a worst-case-scenario of covering the projected financing gaps mostly through non-concessional borrowing for the two cases allowed under the PMB.

## B. Enhancing Monetary and Financial Stability

**20. The authorities have arrested the recent sharp rise in reserve money and are taking steps to operationalize the reserve money targeting framework (MEFP 111).** Under the BoSS reserve money target, annual reserve money growth will be held below 10 percent, with a view to bringing inflation sustainably into single digits. The BoSS is tracking reserve money growth and other monetary indicators closely and providing regular presentations to BoSS leadership to inform monetary policy decisions. This is expected to be complemented in due course by liquidity forecasts compiled by the joint BoSS-MoFP Liquidity Working Group that is now being operationalized. Both should allow BoSS to respond more actively to changes in money-market conditions.

**21. The successful rollout of a term deposit facility (TDF) marks a significant step towards expanding the monetary toolkit at the disposal of the BoSS.** Starting in September 2022 the BoSS has used this facility with 14-day and 28-day maturities and has managed to mop up about SSP 23.7 billion as of end-November 2022, at average annualized interest rates of below 10 percent. The uptake by banks suggests that private-sector confidence in the authorities' macroeconomic management is improving, and there appears to be significant interest in expanding the range of maturities under the TDF. If the BoSS can lay the grounds for successful auctions at 90-day and 180-day maturities, the TDF could emerge as a viable tool of liquidity management alongside FX auctions. It would also pave the way for the re-introduction of treasury bills as a possible source of domestic financing.

**22. FX auctions are continuing, but at reduced volumes reflecting improved FX liquidity in the market and a prudent management of SSP liquidity by the BoSS.** FX auctions will continue to serve as a valuable aid to price discovery in the FX market, but the BoSS has begun to scale back auctions volumes from the highs reached during the summer of 2022 (Text Figure 4) and is contemplating further reductions in light of improved FX liquidity. This should make it easier for the BoSS to grow its buffer of FX reserves. South Sudan's heavy reliance on oil exports make the country highly susceptible to oil price shocks,



against which the current level of gross international reserves, at below one month of imports, does not provide adequate protection. To increase economic resilience, the authorities have designated about 63 percent of the proposed RCF disbursement to bolster BoSS reserves (LOI ¶14).

**23. Over the coming months, the BoSS will lay out plans to address the undercapitalization of the domestic banking sector (MEFP ¶12).** Several licensed commercial banks, accounting for 6 percent of system assets and 12 percent of deposits, appear to be undercapitalized. While such undercapitalization is not a systemic issue, it hampers financial development and thereby the capacity of South Sudan’s banking sector to support economic growth and development. As a first step towards resolving this longstanding issue, the BoSS has revoked the licenses of 2 inactive domestic banks that had never commenced operations. It is also reviewing the licenses of inactive banks that are critically undercapitalized and have ceased operations. By June 2023, the BoSS Board will approve a time-bound strategy for addressing banking sector undercapitalization as one of the SBs of the PMB. The BoSS will proceed to enforce the publication of audited financial statements by all commercial banks operating in South Sudan and, to enhance transparency, it has also commenced the regular publication of quarterly Financial Soundness Indicators (FSI) for South Sudan’s banking sector on its website.

### C. Strengthening PFM and Governance

**24. In recent months, the authorities have made notable progress in improving transparency about the extent and uses of public revenues and will build on this during the PMB.** Budget execution reports for, FY2020/21, FY2021/22 and the first quarter of FY2022/23 have recently been published, and annual Petroleum Reports through FY2020/21 are now available from the Ministry of Petroleum’s (MoP) website. In addition, as noted above, the report of a stock takes of South Sudan’s external debts and guarantees conducted by an international auditor has been published as prior action for the RCF and PMB. These documents provide a fairly comprehensive overview of South Sudan’s recent public revenues and expenditures (e.g., oil revenues, oil lifting for each oil type, non-oil revenues, actual spending by sector and agency), as well as its external obligations (e.g., reconciliation of amount disbursed, amount repaid, interest payment, and outstanding balance by creditor). Going forward, the authorities have committed to release budget execution reports including on spending under the on oil-for-infrastructure scheme (MEFP ¶16), in line with the timeframe stipulated by Parliament, and to publish quarterly debt reports on the MoFP website. The authorities have also committed to commence the publication of quarterly oil reports which includes reconciliation of oil output and revenues by June 2023 as a SB under the PMB, and the revised R-ARCSS Road Map envisages the submission of membership application to the Extractive Industries Transparency Initiative (EITI) by end-February 2023 (MEFP ¶14).

**25. With the help of Fund TA, the authorities will improve the process of assessment, approval and contracting of external loans and guarantees (MEFP ¶18).** The debt stocktake performed by the international auditor broadly confirms the external debt report published by the authorities in mid-2022. While the international auditor stocktake is a one-time exercise, Fund TA is supporting the strengthening of debt management within the MoFP, with the recommendation that authorities perform and publish an internal stocktake quarterly. This has been identified as a short-

term recommendation by the Fund TA, with implementation by June 2023. However, it has brought to light that the BoSS has on its books outstanding sovereign guarantees, issued mostly in favor of domestic firms, worth US\$450 million in total. While the authorities believe these guarantees are unlikely to be called before they expire, their existence highlights a loophole in the BoSS Act, whereby the BoSS can issue sovereign guarantees outside the regular budgetary process that may expose the government to sizeable contingent fiscal liabilities. The authorities have now tabled as a prior action a proposed package of changes to the BoSS Act with the Constitutional Review Committee, including an amendment that removes the ability of the BoSS to issue guarantees, and the adoption by the National Assembly of these amendments will be a structural benchmark for the first review of the PMB (Table 6). The list of remaining valid guarantees issued by BoSS is being reviewed by the Council of Ministers, with a view to rescind any guarantees that do not serve a well-specified development purpose or present unacceptable contingent fiscal liabilities. Going forward, sovereign guarantees should be issued under strictly limited conditions and—like other public borrowing—will be proposed by the Loan Committee and require approval by the Council of Ministers and Parliament. In cooperation with an ongoing IMF TA mission on debt management, as a structural benchmark for the PMB (Table 6) the authorities will develop and adopt by end-March 2023 an action plan to strengthen the institutional framework for debt issuance and management and formulate a debt management strategy.

**26. The authorities are working to address the findings of the Auditor General’s (AG) audits of the two previous RCF disbursements, which have now both been published.** The audit of the second RCF concludes that 29 percent of spending financed by this RCF disbursement was “non-compliant” for various reasons, including lack of adequate supporting documentation.<sup>11</sup> In coordination with the AG office, the authorities have developed, as a prior action, an action plan (MEFP ¶15) to provide the missing documentation and also to implement the main recommendations of the AG reports, including (i) the gradual rollout of payment of salaries for all central government employees through commercial banks by end-June 2023; and (ii) commencing the process of issuing biometric identifications to all central government employees with technical support from the World Bank.

**27. The BoSS has committed to expediting the implementation of recommendations from the 2021 Safeguard Assessment.** The audited financial statement for 2021 are being finalized by the external auditor and will be published shortly, and the BoSS signed a Memorandum of Understanding with the AG’s office to ensure the appointment of a reputable international audit firm to audit BoSS financial statements from CY2022 onwards. Nevertheless, the implementation of the safeguards assessment recommendations has been slow so far and the BoSS internal control environment, including governance arrangements, remains weak. By end-March 2023, the BoSS will adopt key remaining safeguards recommendations, including a strengthening of currency operations and the co-sourcing of internal audit activities (MEFP ¶19). In this context, the authorities

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<sup>11</sup> This is similar to the findings of the audit of the first RCF, which concluded that adequate documentation could not be provided for 31 percent of funds disbursed to clear salary arrears.

have requested IMF technical assistance on enhancing currency operations and are finalizing the terms of reference regarding a co-sourcing arrangement for internal audit activities.

**28. The authorities are taking steps to operationalize the AML/CFT framework (MEFP ¶20).**

South Sudan is on a FATF list of jurisdictions under increased monitoring (“grey list”), but progress on their FATF action plan to address identified AML/CFT deficiencies has been limited. To facilitate progress on AML/CFT reforms, the newly established FIU has been furnished with a budget and premises and is committed to reengage with stakeholders in the coming months. Its leadership plans to request technical assistance as needed—including from the Fund—in the areas of the legal framework as well as operational aspects, such as structuring the FIU itself and conducting the national risk assessment. The authorities need to allocate more resources to this area and improve the coordination among agencies to bring the laws and institutions into compliance with international standards. A comprehensive national strategy endorsed by the highest levels of the government would be critical to outline key steps to achieve compliance, specifying institutional responsibilities, timelines, and review measures to methodically address the FATF action plan. Such efforts would better prepare South Sudan for the future mutual evaluation with the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG), of which South Sudan is now a member.

## PMB MODALITIES, RISKS, AND CAPACITY TO REPAY THE FUND

**29. Staff supports the authorities’ request for a 9-month PMB, covering the period of February–November 2023.** The approval by management of the PMB and the Board consideration of the FSW request are proposed to be subject to four prior actions, relating to an action plan for the implementation of the AG recommendations on the two RCF disbursements, tabling of draft legislation to discontinue the BoSS issuance of sovereign guarantees, and publication of the external debt stocktake report, and appointment of the Board of the PPDA (Table 6). Performance under the PMB will be monitored through quarterly reviews of quantitative targets and structural benchmarks (MEFP Tables 5 and 6). The program has seven quantitative targets and five structural benchmarks. To help reduce the procyclicality of government spending to oil prices, the PMB targets the non-oil primary fiscal deficit instead of the primary deficit targeted in the SMP. The Technical Memorandum of Understanding (TMU) contains definitions of the quantitative targets and structural benchmarks. The first test date is March 31, 2023, and the review is expected to be completed by June 15, 2023 (Table 7). The second test date will be June 30, 2023, and the completion of the second review by November 15, 2023, could be combined with a request for an ECF.

**30. Staff proposes access under the RCF through the FSW for 35 percent of quota.** South Sudan is experiencing a major food crisis, with two-third of the population experiencing acute food insecurity (IPC/CH phase 3 or above), qualifying the country for access through the FSW. The country’s urgent BOP needs, in the wake of the recent depreciation and in the face of low reserves, could further aggravate this situation if left unaddressed. The proposed access (SDR86.1 million or about US\$115.7 million) would take South Sudan’s Fund credit outstanding under emergency financing instruments to 100 percent of quota, thereby making South Sudan eligible for a PMB that

will help address the structural causes of the medium-term BOP gaps. The authorities plan to allocate about 37 percent of the RCF disbursement for budget support (of which US\$20 million will be channeled through the World Food Programme and International Organization for Migration (LOI ¶4), with the remaining 63 percent allocated to raise the level of BoSS reserves. The disbursement designated for budget support will enable the authorities to avoid a premature fiscal contraction and allocate immediately US\$15 million to the WFP and US\$5 million to the IOM to bolster their humanitarian operations and help address food insecurity in South Sudan during 2023. The authorities will sign Memoranda of Understanding with both organizations to specify how the funding injections from the authorities are to be used. The remainder will be used predominantly to finance education spending (LOI ¶4). The authorities are committed to transparency in the use of Fund resources and will request the Auditor General to complete by end-September 2023 an audit of all central government spending funded from the RCF disbursement as a structural benchmark (LOI ¶5).

**31. Risks to program implementation are skewed to the downside.** Experience from the current SMP suggests that frequent turnover of high-level officials and weak institutional and technical capacity can act as a drag on the pace of economic reforms. Political risks remain high, given the fragile peace in South Sudan. A deterioration of external economic conditions could undermine macroeconomic stability given South Sudan's limited resilience and trigger the accumulation of arrears or monetary financing. However, an unexpectedly strong recovery in oil production or prolonged oil price boom also bears risks, as they may undermine incentives for further economic and governance transformation.

**32. South Sudan's capacity to repay its obligations to the Fund is adequate (Table 8) but subject to high risks.** South Sudan's debt is considered sustainable, although at high risk of debt distress (see attached DSA). After the FSW disbursement, credit outstanding to the Fund is expected to peak at 246 million SDRs in FY2022/23-FY2024/25, which corresponds to 4.2 percent of GDP (in FY2024/25), 6.9 percent of exports of goods and services, and 13.9 percent of government revenues. The debt sustainability assessment relies on the current assumptions on fiscal consolidation, oil revenues, and GDP growth, which result in a large decrease in debt-to-GDP ratio in the next 20 years. There are considerable downside risks to this scenario, including the insurgence of large-scale conflict, volatility in oil prices or a decrease in oil production, climate-related disasters and policy slippages. Continuing Fund TA on debt and cash management will help enhance institutional capacity, thereby supporting continued debt sustainability and South Sudan's capacity to repay the Fund.

## CAPACITY DEVELOPMENT

**33. Capacity development will be a critical element of any further IMF engagement with South Sudan.** Capacity development will be focused on debt management institutions and strategy, cash management, and banking supervision and reform, aligned with program objectives (Annex VI). Such support will be provided mainly through peripatetic visits of experts from HQ and AFRITAC

East, and in addition FAD will place shortly in Juba a long-term resident expert that will provide TA on budget execution, expenditure controls, cash management and TSA, and fiscal reporting.

## STAFF APPRAISAL

**34. Since 2019 South Sudan has had to contend with overlapping economic shocks from the COVID-19 pandemic, historic flooding, and Russia's war in Ukraine.** These shocks have compounded a difficult humanitarian situation, against the backdrop of South Sudan's still-fragile peace settlement. Real GDP has contracted for two consecutive years and is expected to see a third, albeit modest, contraction in FY2022/23. However, there is potential for robust medium-term growth under supportive policies, given South Sudan's ample natural resources.

**35. Reform progress under the SMP was mixed.** The unification of the official and parallel exchange rates in mid-2021 was a notable reform achievement. Moreover, the authorities kept money growth steady for the first 12 months of the SMP, briefly achieving low single-digit inflation rates. All domestic salary arrears have been cleared and foreign-currency salary arrears have been reduced significantly. The authorities also initiated some PFM and governance reforms, but these have progressed slowly. The resumption of non-concessional oil-backed borrowing and monetary financing in mid-2022 constitute the most significant slippage, undermining the track record of sound economic policies the SMP sought to establish.

**36. To ensure macroeconomic stability and debt sustainability in the near term, the authorities should take steps towards closing the remaining fiscal financing gap in FY2022/23.** To fulfil their commitment to refrain from further monetary financing or non-concessional borrowing, the authorities will need to find ways to close a fiscal financing gap of 5 percent of GDP in FY2022/23. This can be achieved through a combination of revenue-raising measures (such as adjustment of the outdated exchange rate used for customs valuations or eliminating some current tax exemptions) and by reducing the large share of oil used for investment spending. A new and equitable settlement on transit fees with Sudan could also emerge as a fiscal upside and facilitating it should be a priority for South Sudan and its international partners.

**37. The needed fiscal adjustment should protect social spending and the purchasing power of public salaries.** Any measures to close the fiscal financing gap should ensure that government spending on health, education and humanitarian assistance remains protected. The authorities' ambition to raise the level of public salaries in a deficit-neutral manner is appropriate, given the shortage of available financing. The very limited fiscal space combined with uncertainty about oil revenues will make careful cash planning essential to avoid the recurrence of salary arrears, or the need to use expensive oil advances as bridge financing.

**38. Prudent money growth is essential to keep inflation in check.** The most recent episode of monetary financing illustrates the close link between money growth, the exchange rate and prices in South Sudan. By triggering a significant depreciation of the SSP against the dollar, the monetary expansion added considerably to the impact of external inflationary pressures on domestic prices in an economy that is heavily reliant on imported goods. Forestalling further episodes of monetary

financing primarily requires the adherence to prudent fiscal policies, careful cash management, and the operationalization of the money targeting framework that aims to keep money growth below 10 percent per year. To that end, the authorities should invest in bolstering the ability of the BoSS to steady the economy in the face of internal or external shocks. This will require continued efforts to expand the monetary toolkit beyond FX auctions, in which the new TDF marks a welcome first step, and the gradual accumulation of an adequate buffer of FX reserves.

**39. Strengthening PFM systems is essential to ensure that public funds are used transparently and effectively, and to build credibility with the domestic and international stakeholders.** The PMB proposes a meaningful and feasible program of PFM and governance reforms, including steps to increase oil-sector transparency, strengthen the debt management framework, broaden the use of bank payments and biometric identification for public sector employees, enhance BoSS safeguards, and raise the resilience of the domestic banking sector. Follow-through on this reform agenda under the PMB would raise the prospects for robust and inclusive growth, and would help build credibility with international donors with a view to eliciting more support to address South Sudan's extensive economic development needs.

**40. Staff supports the authorities' request for an RCF disbursement through the Food Shock Window equivalent to 35 percent of South Sudan's quota (SDR86.1 million or about US\$115.7 million) and for a nine-month PMB.** Steadfast and successful implementation of the PMB would establish the track record required to support the authorities' request for an ECF. To mitigate implementation risks and help build capacity, the IMF will support the authorities' efforts through tailored technical assistance.

## Proposed Decision

The following decision, which may be adopted by a majority of votes cast, is proposed for adoption by the Executive Board:

1. The Republic of South Sudan has requested a loan disbursement in an amount equivalent to SDR 86.1 million (35 percent of quota) under the Rapid Credit Facility of the Poverty Reduction and Growth Trust.
2. The Fund notes the intentions of the Republic of South Sudan as set forth in the letter from the Minister of Finance and Planning and the Governor of the Bank of South Sudan, dated February 16, 2023, and approves the disbursement in accordance with the request.

**Table 1. Republic of South Sudan: Selected Economic Indicators, 2019/20–2026/27<sup>1</sup>**

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.	Projections					
(Annual percentage change, unless otherwise indicated)								
<b>Output, prices, and exchange rate</b>								
Real GDP (percent change)	12.9	-4.9	-2.9	-0.4	4.6	4.8	5.1	5.2
Oil	26.4	-0.9	-7.4	-3.8	3.3	3.2	3.1	3.0
Non-oil	0.5	-11.6	6.0	7.3	7.1	7.5	8.4	8.3
Inflation (average)	33.6	43.5	0.9	16.5	10.9	9.8	8.5	8.4
Inflation (end-of-period)	12.7	44.7	-11.6	28.6	4.7	8.6	8.4	8.5
Oil GDP (percent of GDP)	62.4	66.3	67.0	63.4	61.9	60.2	56.8	53.6
GDP deflator	-0.5	31.8	223.7	62.7	3.3	5.8	9.8	10.7
Official exchange rate (SSP/US\$, average)	160.8	190.7	422.7	647.9	718.3	793.8	877.3	969.6
Official exchange rate (SSP/US\$, end period)	163.8	322.6	499.7	...	...	...	...	...
Parallel market exchange rate (SSP/US\$, average)	309.2	522.9	432.1	...	...	...	...	...
<b>Money and credit</b>								
Broad money	42.1	67.9	47.3	24.8	...	...	...	...
Monetary base	42.3	53.4	48.9	11.2	...	...	...	...
Credit to non-government sector	35.2	60.6	74.1	22.4	...	...	...	...
M2/GDP (percent)	20.7	27.7	13.0	10.0	...	...	...	...
(Percent of GDP, unless otherwise indicated)								
<b>Central government budget</b>								
Total revenues and grants	29.5	34.5	30.1	31.5	30.8	30.5	29.4	28.3
Of which: Oil	25.5	29.8	27.4	28.5	27.2	26.5	25.0	23.6
Of which: Non-oil tax revenue	4.0	4.8	2.7	3.1	3.5	4.0	4.4	4.7
Of which: Grants	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Expenditures	39.4	38.2	36.7	28.5	23.9	23.2	22.7	24.1
Current	35.7	27.3	24.0	15.9	15.1	14.7	14.3	14.6
Of which: transfers to Sudan	13.1	11.0	5.6	3.0	3.2	3.3	3.2	3.2
Net acquisition of non-financial assets	3.8	11.0	12.7	11.8	8.4	8.0	8.0	9.5
Overall balance (cash)	-9.9	-3.7	-6.6	3.0	6.8	7.3	6.6	4.2
Change in arrears	-3.4	-0.7	-0.9	0.0	0.0	0.0	0.0	0.0
of which: salary arrears	...	-0.7	-0.9	...	...	...	...	...
Overall balance (accrual balance)	-6.5	-3.0	-5.7	3.0	6.8	7.3	6.6	4.2
<b>Public debt</b>								
Total public debt <sup>2</sup>	56.2	64.2	53.8	46.4	45.3	42.1	37.0	34.1
Of which: external public debt	45.0	46.3	41.1	35.0	34.6	32.0	27.8	25.5
<b>External sector</b>								
Exports of goods and services	63.7	67.5	67.9	65.6	63.0	61.4	58.1	55.0
Imports of goods and services	91.5	83.8	73.6	66.3	66.8	66.7	65.9	66.5
Current account balance (including grants)	-19.7	-4.9	-1.4	7.0	6.6	6.4	4.6	1.0
Current account balance (excluding grants)	-39.2	-26.4	-18.6	-13.4	-15.1	-15.3	-16.9	-19.5
Gross foreign reserves (millions of US dollars)	129.5	172.3	160.3	217.8	294.9	431.5	486.4	563.4
Gross foreign reserves (in months of imports)	0.4	0.4	0.4	0.5	0.7	1.0	1.1	1.2
<b>Memorandum items:</b>								
Population (millions)	13.6	14.0	14.4	14.8	15.2	15.7	16.1	16.6
Oil production (millions of barrels)	62.1	61.5	56.9	54.8	56.6	58.4	60.2	62.1
South Sudan's oil price (U.S. dollars per barrel)	49.3	55.9	86.5	91.9	82.9	78.2	74.8	72.1
Brent price (U.S. dollars per barrel)	51.3	55.2	86.5	91.9	82.9	78.2	74.8	72.1
Nominal GDP (billions of SSP)	789	989	3,106	5,036	5,440	6,027	6,953.7	8,096.7
Nominal GDP (billion US\$)	4.9	5.2	7.3	7.8	7.6	7.6	7.9	8.4
External debt (millions US\$)	2,168	2,403	2,556	2,615	2,524	2,340	2,124	2,055
GNI per capita (US dollars)	320.7	317.4	444.8	461.5	440.4	435.5	445.7	462.7
Nominal SSP GDP (percent change)	12.4	25.3	214.2	62.1	8.0	10.8	15.4	16.4

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

<sup>1</sup> The fiscal year runs from July to June.<sup>2</sup> Public external debt in U.S. dollars in percent of U.S. dollar GDP.

**Table 2a. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20–2026/27<sup>1</sup>**

(In billions of South Sudanese pounds)

	2019/20	2020/21	2021/22	2022/23		2023/24	2024/25	2025/26	2026/27
	Act.	Prel.	Prel.	Budget	Proj.	Projection			
<b>Total revenue and grants</b>	<b>232.8</b>	<b>341.5</b>	<b>935.6</b>	<b>832.8</b>	<b>1,587.4</b>	<b>1,674.3</b>	<b>1,837.8</b>	<b>2,042.5</b>	<b>2,292.3</b>
Total oil revenues	201.1	294.1	852.6	715.8	1,433.7	1,481.5	1,595.6	1,738.0	1,909.5
Non-oil tax revenue	31.8	47.4	83.0	117.0	153.7	192.8	242.2	304.4	382.8
<i>of which: Public Sector PIT</i>					3.7	4.0	4.4	5.1	5.9
<b>Total expenditure</b>	<b>311.1</b>	<b>378.0</b>	<b>1140.3</b>	<b>1204.5</b>	<b>1,435.6</b>	<b>1,301.8</b>	<b>1,399.1</b>	<b>1,580.4</b>	<b>1,950.7</b>
Current expenditure	281.3	269.5	744.7	804.4	802.3	819.5	885.9	992.5	1,181.5
Salaries	36.5	44.1	94.8	131.2	142.3	153.7	170.2	196.4	228.7
Operating expenses	82.7	60.4	356.5	158.2	160.8	173.7	192.4	222.0	258.5
Interest	16.4	1.2	9.9	...	46.7	63.5	72.7	78.8	82.0
Transfers to states	10.9	36.8	48.4	93.5	76.5	80.3	87.8	96.9	134.8
Conditional transfers	4.8	8.8	18.2	81.1	28.7	30.1	32.9	36.3	67.4
Transfers to MoP (3% of Oil Rev)	3.6	8.8	18.2	18.7	28.7	30.1	32.9	36.3	40.4
Capital transfers to states (Future Gen Fund)	1.2	0.0	0.0	62.4	0.0	0.0	0.0	0.0	27.0
Transfers to oil prod states & Com (5% of Oil Rev)	6.0	14.7	30.3	12.4	47.8	50.2	54.8	60.6	67.4
Block grants to states	0.0	13.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to Sudan <sup>2</sup>	103.6	109.1	173.1	92.0	151.4	173.4	197.9	225.5	256.8
Transportation and transit fees	22.0	51.0	102.7	92.0	151.4	173.4	197.9	225.5	256.8
Financial transfer	81.7	58.1	70.4	0.0	0.0	0.0	0.0	0.0	0.0
Salary arrears repayment	...	0.0	0.0	67.1	40.0	25.9	28.6	31.6	0.0
Other expenses	31.2	33.5	61.9	262.6	169.0	132.1	146.1	151.2	195.6
Transfers to states	20.5	23.5	61.9	143.5	143.5	108.8	120.5	139.1	161.9
Emergency contingency fund + ORSA	0.0	10.0	0.0	107.1	13.5	10.0	11.0	12.1	33.7
Peace agreement	10.7	0.0	0.0	12.0	12.0	13.3	14.6	0.0	0.0
Net acquisition of non-financial assets	29.8	108.4	395.6	400.0	593.3	456.4	484.7	556.3	769.2
<i>of which: Oil for Infrastructure project</i>		100.0	274.7	241.0	434.4	325.8	340.0	0.0	0.0
<b>Overall balance (cash)</b>	<b>-78.3</b>	<b>-36.4</b>	<b>-204.7</b>	<b>-371.7</b>	<b>151.7</b>	<b>372.6</b>	<b>438.6</b>	<b>462.1</b>	<b>341.6</b>
Change in non-salary arrears	-26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance (accrual balance)</b>	<b>-51.7</b>	<b>-36.4</b>	<b>-204.7</b>	<b>-371.7</b>	<b>151.7</b>	<b>372.6</b>	<b>438.6</b>	<b>462.1</b>	<b>341.6</b>
Statistical discrepancy	139.6	42.9	-172.2	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>554.8</b>	<b>142.2</b>	<b>208.7</b>	<b>266.9</b>	<b>176.3</b>	<b>254.4</b>
<b>Financing</b>	<b>191.2</b>	<b>79.3</b>	<b>32.5</b>	<b>-183.1</b>	<b>-293.9</b>	<b>-581.3</b>	<b>-705.5</b>	<b>-638.4</b>	<b>-596.0</b>
Domestic (net)	30.3	32.2	94.6	0.0	177.2	0.0	0.0	0.0	0.0
Net credit from the central bank	44.2	32.2	94.6	0.0	177.2	0.0	0.0	0.0	0.0
<i>of which: RCF-1</i>		-16.7	...	...	...	...	...	...	...
<i>of which: Carried over RCF-2</i>		-94.6	94.6	...	...	...	...	...	...
Net credit from commercial banks	12.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Change in arrears	-26.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	160.9	47.2	-62.1	-183.1	-471.1	-581.3	-705.5	-638.4	-596.0
Disbursement	266.6	92.7	348.3	0.0	112.5	0.0	0.0	0.0	0.0
<i>of which: RCF-1 Initial Disbursement</i>		9.1	...	...	...	...	...	...	...
<i>of which: RCF-1 Auction Gain</i>		14.7	...	...	...	...	...	...	...
<i>of which: RCF-2 Initial Disbursement</i>		16.1	...	...	...	...	...	...	...
<i>of which: RCF-2 Auction Gain</i>		13.9	0.0	...	...	...	...	...	...
<i>of which: Proposed RCF-FSW</i>		...	...	...	112.5	...	...	...	...
<i>of which: new SDR</i>		...	60.0	0.0	...	...	...	...	...
Amortization	-105.7	-45.5	-283.6	-183.1	-257.1	-276.8	-404.8	-337.2	-291.2
TFA Overpayment			-126.8	0.0	-326.5	-304.5	-300.8	-301.2	-304.8
<b>Memorandum items:</b>									
Non-oil Primary Fiscal Balance <sup>3</sup>	-153.3	-205.5	-843.9		-996.0	-795.9	-802.9	-879.4	-1161.8
Oil production (millions of barrels)	62.1	61.5	56.9		54.8	56.6	58.4	60.2	62.1
Nominal GDP (bn of South Sudanese pounds)	788.7	988.6	3,106.4		5,036.4	5,439.9	6,027.4	6,953.7	8,096.7

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

<sup>1</sup> The fiscal year runs from July to June.

<sup>2</sup> Transfer to Sudan is the sum of TFA payment (financial transfer) and average transportation fee (average of 9.7 US\$/barrel) from using the oil pipeline. TFA payments ended in January 2022.

The financial transfer will be zero after the completion of the the TFA agreement.

<sup>3</sup> Non-oil revenue minus primary expenditure excluding transfers to Sudan, and transfers to oil producing states and communities.

**Table 2b. Republic of South Sudan: Fiscal Operations of the Central Government, 2019/20–2026/27<sup>1</sup>**  
(In percent of GDP)

	2019/20	2020/21	2021/22	2022/23		2023/24	2024/25	2025/26	2026/27
	Act.	Prel.	Prel.	Budget	Proj.	Projection			
<b>Total revenue and grants</b>	<b>29.5</b>	<b>34.5</b>	<b>30.1</b>	<b>16.5</b>	<b>31.5</b>	<b>30.8</b>	<b>30.5</b>	<b>29.4</b>	<b>28.3</b>
Total oil revenues	25.5	29.8	27.4	14.2	28.5	27.2	26.5	25.0	23.6
Non-oil tax revenue	4.0	4.8	2.7	2.3	3.1	3.5	4.0	4.4	4.7
<i>of which: Public Sector PIT</i>					0.1	0.1	0.1	0.1	0.1
<b>Total expenditure</b>	<b>39.4</b>	<b>38.2</b>	<b>36.7</b>	<b>23.9</b>	<b>28.5</b>	<b>23.9</b>	<b>23.2</b>	<b>22.7</b>	<b>24.1</b>
Current expenditure	35.7	27.3	24.0	16.0	15.9	15.1	14.7	14.3	14.6
Salaries	4.6	4.5	3.1	2.6	2.8	2.8	2.8	2.8	2.8
Operating expenses	10.5	6.1	11.5	3.1	3.2	3.2	3.2	3.2	3.2
Interest	2.1	0.1	0.3	...	0.9	1.2	1.2	1.1	1.0
Transfers to states	1.4	3.7	1.6	1.9	1.5	1.5	1.5	1.4	1.7
Conditional transfers	0.6	0.9	0.6	1.6	0.6	0.6	0.5	0.5	0.8
Transfers to MoP (3%)	0.5	0.9	0.6	...	0.6	0.6	0.5	0.5	0.5
Capital transfers to states (Future Gen Fund)	0.2	0.0	0.0	1.2	0.0	0.0	0.0	0.0	0.3
Transfers to oil producing states & Com (5%)	0.8	1.5	1.0	0.2	0.9	0.9	0.9	0.9	0.8
Block grants to states	0.0	1.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfers to Sudan <sup>2</sup>	13.1	11.0	5.6	1.8	3.0	3.2	3.3	3.2	3.2
Transportation and transit fees	2.8	5.2	3.3	1.8	3.0	3.2	3.3	3.2	3.2
Financial transfer	10.4	5.9	2.3	0.0	0.0	0.0	0.0	0.0	0.0
Salary arrears repayment	...	...	0.0	1.3	0.8	0.5	0.5	0.5	0.0
Other expenses	4.0	3.4	2.0	5.2	3.4	2.4	2.4	2.2	2.4
Transfers to states	2.6	2.4	2.0	2.8	2.8	2.0	2.0	2.0	2.0
Emergency contingency fund + ORSA	0.0	1.0	0.0	2.1	0.3	0.2	0.2	0.2	0.4
Peace agreement	1.4	0.0	0.0	0.2	0.2	0.2	0.2	0.0	0.0
Net acquisition of non-financial assets	3.8	11.0	12.7	7.9	11.8	8.4	8.0	8.0	9.5
<i>of which: Oil for Infrastructure project</i>					8.6	6.0	5.6	0.0	0.0
<b>Overall balance (cash)</b>	<b>-9.9</b>	<b>-3.7</b>	<b>-6.6</b>	<b>-7.4</b>	<b>3.0</b>	<b>6.8</b>	<b>7.3</b>	<b>6.6</b>	<b>4.2</b>
Change in non-salary arrears	-3.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Overall balance (accrual)</b>	<b>-6.5</b>	<b>-3.7</b>	<b>-6.6</b>	<b>-7.4</b>	<b>3.0</b>	<b>6.8</b>	<b>7.3</b>	<b>6.6</b>	<b>4.2</b>
Statistical discrepancy	18.4	4.3	-5.5	0.0	0.0	0.0	0.0	0.0	0.0
<b>Financing gap</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>2.9</b>	<b>3.8</b>	<b>4.4</b>	<b>2.5</b>	<b>3.1</b>
<b>Financing</b>	<b>24.9</b>	<b>8.0</b>	<b>1.0</b>	<b>0.0</b>	<b>-6.0</b>	<b>-10.7</b>	<b>-11.7</b>	<b>-9.2</b>	<b>-7.4</b>
Domestic (net)	3.8	3.3	3.0	-3.6	3.5	0.0	0.0	0.0	0.0
Net credit from the central bank	5.6	3.3	3.0	0.0	3.5	0.0	0.0	0.0	0.0
Net credit from commercial banks	1.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign (net)	21.1	4.8	-2.0	0.0	-9.5	-10.7	-11.7	-9.2	-7.4
Disbursement	33.8	9.4	11.2	0.0	2.1	0.0	0.0	0.0	0.0
<i>of which: RCF-1 Initial Disbursement</i>		0.9	...	...	...	...	...	...	...
<i>of which: RCF-1 Auction Gain</i>		1.5	...	...	...	...	...	...	...
<i>of which: RCF-2 Initial Disbursement</i>		1.6	...	...	...	...	...	...	...
<i>of which: RCF-2 Auction Gain</i>		1.4	0.0	...	...	...	...	...	...
<i>of which: Proposed RCF-FSW</i>		...	...	...	2.1	...	...	...	...
<i>of which: new SDR</i>		...	1.9	...	...	...	...	...	...
Amortization	-12.7	-4.6	-9.1	-3.6	-5.1	-5.1	-6.7	-4.8	-3.6
TFA Overpayment			-4.1	0.0	-6.5	-5.6	-5.0	-4.3	-3.8
<b>Memorandum items:</b>									
Non-oil Primary Fiscal Balance <sup>3</sup>	-19.4	-20.8	-27.2		-19.8	-14.6	-13.3	-12.6	-14.3
Oil production (millions of barrels)	62.1	61.5	56.9		54.8	56.6	58.4	60.2	62.1
Nominal GDP (bn of South Sudanese pounds)	788.7	988.6	3,106.4		5,036.4	5,439.9	6,027.4	6,953.7	8,096.7

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

<sup>1</sup> The fiscal year runs from July to June.

<sup>2</sup> Transfer to Sudan is the sum of TFA payment (financial transfer) and average transportation fee (average of 9.7 US\$/barrel) from using the oil pipeline. TFA payments ended in January 2022. The financial transfer will be zero after the completion of the the TFA agreement.

<sup>3</sup> Non-oil revenue minus primary expenditure excluding transfers to Sudan, and transfers to oil producing states and communities.

**Table 3. Republic of South Sudan: Monetary Accounts, June 2018–June 2023**

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

	2018	2019	2020	2021	2022	2023
	Jun	Jun	Jun	Jun	Jun	Jun
	Actual		Projections			
<b>Monetary Survey</b>						
<b>Net foreign assets</b>	<b>-58.0</b>	<b>-69.2</b>	<b>-71.4</b>	<b>-199.3</b>	<b>-409.2</b>	<b>-517.2</b>
Claims on nonresidents	41.5	55.3	89.3	143.1	245.6	295.3
Central bank	7.6	5.0	21.2	52.8	95.8	112.9
Commercial banks	33.9	50.3	68.1	90.3	149.8	182.4
Liabilities to nonresidents	99.6	124.5	160.7	342.4	654.8	812.5
Central bank	20.8	23.1	23.7	76.5	269.7	364.0
Commercial banks	78.8	101.5	136.9	265.9	385.1	448.5
<b>Net domestic assets</b>	<b>147.4</b>	<b>184.0</b>	<b>234.4</b>	<b>473.0</b>	<b>812.4</b>	<b>1020.5</b>
Net domestic credit	180.5	149.6	209.8	369.9	746.3	977.3
Net claims on central government	175.0	140.6	197.6	350.3	712.2	935.6
Claims on other sectors	5.5	9.0	12.2	19.6	34.1	41.7
Other items (net)	-33.1	34.3	24.7	103.1	66.2	43.3
<b>Broad money</b>	<b>89.4</b>	<b>114.7</b>	<b>163.0</b>	<b>273.7</b>	<b>403.3</b>	<b>503.3</b>
Currency outside banks	27.1	36.9	59.5	74.3	99.1	125.6
Transferable deposits	50.6	90.6	171.3	171.3	266.2	391.7
o/w: in foreign currency	47.5	57.0	67.5	143.0	207.6	280.3
Other deposits	11.6	10.9	28.9	28.9	38.0	54.0
o/w: in foreign currency	6.0	4.0	3.6	16.0	16.1	21.7
<b>Central Bank</b>						
<b>Net foreign assets</b>	<b>-13.1</b>	<b>-18.1</b>	<b>-2.5</b>	<b>-23.6</b>	<b>-173.9</b>	<b>-251.1</b>
Claims on nonresidents	7.6	5.0	21.2	52.8	95.8	112.9
Liabilities to nonresidents	20.8	23.1	23.7	76.5	269.7	364.0
<b>Net domestic assets</b>	<b>102.5</b>	<b>122.7</b>	<b>151.3</b>	<b>251.9</b>	<b>513.8</b>	<b>629.1</b>
Net domestic credit	88.4	35.3	78.7	110.8	330.3	554.2
Claims on commercial banks	1.2	2.8	2.0	1.7	2.1	2.2
Net claims on central government	87.2	32.5	76.7	108.8	327.3	550.6
Claims on central government	94.7	39.3	79.3	146.5	338.2	571.6
Liabilities to central government	7.5	6.8	2.6	37.6	10.9	20.9
Other items (net)	14.0	87.4	72.6	141.1	183.5	74.9
<b>Monetary base</b>	<b>89.3</b>	<b>104.6</b>	<b>148.8</b>	<b>228.3</b>	<b>339.9</b>	<b>378.0</b>
Currency in circulation	30.5	42.8	67.3	96.1	121.7	141.1
Liabilities to commercial banks	55.9	58.7	77.4	123.5	205.9	222.5
Liabilities to other sectors	3.0	3.1	4.2	8.7	12.4	14.3
<b>Memorandum items:</b>						
Money multiplier	1.0	1.1	1.1	1.2	1.2	1.3
Share of foreign currency deposits to total deposits	0.9	0.6	0.4	0.8	0.8	0.8
Monetary base (year-on-year change in percent)	29.0	17.1	42.3	53.4	48.9	11.2
Broad money (year-on-year change in percent)	69.2	28.4	42.1	67.9	47.3	24.8

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

**Table 4. Republic of South Sudan: Balance of Payments, 2019/20–2026/27<sup>1</sup>**  
(In millions of U.S. dollars, unless otherwise indicated)

	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27
	Act.	Prel.		Projections				
<b>Current account balance</b>	<b>-965</b>	<b>-252</b>	<b>-105</b>	<b>542</b>	<b>497</b>	<b>490</b>	<b>364</b>	<b>88</b>
Trade Balance	-715	-199	282	682	533	502	361	90
Exports of goods	3,089	3,467	4,954	5,068	4,738	4,628	4,572	4,557
Oil	3,061	3,440	4,924	5,029	4,688	4,568	4,503	4,476
Nonoil	27	27	30	39	51	60	69	81
Imports of goods	-3,804	-3,667	-4,673	-4,387	-4,205	-4,126	-4,211	-4,467
Balance of Services	-649	-646	-704	-730	-823	-907	-977	-1,056
Exports of services	34	34	34	34	34	34	34	34
Imports of services	-683	-680	-737	-764	-857	-941	-1,011	-1,090
o/w: oil-related	-438	-437	-470	-436	-456	-483	-491	-499
of which non-oil	-244	-242	-267	-328	-400	-458	-520	-590
Income	-558	-521	-943	-990	-857	-758	-723	-661
Wages of expatriate oil workers	-150	-162	-168	-168	-195	-221	-212	-203
Investors' profits	-350	-319	-661	-787	-639	-540	-546	-510
Investment income (net)	-82	-64	-142	-72	-88	-92	-90	-85
Current Transfers (net)	957	1,115	1,260	1,581	1,644	1,653	1,703	1,714
Grants	0	0	73	103	128	116	150	146
Workers' remittances (net)	77	76	83	101	125	143	162	184
Financial transfers to Sudan	-508	-233	-228	0	0	0	0	0
Other sectors (including NPISH)	1,248	1,272	1,350	1,377	1,391	1,394	1,391	1,384
<b>Capital and financial account</b>	<b>637</b>	<b>294</b>	<b>93</b>	<b>-692</b>	<b>-697</b>	<b>-673</b>	<b>-472</b>	<b>-260</b>
Capital account	0	0	0	0	0	0	0	0
Financial account	637	294	93	-692	-697	-673	-472	-260
Foreign direct investment <sup>2</sup>	-18	47	48	44	113	180	154	179
of which: non-oil	22	24	24	24	24	24	24	24
Other investment	655	247	44	-736	-809	-853	-626	-439
of which: Foreign borrowing (net)	672	247	145	-232	-386	-474	-283	-124
of which : New SDR allocation <sup>3</sup>			-150	...	...	...	...	...
of which : Proposed RCF-FSW				-113	...	...	...	...
<b>Overall balance</b>	<b>-328</b>	<b>43</b>	<b>-12</b>	<b>-151</b>	<b>-199</b>	<b>-183</b>	<b>-108</b>	<b>-173</b>
Errors and omissions	426	0	0	0	0	0	0	0
<b>Financing</b>	<b>-99</b>	<b>-43</b>	<b>12</b>	<b>-58</b>	<b>-77</b>	<b>-137</b>	<b>-55</b>	<b>-77</b>
Change in net foreign assets of the central bank	-99	-43	12	-58	-77	-137	-55	-77
of which : Change in gross reserves (Increase -)	-98	-43	12	-58	-77	-137	-55	-77
Financing gap	0	0	0	208	276	320	163	250
<b>Memorandum items:</b>								
Current account balance including transfers (percent of GDP)	-19.7	-4.9	-1.4	7.0	6.6	6.4	4.6	1.0
Current account balance excluding transfers (percent of GDP)	-39.2	-26.4	-18.6	-13.4	-15.1	-15.3	-16.9	-19.5
South Sudan oil price (dollars per barrel; weighted average)	49.3	55.9	86.5	91.9	82.9	78.2	74.8	72.1
Gross foreign reserves (millions of US dollars)	130	172	160	218	295	432	486	563
In months of current year's imports of goods and services	0.4	0.4	0.4	0.5	0.7	1.0	1.1	1.2
Oil production (millions of barrels)	62.1	61.5	56.9	54.8	56.6	58.4	60.2	62.1
Nominal GDP (billions of U.S. dollars)	4.9	5.2	7.3	7.8	7.6	7.6	7.9	8.4

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

<sup>1</sup> The fiscal year runs from July to June.

<sup>2</sup> Net of outflows associated with the repatriation of oil investments (Capex cost oil).

<sup>3</sup> The full SDR allocation was US\$335 million, of which US\$150 million was on-lent to the budget while US\$185 million was used to strengthen reserves.

Table 5a. Republic of South Sudan: Quantitative Targets Under the Staff-Monitored Program (SMP)

	End-Jun 2021 SMP Target	End- June 2021 Actual	End-Oct 2021 SMP Target	End-Oct 2021 Actual	End-Aug 2022 Target	End-Aug 2022 Prel.
Central government's primary cash budget deficit (ceiling: in billions of SSP) <sup>1</sup>	10.0	25.9 (Not met)	35.9	32.0 (Met)	25.0	73.4 (Not met)
Central bank net credit to the central government (ceiling: in billions of SSP) <sup>2</sup>	0.0	0.0 (Met)	0.0	25.0 <sup>3</sup> (Not met)	25.0 <sup>4</sup>	312.9 (Not met)
Contracting or guaranteeing of non-concessional borrowing (continuous ceiling: in millions of U.S. dollars) <sup>5</sup>	0.0	650.0 (Not met)	0.0	0.0 (Met)	0.0	450 (Not met)
Average net international reserve (floor: in millions of U.S. dollars) <sup>6</sup>	85.0	131.0 (Met)	284.0	406.0 (Met)	170.0	266.7 (Met)
Clearance of salary arrears (floor: in billions of SSP) <sup>7</sup>	7.3	14.5 (Met)	14.5	10.6 (Not met)	18.2	18.2 (Met)
Average reserve money growth (ceiling: in percentage points) <sup>8</sup>	5.0	-2.6 (Met)	10.0	-5.4 (Met)	15	105 (Not met)

<sup>1</sup> Numbers are cumulative from March 30, 2021, for June and October 2021 and cumulative from June 30, 2022, for August 2022.

<sup>2</sup> Numbers are cumulative changes from March 30, 2021. NCG should be zero in at least half of the quarter and never higher than 5 percent of quarterly revenue.

<sup>3</sup> Breach of the ceiling on NCG arose from clearance of salary arrears out of MoFP FX deposits with BoSS, without an increase in the government overdraft.

<sup>4</sup> Ceiling adjusted up to allow for on-lending of the remaining portion of the SDR allocation to be used for budget support, as agreed under the SMP.

<sup>5</sup> Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program or for critical COVID-related spending, and for which concessional financing is not available. The MoFP entered into an agreement for an external non-concessional loan in April 2021 for an amount of US\$650 million without prior consultation with Fund staff, and the BoSS issued a sovereign guarantee related to this loan agreement in July 2021. This loan and associated guarantee were canceled in October 2021.

<sup>6</sup> Targets on NIR for end-June and end-October 2021 and end-August 2022 are defined as the cumulative changes of the average stock of daily NIR balances during, respectively, June and October 2021 and August 2022 relative to the stock of NIR on March 30, 2021.

<sup>7</sup> Cumulative from end-March 2021.

<sup>8</sup> Limits on reserve money growth for end-June, end-October 2021, and end-August 2022 are defined as the cumulative changes of the average reserve money during, respectively, June 2021, October 2021, and August 2022 relative to the reserve money stock at end-March 2021.

**Table 5b. Republic of South Sudan: Quantitative Targets Under the Proposed Program Monitoring with Board Involvement (PMB)**

	End-Nov 2022 Actual	End-Mar 2023 Proposed	End-Jun 2023 Proposed
Non-oil primary balance (floor: in billions of SSP) <sup>1</sup>	...	-830.0	-996.0
Central bank net credit to the central government (ceiling: in billions of SSP) <sup>1,2</sup>	178.0	178.0	178.0
Contracting or guaranteeing of non-concessional debt by the central government (continuous ceiling: in millions of U.S. dollars) <sup>1,3</sup>	0.0	0.0	0.0
Average net international reserve (floor: in millions of U.S. dollars) <sup>4</sup>	97.5	141.5	151.5
Reserve money growth (ceiling: in percent) <sup>5</sup>	...	5.0	7.5
Salary payments to central government workers (floor: in billions of SSP) <sup>1</sup>	...	106.7	142.3
Priority social spending (floor: in billions of SSP) <sup>1,6</sup>	...	112.1	149.4

<sup>1</sup> Number is cumulative from June 30, 2022.

<sup>2</sup> Number accommodates central bank net credit extended to the government in July and August 2022 and imposes no further central bank net credit to the government from September 2022 onwards.

<sup>3</sup> Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program, and for which concessional financing is not available.

<sup>4</sup> Targets are defined as the average stock of daily NIR balances during March and June 2023.

<sup>5</sup> Number is cumulative growth rate in reserve money (defined as currency in circulation, due to banks, and due to OFI) from September 30, 2022, adjusting for month-on-month exchange rate changes.

<sup>6</sup> The proposed floor on social spending is set at the proposed spending on education, health, and social and humanitarian sectors in the FY2022/23 budget.

**Table 6. Republic of South Sudan: Structural Benchmarks for the Third Review of the SMP and for the Proposed PMB**

Measures	Target Date <sup>1</sup>	Current Status/Rationale
<b>SMP</b>		
1. Publish findings and recommendations of the audit of the spending of the April 2021 RCF disbursement	Aug-22	Not met. Implemented with a delay in December 2022
2. BoSS to sign an MoU with the Auditor General to ensure the timely appointment of an international external audit firm for the audits of the BoSS financial statements from CY2022 onwards	Oct-22	Met.
3. Publication of budget execution reports for FY2020/21 and FY2021/22	Oct-22	Not met. Implemented with a delay in January 2022
4. Completion of an audit by an independent external auditor to take stock of all outstanding external loan agreements and guarantees and publish the results of the audit	Nov. 15, 2022	Not met. The external auditor report was published as prior action for the RCF and PMB
<b>PMB</b>		
1. Adopt action plan for the implementation of the recommendations in the Auditor General's audit report of the two RCF disbursements (MEFP ¶15).	Prior action	Met.
2. Submit to the Constitutional Review Committee proposed revisions, drafted in consultation with Fund staff, to the BoSS Act, including to remove Section 10(3) of the Act so that the BoSS cannot issue sovereign guarantees (MEFP ¶18).	Prior action	Met.
3. Publish the audit report submitted by the external auditor in December 2022 (MEFP ¶13).	Prior action	Met.
4. Board of the Public Procurement and Disposal Authority to be appointed (MEFP ¶17). Proposed	Prior action	Improve governance
5. MoFP to develop and adopt by end-March 2023, in consultation with Fund staff, an action plan to strengthen the institutional framework for debt issuance and management, and formulate a debt management strategy. (MEFP ¶18). Proposed	Mar-23	Maintain debt sustainability
6. National Assembly to adopt amendments to the BoSS Act aimed at bringing the South Sudan legislation in line with international best practices for central banking legislation and governance (MEFP ¶18). Proposed	May-2023	Improve governance
7. BoSS to adopt an action plan to implement recommended action items on banking sector reform developed in August 2022 by BoSS staff with MCM (MEFP ¶12). Proposed	Jun-23	Support financial stability
8. Publish all signed oil production sharing agreements with oil-extracting companies as well as quarterly reports on the oil sector (MEFP ¶14). Proposed	Jun-23	Enhance transparency
9. Completion and publication of an audit of the spending of the new RCF disbursement under the FSW (LOI ¶5). Proposed	Sep-23	Ensure transparency and accountability in the spending of emergency resources
<sup>1</sup> Target Dates refer to end of the month unless otherwise stated.		

**Table 7. Republic of South Sudan: Schedule of Program Monitoring with Board Involvement (PMB) Reviews**

<b>Date</b>	<b>Action</b>
February 16, 2023	Approval of 9-month PMB
June 15, 2023	First review of PMB
November 15, 2023	Second review of PMB

Table 8. Republic of South Sudan: Capacity to Repay the Fund

	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	2032/33
<b>IMF obligations based on existing credit</b>	4.1	8.4	8.3	12.0	40.3	40.4	40.3	40.3	36.6	8.4	8.3
Principal (in millions of SDRs)	0.0	0.0	0.0	3.7	32.0	32.0	32.0	32.0	28.3	0.0	0.0
Charges/interest (in millions of SDRs)	4.1	8.4	8.3	8.4	8.4	8.4	8.3	8.4	8.4	8.4	8.3
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	4.8	41.6	41.6	41.6	41.6	36.8	0.0	0.0
Charges/interest (in millions of U.S. dollars)	5.4	10.9	10.9	10.9	10.9	10.9	10.8	10.9	10.9	10.9	10.8
<b>IMF obligations based on existing and prospective credit</b>	4.1	8.4	8.3	12.0	40.3	40.4	57.5	57.6	53.9	25.6	25.6
Principal (in millions of SDRs)	0.0	0.0	0.0	3.7	32.0	32.0	49.2	49.2	45.5	17.2	17.2
Charges/interest (in millions of SDRs)	4.1	8.4	8.3	8.4	8.4	8.4	8.3	8.4	8.4	8.4	8.3
Principal (in millions of U.S. dollars)	0.0	0.0	0.0	4.8	41.6	41.6	63.9	63.9	59.1	22.4	22.4
Charges/interest (in millions of U.S. dollars)	5.4	10.9	10.9	10.9	10.9	10.9	10.8	10.9	10.9	10.9	10.8
<b>Total IMF existing and prospective obligations</b>											
In millions of SDRs	4.1	8.4	8.3	12.0	40.3	40.4	57.5	57.6	53.9	25.6	25.6
In millions of U.S. dollars	5.4	10.9	10.9	15.7	52.4	52.4	74.8	74.8	70.0	33.3	33.2
In percent of GDP	0.1	0.1	0.1	0.2	0.6	0.6	0.8	0.7	0.6	0.2	0.2
In percent of exports of goods and services	0.1	0.2	0.2	0.3	1.1	1.1	1.5	1.4	1.3	0.6	0.6
In percent of government revenue	0.2	0.5	0.5	0.7	2.2	2.1	2.9	2.7	2.4	1.1	1.0
In percent of quota	1.7	3.4	3.4	4.9	16.4	16.4	23.4	23.4	21.9	10.4	10.4
In percent of gross international reserves	2.5	3.7	2.5	3.2	9.2	6.3	6.8	5.0	3.8	1.6	1.4
<b>IMF Credit Outstanding based on Existing and Prospective Drawings (end of period)</b>											
In millions of SDRs	246.0	246.0	246.0	242.3	210.3	178.4	129.2	80.0	34.4	17.2	0.0
In millions of U.S. dollars	324.6	321.5	321.7	316.1	273.3	231.8	167.8	103.9	44.8	22.4	0.0
In percent of GDP	4.2	4.2	4.2	4.0	3.3	2.6	1.7	0.9	0.4	0.2	0.0
In percent of exports of goods and services	6.4	6.7	6.9	6.9	6.0	4.9	3.4	2.0	0.8	0.4	0.0
In percent of government revenue	13.2	13.8	13.9	13.6	11.6	9.5	6.5	3.8	1.5	0.7	0.0
In percent of quota	100.0	100.0	100.0	98.5	85.5	72.5	52.5	32.5	14.0	7.0	0.0
In percent of gross international reserves	147.6	108.5	74.1	64.5	48.2	28.0	15.3	7.0	2.4	1.1	0.0
<b>Net use of IMF credit<sup>1</sup></b>	86.1	0.0	0.0	-3.7	-32.0	-32.0	-49.2	-49.2	-45.5	-17.2	-17.2
Disbursements (millions of SDRs)	86.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of SDRs)	0.0	0.0	0.0	3.7	32.0	32.0	49.2	49.2	45.5	17.2	17.2
Disbursements (millions of U.S. dollars)	113.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments and repurchases (millions of U.S. dollars)	0.0	0.0	0.0	4.8	41.6	41.6	63.9	63.9	59.1	22.4	22.4
<b>Memorandum items:</b>											
Exports of goods and services (millions of U.S. dollars)	5,102	4,772	4,662	4,606	4,591	4,708	4,949	5,201	5,462	5,735	5,962
Government revenue (millions of U.S. dollars)	2,450	2,331	2,315	2,328	2,364	2,441	2,584	2,753	2,910	3,077	3,226
Quota (millions of SDRs)	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0	246.0
Quota (millions of U.S. dollars)	324.6	321.5	321.7	320.9	319.7	319.7	319.7	319.7	319.7	319.7	319.7
Gross international reserves (millions of U.S. dollars)	220	296	434	490	567	828	1,096	1,486	1,835	2,116	2,318
GDP (millions of U.S. dollars)	7,773	7,574	7,593	7,926	8,351	9,014	9,932	11,341	12,439	13,669	14,989
SDRs per U.S. dollar <sup>2</sup>	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8

Sources: IMF staff estimates and projections.

<sup>1</sup> Assumes access of 50 percent of quota as RCF disbursements.<sup>2</sup> October 2022 WEO Update GAS projections.

## Annex I. Republic of South Sudan’s Engagement Strategy Summary

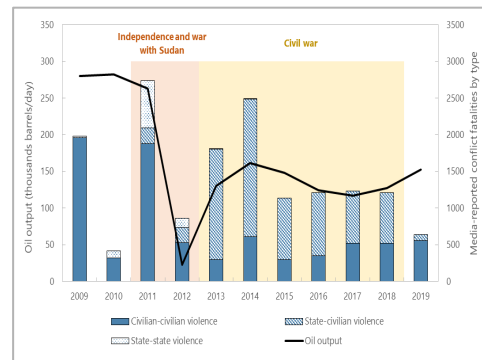
### A. Background and Context

**1. South Sudan’s economic and social indicators, which were already among the world’s lowest at the time of its independence in 2011, have deteriorated over the past decade.** At the time of its independence in 2011, South Sudan already ranked as one of the world’s poorest countries. Over the subsequent decade external and internal conflict damaged production capacity in the oil sector, the country’s most important economic activity (Text Figure 1). There is also a persistent gap between per-capita cereal requirement and output (Text Figure 2). As a result, 60 percent of the population experience acute food insecurity for at least part of the year.<sup>1</sup>

Although the Revitalized Agreement on the Resolution of Conflict of South Sudan (R-ARCSS) formally ended the country’s civil war in 2018, violent conflict continues locally to varying degrees. Several other indicators also point to severe social and structural issues in South Sudan. The literacy rate was less than 35 percent among adults in 2018 and life expectancy in 2019 was among the lowest in the world at around 57 years.

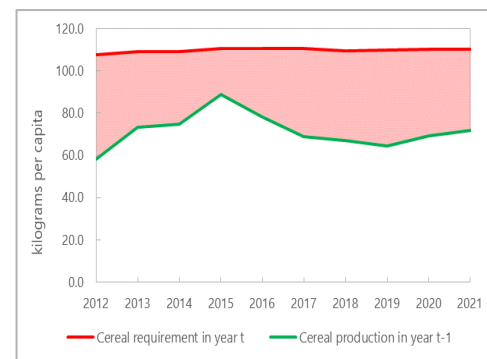
**2. Conflict and overlapping crises have prevented South Sudan from building inclusive governance institutions and providing basic public services.** Political power is heavily concentrated in the capital Juba. This concentration of power, combined with weak transparency and institutions, have undermined the management of public resources and exacerbated the poor quality of infrastructure and limited civil-service capacity. The wide gulf between the written law and the actual practice of government, and incidents of the capture of government policies by vested interests have led to a credibility gap with the international donor community. Yet donor support

**Text Figure 1. Republic of South Sudan: Media-Reported Conflict Fatalities and Oil Output Over Time**



Sources: Uppsala Conflict Data Program, South Sudanese Authorities, and IMF staff calculations.

**Text Figure 2. Republic of South Sudan: Estimated Cereal Production and Requirement**



Sources: FAO, and IMF staff calculations.

<sup>1</sup> Source: FAO Special Report on South Sudan, May 2021; <https://www.fao.org/publications/card/en/c/CB4498EN>

remains a vital lifeline. Off-budget support from international donors, worth US\$1.4 billion per year, is the sole source of basic food, health and education provision for a large share of the population.

## B. Sources and Consequences of Fragility

**3. South Sudan’s short history suggests it may be on the verge of falling into a “fragility trap”, with violent conflict, widespread poverty and weak institutions mutually reinforcing each other.** Institutional failure and scarcity of economic opportunities provide fertile ground for armed violence and the erosion of state authority, capacity, and legitimacy. As a result, political uncertainty persists, and inter-community violence continues to simmer. In turn, conflict impedes the establishment of robust governance institutions and curtails investment and economic development. The resulting institutional gaps can be exploited by actors seeking to divert a share of the country’s resources.

**4. There are many interlocking sources of South Sudan’s state fragility.**

- **An overly centralized state with limited legitimacy and checks on the Executive:** The executive branch of South Sudan’s government is headed by the President, who is both the chief of state and head of government. With a constitution still to be drafted and elections yet to be held, the President currently enjoys a virtual monopoly of power, able to appoint and dismiss ministers, judges, civil servants, and state governors with few formal constraints.
- **Rent extraction by vested interests:** There is little accountability in the management of public resources by a small group of politicians and businesspeople. The U.S. Government has sanctioned several highly connected South Sudanese individuals and companies in connection with corruption and the illicit appropriation of government resources.<sup>2</sup> South Sudan is also subject to UN sanctions on human rights grounds including arms embargo, travel bans and financial measures.
- **Violent conflict:** Violence—including gender-based violence—is widespread and affects almost every state in the country. Among the structural causes of this violence are disputes over land and cattle resulting from weak property rights, incomplete demobilization and an uncontrolled circulation of guns, and high levels of youth unemployment.
- **A large security sector/incomplete demobilization from civil war:** A compromise on the contentious unification of the armed forces was belatedly announced in April 2022. While this process remains incomplete, both the government and opposition retain their own forces of indeterminate size. A potential breakdown of the army unification process poses one of the most serious threats to the implementation of the R-ARCSS.
- **The legacy of independence from Sudan:** South Sudan encompasses most of the oil fields of the former state it shared with Sudan until 2011. Yet the country remains entirely reliant on Sudanese pipelines and port facilities to export the oil it extracts. Unresolved political

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<sup>2</sup> See the OFAC Sanctions List: <https://sanctionssearch.ofac.treas.gov/>

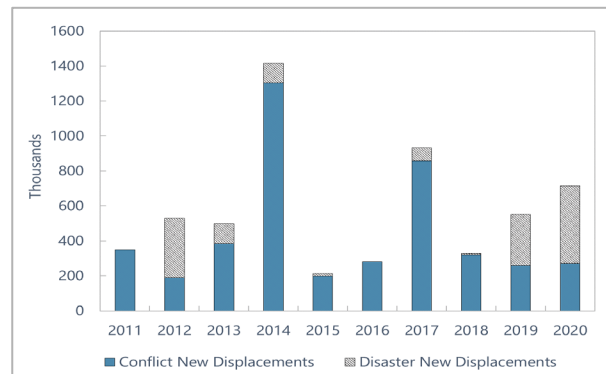
bargaining over the future division of oil revenues with Sudan has significant fiscal implications for South Sudan and is a possible source of regional political tensions.

- **Weak public financial management, including poor oversight in relation to government spending and borrowing:** Public financial management remains weak, in relation to procurement, fiscal reporting as well as cash and debt management. There was no central oversight over borrowing until recently and, as a result, the full extent of South Sudan’s external debts remains uncertain.

- **An economy over-reliant on oil:** Oil contributes about 60 percent of GDP, 95 percent of exports and 90 percent of government revenue. This makes the economy extremely susceptible to external shocks including fluctuations in oil prices and internal shocks such as the recent damage to oil production by flooding.

- **A large, displaced population:** Conflict and floods continue to displace a significant population in South Sudan. South Sudan is estimated to host approximately 1.5 million internally displaced persons, 2.3 million of its citizens live as refugees in neighboring countries (more than 50 percent of whom are children), and 8.3 million people out of a population of 13 million rely on some form of humanitarian aid.<sup>3</sup>

**Text Figure 3. Republic of South Sudan: New Displacements Over Time and by Cause**



Sources: IDMC, and IMF staff calculations

“New displacements” refers to new cases of displacement recorded by year.

- **An increasingly apparent exposure to climate shocks:** South Sudan has experienced devastating floods in the last three years, described as the worst since the 1960s. The UN estimates that the floods have affected at least 800,000 people and driven more than 200,000 from their homes in 2021. In line with this, disaster fallouts have overtaken conflict as a cause for new displacements in recent years (Text Figure 3).

## C. Strategy to Escape Fragility

**5. South Sudan has economic development needs that can only be met through sustained domestic and multilateral efforts.** South Sudan ranks 164 out of 165 countries according to the sustainable development report 2021 with a score of 38.9.<sup>4</sup> Progress towards the Sustainable Development Goals (SDGs) would require sustained efforts by the authorities, civil

<sup>3</sup> Source: UN OCHA South Sudan Humanitarian Snapshot, December 2021; <https://reliefweb.int/report/South-Sudan/South-Sudan-humanitarian-snapshot-december-2021>

<sup>4</sup> The score can be interpreted as a percentage of SDG achievement. A score of 100 indicates that all SDGs have been achieved. Source: Sustainable Development Report, 2021; [www.sdqindex.org](http://www.sdqindex.org).

society and the international community and likely take decades. While the country's economic development needs are manifold, a few economic objectives stand out:

- **Macroeconomic stability:** Providing a stable macroeconomic environment by ensuring stable prices, no recourse to monetary financing, and an end to ad-hoc borrowing and spending would create space to build economic resilience and increase the confidence of international donors and private investors.
- **Agricultural productivity:** About 80 per cent of the population lives in rural areas where subsistence agriculture is the backbone of livelihoods.<sup>5</sup> In these areas, insecurity, a lack of access to land and an absence of land-tenure regulation are constraints on agricultural productivity. There is significant untapped potential for expanding productivity by investing in irrigation, improving yields through seed selection and provision, developing aquaculture, and taking advantage of agroforestry opportunities.
- **Protect and enhance social spending:** Government expenditure on key social sectors including health, education, water and sanitation, and agriculture and rural development is virtually absent, creating a reliance on large-scale international humanitarian aid. By shouldering a greater share of this spending, the Government of South Sudan may be able to unlock donor support for longer-term development initiatives.
- **Foster private-sector development:** Infrastructure underdevelopment has reduced investor confidence, hampered investment and increased the cost of doing business.
- **Economic diversification:** Given its geographical and geological advantages, South Sudan has economic potential in non-oil sectors such as agriculture, fisheries, and mining.

**6. South Sudan also requires institutional development and change to increase the accountability of those that hold public power.** A successful political and institutional transformation would require, at a minimum, some progress towards all the below:

- **Establishment of power-sharing institutions:** The eventual political and institutional arrangement established by South Sudan's as-yet-to-be-written constitution needs to be finely calibrated to avoid "winner-takes-all" politics, and balance power between the President, Parliament, and the States.
- **De-concentration of political power:** Strengthening the representation of the States and of different subnational communities in South Sudan's governance infrastructure would ensure that resources are more evenly distributed, and their disbursement is better targeted towards local needs.
- **Restoration of state monopoly on security:** Civilian disarmament efforts need to continue at pace, accompanied by improved income opportunities for the demobilized.
- **Increased transparency:** The dominant oil sector needs to become more transparent, with a full accounting of the government's revenues from oil production and their use. South

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<sup>5</sup> Source: World Bank World Development Indicators.

Sudan needs to create appropriate fora (not limited to its Parliament) for the discussion of public policies, leaving space for civil society to scrutinize the conduct of government.

- **Tackling corruption risks:** South Sudan needs to establish and strengthen watchdog institutions and commit to regional and global transparency standards such as the Extractive Industry Transparency Initiative (EITI) and Financial Action Task Force (FATF).
- **Strengthening of property rights:** The establishment of an effective, integrated, socially legitimate, and acceptable system for the resolution of disputes over land and other natural resources is critical to quell conflict and support the private economy.

## D. Role of the Fund

### 7. The recent experience of the Fund with South Sudan—through two RCFs (in November 2020 and March 2021) and an SMP that was combined with the second RCF—offers several lessons for the Fund’s engagement with South Sudan going forward.

- **Timing:** Timely international support is key to success. The RCF disbursements and SDR allocation supported the authorities at a crucial time, when deteriorating internal and external economic conditions created an impetus for macroeconomic reform.
- **Pace:** The pace of reform implementation should be commensurate with capacity. This includes setting realistic objectives that respect political and resource constraints.
- **Inclusion of relevant stake holders:** The engagement policy should consider the inclusion of all relevant stake holders, especially development partners. This involves coordination, clear and constant communication, information sharing, and educating the authorities and international community about the IMF approach and engagement.
- **Capacity development:** CD support has been an integral part of Fund engagement with South Sudan. A sequenced approach to the delivery of hands-on CD improves absorption capacity and reform implementation.

**8. The focus of future Fund engagement should be to put macroeconomic reforms initiated under the SMP on a sustainable footing, and to support further governance and transparency reforms in areas in which the Fund enjoys a comparative advantage.** Fund engagement will have three main pillars. First, it will aim at sustaining monetary stability and the reformed market through the restoration of central bank credibility, the accumulation of reserve buffers, and a gradual expansion of the toolkit for the conduct of monetary policy and the monitoring of its economic impacts. Second, it will enhance the efficiency of fiscal operations by improving budget planning and debt management. Third, it will guide improvements in governance in relation to central bank operations, financial-sector supervision, fiscal transparency and oil revenue management.

**9. Alongside policy advice, the IMF will continue to assist the authorities through a tailored capacity building program that prioritizes key areas.** Given limited absorption capacity, an incremental approach to TA delivery would serve the authorities best. Experience under the SMP

suggests that in-person TA, delivered through a longer-term program of hands-on activities, has delivered the most tangible benefits. The authorities have expressed a strong preference for this approach. Support in the near term will prioritize capacity development on cash management, banking supervision, crisis management, and public debt management.

**10. There are significant risks to embarking on a closer engagement with South Sudan, through further credit disbursements or a longer-term financing program.** The manifestation of political risks, such as the collapse of the peace process, could halt or reverse reform progress. In addition, a deterioration of external economic conditions may undermine macroeconomic stability given South Sudan's limited resilience, while a prolonged oil price boom may undermine incentives for further economic and governance transformation. Moreover, frequent turnover of high-level officials and weak institutional and technical capacity are likely to act as a drag on the pace of economic reforms. If further Fund financing does not promote progress towards South Sudan's broader economic development, it risks burdening the country with additional senior debt with few offsetting long-term benefits.

**11. To balance these risks, a possible financing program would need to be designed to maximize the potential upside of the engagement.** Continued macroeconomic stability and a predictable, transparent FX regime are preconditions for furthering other reforms and reducing conflict potential. Reforms of governance and transparency under a future IMF-supported program should build on the experience with RCF spending audits, and further facilitate civil-society scrutiny of government against the backdrop of a reconstituted National Assembly and upcoming elections. Improvements in technical and institutional capacity should aim to unlock the potential for deeper structural changes going forward. Finally, closer IMF engagement should be calibrated to establish the track record necessary to unlock on-budget support for specific development projects by the broader international donor community.

## Annex II. Reserve Money Changes and Republic of South Sudan’s Exchange Rate

**1. Changes in reserve money are the main driver of South Sudan’s exchange rate, with a one percent change in reserve money typically leading to a roughly one percent depreciation of the South Sudanese Pound (SSP) against the dollar.** It is possible to use basic tenets of monetary theory to motivate an exchange-rate regression of the form:

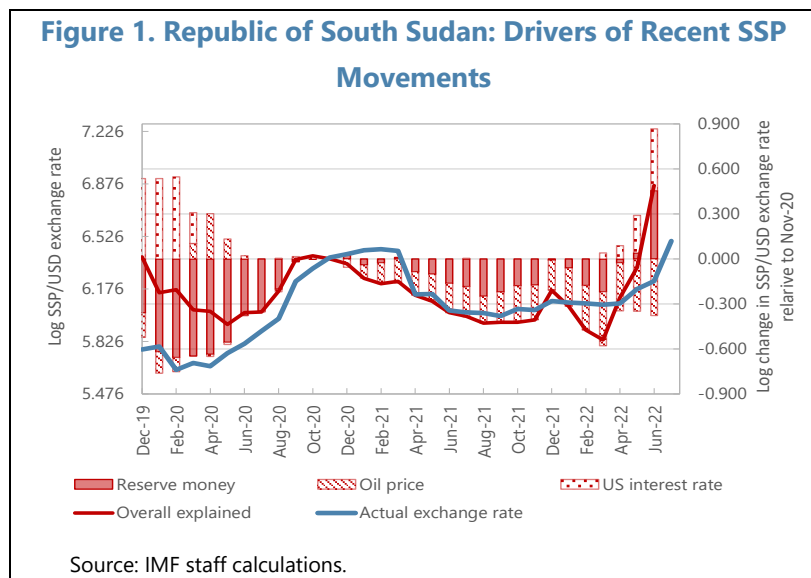
$$\ln S_t = -16.594 + 1.296 \ln M_t - .357 \ln P_t^{O*} + .367 r_t^* + e_t,$$

(.718)
(.021)
(.091)
(.038)

where  $S_t$  is the SSP/USD exchange rate in month  $t$ ,  $M_t$  is the level of reserve money reported by the Bank of South Sudan,  $P_t^{O*}$  is the global price of a barrel of Brent crude in dollars taken from the FRED database,  $r_t^*$  is the US federal funds rate, and  $e_t$  is a mean-zero error. The regression is estimated using monthly data for the period from October 2011 to June 2022. All coefficients are statistically significant at the 1% level, and the  $R^2$  is very high at .97. Most of the explanatory power of the regression is due to the reserve-money variable. Based on the estimates above, variation in reserve money explains 86 percent of the variation in the exchange rate over the sample period. Moreover, the regression shows that a one percent increase in reserve money leads to a 1.3 percent depreciation of the exchange rate. The blue line in the Figure 1 shows the actual path of the exchange rate since December 2019, and the red line the path explained by the regression model. The two lines track each other fairly closely, which makes the regression model a useful tool for interpreting the main drivers of recent exchange-rate movements.

**2. Based on the regression model, the depreciation of the SSP between April and November 2020 was primarily due to monetary loosening, while the appreciation between November 2020 and August 2021 was due to monetary tightening as well as higher oil prices.**

The red bars in Figure 1 break down the model-explained component of recent SSP movements into their contributing components. They show that almost all of the depreciation between April and November 2020 that can be explained by “fundamentals” was due to an expansion of reserve money. By contrast, the early-2021 appreciation, which continued until August 2021, was driven both by a reduction in reserve money and higher oil prices.



**3. Since April 2022, the SSP has faced depreciative pressure due to looser monetary conditions and higher US interest rates.** Although the regression-predicted path of the SSP has been more volatile than the actual exchange rate since the start of 2022, the regression model picks up the depreciative pressure that has been acting on the SSP since April. It shows that this pressure has been driven by a very sizeable increase in reserve money as well as rising US interest rates. Given the higher US rates and the likelihood of further US monetary tightening, even a reversal of the recent monetary expansion would therefore be unlikely to restore the SSP to values seen in the first half of the year (in the range SSP/USD 400-450).

**4. Given the current levels reserve money, US interest rates and oil prices as of June 2022, a valuation of the SSP in the range SSP/USD 600-650 seems appropriate.** This is consistent with the level at which the exchange rate appears to have stabilized since the summer. However, likely further US monetary tightening, or a possible decline in oil prices, could exert depreciative pressure on the SSP in the coming months.

## Annex III. Risk Assessment Matrix

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
<b>Conjunctural Shocks and Scenarios</b>			
<b>Intensifying spillovers from Russia's war in Ukraine<sup>1</sup></b>	High	<b>High.</b> Increased food and fuel prices and more inflationary pressure on the poor and vulnerable. On the positive side, higher global oil prices may strengthen the fiscal and external accounts.	Use windfall hydrocarbon earnings to rebuild macroeconomic buffers. Clear salary arrears and adopt temporary fiscal measures to protect food security for vulnerable population.
<b>Local COVID-19 outbreaks<sup>2</sup></b>	Medium	<b>Medium-High.</b> Hampering economic activity, putting more pressure on public resources to manage health conditions, larger economic scarring effects, higher unemployment, and poverty rate	Increase spending on health and social protection. Accelerate the coverage of vaccination (including boosters). Seek support from donors to cover medical needs.
<b>Systemic social unrest<sup>3</sup></b>	High	<b>High.</b> Social unrest fueled by increasing prices and shortages of essentials, inadequate healthcare, and low food security	Improve the adequacy of social spending. Gradually move to an efficient social safety net. Reprioritize spending.
<p><sup>1/</sup> Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.</p> <p><sup>2/</sup> Outbreaks in slow-to-vaccinate areas or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress.</p> <p><sup>3/</sup> Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows, slowing economic growth, and giving rise to economically damaging populist policies.</p>			

Source of Risks	Likelihood	Expected Impact on Economy	Policy Response
<b>Structural Risks</b>			
<b>Natural disasters related to climate change<sup>4</sup></b>	Medium	<b>High.</b> Increased pressures on public expenditures during flood or famine would divert resources away from growth-enhancing spending and decrease the growth. It also would lead to lower agricultural output, an increase in food inflation and negatively affect the poor and vulnerable groups.	Use targeted programs to help vulnerable groups. Build buffer to cushion against next natural disaster.
<b>Domestic Risks</b>			
<b>Political tension and the deterioration of security situation<sup>5</sup></b>	Medium	<b>High.</b> Diversion of resources to deal with internal conflict and heightened levels of country risk could hamper the growth and lower oil production and lead to and insufficient investment, economic instability and increasing poverty.	Keep implementing the peace agreement and seek reconciliation between the political parties. Focus on economic stabilization, fair sharing of oil revenues, and overall good governance.
<b>Delays in improving governance or capacity</b>	Medium-High	<b>High.</b> Diversion of resources from development and continued threat of social and political instability. Entrenched rent seeking behavior, pressures on current expenditures, and lower quality of public investment.	Strengthen anti-corruption efforts, including by improving transparency, focus on strengthening economic institutions, and foster progresses in business environment.
<p><sup>4/</sup> More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.</p> <p><sup>5/</sup> Overall, the political and security situation is stable but remains fragile.</p>			

## Annex IV. Anchoring Republic of South Sudan's Fiscal Policy

**1. South Sudan's fiscal position is weak and highly vulnerable, despite the pivotal role of fiscal policy in steering the economy.** Fiscal policy has been procyclical, fluctuating with changes in oil prices and production volumes, as oil income represents the main source of public revenues. Budget discipline and sound Public Financial Management (PFM) are lacking, which poses significant challenges to achieving fiscal sustainability and the objective of facilitating inclusive long-term growth. In this environment, designing an adequate fiscal strategy that allows the Ministry of Finance and Planning to perform its functions as intended should be a top priority. This annex provides an overview of IMF recommendations to some resource rich countries on the use of fiscal rules as part of their fiscal frameworks.

Country	Fiscal sustainability Anchor	Fiscal rule Category	Operational Rule	Numerical target	Comments
<a href="#">Chad (2017 ECF)</a>	External debt sustainability	Budget Balance	Non-Oil Primary Balance  Zero non-concessional borrowing	4.2  0	Discipline issue in run up to elections. Correction mechanism against oil price drops higher than 10% below budgeted.
<a href="#">Chad (2021 ECF)</a>	External debt sustainability	Budget Balance	Non-Oil Primary Balance	3.6	
<a href="#">Gabon (2021 ECF)</a>	Public debt/GDP ratio < 60 percent	Budget Balance	Non-Oil Primary Balance	Adjust NOPB by 3.9 percent of Non-Oil GDP over 2021–23. With 0.3 percent adjustment in 2021 to accommodate pandemic related spending	Tailored to accommodate pandemic shock and related spending needs
<a href="#">Angola (2018 EFF)</a>	Public debt/GDP ratio < 65 percent by 2024	Budget Balance	Non-Oil Primary Fiscal deficit	2,488 billion Kwanzas by December 2018; 1992 billion by December 2019; and 2384 billion by December 2020	Anchor and rules are easy to measure and communicate

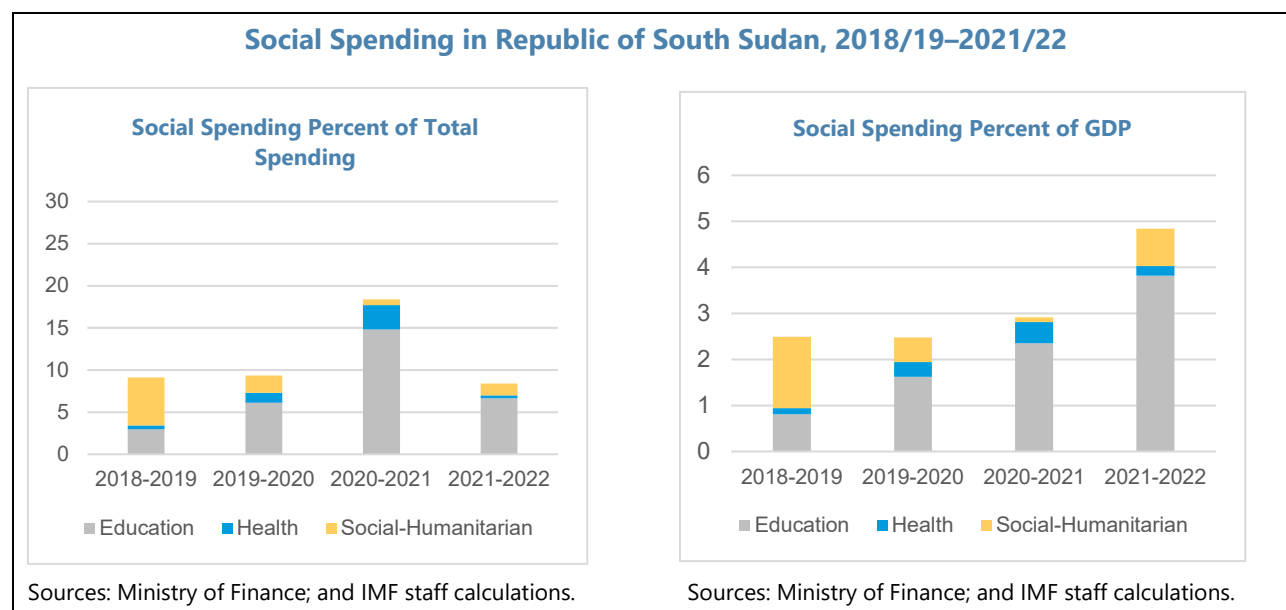
<b>Table 1. Republic of South Sudan: Fiscal Frameworks—Selected Country Experiences (concluded)</b>					
<b>Country</b>	<b>Fiscal sustainability Anchor</b>	<b>Fiscal rule Category</b>	<b>Operational Rule</b>	<b>Numerical target</b>	<b>Comments</b>
<a href="#"><u>Republic of Congo (2022 ECF)</u></a>	Debt sustainability – Debt to GDP ratio at 68 percent in 2027	Budget Balance Revenue Rule	Change in Non-Oil Primary Fiscal deficit Non-oil revenues External borrowing ceiling	4 percent by 2027 and a total deficit of 15.3 percent in 2022 budget. Floor of 120 b CFAF by end-Mar 2022, and 182 b by end-March 2023 Zero	Revenue rule to support non-oil revenue mobilization
<a href="#"><u>Qatar (2022 AIV)</u></a>	Non-Hydrocarbon primary balance at 30 percent of NH-GDP (PIH derived)	Budget Balance Expenditure rule	Non-hydrocarbon primary balance Expenditure growth	- NHPB of around 35 percent of NH-GDP in 2023 – 1 percent expenditure real growth annually	Objective to de-link spending from oil market volatility
<a href="#"><u>Saudi Arabia (2022 AIV Recommendation)</u></a>	Net Financial Asset (PIH derived)	Expenditure rule	Spending ceiling	1.5–2 percent real Exp growth, annually	Rule is de-linked from oil market volatility

## Annex V. Social Spending in Republic of South Sudan

### A. Background

**1. Social conditions in South Sudan are extremely dire.** Since December 2013, conflict has displaced more than four million people, with over 2 million fleeing to neighboring countries. Around 85 percent of the remaining population is involved in agriculture at the subsistence level. However, violence, floods and drought have disrupted agricultural output and other economic activity. As a result, the majority of the population inhabit a vulnerable environment, with to 82 percent experiencing some degree of food insecurity, and 25 percent severely food insecure. More than 60 percent of the population lives below the poverty line.

**2. Social spending has been rising slowly in recent years.** Education spending has been the largest component of social spending in government expenditure, with health and social protection-humanitarian coming in second and third, respectively. The health and social protection spending have stagnated or even dropped in some years, whereas the education budget has increased steadily and at a faster rate than other social expenditure. With the exception of 2021/22, the budget outturn for social spending is substantially lower than the budget allocation due to multiple factors, including fluctuations in oil revenues, donor funding shortfalls, lower fiscal space compared to other budget priorities and low government capacity.



### B. Education

**3. South Sudan has the world's highest proportion of primary school-aged children out of school (62 percent).<sup>1</sup>** The primary school enrollment rate is low (30 percent for female and 40 percent for male). Gender disparities are significant. The COVID-19 school closures, which lasted

<sup>1</sup> [UNESCO Institute for Statistics \(2019\)](#).

14 months for the majority of students, disrupted the education of over 2 million more children. Even before COVID-19, estimates of the number of out-of-school children climbed dramatically from 2.2 million in 2018 to 2.8 million in 2020.<sup>2</sup> Additionally, there is a significant percentage of overage students in South Sudan. Over 89 percent of primary school students and 93 percent of secondary school students in South Sudan are overage, according to the most current information on overage enrollment available.<sup>3</sup>

**4. The education system is underdeveloped, and the quality of schools is poor.**

More than 60 percent of teachers has no formal training. One-third of schools are damaged or destroyed. The pupil teacher ratio (PTR) is high. In some rural areas this ratio exceeds 70 to 1. Only 15 percent of head teachers report that every student has a pen or pencil and their own exercise book or notepad, and only 24 percent report that all of their instructors had a complete set of textbooks for the topics they taught.<sup>4</sup> A working supply of clean water was reported to be unavailable in one-third of schools.

**Republic of South Sudan: Pupil to Teacher Ratios, per Year**

PTR	2019/20	2020/21	2021/22
1-15 to 1	12%	10%	10%
15-30 to 1	25%	26%	30%
30-50 to 1	43%	41%	43%
50-100 to 1	16%	21%	14%
100+ to 1	3%	3%	2%

Source: 2021 South Sudan Education Cluster

**5. Enrollment, attendance, and retention in school can be increased by school feeding programs, which also provide students with essential nutrition.** Over 60 percent of headteachers report that no children (31 percent) or almost no children (30 percent) eat before school. 64 percent of headteachers indicate that students in their school did not get a lunch at school or food to take home. The World Food Programme (WFP), one of the main providers of school meals in South Sudan, supplies daily hot meals in over 1,000 schools throughout the country.

## C. Health

**6. South Sudan struggles with some of the worst health conditions in the world.** Only 44 percent of the population in South Sudan are estimated to live within reach of health facilities and have consistent access to primary care services.<sup>5</sup> The health system is facing a severe capacity crisis. Neonatal disorders, respiratory infections and HIV/AIDS diseases is high. The country has a very low rate of access to improved sanitation facilities, with only about 11 percent<sup>6</sup> of the population having access to basic sanitation services. The proportion of population using basic drinking water services is about 41 percent. UHC effective coverage index (a metrics for service coverage across population health needs) is low at about 41 percent.<sup>7</sup> The country's Health SDG indicators (SDG 3) are unfavorable.

<sup>2</sup> [UNICEF \(2021\). Education in Republic of South Sudan Briefing Note.](#)

<sup>3</sup> [UNESCO \(2018\). Global Initiative on Out-of-School Children: Republic of South Sudan Country Study.](#)

<sup>4</sup> [2021 Republic of South Sudan Education Cluster Assessment.](#)

<sup>5</sup> [Ministry of Health, The Netherlands \(2020\). Access to Health Care in Republic of South Sudan: A Qualitative Analysis of Health Pooled Fund Supported Counties.](#)

<sup>6</sup> [UN Data Portal \(2022\). Country Profile for Republic of South Sudan.](#)

<sup>7</sup> [https://www.thelancet.com/journals/lancet/article/PIIS0140-6736\(20\)30750-9/fulltext](https://www.thelancet.com/journals/lancet/article/PIIS0140-6736(20)30750-9/fulltext)

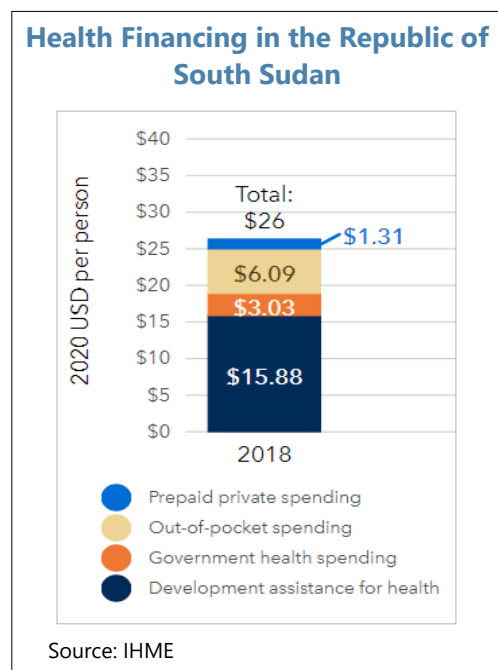
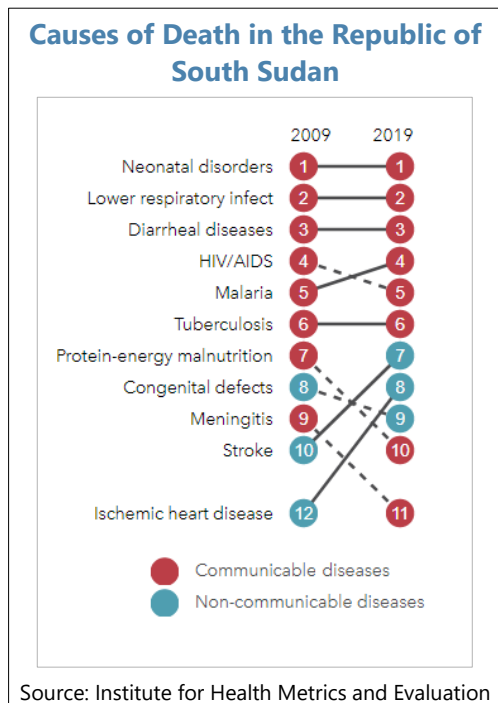
**7. Healthcare provision for children faces particularly grave challenges.**<sup>8</sup> 1 in 10 children die before the age of five. The routine immunization rate is just 44 percent. Inadequate access to health care, a shortage of health personnel, and a lack of access to health services have contributed to a child mortality rate of 78 per 1,000 live births (one of the worst in the world) and a maternal death rate of 789 per 100,000 births. Approximately 75 percent of all child fatalities in South Sudan are attributable to avoidable illnesses such as diarrhea, malaria, and pneumonia.

**8. Health care provision is heavily dependent on donor financing.** The health sector is underfunded, which constrains the government's ability to provide quality health care services to the population. The health care system is also inefficient, with a high number of patients seeking care at facilities that are often understaffed and lack essential medicines and supplies. In addition, the health workforce is insufficiently trained which further hampers the provision of quality health care. The health information system is weak, making it difficult to track disease trends and monitor the effectiveness of health interventions.

**D. Social Protection**

**9. South Sudan's social protection assistance system is underdeveloped and there is no comprehensive social safety net in place.** The national budget does not allocate any noteworthy resources for social assistance. No robust public social protection system exists for the vulnerable and disadvantaged groups. The government relies on humanitarian aid to meet the needs of poor.

**10. The National Social Protection Policy Framework (NSPPF) is the main legal framework for social protection.** The NSPPF envisions a nationwide social protection system with strong coordination and a variety of social protection programs for the most disadvantaged, was adopted by the government in 2015. Additionally, the government pledged to provide 1 percent of its yearly budget to the Ministry of Gender, Child and Social Welfare (MGCSW) in order to support the NSPPF.



<sup>8</sup> [UNICEF Republic of South Sudan. What We Do.](#)

However, progress on implementing the NSPPF has been slow due to the lack of resources, capacity and coordination.

**11. The NSPPF outlines the social protection goals of South Sudan.** Social protection in the legal framework is defined as the set of private and public mechanisms that protect and prevent individuals and households from suffering the adverse effects of shocks and stresses. The high-level objective of social protection is to safeguard the dignity of people in an inclusive way. The policy goals of the NSPPF ranges from promoting human development by expanding the inclusive reach and coverage of key social services to enhancing beneficiary identification and targeting and improving synergies within the national social system.

**12. The National Social Protection Working Group (NSPWG) is the key forum for the collaboration on social issues.** Through this platform, government and non-government players discuss technical and policy elements of social protection, reach agreement on policy and programmatic concerns, and cooperate to minimize duplication of efforts.

**13. The monitoring and evaluation (M&E) mechanism of the NSPPF offers a platform for partners to communicate program data with MGCSW and NSPWG.** The mechanism could contribute to enhanced coordination and harmonization of social protection programs and enable the government to assess progress and make informed budget allocation choices. Nonetheless, it has not been fully operationalized and remains under-resourced and underdeveloped.

**14. The NSPPF focuses largely on non-contributory social protection.** The framework designates a social protection system that includes unconditional cash transfers (to children, the elderly, people with disabilities, and ex-combatants), in-kind benefits (school nutrition), fee waivers (scholarships for females), subsidies (agricultural inputs), and unconditional cash transfers (public works). Over time, the NSPPF envisions the implementation of contributory schemes, such as a pension for public officials and community-based insurance.

**15. There is a dearth of information and statistics on the population's social protection requirements and profile.** The government does not have an operational system for collecting and analyzing social spending and protection data. The lack of reliable and up-to-date data hampers the development of evidence-based social protection policies and programs. It also limits the government's ability to track progress, assess impact and make informed decisions about budget allocation on social spending and protection.

**Text Table 1. Social Protection Financing in Republic of South Sudan**

<b>Agency</b>	<b>Program</b>	<b>Duration</b>
World Bank (funder)	South Sudan Safety Net Project (SSSNP); and the Safety Net and Skills Development Project (SNSDP)	2014–19; 2020–22
WFP (implementer)	Food Assistance for Assets (FFA) (excl BRACE II)	2018 extended ongoing as of 2021
WFP (implementer)	Urban Safety Nets (USN)	3 years extended ongoing as of 2021
WFP (implementer)	School Feeding Programme (SFP)	2018; extended ongoing as of 2021
Foreign, Commonwealth & Development Office (FCDO) & Global Affairs Canada (GAC)	Girls' Education South Sudan 2 (GESS 2)	2019–24 (5 years)
FCDO (funder)	Building Resilience through Asset Creation and Enhancement (BRACE) II	2016–20 extended ongoing as of 2021
<b>Government of South Sudan</b>	<b>Budget allocation to MGCSW</b>	<b>2018–19 (1 year)</b>

Source: Ministry of Gender, Child and Social Welfare (MGCSW), July 2021

**16. Nearly all of the funding for social protection programs comes from donors.** The main donors supporting social protection programs in South Sudan are the World Bank, The World Food Program (WFP), the United Kingdom's Foreign, Commonwealth & Development Office (FCDO, formerly DFID) and Global Affairs Canada (GAC). (See annex table). UNICEF has helped MGCSW in mapping the social protection spending in the country.

**17. The South Sudan Safety Net Project (SSSNP) funded by the World Bank helps the poor and vulnerable get access to employment opportunities and improves the safety net delivery mechanisms.** The Labor-Intensive Public Works component of the SSSNP offers conditional cash payments. The SSSNP pays each beneficiary family US\$ 361.80 in exchange for a certain number of days of work on small scale community infrastructure projects. Beneficiaries are also given training opportunities to help them make better decisions with the money they receive and build up their human capital. These consist of instruction in early childhood development, nutrition, financial literacy, and water, sanitation, and hygiene. Also, under the Direct Income Support component of the program, SSSNP offers unconditional CBTs to low-income, labor-constrained families led by women, children, the elderly, people with disabilities, and/or those who have chronic illnesses. The amount of money received remains the same as before.

**18. The World Food Program (WFP) runs Food Assistance for Assets (FFA), Urban Safety Nets (USN) and the School Feeding Program (SFP) in the country.** FFA seeks to alleviate hunger on a short-term basis while assisting families in building resilience against future shocks and strains. FFA gives CBTs or in-kind food assistance to food-insecure households who are engaged in the creation of productive assets at the household level (group block farms for crops or vegetable gardens) or communal assets (such as access roads, water ponds, or anti-flooding dykes). FFA offers six months of food assistance annually to help families fulfill their caloric demands throughout the labor-intensive phase of asset formation and to alleviate short-term hunger during the famine season. Households get around 35 kg of food (cereals, pulses, oil, and salt) each month, or US\$ 40.50 per month in U.S. dollars (converted into SSP). Urban Safety Nets (USN) is another WFP-implemented initiative that seeks to meet food security requirements and promote resilience in urban areas of South Sudan. The USN grants CBTs to disadvantaged urban families' contingent on their participation in five to ten days of capacity training. The School Feeding Programme (SFP) is the third program run by the WFP that delivers meals and/or take-home rations to elementary school students.

**19. Child protection is a key concern in South Sudan.** Children are affected by the conflict and violence, as well as by poverty and disease. There is a high prevalence of child labor. Additionally, children are sometimes recruited into armed conflict, which puts them at risk of violence and exploitation. There is a need for a comprehensive child protection system that can address the needs of all children, including those who are displaced, living in poverty or affected by conflict.

## E. Recommendations

**20. Improving social services in South Sudan is critical to mitigating the country's dire humanitarian situation and reducing its reliance on international humanitarian support.** This could be done partly by increasing social spending, which would help to improve access to basic needs like healthcare and education as well as social protection programs. Budgetary reforms will also be necessary to ensure that social spending is prioritized.

**21. A social spending-prioritized macro-fiscal policy for the country could contribute to an enhanced social protection system by providing a fiscal space for social assistance and by supporting reforms to make social assistance more effective and efficient.** This could involve expanding and ringfencing the coverage of social assistance programs in the budget and providing funding for the development of a more comprehensive social safety net. The program could also improve the targeting of social assistance programs by allocating adequate resources for the implementation of a national identification system or the development of a social registry.

**22. IMF engagement should support the government's efforts to improve the adequacy and sustainability of education and health spending and to make this spending more efficient.** The proposed PMB sets a floor on priority social spending – defined as spending on education, health, and social and humanitarian sectors – for FY2022/23 as a quantitative target (Table 5 b). The target is set to ensure the execution of budgetary allocations to these sectors which,

according to the authorities, have a tendency to be crowded out by overspending on the part of agencies with “greater muscle”. A possible future IMF program could also support reforms to improve the efficiency of education and health spending, such as by introducing a performance-based financing system for education and health providers.

**23. Collaboration with the partners is key to the success of the policy reform in social spending areas.** The Fund will largely rely on partners to support the designing and implementing of social protection programs. The World Bank is the main provider of technical assistance in social protection. The WFP also has expertise in social protection, particularly in the area of cash transfers.

## Annex VI. Republic of South Sudan's Capacity Development Strategy

### A. Context

**1. CD activities increased significantly to support South Sudan's reforms envisaged under the SMP program.** South Sudan formally joined AFRITAC East in May 2020. Since then, AFRITAC East has provided additional technical assistance and CD assessments. TA missions took place in several areas including monetary policy operationalization, liquidity management, financial sector supervision, banking resolution, PFM, government finance statistics, CPI statistics, and macro-fiscal analysis. The framework provided by the SMP also allowed for some institution-building through program targets that may improve CD traction going forward.

**2. There seems to be a new impetus to implement much-needed structural reforms, suggesting that TA traction could continue to improve.** The peace agreement, together with the engagement with the Fund under the SMP, seems to have brought a new impetus in the authorities' resolve to implement reforms, and performance in implementing the most recent PFM TA has been good (in contrast with past experiences). Nevertheless, low capacity, suggests that the best course of action in the near term would be for a streamlined and sequential technical assistance that is focused on the most critical needs, and delivered in small increments, allowing the authorities to implement recommendations step by step, while demonstrating continuous progress.

**3. The authorities have expressed a strong preference for longer-term, in-person TA.** Since the breakout of the global pandemic in March 2020, most TAs have been provided virtually. This supported the increase in CD activities as it saved time and cost and allowed for virtual follow-ups which improved absorption. However, experience under the SMP suggests that in-person TA, delivered through a longer-term program of hands-on activities, has delivered the most tangible benefits. The authorities have expressed a strong preference for this approach. In response, the IMF has resumed its in-person CD missions following the end of pandemic restrictions. FAD has also recently approved the assignment of an LTX on PFM and budget preparation which is expected to start around January 2023.

**4. Addressing South Sudan's status of being under Increased FATF Monitoring (Grey List) for AML/CFT risks requires CD support.** To address these risks, the authorities committed to implementing reforms as part of the action plan developed in June 2021. South Sudan has also been approved as observer to the Eastern and Southern Africa Anti Money Laundering Group (ESAAMLG) and has committed to undertake a Mutual Evaluation by ESAAMLG. Such progress needs to be complemented with CD support and authorities have requested TA in drafting the needed legislation in this area.

## B. CD Priorities

### 5. The authorities have indicated their interest in several capacity development topics related to the implementation of Chapter IV in the revitalized peace agreement as well as their action plan on AML/CFT.

- The reform program on public financial management is fully owned by the government who developed a concept note for its PFM reform in which 11 reform areas are prioritized (Annex Box). The authorities have requested and received assistance in PFM issues including the implementation of a Treasury Single Account (TSA), cash management, and arrears management. Progress of reform in these areas remains ongoing and will likely require additional support through follow ups and additional TA. A technical assistance program to support the National Revenue Authority, which predates the PFM impulse, is ongoing.

#### Current PFM Reform Priorities in Republic of South Sudan

1. Implement a TSA
2. Strengthen cash management
3. Relocate Loans Committee to MoFP
4. Review, verify and clear all arrears
5. Review and verify loans and contracts collateralized or guaranteed against crude oil
6. Strengthen the Anti-Corruption Commission (ACC) and the Audit Chamber (external auditor)
7. Establish a Public Procurement and Asset Disposal Authority (PPADA)
8. Rollout electronic payroll using biometric system
9. Strengthen Fiscal and Financial Allocation Monitoring Commission (FFAMC)

- Further TA support for the central bank is needed to carry forward the reforms initiated under the SMP. This includes several topics in monetary policy, currency operations, FX management, and banking supervision. The authorities have recently received TA support on developing a crisis resolution framework and addressing the issue of undercapitalized banks. In addition, the authorities have expressed interest in continuing the support the areas of monetary policy and FX management including the introduction of Term Deposit Facility. They also identified other topics including assistance in compilation of statistics. The IMF safeguard assessment revealed several CD needs. To help address some of the safeguard assessment recommendations, the authorities need CD support in several central banking operations that include TAs in Currency Operations, and an IMF long-term expert to improve financial reporting.
- In the area of AML/CFT, the objective is to bring the AML/CFT legal and institutional framework into compliance with international standards thereby allowing South Sudan to exit the gray listing of FATF. This will require significant effort on many fronts (e.g.,

development of a National Risk Assessment, risk based supervisory regimes and a system for the collection of beneficial ownership information). Authorities have requested TA in identifying gaps and drafting the needed AML/CFT legislation. The TA could potentially cover a comprehensive review of the AML/CFT Act enacted in 2012, capacity development for the Financial Intelligence Unit, and development of a legal framework to collect information on beneficial ownership.

- Support in debt management is underway in integral to the reform planned under the SMP. A scoping mission has recently been provided to assess gaps in debt management practices and will be followed by a joint FAD-MCM mission to build the institutional framework for debt management and a medium-term debt strategy.
- Priority topics for CD growth are debt management, crisis resolution, public investment management, and wage structure, with assistance on CPI, national accounts, and external sector statistics to be provided subject to absorption capacity.

<b>Priority CD Topics</b>		
<b>Priorities</b>	<b>Objectives</b>	<b>Challenges</b>
Public Financial Management	Support the authorities' PFM reform strategy, implement a treasury single account, improve cash management, improve debt management, and strengthen the macro-fiscal framework.	Absorptive and implementation capacity is very low. Streamlined TAs has been taking place but should focus on small steps and be incremental.
Revenue Administration	Improve petroleum revenue management, as well as non-oil revenue	The institutional, absorptive and implementation capacities are very low. The reforms underway at the national revenue authority have resulted in a significant increase in non-oil revenue but additional reforms are needed. While the recently established PFM oversight committee has helped, there is still weak coordination between the ministry of finance and the ministry of petroleum which complicates the management of oil revenues and oil advances.
Central Bank Operations	Improve monetary policy operations and FX management, liquidity management, currency operations, banking supervision and resolution, and debt management.	Implementation capacity is very low at the central bank, and TA is required for most central bank operations. For virtual missions, IT facility is only available in the CB board meeting room.
Statistics	Improve monetary and financial statistics, balance of payment statistics, debt statistics, CPI, and national statistics.	Absorptive and implementation capacity is very low. Ownership needs to be established.
AML/CFT	Review the existing law, prepare for joining international conventions, develop a legal framework on beneficial ownership	The institutional, absorptive and implementation capacities are very low. Ownership needs to be established.

## C. CD Risks and Modality

**6. Limited absorptive and implementation capacity remains the key risk to the CD activities.** Traction on CD has historically been low and, although showing signs of improvement recently, the implementation of TA recommendations has been very slow due to political constraints, weak governance, high staff turnover, limited institutional memory, and frequent change of management in most recipient institutions. Post-pandemic, while virtual TAs has helped expedite the delivery and follow up of TA, weak IT capacity has posed a major challenge.

**7. Fund engagement with authorities in CD activities has taken place through several channels.** These include the Fund’s local office in Juba, bilateral meetings in HQ and Juba, workshops in neighboring countries, as well as several virtual meetings during the COVID-19 pandemic; the latter, which took place over a longer time period due to constraints linked to time differences were very productive, allowing for an in-depth dialogue with the authorities that did not stretch capacity. South Sudan joined AFRITAC East in May 2020, and this has opened opportunities to deliver CD and helped increase support with several TA activities executed through the AFRITAC East center. As for engagement with outside partners, The World Bank CD activities are coordinated through the WB country manager in Juba.

**8. Incremental TA delivery supports the authorities best.** Low capacity suggests that the best course of action in the near term would be for technical assistance focused on the most critical needs and priority topics, delivered in small increments, in person, and through a series of longer-term interactions, allowing the authorities to implement recommendations step by step, while demonstrating continuous progress.

## D. Priorities by IMF Department

FAD	
Topics (ordered based on priority)	Objectives
Debt Management (joint with MCM)	Strengthen the debt management framework including by enhancing debt data recording, monitoring, reporting and disclosure. This is a high priority area.
Public Financial Management	Implementation of the PFM reform strategy concept note, TSA implementation, cash management, and development of the macro-fiscal framework.
Expenditure policy	Enhancing execution of the budget in line with plans and support fiscal discipline
Revenue Administration	Improving petroleum revenue management; enhance non-oil revenue management through CD to the national revenue authority

<b>MCM</b>	
Topics (ordered based on priority)	Objectives
Debt Management (joint with FAD)	Developing a medium-term debt management strategy. This is a high priority area.
Crisis resolution	Addressing the prevalence of critically undercapitalized banks (CUBs) in the domestic banking sector, developing a crisis resolution framework, and strengthening central bank supervisory capabilities. This is a high priority area.
Liquidity forecasting and monitoring	Continuing hands-on training and follow up virtual sessions to achieve the objective of issuing daily liquidity reports.
Currency Operations	Developing a strategy to strengthen currency operations including purchasing, storage, processing, destruction activities.
Banking Supervision	Identifying regulatory gaps and implement Risk Based Supervision (RBS). Authorities requested TA on RBS.
Central bank operations	Enhancing monetary policy implementation and introducing monetary policy tools and facilities (e.g., term deposits).

<b>STA</b>	
Topics (ordered based on priority)	Objectives
Monetary and financial statistics, balance of payment statistics, debt statistics	Supporting central bank in its operations
Government Finance Statistics	Compilation of fiscal and public debt data
CPI statistics	Improving the collection and methodology of CPI calculation across different states.
Real Sector Statistics	Computing and publishing national accounts statistics

<b>LEG</b>	
Topics	Objectives
AML/CFT	Supporting the authorities in identifying gaps in the legal framework and drafting legislation to address such gaps

## Appendix I. Letter of Intent

Juba, Republic of South Sudan, February 16, 2023

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

Dear Ms. Georgieva:

Since the start of the Staff Monitored Program (SMP) in March 2021, we have advanced important economic reforms. This includes the enactment of a successful FX reform and improvements in public finance management (PFM). Specifically, we liberalized the FX market and unified the official and parallel exchange rates, eliminating a premium of over 200 percent between the two at the beginning of the SMP. In addition, we have eliminated all domestic salary arrears, which amounted to 5 months in January 2021, and have introduced revenue and customs administration reforms that have resulted in a significant increase in non-oil revenue collection. We have also increased the transparency of fiscal and monetary operations, including by publishing: budget implementation reports for FY2020/21, FY2021/22, and the first quarter of FY2022/23; the stock of external debt as of end-December 2021; monthly monetary surveys; regular FX auction reports; and the audit reports of the two disbursements under the Rapid Credit Facility.

We have taken corrective measures over the recent months to bring the SMP back on track following slippages against the monetary and fiscal targets for end-August 2022. Fiscal pressures in FY2021/22 proved greater than anticipated, reflecting mainly increased spending on peace-related sectors and continued lifting of crude oil by Sudan in excess of agreed transit fees, despite the end of the Transitional Financial Arrangement in March 2022. Simultaneously, oil resources earmarked for capital spending doubled to 20,000 bpd during the second half of the financial year. Together with large principal repayments, this created sizeable salary arrears and unanticipated financing needs, contributing to a temporary resumption of oil advances, and monetary financing in the second half of the fiscal year. Monetary financing led to a significant depreciation of the exchange rate that has put additional pressure on prices. We have taken several corrective measures, including halting monetary financing since August 2022. This has stabilized the exchange rate and is expected to restore inflation to single digits over the course of the fiscal year. We have also completed all the reforms targeted under the structural benchmarks for the third SMP review.

We face urgent balance of payments (BOP) needs. Recent devastating floods that have hit South Sudan for the fourth year in a row in conjunction with the impact from the latest global food and fuel shocks are exacerbating an already difficult humanitarian situation. The flooding has

reduced oil production and agricultural output, displaced communities, and has had a severe impact on people's access to essential services and humanitarian aid. The challenging humanitarian situation has deteriorated further, with about two-thirds of the population estimated to experience severe food insecurity this year, the highest level since independence.

We are requesting emergency funding from the IMF under the food shock window of the Rapid Credit Facility (RCF) to finance our urgent BOP needs, amounting to SDR 86.1 million, or 35 percent of quota (about US\$115.7 million). We expect these funds to be disbursed to the BoSS, which will create a separate monitored account at the Bank for International Settlements (BIS) or US Federal Reserve (Fed) to help ensure transparency and accountability. Considering the sizable expected fiscal gap in FY2022/23—SSP 254 billion (about 5 percent of GDP)—we ask for about 37 percent of this support (US\$43.1 million) to be made available to the budget by having it on-lent by the BoSS to the government on the same terms as obtained from the IMF, which will be credited to a dedicated account at the BOSS. We have already prepared, in consultation with Fund staff, a memorandum of understanding (MOU) between the Ministry of Finance and Planning (MoFP) and the BoSS, stipulating responsibilities for servicing in a timely manner the financial obligations to the IMF for this disbursement under the RCF. To help us mitigate the impact of food price and climate shocks on vulnerable groups, we will immediately transfer US\$15 million from the part of the RCF disbursement that goes to the budget to the World Food Programme (WFP), in line with government commitments to provide financial support to WFP in South Sudan, and another US\$5 million to the International Organization for Migration (IOM). The Government of South Sudan (GoSS) will sign separate MOUs with the WFP and IOM that will specify the programs to be funded by these transfers. The remainder of the part that goes to the budget will be used predominantly to finance spending by the Ministry of General Education and Instruction and the Ministry of Health through conditional transfers, which can be easily followed and reported, in line with the allocations made in the FY2022/23 budget adopted by the National Assembly.

We are committed to transparency in the use of these resources. We will ensure that all transactions carried out by the GoSS are recorded in the IFMIS. The Auditor General (AG) will complete by end-September 2023 an audit of all central government spending funded from this disbursement, and the final AG report will be published promptly on the MoFP website. In parallel with this, with assistance from the World Bank the MoFP will conduct a system's review of the expenditure chain in at least 3 States with a view to identifying measures to enhance compliance with the use of conditional transfers from the central government. The GoSS is also committed to conduct, jointly with the WFP and IOM, an assessment on the impact of the WFP and of the IOM programs financed by the envisaged transfer of part of the RCF disbursement discussed above, and to make public the findings of these assessments.

The government and the BoSS are strongly committed to deepening further the economic reforms started under the SMP, to put South Sudan on a path of sustainable and inclusive growth. To that end, the focus of our economic reform program in the near term will be on maintaining macroeconomic stability, strengthening the monetary policy framework, preserving exchange rate unification, and strengthening governance.

- *Restoring fiscal discipline and maintaining debt sustainability.* The FY2022/23 budget will be executed without recourse to monetary financing with a view to maintaining exchange rate and price stability, while ringfencing social spending. This will be achieved via reforms to increase non-oil revenue further and containing spending within the resource envelope, while giving priority to spending on salaries, health and education spending, and peacebuilding. We will also refrain from contracting non-concessional debt, except for: (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) transactions that finance, while avoiding excessive external borrowing, critical investment projects with a high social and economic return that are integral to our national development program, and for which concessional financing is not available. We will consult with the IMF staff prior to contracting any new non-concessional borrowing including oil presales and/or advances.
- *Strengthening the monetary policy framework and improving the functioning of the FX market.* We are committed to refraining from monetary financing and the BoSS will operationalize the monetary policy framework based on reserve money targeting. This will be achieved by setting quarterly reserve money targets and using FX interventions and the new term deposit facility (TDF) to steer reserve money consistent with the targets. We will continue regular FX auctions to facilitate price discovery in the market, and will expand our monetary policy toolkit, including by enhancing the newly introduced TDF.
- *Strengthening governance.* We have started to implement reforms aimed at strengthening our PFM systems, which are critical for supporting good governance and transparency, and for effectively delivering the essential goods and services on which citizens and economic development rely. Consistent with the Immediate Action Plan for PFM reforms, the focus of reforms in this area will be on: strengthening the macro-fiscal framework and budget process; making further progress towards the Treasury Single Account; improving cash management practices; establishing a public procurement and asset disposal authority; starting the rollout of the electronic payroll for government employees using the biometric system; and implementing the outstanding recommendations of the IMF safeguards assessment.

In support of our reform agenda and program, the GoSS requests an IMF Staff-Monitored Program with Board Involvement (PMB) from January 31 to October 31, 2023. We consider the PMB to be essential in supporting our macroeconomic and stabilization efforts, building a track record of sound policy towards a future Fund-supported program, and an indispensable further step towards deepening relations with the international community, including the mobilization of financial support for critical development and poverty-reduction measures on concessional terms. The enclosed MEFP and the Technical Memorandum of Understanding (TMU) provide comprehensive details of our reform agenda and program.

We will not introduce any measures or policies that would compound our BOP difficulties and will not impose new or intensify existing trade restrictions. We will also not introduce or intensify existing restrictions on payments and transfers for current international transactions;

introduce or modify multiple currency practices; or enter into bilateral payments agreements which are inconsistent with Article VIII of the IMF's Articles or Agreement. The GoSS will provide IMF staff with such information as may be requested in connection with the progress made in implementing the economic and financial policies and in achieving the objectives of the program. The GoSS authorizes the IMF to publish this letter, the attached MEFP and TMU, and the related staff report, and the debt sustainability analysis (DSA) prepared by the IMF and World Bank staff, including placement of these documents on the IMF website.

Sincerely yours,

/s/

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Mr. Dier Tong Ngor  
Minister, Ministry of Finance and Planning

/s/

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Mr. Johnny Ohisa Damian  
Governor, Bank of South Sudan

Attachments,

- I. Memorandum of Economic and Financial Policies
- II. Technical Memorandum of Understanding

## Attachment I. Memorandum of Economic and Financial Policies

Juba, Republic of South Sudan, February 16, 2023

### A. Recent Economic Developments and Outlook

**1. Macroeconomic conditions have benefitted from the recovery of oil prices since mid-2021 but continue to reflect the devastating effects of consecutive years of flooding.** Severe floods that have hit South Sudan for the fourth year in a row are weighing on the economy and offsetting the positive effect from the recovery in global oil prices since the pandemic. The flooding has hampered oil production, which declined from 169 thousand barrels/day (bpd) in FY2020/21 to 156 thousand bpd in FY2021/22. The floods have also affected agricultural output, killed livestock, displaced communities, and have had a severe impact on people's access to essential services and humanitarian aid. As a result of these factors, real GDP is estimated to have contracted by 2.9 percent in FY2021/22. Oil production is expected to drop to around 150 thousand bpd in FY2022/23, which will more than offset the projected growth in agriculture, leading to an expected real-GDP contraction of 0.3 percent in FY2022/23.

**2. A weaker exchange rate and higher global commodity prices from recent geopolitical developments are contributing to higher inflation in South Sudan.** As a result of fiscal pressures there was a resumption of overdrafts from the Bank of South Sudan (BoSS) during March-August 2022 to reduce arrears on salaries and goods and services. This led to a large expansion in reserve money during this period, which triggered a significant exchange rate depreciation. Together with the increase in global food and fuel prices since Spring 2022, this led to a sharp increase in prices in Juba and other major cities in recent months. We have taken corrective actions by halting overdrafts from the BoSS, following which the exchange rate has stabilized. However, given that South Sudan relies heavily on imports for consumer goods—including refined fuel products, grains, and medicine—inflation is expected to remain elevated for several months. Absent further external shocks, the restoration of steady money growth below 10 percent per year is expected to contain inflation in the near term and gradually restore it to single digits.

### B. Performance Under the SMP

**3. We have advanced significant economic reforms since the start of the SMP in March 2021.** Specifically, we liberalized the FX market and unified the exchange rates in the market since August 2021, eliminating a premium of over 200 percent between the official and parallel market exchange rate at the beginning of the SMP. In addition, we have eliminated all domestic salary arrears, which stood at 5 months in January 2021, and have introduced revenue and customs administration reforms that have resulted in a significant increase in non-oil revenue collection. We have also increased the transparency of fiscal and monetary operations. On fiscal operations, we have published budget implementation reports for FY2020/21, FY2021/22, and the first quarter of FY2022/23, as well as the audit reports from the Auditor General Office on the two disbursements under the Rapid Credit Facility. In addition, an international audit firm completed in December 2022 a report with the results of a stocktake of our external debts, and the report has been published as

prior action for the RCF and PMB. On monetary operations, BoSS is releasing monthly monetary surveys that provide information on international reserves, BoSS claims on the government, and monetary aggregates, among others, and it publicizes the results of weekly auctions FX auctions to banks and FX bureaus.

**4. Performance under the quantitative targets under the SMP for end-August 2022 and on structural fiscal reforms has been mixed.** The floor on net international reserves and clearance of salary arrears have been met as we have eliminated all domestic salary arrears as of August] 2022. We are also taking steps to progressively reduce the salary arrears to our diplomatic personnel serving abroad. However, the ceilings on the central government cash deficit, borrowing from the central bank, contracting or guaranteeing non-concessional borrowing, and reserve money growth were missed (Table 1), as a result of the temporary resumption of overdrafts from the BoSS and a return to the use of oil advances for bridge financing of the budget. The reforms targeted under the structural benchmarks for the third review of the SMP have all been implemented or have been implemented as prior action for the RCF and PMB request (Table 2). In addition, we have started drafting an MOU between the MoFP and BoSS, expected to be completed by January 2023, which will set out the arrangement of the Treasury Single Account (TSA). With regard to cash management, which includes managing oil revenues, the Cash Management Unit (CMU) has updated the cash plans with assistance from TA provided by the IMF, and the Cash Management Committee (CMC) has started to have a monthly meeting to review and approve the updated cash plans and discuss any needed measures identified in those cash plans.

## C. Economic Policies

**5. The government and the BoSS are strongly committed to deepening the economic reforms started under the SMP in support of the objectives for economic governance and development outlined in our Revitalized Peace Agreement.** Our focus will be on ensuring macroeconomic stability to create conditions for robust and inclusive growth. To that end, the focus of our economic reform program in the near term will be on improving revenue collection while continuing our policy of no BoSS financing of the budget. To avoid the re-emergence of domestic expenditure arrears we will contain spending within the available cash, while ensuring that budgetary allocations to social sectors (education, health and social assistance) are protected and, if possible, expanded. At the same time, we will continue with our reforms to strengthen governance. Our fiscal policy will focus on maintaining macroeconomic and public debt stability as well as re-enforcing transparency and discipline in budget execution.

### Fiscal Policy

**6. We are deepening the revenue administration reforms that are yielding significant gains in non-oil revenue collection.** Non-oil revenue has increased progressively. It amounted to SSP 8.9 billion per year when the National Revenue Authority (NRA) was set up in FY2016/17 and reached SSP 83 billion in FY2021/22. Under unchanged policies, non-oil revenue is now expected to reach over SSP 150 billion in FY2022/23. This significant increase primarily reflects improved compliance following the introduction of an e-tax system in 2021 that provides a portal for online

registration, filing, and payment as part of the broader e-government drive. To support NRA's efforts in increasing revenue collection further, the Council of Ministers approved in September 2022 the first Strategic Plan for NRA that sets its direction for the next five years. This plan, which envisages an increase in the number of NRA staff and leveraging the use of information and communications technology to transform business processes, aims to increase non-oil revenue from 2 percent of GDP projected in FY2022/23 to 6.5 percent of GDP by FY2027/28. This will be achieved primarily by simplifying the tax regime to enhance tax compliance and improve the ease of doing business, introducing an integrated tax management system, and developing a framework to operationalize tax dispute resolutions, and appeals procedures including a tax appeals court. In addition, the NRA will seek to promote trade facilitation, including by modernizing its customs operations through automation, customs risk management, and post-clearance audits.

**7. Improved collection of non-oil revenue and higher oil prices have increased revenue projections relative to the FY2022/23 budget.** Total revenue during the first four months of this fiscal year (July-October 2022) has been much higher than projected at the time of the budget. This reflects both better non-oil revenue collection – which, at SSP 49 billion, was double the revenue collected in the same period last year – and higher oil prices than assumed in the budget. The latter have more than offset the significant decline in oil production, caused by extreme floods that have rendered many oil wells inoperable in recent months. As a result, we now project that overall revenue will reach SSP 1,587 billion in FY2022/23, compared to SSP 883 billion in the budget.

**8. Despite improved prospects for revenues, we project a significant financing gap under unchanged policies.** Several factors are constraining our fiscal space. These include the need to allocate additional resources for salaries of about SSP 21.8 billion to accommodate an increase in military personnel, as part of the gradual unification of government and former opposition armed forces. It also includes projected debt service and interest amounting to SSP 370 billion. In addition, Sudan continues to lift a sizeable portion of our share of profit oil in excess of agreed transit fees and without payment, despite the fact that South Sudan's obligations to Sudan under the Transitional Financial Agreement (TFA) ended in March 2022. The value of crude oil taken by Sudan in this manner since the end of the TFA amounted to over US\$400 million as of end-October 2022. These factors together imply a financing gap of SSP 255 billion in FY2022/23 under unchanged policies.

**9. We are considering several steps to help close the fiscal financing gap, some of which will be part of a supplementary budget that we plan to table shortly to our National Assembly.**

- **On the revenue side**, these include: (i) adjusting gradually the exchange rate being used for assessing taxes on imported goods from the current level 90 SSP/US\$ compared to about 770 SSP/US\$ in the market in a way that would raise customs revenue over time while containing the social impacts of an increase in the price of imported goods; (ii) increasing the custom duty rates for some products (consistent with our commitment to align our external tariffs with the rates prevailing in the East African Community, of which we are a member); (iii) expanding further the digitalization of the tax system; and (iv) reviewing the various tax exemptions that are at the discretion of the MoFP, with a view to rescind those that are not in compliance with the agreement set at the time these exemptions were granted, and to phase

out the remaining ones. To be on the conservative side, we do not project additional revenues from these planned measures until we have more clarity on the specific changes.

- **On the expenditure side**, these include: (i) reducing the amount of crude oil allocated for the oil-for-infrastructure scheme from 20,000 to 15,000 barrels per day, which at current oil prices is projected to provide savings of about SSP 107.1 billion; (ii) not transferring the 10 percent and 15 percent share of oil revenue to, respectively, the Future Generation Fund and the Oil Stabilization Fund, which will reduce financing needs by about SSP 157 billion; and (iii) seeking intermediation from international partners to reach agreement with Sudan both on receiving payment for credits accumulated for the delivery of oil in excess of transit fees following the completion of the TFA, and on an equitable oil transit arrangement going forward. To ringfence spending on salaries and social sectors and avoid reemergence of arrears in these areas, we have allocated the proceeds of one oil cargo every month to salary payments and will include separate quantitative targets (floors) in the PMB on spending for salaries and for social spending (health, education, and social protection).
- **On public salaries**, the Economic Cluster is exploring a strategy to raise public sector salaries, which are very low by regional standards and whose real value continues to be eroded by inflation. However, we intend for any wage increases to be fully offset by revenue and expenditures measures.

**10. We remain committed to refraining from monetary financing and intend to execute the FY2022/23 budget without reliance on non-concessionary external financing.** We are committed to avoiding any further non-concessional borrowing unless a very limited set of conditions are met. Specifically, we will not contract or guarantee new non-concessional loans for the duration of the PMB unless either: (i) debt management operations improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) loans finance critical investment projects with high social and economic returns that are integral to our national development program, and for which concessional financing is not available. In these cases, we will seek to avoid non-concessional borrowing with high effective interest rates due to hidden fees and short maturities. Consistent with the Cabinet of Ministers' Resolution of October 2020, we will continue to refrain from contracting oil-backed loans, and we will consult with the IMF staff prior to contracting or guaranteeing any new non-concessional debt. We will also build a buffer of at least one month of fiscal outlays to obviate the need to resort to rely on expensive oil advance payments to compensate for cash shortfalls.

### **Exchange Rate, Monetary, and Financial Sector Policies**

**11. We are taking steps to operationalize the reserve money targeting framework.** Given the current state of development of South Sudan's financial sector and the policy levers at the disposal of BoSS, reserve money targeting remains the appropriate monetary policy framework for the time being. We will continue to implement this framework by targeting an annual reserve money growth rate of 10 percent or lower, as initiated in March 2021 under the SMP. We will also continue to conduct regular FX auctions to aid price discovery in relation to the exchange rate and publish auctions data on the BoSS website in a timely manner to foster confidence among market

participants. We introduced in October 2022 a new term deposit facility, initially with 14-day and 28-day maturities, as a first step to expanding the monetary policy toolkit of BoSS. These instruments have attracted significant interest from banks. As of end-November 2022, we have mopped up about SSP 23.7 billion (about 30 percent of the outstanding stock of banks' excess reserves with the BoSS at end-September 2022). We intend to expand the range of maturities to 90 days, 3-months and 6-months based on interest expressed by banks, and will continue to refine this facility to develop it into a viable means of managing liquidity. We will coordinate closely with MoFP at the technical level, through the recently instated Liquidity Working Group, and at leadership level, through the CMC. This will improve our capacity for liquidity monitoring and forecasting, with a view to tracking market developments better and responding to them effectively, using the tools at our disposal.

**12. We will address the undercapitalization of the domestic banking sector and take steps to improve banking supervision and financial inclusion.** Our approach to addressing the undercapitalization of domestic banks will be to promote mergers where possible, and to enforce liquidation where needed. We have revoked the licenses of 2 inactive banks that exceeded the 6-month threshold to start operations after license issuance and, based on IMF TA, have prepared a strategy to review the licenses of banks that have ceased operations and to address undercapitalization in the domestic banking sector. This strategy will be approved by the BoSS Board by end-June 2023 (proposed structural benchmark).

**13. We are taking steps to improve banking supervision and financial inclusion.** The BoSS has published audited financial statements through 2020 (the audited statements for 2021 are being finalized and will be published shortly) and will proceed to enforce the publication by April 2023 of audited financial statements by all commercial banks operating in South Sudan. In addition, we have requested all banks to supply BoSS with granular deposit data, to aid BoSS planning for the possible introduction of a deposit insurance scheme as part of our commitments towards further integration with the East African Community (EAC). With IMF assistance, we have compiled new quarterly Financial Soundness Indicators (FSIs) in line with current best practices. We have published on the BoSS website these FSIs for end-September 2022, and will continue to publish them at quarterly frequency within one month after the end of each quarter. In addition, we will shortly initiate the process for submitting the FSIs to the IMF Statistics Department on a regular basis for dissemination through the IMF's FSI database. In the medium term, we intend to reduce the cost of cash transactions by phasing out low denomination bank notes, and to reduce the cash reliance of the economy through supportive policies, including paying civil servants through bank accounts as discussed below.

### **Other Structural and Governance Reforms**

**14. We are committed to strengthening transparency in the management of oil revenues.** The summary of oil sharing agreements under the three existing agreements—Greater Pioneer Operating Company (GPOC), SUDD Petroleum Operating Company Limited (SPOC), and Dar Petroleum Operating Company (DPOC)—are published in our annual Petroleum Reports, and on the Ministry of Petroleum (MoP) website ([www.mop.gov.ss](http://www.mop.gov.ss)). The latest published annual report covers June 2020-May 2021 and the report for FY2021/22 will be published in the MoP website shortly. We

intend to publish all three oil-sharing agreements in full, and we are currently in the process of discussing the possibility obtaining consent from investors, given contractual restrictions in relation to disclosure. We also plan to publish on the MoP website quarterly petroleum reports, including details on monthly oil output and revenues, starting from the first quarter of 2023 (proposed structural benchmark). In addition, we will submit by end-February 2023 a membership application to the EITI, as envisaged in the revised Road Map of the extended Revitalized Agreement on the Resolution of Conflict in South Sudan.

**15. We are committed to implementing the recommendations in the Auditor General's reports on the use of RCF funds disbursed in November 2020 and March 2021.** Consistent with one of the structural benchmarks for the third review of the SMP, we published in December 2022 the audit report regarding the use of funds under the second RCF disbursed in March 2021 (the audit report for the first RCF disbursed in November 2020 was published in September 2021). To address the findings and recommendations under the two reports, we are working with the Auditor General's office to provide additional documentation to address the discrepancies and mission information identified in the reports, and have adopted as a prior action for the PMB and the RCF request an action plan to implement the recommendations in the two Auditor General's reports. The latter includes commitments for: (i) a gradual rollout of payment of salaries for all central government employees through the commercial banks, aiming to complete the rollout by end-June 2023; and (ii) initiating the process of issuing biometric identifications to all central government employees and organized forces, which is being carried out by the Ministry of Public Service with support from World Bank technical support. The MoFP will provide monthly progress reports to the PFM Oversight Committee regarding the implementation of these reforms.

**16. We have continued to strengthen our expenditure controls and to improve the transparency of government operations.** To contain spending commitments within the cash available, the MoFP is authorizing spending based on cash projections prepared by the Cash Management Unit of the MoFP and approved by the CMC. To ensure that spending commitments are in line with the available resources, the spending limits in our upgraded IFMIS are now regularly made consistent with the cash plans approved by the CMC. In addition, starting with the FY2022/23 budget, all infrastructure spending, including those expenditures financed from the oil for infrastructure scheme, are being recorded in the appropriate IFMIS module. Consistent with one of the structural benchmarks for the third review of the SMP we have already published on the MoFP website budget execution reports for FY2020/21, FY2021/22, and the first quarter of FY2022/23. We will continue to publish such quarterly reports, including on spending under the oil-for-infrastructure scheme, within three months after the end of each quarter to improve budget transparency.

**17. We plan to operationalize the Public Procurement and Disposal Authority (PPDA), which is one of our 11 PFM key priority areas.** The PPA was established in 2018 by the PPDA Act, but its Board has not yet been appointed. The absence of the PPDA means that the Government is not fully able to exercise its oversight function over spending agencies in implementation of the budget, specifically, the procurement and asset disposal activities as required by the PPDA Act. Following an agreement among the political parties in the unity government, the President of South

Sudan will appoint the PPDA's Board of Directors as a prior action for the RCF and PMB. The appointment of the PPDA Board will allow it to adopt the Public Procurement Regulations and Standard Procurement Documents required to operationalize the PPDA, which have been prepared with World Bank assistance. These steps will contribute to promoting a level playing field for the private sector and delivering effective services to the public.

**18. We are taking determined steps to improve the process of assessment, approval and contracting of external loans and guarantees.** The appointed auditor has completed the stocktake of the external debt and guarantees and we have published, as prior action for the RCF and the PMB, on the MoFP website its findings and recommendations. The debt stocktake confirmed broadly the external debt data as of end-2021 that we published earlier this year, and has updated the external debt stock to end-June 2022. The auditors are still working on the recommendations regarding the debt management system, which are expected in early 2023. Based on work we conducted with the external auditor on the external debt stocktake, we have established a consolidated database of all existing external debt obligations, including guarantees and oil advances. Going forward, we will maintain the database up to date, adopt the debt module in IFMIS, and publish a debt report on a quarterly basis on the Ministry of Finance website no later than 30 days following each quarter. In addition, we will take several steps to strengthen public debt management:

- First, the working methods and role chart of the Technical Loan Committee (TLC) will be set out in detail in a Ministerial Order of the Minister of Finance by end-March 2023. This will clarify, inter alia, that the TLC would be the driver for negotiating all loan contracts and guarantees and appoint the Debt Management Unit (DMU) of the MoFP as the secretariat of the TLC and for providing analytical support to the TLC in evaluating borrowing proposals and eventually debt management strategies. This will strengthen the institutional role of the DMU and facilitate the flow of information on new loans to the DMU for their recording. The vetting process for all new loans and guarantees will include a risk assessment by the DMU before consideration from the TLC.
- Second, the BoSS should not be involved in issuing sovereign guarantees on behalf of the government. To codify this, the relevant provision in the BoSS Act that allows the BoSS to extend guarantees (Section 10(3)) is proposed to be removed as part of a broader revision of the BoSS Act aimed at bringing the South Sudan legislation in line with international best practices for central banking legislation and governance. The proposed package of changes to the BoSS Act has been tabled (as a prior action) in the Constitutional Review Committee, and its adoption by the National Assembly will be a structural benchmark for the first review of the PMB. In addition, the MoFP will send to the Council of Ministers an up-to-date list of all remaining valid guarantees issued by the BoSS, for the Council to determine whether these guarantees achieve a development purpose that justifies the implied contingent fiscal liabilities, and to rescind any guarantees that do not meet this standard. The register of all remaining valid guarantees containing the underlying transaction—including the borrower or procurer of goods and services, and the project to be supported—will be published on the BoSS website by June 2023.

- Third, with IMF support, including from a TA mission that took place in November 30-December 13, 2022, to review the legal and institutional framework for debt management, we will adopt by end-March 2023 an action plan to strengthen our debt management strategy (proposed structural benchmark).

**19. The BoSS is committed to implementing the recommendations made by the IMF’s safeguards assessment.** Actions have been taken in the following areas: (i) as discussed in ¶13 above, the publication of the audited financial statements through 2020 and the audited statements for 2021 are being finalized and will be published shortly on the BoSS website; and (ii) signing in September 2022 of a Memorandum of Understanding between the BoSS and the Auditor General to ensure the appointment of an international audit firm to audit BoSS financial statements from CY2022 onwards. This meets one of the structural benchmarks for the third review of the SMP. Going forward, firms with experience in IFRS and central banking will be invited to render for multi-year appointments, as part of a competitive public tender process that will be launched shortly by the National Audit Chamber (NAC) based on terms of reference already agreed between the BoSS and NAC. Further, with IMF technical assistance, we plan to implement by end-March 2023 key recommendations from the safeguards assessment related to currency operations, specifically: (i) developing a comprehensive strategy to address vulnerabilities and strengthen currency operations, including purchasing, storage, processing, and destruction activities; (ii) sending tender requests to reputable currency manufacturers, and conducting a review of bids vis a vis the tender criteria; and (iii) conducting a cost benefit analysis of replacing low denomination banknotes with coins. Separately, Terms of Reference are being drafted to engage an audit firm to co-source the internal audit activities. As per one of the recommendations, we are also committed to reinforcing our ex-ante controls and reporting practices by using a monitored account at the BIS or Fed for the IMF disbursements, validating transactions on the account at test dates by the auditors, and providing monthly statements of the account to the IMF. The BoSS will continue to provide IMF staff with access to its most recently completed audit reports and authorize the BoSS’ external auditors, who are contacted by the National Audit Chamber, to hold discussions with IMF staff.

**20. We will continue implementing the reforms contained in our action plan on AML/CFT.** We have made some progress implementing the AML/CFT reforms, including establishing the Financial Intelligence Unit (FIU) and becoming a member of the Eastern and Southern Africa Anti-Money Laundering Group in November 2022. The FIU has been provided with a budget and premises, staff has increased to 29 and we are providing training to strengthen their capacity to perform supervisory responsibilities. However, our progress has been limited in terms of the FATF action plan. We have started discussions with the FATF to update our action plan with a new timeline. In the meantime, to address the legal issues in the action plan, including to draft a revised AML/CFT Act to incorporate the current FATF Standards, we will immediately resume engagement with the TA team from the IMF Legal Department, to facilitate a diagnostic mission in early 2023. In addition, to address operational aspects in our action plan, we are requesting TA from donors on structuring the fully independent and operational FIU and conducting the national risk assessment.

**Table 1. Republic of South Sudan: Quantitative Targets Under the Staff-Monitored Program (SMP)**

	End-Jun 2021 SMP Target	End- June 2021 Actual	End-Oct 2021 SMP Target	End-Oct 2021 Actual	End-Aug 2022 Target	End-Aug 2022 Prel.
Central government's primary cash budget deficit (ceiling: in billions of SSP) <sup>1</sup>	10.0	25.9 (Not met)	35.9	32.0 (Met)	25.0	73.4 (Not met)
Central bank net credit to the central government (ceiling: in billions of SSP) <sup>2</sup>	0.0	0.0 (Met)	0.0	25.0 <sup>3</sup> (Not met)	25.0 <sup>4</sup>	312.9 (Not met)
Contracting or guaranteeing of non-concessional borrowing (continuous ceiling: in millions of U.S. dollars) <sup>5</sup>	0.0	650.0 (Not met)	0.0	0.0 (Met)	0.0	450 (Not met)
Average net international reserve (floor: in millions of U.S. dollars) <sup>6</sup>	85.0	131.0 (Met)	284.0	406.0 (Met)	170.0	266.7 (Met)
Clearance of salary arrears (floor: in billions of SSP) <sup>7</sup>	7.3	14.5 (Met)	14.5	10.6 (Not met)	18.2	18.2 (Met)
Average reserve money growth (ceiling: in percentage points) <sup>8</sup>	5.0	-2.6 (Met)	10.0	-5.4 (Met)	15	105 (Not met)

<sup>1</sup> Numbers are cumulative from March 30, 2021, for June and October 2021 and cumulative from June 30, 2022, for August 2022.

<sup>2</sup> Numbers are cumulative changes from March 30, 2021. NCG should be zero in at least half of the quarter and never higher than 5 percent of quarterly revenue.

<sup>3</sup> Breach of the ceiling on NCG arose from clearance of salary arrears out of MoFP FX deposits with BoSS, without an increase in the government overdraft.

<sup>4</sup> Ceiling adjusted up to allow for on-lending of the remaining portion of the SDR allocation to be used for budget support, as agreed under the SMP.

<sup>5</sup> Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program or for critical COVID-related spending, and for which concessional financing is not available. The MoFP entered into an agreement for an external non-concessional loan in April 2021 for an amount of US\$650 million without prior consultation with Fund staff, and the BoSS issued a sovereign guarantee related to this loan agreement in July 2021. This loan and associated guarantee were canceled in October 2021.

<sup>6</sup> Targets on NIR for end-June and end-October 2021 and end-August 2022 are defined as the cumulative changes of the average stock of daily NIR balances during, respectively, June and October 2021 and August 2022.

<sup>7</sup> Cumulative from end-March 2021.

<sup>8</sup> Limits on reserve money growth for end-June, end-October 2021, and end-August 2022 are defined as the cumulative changes of the average reserve money during, respectively, June 2021, October 2021, and August 2022 relative to the reserve money stock at end-March 2021.

**Table 2. Republic of South Sudan: Quantitative Targets Under the Proposed Program Monitoring with Board Involvement (PMB)**

	End-Nov 2022 Actual	End-Mar 2023 Proposed	End-Jun 2023 Proposed
Non-oil primary balance (floor: in billions of SSP) <sup>1</sup>	...	-830.0	-996.0
Central bank net credit to the central government (ceiling: in billions of SSP) <sup>1, 2</sup>	178.0	178.0	178.0
Contracting or guaranteeing of non-concessional borrowing (continuous ceiling: in millions of U.S. dollars) <sup>1, 3</sup>	0.0	0.0	0.0
Average net international reserve (floor: in millions of U.S. dollars) <sup>4</sup>	97.5	141.5	151.5
Reserve money growth (ceiling: in percent) <sup>5</sup>	...	5.0	7.5
Salary payments to central government workers (floor: in billions of SSP) <sup>1</sup>	...	106.7	142.3
Priority social spending (floor: in billions of SSP) <sup>1, 6</sup>	...	112.1	149.4

<sup>1</sup> Number is cumulative from June 30, 2022.

<sup>2</sup> Number accommodates central bank net credit extended to the government in July and August 2022 and imposes no further central bank net credit to the government from September 2022 onwards.

<sup>3</sup> Subject to prior consultation with Fund staff, exceptions may apply for NCB that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) finances critical investment projects with a high social and economic return that are integral to the authorities' national development program or for critical health or social spending, and for which concessional financing is not available.

<sup>4</sup> Targets are defined as the average stock of daily NIR balances during March and June 2023.

<sup>5</sup> Number is cumulative growth rate in reserve money (defined as currency in circulation, due to banks, and due to OFI) from September 30, 2022, adjusting for month-on-month exchange rate changes.

<sup>6</sup> The proposed floor on social spending is set at the proposed spending on education, health, and social and humanitarian sectors in the FY2022/23 budget.

**Table 3. Republic of South Sudan: Structural Benchmarks for the Third Review of the SMP and for the Proposed PMB**

Measures	Target Date <sup>1</sup>	Current Status/Rationale
<b>SMP</b>		
1. Publish findings and recommendations of the audit of the spending of the April 2021 RCF disbursement	Aug-22	Not met. Implemented with a delay in December 2022
2. BoSS to sign an MoU with the Auditor General to ensure the timely appointment of an international external audit firm for the audits of the BoSS financial statements from CY2022 onwards	Oct-22	Met.
3. Publication of budget execution reports for FY2020/21 and FY2021/22	Oct-22	Not met. Implemented with a delay in January 2022
4. Completion of an audit by an independent external auditor to take stock of all outstanding external loan agreements and guarantees and publish the results of the audit	Nov. 15, 2022	Not met. The external auditor report was published as prior action for the RCF and PMB
<b>PMB</b>		
1. Adopt action plan for the implementation of the recommendations in the Auditor General's audit report of the two RCF disbursements (MEFP ¶15).	Prior action	Met.
2. Submit to the Constitutional Review Committee proposed revisions, drafted in consultation with Fund staff, to the BoSS Act, including to remove Section 10(3) of the Act so that the BoSS cannot issue sovereign guarantees (MEFP ¶18).	Prior action	Met.
3. Publish the audit report submitted by the external auditor in December 2022 (MEFP ¶13).	Prior action	Met.
4. Board of the Public Procurement and Disposal Authority to be appointed (MEFP ¶17). Proposed	Prior action	Improve governance
5. MoFP to develop and adopt by end-March 2023, in consultation with Fund staff, an action plan to strengthen the institutional framework for debt issuance and management and formulate a debt management strategy. (MEFP ¶18). Proposed	Mar-23	Maintain debt sustainability
6. National Assembly to adopt amendments to the BoSS Act aimed at bringing the South Sudan legislation in line with international best practices for central banking legislation and governance (MEFP ¶18). Proposed	May-2023	Improve governance
7. BoSS to adopt an action plan to implement recommended action items on banking sector reform developed in August 2022 by BoSS staff with MCM (MEFP ¶12). Proposed	Jun-23	Support financial stability
8. Publish all signed oil production sharing agreements with oil-extracting companies as well as quarterly reports on the oil sector (MEFP ¶14). Proposed	Jun-23	Enhance transparency
9. Completion and publication of an audit of the spending of the new RCF disbursement under the FSW (LOI ¶5). Proposed	Sep-23	Ensure transparency and accountability in the spending of emergency resources
<sup>1</sup> Target Dates refer to end of the month unless otherwise stated.		

## Attachment II. Technical Memorandum of Understanding

Juba, Republic of South Sudan, February 16, 2023

**1. This Technical Memorandum of Understanding (TMU) defines the quantitative targets and structural benchmarks for monitoring the performance of South Sudan under a Program Monitoring with Board involvement (PMB).** In addition, the TMU specifies the data to be provided to the IMF for program monitoring purposes, and the periodicity and deadlines for the transmission of the data.

**2. The PMB will be monitored based on seven quarterly quantitative targets (QTs) and five structural benchmarks listed in Tables 1 and 2 of the Memorandum on Economic and Financial Policies (MEFP).** The QTs are as follows.

- i. Floor on non-oil primary balance;
- ii. Ceiling on central bank net credit to the central government;
- iii. Floor on the average net international reserves (NIR);
- iv. Continuous ceiling on contracting or guaranteeing of non-concessional borrowing;
- v. Floor on salary payments to central government workers;
- vi. Ceiling on reserve money growth; and
- vii. Floor on priority social spending.

### Quantitative Targets

**3. Non-oil primary balance** of the central government is measured as non-oil revenues minus total expenditures excluding interest payments, transfers to the Ministry of Petroleum (MoP) and the oil producing states and communities, and transfers to Sudan. For the purposes of the program, all revenues and expenditure denominated in foreign currency will be valued at the program exchange rate of 665 SSP/US\$.

**4. Central bank net credit to the Central Government** is the change in the stock of net credit to the *central* government (NCG) by the Bank of South Sudan (BoSS). NCG is defined as the difference between gross claims on central government and gross liabilities to the central government. For the purposes of the program, all claims and liabilities of the central government to the BoSS denominated in foreign currency will be valued at the program exchange rate of 665 SSP/US\$.

**5. Net international reserves (NIR)** of the BoSS are defined as reserve assets of the BoSS net of short-term external liabilities of the BoSS. Reserve assets are defined as foreign assets readily available to, and controlled by, the BoSS and exclude pledged or otherwise encumbered foreign assets, including, but not limited to, assets used as collateral or guarantees for third-party liabilities. Reserve assets must be denominated and settled in a convertible foreign currency. Short-term

foreign liabilities are defined as liabilities to nonresidents, of original maturities less than one year, contracted by the BoSS. For program-monitoring purposes, official reserve and short-term liabilities at the end of each test period will be calculated in U.S. dollars by converting the stock denominated in SDR, EUR and GBP at program exchange rates of, respectively, 0.76, 1.04 and 1.20 against one US dollar. The NIR limits for each test period are defined as the average NIR daily stocks during the month of the test period.

**6. Contracting or guaranteeing of new non-concessional external debt by the central government** applies to debt to non-residents with original maturity of one year or more at non-concessional terms and to guarantees issued to both residents and non-residents. For the purposes of the program, the definition of "debt" is set forth in point No. 9 of the "Guidelines on Performance Criteria with Respect to External Debt" (see Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)), attached in Annex I). This quantitative target will be assessed on a continuous basis starting from program approval.

- **For program purposes, a debt is concessional if it includes a grant element of at least 35 percent, calculated as follows:** the grant element of a debt is the difference between the present value (PV) of debt and its nominal value, expressed as a percentage of the nominal value of the debt. The PV of debt at the time of its contracting is calculated by discounting the future stream of payments of debt service due on this debt. The discount rate used for this purpose is the unified discount rate of 5 percent set forth in Executive Board Decision No. 15248-(13/97). For debts with a grant element equal or below zero, the PV will be set equal to the nominal value of the debt.
- **Discussion on the contracting and/or guaranteeing of any new non-concessional debt will only be undertaken after consultation with the IMF:** Exceptions to the zero-program target for non-concessional debt and guarantees may apply for debt that involves either (i) debt management operations that improve key liquidity and/or solvency debt burden indicators without adversely affecting the risk rating; or (ii) transactions that finance critical investment projects with a high social and economic return that are integral to national development program and for which concessional financing is not available.

**7. Floor on salary payments to central government workers** includes payment of all central government civil salaries, military and armed forces, and foreign mission salaries. Foreign currency salary payments, such as foreign mission salaries, will be valued at the program exchange rate of 665 SSP/US\$.

**8. Floor on priority social spending** includes central government spending on the education, health, and humanitarian sectors as defined in the FY2022/23 budget. It does not include spending channeled through the World Food Programme (WFP) and International Organization for Migration (IOM).

**9. Reserve money** is defined as the sum of local currency circulating outside of banks, and total reserves for banks and other financial institutions (required and excess) at the BoSS. For program purposes, limits on reserve money growth for the end of the test period are defined as the

percentage difference between the average daily reserve money during the test period and the reserve money stock at end-Sep 2022, adjusting foreign-currency components for exchange-rate changes between the two periods.

## I. PROGRAM MONITORING AND REPORTING REQUIREMENTS

**10. The monitoring of quantitative targets** and structural benchmarks will be the focus of the quarterly assessment report to be prepared by the authorities at the end of each quarter. The information on implementation and/or execution of structural benchmarks under the program will be reported to IMF staff within two weeks after their programmed implementation date. The status of implementation of other structural program measures will also be reported to IMF staff within the same time frame.

**11. The authorities will report the information specified in Table 1 below according to the reporting periods indicated.** More generally, the authorities will provide IMF staff with all information required for effective follow-up on economic policy implementation.

**12. The authorities agree to consult IMF staff on any new external debt proposals.** They will report to IMF staff on the signing of any new external debt arrangements and the conditions pertaining to such debt.

<b>Table 1. Republic of South Sudan: Data to be Reported for Program Monitoring with Board Involvement (PMB)</b>			
<b>Reporting Agency</b>	<b>Data</b>	<b>Frequency</b>	<b>Submission Lag</b>
MoFP	Table of government fiscal operations	Monthly	4 weeks
	Government tax and non-oil revenue	Monthly	4 weeks
	Oil production and revenue	Monthly	4 weeks
	Stock of salary arrears of the Central Government	Monthly	4 weeks
	Salary payments in total and by sector (including foreign mission and military/armed forces)	Monthly	4 weeks
	Budget execution report	Quarterly	4 weeks
	Disbursements of External Debt including Newly Contracted Debt of Government	Quarterly	4 weeks
	Projected external debt service	Quarterly	4 weeks
BoSS	BOSS balance sheet	Monthly	4 weeks
	Monetary Survey	Monthly	4 weeks
	Detailed FX Auction Results	Weekly	1 week
	List of guarantees issued by the BOSS	Monthly	1 week

## Annex I. Guidelines on External Debt

1. Excerpt from Executive Board Decision No. 6230-(79/140) as revised on August 31, 2009 (Decision No. 14416-(09/91)):
  - For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:
    - i. loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);
    - ii. suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
    - iii. leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessee retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.
  - Under the definition of debt set out in this paragraph, arrears, penalties, and judicially-awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.