April 15, 2020
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/43-1

10:00 a.m., May 29, 2019

1. Republic of South Sudan—2019 Article IV Consultation

Documents: SM/19/105 and Supplement 1; and Supplement 2; and Supplement 3

Staff: Mikkelsen, AFR; Gonzalez Miranda, SPR

Length: 19 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	**Alternate Executive Directors**
D. Mahlinza (AE)	
	F. Sylla (AF)
	D. Vogel (AG), Temporary
	N. Heo (AP)
	P. Fachada (BR)
	P. Sun (CC)
	J. Rojas (CE), Temporary
	C. Williams (CO), Temporary
	S. Benk (EC)
	P. Rozan (FF), Temporary
	I. Fragin (GR), Temporary
	P. Dhillon (IN), Temporary
	M. Psalidopoulos (IT)
M. Kaizuka (JA)	
	K. Badsi (MD), Temporary
	D. Fadhel (MI), Temporary
	R. Doornbosch (NE)
T. Ostros (NO)	
	A. Tolstikov (RU), Temporary
	W. Al Hafedh (SA), Temporary
A. Mahasandana (ST)	
P. Inderbinen (SZ)	
	D. Ronicle (UK)
	P. Pollard (US), Temporary

C. McDonald, Acting Secretary
S. Maxwell, Summing Up Officer
R. Smith Yee, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
African Department: M. Hasegawa, J. Jack, J. Mikkelsen, D. Robinson, Z. Zeidane. Communications Department: G. Vilkas. Legal Department: I. Carrington, N. Stetsenko. Strategy, Policy, and Review Department: M. Gonzalez Miranda. Executive Director: D. Fanizza (IT). Alternate Executive Director: I. Mannathoko (AE), K. Obiora (AE). Senior Advisors to Executive Directors: Z. Abenoja (ST), A. Muslimin (ST), G. Gasasira-Manzi

(AE), Z.Mohammed (BR), W. Nakunyada (AE), T. Sitima-wina (AE), A. Tivane (AE). Advisors to Executive Directors: A. Abdullahi (AE), K. Carvalho da Silveira (AF), J. Essuvi (AE), J. Garang (AE), A. Grohovsky (US), M. Ismail (AE), B. Jappah (AE), T. Manchev (NE), M. Mehmedi (EC), L. Nankunda (AF), I. Skrivere (NO), K. Lok (CC).

1. REPUBLIC OF SOUTH SUDAN—2019 ARTICLE IV CONSULTATION

Mr. Mahlinza and Mr. Garang submitted the following statement:

Introduction

Our South Sudanese authorities appreciate the constructive engagement during the recent Article IV Consultation and welcome the resumption of onsite surveillance by the Fund. They broadly agree with the staff's assessment of economic challenges and the key policy recommendations.

South Sudan is emerging from a protracted internal conflict which created significant institutional capacity gaps, and huge development challenges. At the same time, the country continues to face significant humanitarian challenges. The continued decline in international oil prices since 2014 has undermined fiscal and export revenues, thereby generating exchange rate and inflationary pressures. Although a pathway towards re-establishment of lasting peace has been laid, the country remains fragile and requires support to implement economic reforms to resuscitate activity in key productive sectors. The signing of the Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCSS) in September 2018 has, however, improved prospects for peace, and created an environment for increased oil production.

To address prevailing macroeconomic challenges, the authorities are directing their efforts towards restoring economic stability, rebuilding international reserves, improving the management of oil resources, enhancing public financial management, and regaining access to external support from development partners. These reform measures are consistent with the key objectives of the National Development Strategy (2018–2021), which aims to consolidate peace and unlock the country's economic growth potential.

Recent Economic Developments and Outlook

While economic activity declined in 2017/18, real GDP is estimated to grow by 3.4 percent in 2018/19, following the cessation of hostilities and reopening of damaged oil wells. Oil production increased from 120, 000 barrels per day in 2017/2018 to 145,000 barrels per day in early 2019. Going forward, economic growth is expected to further accelerate to 8.1 percent in 2020 conditional on the peace dividend, increased oil production and public investment projects.

From a peak of 550 percent in 2016, inflation declined to 40 percent in December 2018, largely reflecting the discontinuation of central bank financing of the budget deficit. Looking ahead, inflation is expected to decline further to 26.4 percent in 2019 as the authorities continue to implement a tight monetary policy stance.

While the current account deficit is expected to continue to worsen, reaching 6.4 of GDP in 2018/19, going forward, improved export performance is expected to narrow the deficit of 1.8 percent of GDP in 2019/2020. Consequently, gross reserves will modestly increase from 0.1 months of import in 2018/2019 to 0.2 months of import in 2019/2020.

Fiscal Policy and Public Financial Management (PFM) Reforms

The authorities remain committed to restoring fiscal discipline, mobilizing domestic revenues to address fiscal pressures and containing expenditures. The establishment of the National Revenue Authority (NRA) in 2018 has greatly improved collections of non-oil revenues. At the same time the operationalization of a Treasury Single Account (TSA) early in 2019, is expected to enhance fiscal discipline. Going forward, greater focus will be placed on efforts to broaden the tax base, improve tax administration, automate corporate taxes, and complete the functionality of NRA by hiring adequately qualified staff. To this end, the recruitment of Commissioners and deputies of the NRA is ongoing.

To further enhance fiscal discipline, the authorities are committed to stop oil advances and improve transparency in the management of oil revenues. In this regard, a strategy to deal with and limit oil advances has been prepared and submitted to Cabinet for approval. Furthermore, the authorities intend to sell oil at the spot market prices with gross proceeds transferred directly to the Treasury Oil Account at the Central Bank.

Containing expenditures consistent with the available resources remains high on authorities' reform agenda. In this connection, the authorities are undertaking measures to rationalize expenditures, while prioritizing social, peace-related, and growth-enhancing development expenditures. At the same time, they are planning to advance efforts to clean the civil service payroll, downsize diplomatic missions, limit foreign travel, and develop a credible arrears clearance plan. The Cash Management Committee, which comprises senior officials from Ministry of Finance and Planning (MoFP), Bank of South Sudan (BSS) and other bodies, continues to make progress in implementing spending controls, including prioritizing expenditure.

As part of an effort to place public debt on a downward trajectory, the authorities have made a budget provision for the clearance of arrears owed to the Qatar National Bank, and to fully pay the Transitional Financial Arrangement (TFA) fees to Sudan by 2021/2022. In addition, the Council of Ministers has established an Arrears Clearance Committee to ascertain the stock of arrears and restructure arrears to commercial banks. They have also removed fuel subsidies to Nilepet, the main oil company operating in South Sudan. The removal of the remaining subsidies on public transport and hospitals is not viewed as an immediate priority.

Monetary, Exchange Rate and Financial Sector Policies

The BSS has continued to maintain a tight monetary policy stance, which is consistent with its disinflationary efforts. Going forward, the authorities remain committed to strengthening the monetary policy toolkit, including reserve requirements, voluntary term deposits, and FX intervention. Relatedly, they will continue to ensure that commercial banks meet minimum reserve requirements which remain at 20 percent of deposits.

The foreign exchange market has witnessed supply shortfalls in recent times. These shortages reflect capital flow reversals, declining remittances, and limited sales by the Central Bank in view of low reserves. Although the authorities recognize the resultant disparity between the official and parallel exchange rate, the rates in both markets are expected to converge with the implementation of the peace agreement and renewed foreign exchange inflows from oil revenues. As part of an effort to build foreign exchange buffers, the authorities are preparing to establish a foreign exchange auction based-system, which will include input from Fund TA. They also plan to review the operations of the Special Accounts Scheme to create more transparency in the FX market.

The authorities are committed to improving financial risk management and regulatory oversight. Already, the BSS has issued a circular on new minimum capital requirements effective end-December 2019: $30 million for foreign banks and $15 million for domestic banks. Further, the BSS is finalizing the bank resolution framework for troubled banks. Meanwhile, all 14 commercial banks which are non-compliant with the BSS minimum statutory requirements have been presented with the options to either: (i) raise capital, (ii) merge with others or (iii) be liquidated. While plans are underway for the BSS to adopt comprehensive banking resolution regulations, desk officers have been deployed to monitor activities at the commercial banks.

The BSS will continue to enhance onsite supervision while laying the foundation for risk-based supervision. Realizing the elevated NPLs, the authorities are encouraging commercial banks to address these vulnerabilities, including through strengthening lending practices and implementing recovery efforts.

Structural Reform Measures

The authorities recognize the importance of improving governance. In this respect they plan to complete the outstanding BSS and Nilepet financial audits through to 2018. To enhance financial stability, the authorities have appointed a Commissioner for the Financial Intelligence Unit (FIU) to facilitate implementation of the 2012 Anti-money Laundering Act. Relatedly, they are taking steps to strengthen institutions and address governance vulnerabilities, including enhancing the asset declaration process.

As part of an effort to enhance infrastructure development, the government has ring-fenced a portion of oil proceeds for the development of roads. The plan is to build roads that connect urban with rural areas to facilitate the transportation of agricultural produce. This is envisaged to address the huge infrastructural gaps and reduce the cost of doing business.

The authorities view economic diversification as part of their medium-term agenda. In this respect, policy efforts will be geared towards promoting increased activity in the agriculture, mining, fishing and construction sectors.

Conclusion

Our South Sudanese authorities view the signing of the R-ARCSS as an important milestone towards improved growth and peace prospects. They recognize the enormity of the attendant challenges as well as the important role of the international community in providing resources to finance the country’s huge development and humanitarian needs. Further, they value Fund policy advice, and look forward to completion of the 2019 Article IV Consultation.

Ms. Pollard and Mr. Grohovsky submitted the following statement:

We thank staff for their work in an incredibly difficult situation. Their willingness to engage and do this challenging work with a fragile state, such as South Sudan, is commendable. We also thank Mr. Mahlinza and Mr. Garang for their helpful buff statement.

The South Sudanese economy continues to be in a state of crisis resulting from years of civil war. While the September 2018 peace agreement was a step in the right direction, establishing a transitional unity government and securing a longer lasting peace are prerequisites for the recovery of the economy and the correction of the serious underlying imbalances, which are essential to improving the well-being of the people of South Sudan. In the near-term, the international community is committed to addressing critical humanitarian needs but the authorities must allow humanitarian aid workers to operate in a safe environment.

Fund staff have put forward a reasonable set of reforms that target some of the most detrimental distortions, that can be undertaken given existing capacity constraints, and that would demonstrate important political will and commitment to the reform process. We welcome Mr. Mahlinza and Mr. Garang's statement that the authorities are focused on reforms consistent with the National Development Strategy.

In the area of public financial management (PFM), staff have listed key “low-hanging fruit” that would demonstrate to South Sudan's people and its development partners a commitment to strengthen PFM. Such reforms are important in light of the sharp and non-transparent rise in “operating expenses” in the budget to 9.5 percent of GDP, while arrears to civil servants and other suppliers continued to rise. We receive persistent reports of overspending and extra-budgetary payments from Juba, and the government has failed to publish any budget execution reports for FY2017/18 or FY2018/19, raising concerns about the commitment to sound fiscal management. Does staff have information on the breakdown on the spending under “operating expenses”?

Given South Sudan's oil reserves, better oil revenue management is key to securing the benefits of this natural resource for the South Sudanese people while reducing the opportunities for corruption that such wealth creates. Under the Revitalized Agreement on the Resolution of the Conflict in the Republic of South Sudan (R-ARCSS), the signatories placed a strong emphasis on strengthening transparency in the management of oil revenues, including committing to the implementation of the Petroleum Revenue Management Act, closure of unlawful petroleum revenue accounts, and disclosure of all loans and contracts collateralized by oil. While the deadlines for these commitments are after the start of the Transition Government, we agree with staff on the urgency of action on this front and recommend that the authorities move immediately to undertake these steps.

Transparency in the accounts and interactions with the state-owned petroleum company, Nilepet is needed. We agree with staff on the urgent need for audited financial statements including a full accounting for any transfers to and from the budget. We also agree with staff that the inability of the authorities to produce a full list of contracted oil advances and their repayment terms raises transparency and governance concerns. Given the substantial outstanding stock of short-term oil advances, we support staff's call for the authorities to seek a longer-term and preferably concessional loan to clear this stock. Could staff advise on the likelihood of securing such a loan?

Strengthening the central bank's ability to conduct monetary policy to contain inflation may take some time. In the near-term, eliminating monetary financing of the deficit is key to controlling inflation. Thus, we welcome the decision not to use central bank financing to cover the budget deficit, and we urge the government and central bank to continue this course.

Liberalization of the exchange rate regime and elimination of the "Special Accounts" scheme are important near-term reforms that would signal the government's reform commitment. The multiple currency practices and exchange restrictions have resulted in serious distortions in the exchange market and rent-seeking practices.

Staff flagged an important set of issues for medium-term reform, including fiscal and debt management, strengthening governance and combating corruption, and diversifying the economy. Strengthening PFM will help address corruption and the misuse of government resources but implementing AML/CFT provisions to block the transfer of corrupt proceeds is also needed. Economic diversification and reform are also critical to South Sudan's recovery. The April 2019 Regional Economic Outlook (REO) for Sub-Saharan Africa included a thorough precis on the long-term economic impact of civil conflict, which is borne out by the data in this report. We would particularly note the REO's finding of higher negative impacts on countries with weak institutions. The medium-term forecast in Table 5 shows that even with steady real GDP growth, per capita income will decline over the coming years unless South Sudan can dramatically boost its growth trajectory.

Mr. Fachada and Ms. Mohammed submitted the following statement:

We thank staff for the informative report and Mr. Mahlinza and Mr. Garang for their insightful statement. South Sudan is in a deep economic and humanitarian crisis. With grave concern we note that since its independence in

2011, real disposable income is estimated to have declined by about 70 percent, the poverty headcount ratio increased from 50 percent in 2012 to about 82 percent in 2016, and in the last three years real GDP has declined by 24 percent. The situation is South Sudan remains extremely delicate and inspires deep concerns regarding the possible disastrous outcomes in the short-to-medium term. Economic recovery, financial stability and South Sudan's own viability as a sovereign state hinges on the success of the new peace deal. Political stability, strong institutions and security are vital elements to foster credible and lasting peace, improve living conditions of the population and support economic development.

Macroeconomic recovery is highly dependent on fiscal discipline. We commend the authorities on the progress made in liberalizing the fuel market and reducing subsidies, as well as curbing direct central bank lending to government. However, given the economy's heavy dependence on the oil sector, the weakened controls on oil management and government spending are worrisome. We concur with staff that the non-transparent oil advances, oil-backed loans, and off-budget transactions not only undermining fiscal discipline and budgetary integrity but are costly and encourage misuse. That said, strengthened oil revenue management and additional measures to further enhance the public financial management (PFM) framework are crucial to ensure fiscal discipline. We take note that although arrears have declined in recent years, development of a credible clearance strategy is necessary.

Tighter monetary policy, along with strict enforcement of reserve requirements, would help reduce inflation, replenish foreign reserves and stabilize the exchange rate. Addressing risks stemming from undercapitalized banks are essential to preserve financial stability. The Bank of South Sudan (BSS) should ensure that the minimum capital requirements are met to mitigate vulnerabilities in the financial system. Rebuilding international reserves should be a priority. We agree with staff that the "rule of thumb" of three months of imports would likely be sub-optimal. Also, the gap between the official exchange rate and the parallel market rate remains high and the necessary steps should be taken to ensure that the spread is narrowed.

Over the medium term, rebuilding economic buffers and transition to peace, accompanied by diversification of the economy is fundamental. Reducing the reliance on the oil sector and diversifying into non-oil sectors, such as agriculture, fisheries, mining, and construction would broaden the domestic revenue mobilization and make growth more inclusive. Strengthening of the governance and the AML/CFT frameworks should be considered.

We take note that South Sudan capacity needs are substantial across all sectors and support the capacity development strategy for 2019-21 as outlined in Annex IV. We recognize staff's continued involvement in South Sudan and believe that surveillance, combined with determination by the authorities, can help restore stability and confidence in the economy, and improve the living standards of the South Sudanese people.

Mr. Heo and Mr. Kim submitted the following statement:

We thank staff for their comprehensive report on the Republic of South Sudan, Mr. Mahlinza and Mr. Garang for their informative buff statement. We welcome that the peace agreement has improved the prospects for lasting peace and economic recovery. However, South Sudan is still faced with the daunting challenge of restoring security and economic stability. While agreeing with the thrust of the staff's appraisal, we add some comments for emphasis on getting the South Sudanese economy back on track as soon as feasible.

South Sudan's economic outlook critically hinges on peace and security, and it still requires humanitarian assistance and needs huge capacity development. Forming an inclusive new government based on national unity will provide new opportunities for a fresh start and to repair donor relations. Given the limited absorption capacity, we encourage the Fund to continue to provide technical assistance effectively and coordinate well with other donors. In this vein, we would welcome staff's view on the willingness and capacity of donors to engage with South Sudan to support the capacity development strategy for 2019-21 in Annex IV. Do staff think possible TA funding resources (e.g. the Measuring Natural Resource Wealth Topical Trust Fund or future membership of East AFRITAC) will be enough to complete this strategy?

Restoring fiscal discipline and strengthening oil revenue management are the surest way to reduce monetary expansion, stabilize domestic price further, and build its external buffer. We welcome the establishment of the National Revenue Authority and encourage the authorities to expedite staff recruitment. Appropriate oil revenue management is essential to provide resources to sustain spending on peace implementation and basic government services. In this sense, all contracting oil-backed loans, advances and prepayment should be stopped, with publication of updated oil production and export information expected in due course. In addition, the Bank of South Sudan should reduce money expansion and rebuild foreign exchange reserve by means of continuously refraining from debt financing to the government.

We agree with staff that the current multiple FX rate system (i.e. Special Accounts Scheme) should be discontinued, while liberalization of the FX market will be able to attract FX inflows, reduce rent seeking, and increase budgetary revenue.

We acknowledge that South Sudan has good potential for economic diversification thanks to geographical and geological advantages. As staff rightly notes in Box 3, we encourage the authorities to seek support from development partners in this regard. We agree with staff that the authorities should shift the limited budget resources from security expenses to development spending including education, health, infrastructure, and rural development in the medium term.

Mr. Lopetegui and Mr. Vogel submitted the following statement:

We thank staff for the reports, and Mr. Mahlinza and Mr. Garang for their helpful buff statement.

South Sudan faces a critical juncture and, depending on the route the country takes, it may reap important benefits or face further instability and heavier humanitarian distress. The bifurcation of the path is strictly related to the peace agreement. With the consolidation of peace, the country could take advantage of its natural resources, grow much faster, reduce inflation, build sound institutions, and especially remove people from poverty by boosting opportunities. A sample of the cost of the alternative path, is given in Box 1 of the staff report: the civil war has driven the country to crisis in which 7.1 million South Sudanese require humanitarian assistance, and more than 70 percent of school-aged children have lost access to educational services. Poverty has increased from 50 percent in 2012 to an estimated 82 percent in 2016. Text Table 2, on the baseline and adverse scenario, is very eloquent on the benefits of political stability and security. We understand the authorities' view underlined in paragraph 11 of the staff report, but it is important to clearly underscore that the precondition for the country's economic and social development is political stability; only under this environment, will economic stability, growth, and structural reforms have many more possibilities to successfully emerge, while in turn reinforcing peace and security. Thus, we fully agree with Mr. Mahlinza and Mr. Garang's comments when noting that the signing of the Revitalized Agreement on the Resolution of the Conflict in South Sudan (R-ARCSS) constitutes an important milestone towards improved growth and peace prospects.

Clearly, the fiscal situation is very complex, and the staff report provides relevant recommendations, the implementation of which would allow South Sudan to address some of the fragilities observed in this area. Designing and implementing an appropriate oil revenue management is essential for the country and, in this regard, South Sudan should abandon the current practice of contracting oil-backed advances, in favor of more transparent ways. Meanwhile, the public oil company, Nilepet, should urgently improve the transparency of its operations. The authorities' willingness to undertake an audit of the company constitutes a positive initial step. We would like to have further elaboration on how the authorities will try to address the country's substantial social fragilities through fiscal policy.

We share the staff's comments on the critical importance of liberalizing the FX markets and discontinuing the "Special Accounts" scheme. As empirical evidence has vastly shown, the multiple foreign exchange rate system is absolutely inefficient and detrimental since it encourages, as appropriately stressed in the report, corruption and rent-seeking activities, among other things. This said, we wonder whether, given the low level of development and fragility of South Sudan, the monetary/exchange-rate system advocated by staff (money targeting, exchange-rate flexibility) is superior to other options, like a crawling peg or other forms of managed floats. Staff's comments are welcome. We also agree with the need to address the situation of undercapitalized banks and urgently improve banking regulation and supervision. We would like to have a further elaboration from staff on the lack of enthusiasm that the authorities may have on these reforms, as we could infer after reading paragraph 25 on the authorities' views.

We welcome the authorities' awareness of the need to undertake deep structural reforms. We also share the staff's view on the desirability of diversifying South Sudan's economy, although the country should start by taking due advantage of its oil reserves and revenues, which, as indicated in Box 2 of the report, could potentially make South Sudan the third largest oil producer in Sub-Saharan Africa.

With these comments, we wish South Sudan and its people every success in their future endeavors.

Mr. Inderbinen, Mr. Heim and Mr. Makhammadiev submitted the following statement:

In the aftermath of the civil war, South Sudan faces many challenges and maintaining peace will be imperative for pulling the economy out of a deep economic crisis. In parallel to establishing vital security arrangements, the authorities should devote their efforts to restoring macroeconomic stability, basic infrastructure and resolving the humanitarian crisis. In this context, we urge the authorities to demonstrate commitment and to improve relations with the donor community.

Although the oil sector will likely remain a growth driver in the medium term, measures to put the economy on a broader footing are warranted. While plans to restore oil production capacity is key for kick-starting growth, the authorities should foster the development of the non-oil sector. Especially agriculture has the potential to tackle acute food insecurity and to contribute to sustainable and inclusive growth. This will also help diversify the revenue base and reduce dependence on oil proceeds, which are subject not only to price volatility but also to oil transit arrangements with Sudan. To this end, substantial efforts are needed to close infrastructure gaps and strengthen human capacity.

Fiscal discipline and sound public financial management remain paramount. The authorities are advised to tighten budgetary controls, phase out off-budget spending and implement recommendations of FAD's technical assistance missions. In particular, oil revenue management needs to be strengthened by discontinuing oil-backed loans, advances and prepayments. The non-transparent nature of these operations foster misuse and corruption. Thus, we welcome the establishment of the National Revenue Authority and encourage the authorities to facilitate its adequate staffing. We also urge the authorities to make operations of Nilepet transparent and share staff's concerns that legally required audited statements have never been completed despite requests from the Auditor General. Furthermore, we call on authorities to develop a plan to restructure external arrears.

We welcome the discontinuation of central bank financing and encourage the BSS to adopt price stability as its main mandate, as well as to replenish international reserves. Recent episodes of high inflation have proven that fiscal dominance inevitably has detrimental consequences. We agree with staff that the BSS should consider reserve money targeting and restrain the money supply. Multiple currency practices hamper efforts to achieve macroeconomic stability, discourage FX inflows, and incentivize rent-seeking. In this regard, we urge the authorities to abandon surrender requirements via the "Special Accounts", other exchange restrictions and unify the exchange rate by allowing the official exchange rate to adjust in line with economic fundamentals. This will also help build up international reserves, which have almost depleted.

The banking system is exposed to significant vulnerabilities owing to undercapitalization and a high amount of non-performing loans. The distorted FX market has further weakened the banking sector. We concur with staff that the BSS should ensure that all commercial banks are compliant with minimum reserve requirements. Moreover, as FX market liberalization may trigger a liquidity squeeze, banks should be able to meet reserve requirements on foreign currency deposits in foreign currency. How do staff assess the commercial banks' capacity to meet reserve requirements on foreign currency deposits against the backdrop of surrender requirements and exchange restrictions?

There is an urgent need for improving governance. We encourage the authorities to address weaknesses in fiscal governance, strengthen anti-corruption institutions and develop an AML/CFT framework. Among the first steps would be joining the regional FATF-style body and the establishment of a Financial Intelligence Unit.

Mr. Sun and Ms. Lok submitted the following statement:

We thank staff for the informative report and Mr. Mahlinza and Mr. Garang for the useful buff statement. Having just emerged from a protracted internal conflict and facing continued humanitarian challenges, South Sudan's situation remains fragile. We encourage the Fund to continue to engage closely with the authorities to provide advice and assistance where needed to help restore macroeconomic stability and rebuild economic buffers amid a challenging environment. We broadly share staff's appraisal and would like to limit our comments as follows.

Near-term priorities should include measures to stabilize the economy and enhance credibility with the international community and private investors. In this regard, we welcome the authorities' efforts to strengthen fiscal discipline and enhance public financial management, including steps to improve the management of oil revenues. We also take positive note of the authorities' commitment to mobilize revenues, contain expenditures, and avoid borrowing from the central bank to finance the budget. At the same time, implementation of the peace agreement, together with increased transparency in government operations, would contribute to building the credibility and confidence needed to regain access to external financing.

We concur with staff that monetary policy should focus on containing inflation and replenishing international reserves in a gradual manner. In the financial sector, staff recommended the liberalization of the foreign exchange market. We believe it is important that market liberalization is proceeded with care, with sufficient safeguards in place to avoid undue market volatility and instability. As for the financial sector, we take positive note of the Bank of South Sudan's commitment and actions to improve financial risk management and regulatory oversight, including by setting new minimum capital requirements for banks and finalizing the bank resolution framework for troubled banks.

To pursue sustainable development in the longer term, we encourage the authorities to continue to rebuild buffers to strengthen resilience and create space for growth-friendly public spending and investment. Meanwhile, South Sudan's endowment of natural resources offers diversification opportunities to reduce the economy's reliance on the oil sector. To fully tap this potential, steadfast efforts are needed to strengthen institutional capacity and governance. Support from the Fund and other development partners is indispensable to enhance the authorities' capacity and their efforts in this regard. To this end, we take positive note of the comprehensive capacity development strategy for 2019-21 in Annex IV. Nevertheless, noting the high level of staff turnover and capacity constraints faced by South Sudan's government institutions, strong coordination both within the Fund and with other technical assistance providers would be important to ensure the effectiveness of various capacity development efforts.

With these remarks, we wish the authorities every success in their policy endeavors.

Ms. Levonian, Ms. McKiernan and Mr. Williams submitted the following statement:

We thank staff for their well-written report which has articulated a coherent set of policy advice aimed at lifting South Sudan out of fragility. A prolonged period of civil war has plagued the country's economic development. Nevertheless, there are encouraging signs of a return to macroeconomic stability, as reflected in a sharp drop in inflation and a notable pick up in oil production. To build on this nascent recovery, the authorities should accelerate efforts toward solidifying the new peace deal, entrenching fiscal discipline, and strengthening oil management, all of which are integral to restoring policy credibility. Implementation of these actions will need strong support from the international community, as stated in the helpful buff statement of Messrs. Mahlinza and Garang. We broadly agree with staff's assessments and recommendations and offer the following remarks for emphasis.

We agree that the outlook is bleak in the absence of peace and security. Sustained economic recovery hinges on a peaceful resolution of the crisis. It is regrettable that revenue mobilization efforts have been stymied by security threats, thereby causing a buildup in arrears. Moreover, with international reserves very low, the economy is exposed to shocks. In the face of these vulnerabilities, the political parties must move earnestly to implement the peace deal toward a unity government. This will help to create a more investor-friendly environment and enable South Sudan to harness the considerable potential benefits of the oil sector. Furthermore, a peaceful environment will better equip the country to stem the depletion of the public workforce and to optimize on TA - including to improve data provision - being provided by the Fund and others. Given the country's considerable capacity development needs, it is imperative that the authorities work closely with staff to ensure TA support is well-coordinated and sufficiently tailored.

A more transparent, credible, and prudent fiscal stance is essential to enhance macroeconomic stability and support debt reduction. The authorities face a tough task of clearing oil advances and sustaining peace-related expenses, while providing other essential public services. This challenge underscores the importance of a robust revenue mobilization strategy, including for the oil sector where revenue management needs strengthening. To augment the revenue effort and improve transparency in budget operations, the authorities should aim to curtail discretionary current expenditure and eliminate off-budget spending. This fiscal policy mix would support their objectives of balancing the budget while clearing arrears. We welcome the information in the buff that the authorities are advancing plans to implement previous staff recommendations on quick-impact measures, including cleaning the payroll and developing a credible arrears clearance strategy. Limiting the government's financing needs should be at the core of the authorities' efforts to durably reduce the debt, avoid deficit financing by the central bank, and foster macroeconomic stability. Can staff elaborate on the factors behind the projected sharp rise in debt over the medium term despite a forecast steady increase in the fiscal surplus?

Looking ahead, further enhancements to key fiscal institutions will be essential to entrench fiscal discipline. In this context, we support staff's call for the National Revenue Authority (NRA) to be fully operationalized. Furthermore, we encourage the authorities to fully integrate the Treasury Single Account (TSA) into a broader and strengthened public financial management framework that entails, inter alia, enhancing cash management and adopting a more robust mechanism to prioritize expenditures.

On the structural agenda, efforts should be directed at enhancing the business environment. We share staff's views that over time as the security landscape improves, the budget should be reoriented toward investment in education, health, and infrastructure. In this context, we support the authorities' focus on enhancing public infrastructure, including upgrading of roadways. Efforts at diversification should also be pursued to reduce reliance on oil and strengthen the economy's resilience to shocks. These reforms should be supported by the authorities' enhancement of regulatory oversight of the financial sector, as well as enforcement of compliance with established standards.

Mr. Doornbosch, Mr. Psalidopoulos, Mr. Manchev and Mr. Persico submitted the following statement:

We thank staff for a well-focused set of papers and Messrs. Mahlinza and Garang or their helpful buff statement. The September 2018 R-ARCSS 1 agreement has improved South Sudan's prospects for long-lasting peace. We agree with staff that the economic outlook critically hinges on the local leaders to deliver on their commitments under the peace agreement and allow the government to sustain dividends through guaranteeing smooth humanitarian aid operations, macroeconomic stability and restoring food security.

South Sudan is at the beginning of a long journey to put the economy on a sound footing. We welcome the noticeable progress of recent months with stabilizing the economic system, reopening some of the damaged oil wells and containing inflation., Moreover, we are encouraged by the authorities' multi-frontal proactivity aimed at transitioning to peace and regaining macroeconomic stability. Nevertheless, political and external risks remain. We would like to offer the following points for emphasis.

Restoring macroeconomic stability and sustainability

Urgent and credible fiscal consolidation aiming to facilitate budget execution and tame debt distress is warranted. The projected economic recovery may temporarily ease pressures on the fiscal and external sector. Strengthening the governance framework, public finance management (PFM) and fiscal transparency in line with the 2016 Article IV recommendations will be critical to deliver on the authorities' commitment to a broadly balanced budget for 2019/20, and thus to lay out the foundation for a sustainable

[1] The Revitalized Agreement on the Resolution of Conflict in South Sudan.

economic recovery. We welcome the establishment of the National Revenue Authority in 2018, the recent introduction of an electronic revenue collection system, and enactment of the Public Procurement Bill. However, the authorities should intensify their efforts to immediately clarify the financial position of the public oil-company Nilepet through regular audits and transparent management, in line with international practices.

The authorities’ strong commitment to avoid borrowing from the central bank is welcome. This should, however, be accompanied by a clearer plan to reprioritize budget spending toward investment in education, health and infrastructure, thus enabling rural development and economic diversification. At the same time, we would have expected greater attention to social policies, given the large humanitarian needs and the pervasive poverty. The immediate fiscal risks stem from substantial external and domestic debt arrears and implementation costs of the peace agreement, which puts additional pressure on the near-term government spending. The IMF engagement to assist the authorities in dealing with these challenges would be critical and we would welcome greater clarity of staff on the envisaged surveillance plan.

We agree with staff that the Bank of South Sudan (BSS) should remain focused on containing inflation, replenishing international reserves, and ensuring financial stability. We observe that banks in South Soudan are undercapitalized, that not all of them meet the minimum reserve requirements, and that bank resolution faces political obstacles. Moreover, audits of the BSS for the last three years have not been completed. Given the challenges to monetary transmission and financial stability in South Sudan, we invite both the authorities and Fund staff to step-up their joint efforts for a successful introduction of exchange rate liberalization and of inflation targeting.

Governance and capacity building

The political complexity in South Sudan should not exonerate the role of the international community. Given the size of the humanitarian crisis and its potential negative consequences on future developments, the IMF and other developing partners should proactively work with the authorities towards regaining credibility and thrust. We encourage staff to better integrate the TA activities and closely relate them to the macroeconomic policy priorities. The key priority of the authorities’ reform agenda should, from the very beginning, be the establishment of a sound and consistent governance framework.

Even if lasting peace is achieved, South Sudan will be immediately challenged by the fragile and conflict situations' trap of weak governance. We strongly encourage the authorities to immediately apply for membership in the Eastern and Southern Africa Anti-Money Laundering Group, and to design an adequate anti-corruption framework according with the FATF standards. A specific focus should be given to implementation of a comprehensive asset declaration regime by the public officials and well-established PFM controls.

Finally, we note the significant data gaps, which substantially impede surveillance and decision-making. We encourage staff as well as the authorities to use the window of opportunity provided by the 2018 R-ARCSS and commit to a comprehensive strategy to substantially limit these gaps in a timely manner.

Mr. Merk and Mr. Fragin submitted the following statement:

We thank staff for a concise and insightful report and Mr. Mahlinza and Mr. Garang for their helpful buff statement.

South Sudan is facing substantial challenges amidst an economic crisis and a fragile security situation. We agree with staff that maintaining and further strengthening political stability is paramount at the current juncture. Establishing a solid track record through political stability as well as prudent and transparent policies remains essential to rebuild credibility and confidence. As important steps in this process, we strongly encourage the authorities to implement the main security arrangements of the peace agreement signed in September 2018 and to aim for a timely formation of a functioning unity government. More broadly, full implementation of the peace agreement – including, for instance, economic reforms specified in chapter 4 of the agreement – is of the essence.

We broadly concur with staff's analysis and recommendations. We take positive note that first stabilizing measures, such as containing central bank financing as well as the removal of most domestic fuel subsidies, have been implemented by the authorities. We agree with staff that re-establishing a credible budget process and restoring fiscal discipline, including by discontinuing non-transparent oil advances, oil-backed loans, and off-budget transactions, constitutes a key priority.

Overall, the coincidence of a high-risk environment as well as extensive political, economic, and humanitarian vulnerabilities calls for urgent policy action for the benefit of the population.

Mr. de Villeroché, Mr. Castets, Mr. Ronicle, Mr. Rozan and Ms. Stockill submitted the following statement:

We thank staff for this informative set of papers and Mr Mahlinza and Mr Garang for their helpful buff statement. We strongly welcome the resumption of Article IV missions to Juba, and we hope staff will continue their engagement with the authorities on the ground in this very difficult and fragile context, through both surveillance and capacity development.

South Sudan is dealing with a serious economic crisis, as set out in this candid Article IV report. We agree with staff's key policy recommendations, but underline that that commitment to the revitalized peace agreement is the essential pre-condition for restoring economic stability in South Sudan.

We were concerned to read staff conclusions about the lack of fiscal discipline, spending over-runs and off budget spending. We strongly encourage the South Sudanese authorities to maintain their commitment to a broadly balanced budget in 2019/20 and avoid borrowing from the central bank. Since the Article IV report was issued, we understand from press reports that the Council of Ministers in Juba have been discussing the new budget, including significant allocations for infrastructure and road construction. Are there any updates to the fiscal projections in the Article IV? Do staff consider the latest draft budget to be in line with their policy advice? We also share staff's assessment on the need to shift the budget towards peace-building spending, to stabilize the social situation on the ground, given the steep fall in revenues per capita since independence.

We strongly concur with staff advice to strengthen oil management and transparency by an immediate stop of contracting new oil-backed advances. The oil sector is the critical pillar of the South Sudanese economy, but the current practice of contracting oil-backed advances is costly, non-transparent and encourages misuse. The implementation of staff's recommendations on oil revenue management, including the transparency of Nilepet's financial operations, will require strong commitment across several South Sudanese government ministries. How much engagement did staff have with the Office of the President and Ministry of Petroleum during their mission?

We were pleased to see the pragmatic staff advice on "low-hanging fruit" that would deliver some rapid improvements to public financial management and urge the authorities to implement these recommendations. We welcome the formation of the National Revenue Authority and hope it will become fully operational soon. We note that staff project an increase in non-oil tax revenue, from 3.2 billion South Sudanese pounds in 2016/17 to 4.1 billion South Sudanese pounds in 2020/21. We wonder if these projections are perhaps optimistic given the limited scope of the non-oil economy. Could staff elaborate on where they see potential for increases in non-oil tax revenue? We underline that a clear and ambitious effort to fight corruption and create good governance is needed to ensure the accountability and transparency of public spending and rebuild the social contract.

We note with concern that South Sudan remains in debt distress and public debt dynamics are unsustainable. We consider that the macroeconomic and external financing assumptions in the updated DSA to be somewhat optimistic, given the delays in the formation of a new unity Government. Given the significant downside risks, we urge the South Sudanese authorities to pay close attention to debt management and ensure any newly contracted loans are concessional.

We agree that price stability should be the primary objective for the Bank of South Sudan (BSS) and we commend the BSS for abstaining from providing credit to government. We concur with staff advice regarding the need to move back to a market-determined exchange rate and address the risks stemming from undercapitalized banks. The current foreign exchange system, and the “special accounts” scheme encourages rent-seeking and raises corruption vulnerabilities.

Looking ahead, we welcome the clear capacity development strategy. We would be interested to understand more about the next steps for membership of East AFRITAC? And how staff would envisage their engagement with South Sudan evolving if the peace agreement leads to reconciliation and economic recovery?

Mr. Benk and Mr. Mehmedi submitted the following statement:

We thank staff for the comprehensive reports, and Mr. Mahlinza and Mr. Garang for their informative buff statement. Following decades of civil war, South Sudan’s industry and infrastructure are severely underdeveloped and poverty is widespread. Macroeconomic imbalances are prevalent, and the fiscal situation is dire as arrears continue to accumulate, international reserves are low, inflation high, and the banking sector undercapitalized. Following the peace accord signed in September 2018 the authorities should now promptly advance with the creation of the new national unity government and other elements of the peace agreement, including security arrangements, to preserve the momentum. We broadly agree with staff's analysis and recommendations and provide the following comments for emphasis.

The authorities need to restore fiscal discipline, improve oil revenue management, and implement public finance management (PFM) reforms. While we welcome the recent policy reforms, including the removal of fuel subsidies, the restraint in central bank financing, and the creation of the National Revenue Authority, we note that the authorities are facing a difficult fiscal situation due to large financing needs, a lack of fiscal discipline, and non-transparent and weak-management of oil resources. Enhancing the management and transparency of oil resources and ceasing the practice of contracting oil-backed loans, advances, and prepayments while ensuring that all oil proceeds are transferred directly to the BSS' oil account, is therefore essential. In this vein, the authorities should urgently consider joining the global Extractive Industry Transparency Initiative. At the same time, the authorities should apply the IMF's extensive TA they have received to implement the PFM reforms, including the removal of ghost public employees, improving cash forecasting, verifying the arrears, and enhancing the budget planning and debt management. Can staff elaborate on the feasibility of the authorities' projection that oil production will reach 270,000 bpd by the end of 2019 from the 145,000 barrels per day in February 2019, and the potential impact on growth if this increase materializes.

We highly appreciate the Fund's scaled up TA provided to South Sudan, including through headquarter missions, short-term as well as long-term experts. Considering the lack of long-term expert (LTE) presence in the country since February 2017, we are wondering about the prospects and feasibility of re-installing LTE on the back of an improved security situation.

The foreign exchange (FX) market should be urgently reformed. We underscore that the multiple foreign exchange rate system should be abolished and the FX market should be liberalized. In this context, discontinuing the "Special Accounts" scheme is a prerequisite for creating the conditions for a unified and market determined exchange rate. The authorities should also urgently address the serious undercapitalization of banks through enforcing capital requirements and adopting a comprehensive banking resolution regulation. Staff's comments on the authorities' efforts to address the rising non-performing loans in the banking sector are welcome.

Mr. Villar and Mr. Rojas Ramirez submitted the following statement:

The Republic of South Sudan is facing enormous challenges in the areas of reconstruction, sustained inclusive growth, and building durable peace. We thank staff for a well-written report and Mr. Mahlinza and Mr. Garang for their helpful buff statement. We welcome the peace agreement signed in September 2018—the Revitalized Agreement on the Resolution of Conflict in South Sudan (R-ARCSS)—as background for boosting economic activity and overcoming the crisis.

We strongly agree with staff on focusing actions to restore fiscal discipline and improve, in a tangible and verifiable way, public finance management. We commend authorities for undertaking further actions on budget administration. On the revenue side, strengthening oil revenue management, stopping non-transparent oil advances, oil-backed loans, and off-budget transactions are all appreciated measures. We welcome the creation of the National Revenue Administration (NRA) in 2018 and efforts for improving the tax and custom systems while improving revenues collection. On the expenditure side, we agree on following a strict budgetary expenditures priority management. It is crucial for ensuring peace-related costs and keeping public administration in good standing to facilitate peace building, basic government services and reducing corruption risks. We join staff in commending the authorities for a zero-central bank financing policy decision.

The Central Bank of South Sudan (BSS) is committed to price stability and assuring a sound international reserve position. We agree with staff's recommendation on reducing monetary expansion by refraining from extending credit to the government, in a fiscal dominance context. We encourage authorities for progress made on FX market liberalization and exchange rate unification by eliminating MCP. The financial System is vulnerable due to undercapitalized banks and weakness in the regulatory framework. We concur with staff that BSS should take actions to ensure banks' supervision and compliance with capital requirements by adopting a comprehensive bank resolution framework, and promoting measures for raising capital, merges or liquidations. We encourage authorities to improve governance and the regulatory AML/CFT framework.

We note that the hydrocarbon sector's potential in South Sudan is large. We agree with staff that, under the baseline of a peaceful environment for attracting investment, oil production will rebound as a main driver for assuring high sustainable growth rates and financing of the economy. We encourage the authorities to build capacity for improving transparency and best practices on extractive industries within the public oil company and the oil revenues administration framework. On the non-oil sector, South Sudan's economic diversification will broaden domestic revenue mobilization, which would require structural reforms for improving the business environment and economic competitiveness.

Mr. Ostros and Mr. Gade submitted the following statement:

We thank staff for their reports and their work on South Sudan, which is a fragile state. South Sudan has suffered from civil conflict, political instability, and external shocks, and is in a serious economic crisis with a large part of the population displaced and in need of humanitarian aid. A lasting peace is a pre-requisite for economic stability and development. We therefore welcome that the peace agreement in September 2018 has improved the prospects for lasting peace in South Sudan, and that signs of a peace dividend are emerging. We broadly agree with the staff appraisal and key policy recommendations.

We fully support the Fund's continued involvement in South Sudan and appreciate staff's efforts under difficult circumstances. We welcome the resumption of onsite surveillance by the Fund. IMF surveillance and recommendations can help restore confidence in the economic situation, if the authorities follow up with policy implementation, and as such are an important catalyst for external financing. All efforts must be made to restore and maintain the confidence of external donors.

We therefore welcome the authorities' intentions to follow-up on staff's recommendations and to direct their efforts towards restoring economic stability. Including rebuilding international reserves, improving the management of oil resources, enhancing public financial management, and regaining access to external support from development partners. As mentioned in Mr. Mahlinza's and Mr. Garang's informative BUFF statement, the reform measures are consistent with the key objectives of the National Development Strategy, which we strongly encourage the authorities to pursue. We would add that normalizing the FX market, including by discontinuing the Special Accounts scheme, and unify the exchange rate as market determined, should be a priority.

The IMF is also an important facilitator and provider of capacity development and technical assistance. We noted in the 2017 Article IV report that TA had come almost to a halt and was delivered through limited offsite training only. We take note of Annex IV and the capacity development strategy for 2019-2021, and that South Sudan's implementation of TA advice has improved in recent years, but remains poor due to low capacity, high staff turnover, and armed conflict. Given the resumption of onsite Fund surveillance, we would also appreciate some elaboration on the practical delivery of TA and implementation going forward.

We would welcome staff, in collaboration with other international organizations, further developing its recommendations on economic diversification. South Sudan is largely dependent on the oil sector. We appreciate that staff also point out that several other non-oil sectors have economic potential, and if further developed could diversify the economy. For future reports, perhaps it could be considered to further advance recommendations that ensure that the preconditions for investment and facilitation of economic diversification are in place.

Mr. Sylla, Mr. Carvalho da Silveira and Ms. Nankunda submitted the following statement:

We thank staff for the comprehensive set of papers and Mr. Mahlinza and Mr. Garang for their insightful buff statement.

The South Sudanese economy continues to face severe economic, political and humanitarian challenges as the result of the civil conflict. In 2017/2018, the economy has contracted while inflation remains high. The South Sudanese pound has also depreciated further against the U.S dollar and international reserves remain at critically low levels. In addition, we agree that downside risks to the outlook persist, stemming from the volatility of oil prices, political instability, insecurity as well as limited institutional and human capacity. Going forward, the signing of the peace agreement in September 2018 is welcome and represents a crucial step towards durable peace and reestablishing macroeconomic stability. Thus, we encourage the authorities to swiftly implement the peace agreement to help revive the economy, improve transparency and accountability, and regain access to external financial support from donors.

We broadly agree with staff's assessment and will limit our comments to the following issues.

Enhancing revenue mobilization and management as well as budgetary discipline is essential to sustain peace-related costs and the functioning of the government. We take note of the unsustainable fiscal situation, characterized by revenue underperformance, large repayment of oil advances and spending overruns which led to further accumulation of arrears. Considering the limited resources, we concur with staff that priority should be given to key peace-related spending and building state resilience. The plan to clear the outstanding stock of oil advances and refrain from contracting new ones is welcome and we would appreciate staff's update on whether the planned repayment of $100 million of oil advances has been completed? On the revenue side, efforts should continue to improve oil management and expand the revenue base. In this regard, the Fund should stand ready to assist if necessary. Furthermore, we reiterate the importance of strengthening Public Financial Management (PFM) by implementing the remaining FAD's recommendations related to commitment control, payroll audit and reporting of public sector accounts.

Given that the country's debt is unsustainable, we share the view that policies in the medium-term should be aimed at fiscal consolidation. South Sudan is in debt distress based on the 2019 Debt sustainability Analysis (DSA), therefore further efforts are needed to put debt firmly on a downward trajectory, particularly after the completion of transfers to Sudan. These efforts should be complemented by reprioritization of spending to key sectors and a renegotiation of external debt arrears with creditors as recommended by staff.

The authorities' monetary policy should be aimed at controlling inflation and progressively restoring international reserves to adequate levels. Staff rightly call on the Central Bank to focus on price stability as its main objective. In this respect, reforms should also ensure the central bank's operational independence, including by avoiding the monetization of fiscal deficits. In line with staff, we also encourage the use of a unitary exchange rate system with market-determined rates and to discontinue the special accounts. This will help build up foreign exchange reserve buffers and ensuring the efficient allocations of foreign exchange resources.

Regarding the financial sector, measures are needed to address banking sector undercapitalization and to ensure that regulations are consistently implemented to support financial stability objectives. The recapitalization of banks, including proper management and supervision, along with actions to address the current rising NPLs, should be pursued. In addition, as part of its financial stability mandate, the central bank should make sure the banks meets minimum capital requirements.

The authorities should step-up measures to enhance the effectiveness of the anti-corruption institutions and strengthen the enforcement of relevant laws. Further, identified gaps in the legal system should be addressed promptly. Like staff, we urge the authorities to advance the implementation of measures aimed at strengthening governance and corruption. This could include setting up an anti-corruption framework for the key areas identified by staff while providing agencies with the resources and political support. We also call on the authorities to adopt best international standards on AML/CFT, including joining AML-related bodies, and complete the setting up of the Financial Intelligence Unit.

Regarding structural reforms, additional efforts are needed to diversify South Sudan's economy to avoid over dependence on the oil sector. We reiterate the importance of securing peace in the country to enable the development of the economy, particularly in the agriculture, fisheries and mining sectors. This would support efforts to foster more sustainable inclusive growth while promoting private sector development. We welcome the authorities' plan to soon join East AFRITAC which will enhance capacity building and data transparency.

Mr. Kaizuka and Mr. Naruse submitted the following statement:

We thank staff for their informative reports and Mr. Mahlinza and Mr. Garang for their insightful statement. Also, we welcome the resumption of onsite surveillance by the Fund, and we are pleased to have an opportunity to discuss South Sudan's Article IV Consultation first time since the 2016 one. We note that the relapse into war in mid-2016 exacerbated the humanitarian conditions in the country and led to an economic crisis, debt distress, and a weak external position. In this regard, we welcome the peace agreement and cessation of hostilities which enhance the prospects for achieving lasting peace. However, we are concerned about the delays in the implementation of the peace agreement. Going forward, we expect that a new unity government will be set up by the revised due date. Also, we believe that addressing the macroeconomic imbalance, supported by improvements in oil management and public financial management, is key to rebuild confidence in government policies. To achieve this end, we regard the staff's policy advices in their reports as highly valuable ones. Are staff confident that the authorities' commitment to the staff's recommendations remain valid even after the formation of a new unity government? As we broadly concur with the thrust of the staff's appraisal, we will limit our comments to the following points:

Fiscal Policy

We encourage the authorities to restore fiscal discipline and improve public financial management. As staff rightly recommend, given the current practice of contracting oil-backed loans is non-transparent, we believe that the authorities need to strengthen oil revenue management. In addition, on revenue administration, we welcome the formation of the National Revenue Authority in 2018, and we expect its successful operation, including by hiring adequately qualified staff and offering a training for existing staff. Moreover, we share the staff's concern that Nilepet (the largest public enterprise)'s financial operations lack transparency. In this regard, we welcome the authorities' commitment to facilitate a public audit of Nilepet. Furthermore, in the 2018/2019 budget, while we commend that the authorities reduced fuel subsidies, we are concerned about the accumulation of arrears and spending overruns on operations. In this respect, we support the staff's call for strengthening public financial management, including through developing a credible arrear clearance strategy. Lastly, in the medium-term, we agree with the staff's view that fiscal policies should focus on raising non-oil revenue and reprioritizing spending towards development.

Monetary, Financial Sector, and Exchange Rate Policy

On monetary policy, we agree with the staff's view that monetary policy should focus on containing inflation and gradually replenishing international reserves. Also, we commend the authorities' zero-central bank financing policy which has contributed to reduce high inflation. In addition, on financial sector policy, we encourage the authorities to address the risks stemming from undercapitalized banks. In this regard, we agree with the staff's view that the Bank of South Sudan (BSS) should ensure the banks' minimum statutory capital requirements and adopt a comprehensive banking resolution regulation with strengthening capacity of the judicial courts. Furthermore, on exchange rate policy, we agree with the staff's view that the foreign exchange market should be liberalized. In this respect, we support the staff's recommendation to replace the current multiple exchange rate system with a unitary exchange rate system with market-determined rates.

Structural Policy

While South Sudan is an oil-dependent economy, we welcome that the authorities have stepped up efforts to restore oil production capacity to its pre-war levels. At the same time, as staff rightly recommend, we believe that South Sudan should diversify the economy to achieve sustainable growth. It is encouraging that the authorities view economic diversification as part of their medium-term agenda. For fully utilizing economic potential in non-oil sectors, we agree with the staff's view that the authorities need to foster human development and close an infrastructure gap. We therefore positively note that the authorities plan to build roads that connect urban with rural areas to facilitate the transportation of agricultural products. Also, we believe that the authorities' continued efforts to strengthen the governance framework is critical to improve the business environment. Given the limited institutional capacity, how do staff consider the sequencing and prioritizing of necessary reforms for economic diversification?

Ms. Mahasandana, Mr. Tan and Mr. Anwar submitted the following statement:

We thank staff for the insightful set of reports and Mr. Mahlinza and Mr. Garang for their informative buff statement. We take note with concerns that the Republic of South Sudan faces serious macroeconomic challenges given a substantial decline in growth, continous depreciation in the exchange rate, sustain debt distress and weak external position in the last couple of years. Going forward, while the authorities have a more sanguine view about the outlook, risks -in particular political and external risks- are tilted to the downside. Against this background, we underscored the need for establishing credible and lasting peace. We encourage the authorities to follow the staff's recommendation on recalibrating policy measures to rebuild economic buffer and restore macroeconomic stability. While we broadly share the thrust of staff's assessment, the following comments are made for emphasis.

Restoring fiscal discipline and strengthening oil revenue management and public financial management are warranted to rebuild confidence in government policies and regain access to external financial support. We commend the authorities' zero-central bank financing policy, which is expected to instill fiscal discipline, while providing incentives to increase non-oil revenue, improve oil revenue governance and strengthen budgetary controls. We notice that the authorities foresee a financing gap and urge the IMF to support its case for external resource mobilization with donors. We would appreciate staff's comments on the Fund roles in this case and share similar experiences in other countries if any. We take positive note for authorities commitment to strengthening oil management through discontinuing oil advances contract. We welcome domestic oil market reforms such as liberalizing the fuel market and removal of domestic fuel subsidies. While the lack of transparency of the public oil company remains a concern, we support the authorities commitment to conduct an audit on its operation according to existing legal requirements. We share staff's view that the South Sudan's nascent PFM institutions and processes largely collapsed during the economic and political turmoil in recent years need to be strengthened by a firm longer-term strategy. However, in the near-term we encourage the authorities to implement "low-hanging fruit" actions such as removing ghost workers from the payroll, and starting verification of the current stock of arrears and developing a credible clearance strategy, recommended previously by Staff, that would provide immediate impact.

In the medium term, focusing policies to rebuild economic buffers and transition to peace is warranted for sustainable and inclusive growth. We concur with staff that fiscal policies should aim to restore debt sustainability as well as domestic and external stability, while prioritizing spending towards development. That said, the authorities should pursue fiscal consolidation while raising non-oil revenue. They should also reprioritize budgetary spending away from security-related spending to investments in education, health, infrastructure, and rural development, which would help unlock potential in key economic sectors. Along with policies to improve fiscal conditions, we encourage the authorities to seek a restructuring plan on external debt arrears to restore debt sustainability and resolve debt distress problem. We share staff's view that the authorities need to diversify its economy to reduce reliance on the oil sector, broaden domestic revenue mobilization, and achieve sustainable and inclusive growth.

Strong commitment to contain inflation, replenish international reserves, and create more transparency in the forex market is critical to restore monetary stability. We commend the authorities' measure to continue ceasing central bank lending to finance government deficit. We concur with staff that the BSS should consider to adopt price stability as its main mandate. We take positive note that the authorities remain committed to strengthening the monetary policy toolkit, including RR, voluntary TD, and FX intervention. We welcome the authorities plan to review the operations of the Special Accounts Scheme to create more transparency in the FX market. Going forward, we encourage the authorities to consider reforms to promote market functioning and market-determined exchange rates.

Addressing the risks stemming from serious undercapitalized of many banks in proper manner is essential to maintain financial stability. We take note of staff's recommendation on the banking resolution regulation and minimum capital requirements. In this context, we would appreciate staff's comments on the underlying reasons for the lack of implementation of the earlier bank recapitalization plan. Staff should also elaborate more specifically on the available options for the authorities to make concrete progress this time round, including suggestions to better deal with impediments such as political resistance if any. We welcome the commitment of the BSS to ensure that the minimum reserve requirements which remain at 20 percent of deposits are met by all commercial banks.

> With these comments, we wish the Republic of South Sudan and its people every success in their future endeavors.

The Acting Chair (Mr. Furusawa) remarked that the prospects for lasting peace in South Sudan had improved, although the country remained in serious economic crisis. Directors' gray statements had highlighted the importance of restoring macroeconomic stability and rebuilding credibility with the international community. Fiscal discipline and reforms to strengthen governance and diversify the economy would be needed to foster inclusive growth.

Mr. Ostros made the following statement:

> We have issued a gray statement, but I would like to emphasize a few points. While the deficit situation is still serious, the macroeconomic outlook seems marginally better, perhaps a token to the peace agreement last year. The precondition for reorienting the economy is lasting peace and the political willingness to implement the peace agreement. My authorities took note of the projection for oil production, which is considerably lower than the earlier projections by the government. Given this projection and South Sudan's reliance on oil production, it underscores the need for strict financial fiscal discipline. In addition, the staff is projecting a decrease in revenue from as early as 2025, suggesting that development of other non-oil sectors is a top priority. As proposed in our gray statement, we see merit in aiding South Sudan in developing a diversification plan as soon as possible.
>
> Finally, I would encourage the authorities to work toward sound public financial management, strengthen governance, and increase transparency. There is a need to pursue all efforts and a commitment to sound policies in regaining credibility with the international partners.

The staff representative from the African Department (Mr. Mikkelsen), in response to questions and comments from Executive Directors, made the following statement:[2]

> I will cover three issues that were not addressed in the answers to technical questions. The three issues relate to the new unity government and the implementation of the staff's recommendations, the future of technical assistance (TA) delivery, and relations with the Fund going forward.
>
> On the implementation of staff recommendations, the political situation in South Sudan remains fragile and uncertain, which makes

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[2] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

predictions about policy implementation difficult. The hope is that the unity government that currently plans to take office in November 2019 will bring more stability and predictability to the country. In any case, the Article IV report and its recommendations were from the beginning meant to be a guide for the new unity government that originally was planned to take office earlier this month. In terms of the views of the opposition in South Sudan, in meetings with the staff, their representatives have always been positive about relations with the Fund, and they have expressed support for macro stability and fiscal discipline and improved management. The bottom line is that there is a reasonable chance that at least part of the recommendations will be implemented in the near future.

Turn to the issues on TA and delivery, first some good news. On the East African Regional Technical Assistance Center (AFRITAC) membership, the steering committee just a few days ago endorsed South Sudan's membership, which will begin in May 2020. The TA needs in South Sudan are enormous, and the Fund's TA will need to be delivered in coordination with development partners' activities, which in the past were significant. However, development partners have not yet restarted their prewar capacity-building programs. They are still waiting for peace agreement implementation and for the new unity government to take office. However, the Fund has recently restarted on-site TA missions, including on public financial management, revenue administration, central bank operations, and statistics. Going forward, TA delivery will need to adapt to the conditions in the country, and the financing in the coming year will rely on HQ resources and the remaining funds in the dedicated South Sudan Trust Fund, which is set to expire in April 2020—so immediately before that, South Sudan will take membership of East AFRITAC.

Assuming peace and a successful transition to a new unity government, it is expected that the TA efforts from development partners will pick up substantially in the coming years, which will complement Fund TA delivery, including from East AFRITAC.

On the relations with the Fund going forward, the staff will continue to be in close contact with the authorities. In the near-term, discussions on progress toward implementing the staff's policy implementations reflected in the report could take the form of a staff visit even before the new unity government takes office. The successful implementation of the peace agreement and transition to a unity government and Staff-Monitored Program (SMP) could be considered as well. Such an engagement could support the authorities' rebuilding of credibility, including with the international community, and regaining access to longer-term external financing. Moreover, the improved conditions on the ground in Juba could also allow for the reinstallation of a resident representative, which would help facilitate TA and policy implementations.

Mr. Ronicle remarked that it was important for the Fund to remain engaged in South Sudan. While peace and governance were the immediate needs, in the future, TA would be important as well.

Mr. Mahlinza made the following concluding remarks:

> On behalf of my South Sudanese authorities, I thank Directors for their constructive comments and support toward the completion of the 2019 Article IV consultation. I will convey Directors' valuable advice and observations to my authorities. As noted in our buff statement, South Sudan continues to face significant macroeconomic challenges, this notwithstanding the recent signing of the revitalized agreement on the resolution of the conflict in South Sudan in September 2018, which has improved peace prospects and created a positive business sentiment. My authorities are determined to take advantage of this opportunity to stabilize macroeconomic conditions and resolve the humanitarian crisis.
>
> In their gray statements, Directors have emphasized the need to restore fiscal discipline and enhance public financial management. My authorities wish to reaffirm their commitment to improve public financial management. To this end, efforts to fully operationalize the national revenue authority by adding qualified staff will be prioritized. A strategy to deal with and limit oil advances has been prepared and are being considered by the cabinet. Furthermore, the authorities will prioritize spending away from security-related expenditures toward investment in education, health care, infrastructure, and rural development. In addition, efforts will be made to focus on low-hanging fruits, including removing ghost workers from the payroll, limiting foreign travel, and developing a credible arrears clearance strategy.
>
> To contain inflation, the authorities will continue to pursue a tight monetary policy stance, and they remain committed to zero central bank financing. At the same time, they will strengthen the monetary policy toolkit and intensify efforts to build foreign exchange buffers.
>
> In line with the Directors' call to strengthen the governance and Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)

frameworks, the authorities are taking steps to strengthen institutions and address governance vulnerabilities, including enhancing the asset declaration process. They plan to complete the outstanding Bank of South Sudan and Nilepet audits through 2018. Furthermore, a commissioner for the Financial Intelligence Unit has been appointed. As part of an effort to develop the non-oil sector, the authorities are committed to developing agriculture, mining, fisheries and construction in the medium term. They look forward to support of the international community in developing these sectors.

The authorities wish to reiterate their commitment to implementing reforms aimed at entrenching macroeconomic stability, improving fiscal and debt sustainability, while rebuilding reserve buffers. In this respect, the Fund's policy guidance remains critical, together with support from the international community in addressing the huge humanitarian needs.

Finally, I wish to convey my authorities' appreciation to the Fund for the resumption of on-site surveillance in South Sudan and to thank the mission chief, Mr. Mikkelsen, and his team for the invaluable support to the authorities. I also wish to thank them for providing comprehensive responses to questions raised by Directors. The authorities continue to value Fund advice and TA and look forward to further collaboration in implementing the country's reform agenda.

The Acting Chair (Mr. Furusawa) noted that the Republic of South Sudan maintained an exchange restriction and a multiple currency practice subject to the Fund approval under Article VIII, Section 3. No decision was proposed.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They commended the authorities for signing the revitalized peace agreement and stressed that achieving lasting peace will be critical to restoring macroeconomic stability and improving the population's living conditions. Directors observed, however, that the country is facing a deep economic and humanitarian crisis, and underscored the importance of decisively implementing key reforms to restore macroeconomic stability, strengthen economic buffers, improve governance, and rebuild credibility with the international community.

Directors welcomed the removal of domestic fuel subsidies, liberalization of the fuel market, and the authorities' efforts to reverse fiscal dominance by reducing central bank budgetary financing, which contributed to lowering inflation. These efforts notwithstanding, Directors concurred on the need to restore fiscal discipline and strengthen oil revenue and public financial management. They urged the authorities to implement the planned measures to discontinue contracting oil advances and to arrest off-budget transactions. Directors also encouraged non-oil revenue mobilization to underpin the needed fiscal consolidation over the medium-term while creating space for increased spending in education, health, infrastructure, and rural development. In this regard, they recommended to fast-track the operationalization of the newly-created National Revenue Authority.

Directors welcomed the authorities' intention to pursue a tight monetary policy, including by abstaining from providing credit to government, with the objectives to continue to lower inflation, gradually replenish international reserves, and remove distortions in the foreign exchange market. In this regard, Directors called for actions to liberalize the foreign exchange market and abolish the surrender requirements. They also concurred that the exchange rate should be market-determined, which would help address external imbalances and improve resilience to shocks.

Directors welcomed the Bank of South Sudan’s commitment to strengthen financial stability, including by adopting a sound banking resolution framework and taking actions to address undercapitalization of banks that do not meet minimum capital requirements. Efforts to strengthen the AML/CFT framework were also encouraged.

Directors noted that additional reforms, including to improve governance, will be needed to foster more diverse, inclusive growth. They expressed concern about the lack of transparency of Nilepet’s financial operations and called for a transparent audit to ensure that its planned investments in oil production and related activities are cost-effective and growth-enhancing. Directors stressed the importance of auditing the current stock of domestic arrears and developing a credible clearance strategy.

It is expected that the next Article IV consultation with the Republic of South Sudan will take place on the standard 12-month cycle.

APPROVAL: April 22, 2020

JIANHAI LIN
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and risks

1. ***Are staff confident that the authorities' commitment to the staff's recommendations remain valid even after the formation of a new unity government?***

- Staff will respond to this question during the Board meeting.

2. ***Can staff elaborate on the feasibility of the authorities' projection that oil production will reach 270,000 bpd by the end of 2019 from the 145,000 bpd in February 2019, and the potential impact on growth if this increase materializes?***

- Staff projects oil production to climb to about 150,000 bpd by end-2019, which is close the authorities' projection of 159,000 bpd used in their draft 2019/20 budget. While these estimates are conservative, the 270,000 bpd recently referred to in the media appears to be an overestimate.

Fiscal Policy

3. ***Does staff have information on the breakdown on the spending under "operating expenses"?***

- The excess operational spending in 2018/19 is largely peace-related, including for travel and accommodation of opposition leaders and government officials involved in the transition, costs associated with three additional vice presidents, and expenses related to some of the commissions the government is mandated to establish under the peace agreement. Also, higher fuel costs related to the liberalization of fuel prices have contributed to an increase in operating spending.

4. ***We would like to have further elaboration on how the authorities will try to address the country's substantial social fragilities through fiscal policy.***

- South Sudan will continue to rely heavily on external support to cover humanitarian needs in the near- to medium-term. However, the authorities should start to address poverty and extreme vulnerabilities by redirecting savings from lower war-spending to social services (education, health and basic safety nets) in a targeted and efficient manner.

5. ***Since the Article IV report was issued, we understand from press reports that the Council of Ministers in Juba have been discussing the new budget, including significant allocations for infrastructure and road construction. Are there any updates to the fiscal projections in the Article IV? Do staff consider the latest draft budget to be in line with their policy advice?***

- The draft 2019/20 budget is broadly in line with the projected small fiscal deficit in the Article IV staff report. However, the draft proposes to significantly redistribute spending from current to capital. As a result, some current spending lines appear unrealistically tight, which could lead to new arrears, if implemented. Also, note that the Ministry of Finance currently is working on revisions based on resubmissions from spending agencies; the budget is tentatively planned to be submitted to parliament on June 7.

6. ***The implementation of staff's recommendations on oil revenue management, including the transparency of Nilepet's financial operations, will require strong commitment across several South Sudanese government ministries. How much engagement did staff have with the Office of the President and Ministry of Petroleum during their mission?***

- The mission met with President Kiir during a staff visit in October 2018 and the First Vice President Taban Deng Gai at the conclusion of the Article IV mission. On both occasions, the leadership expressed commitment to work closely with the IMF and strengthen oil management. The same view has been expressed by key opposition leaders in meetings with staff. Although high ranking officials at the Ministry of Petroleum agreed with staff's advice to stop contracting oil advances, the mission registered more reluctance in the ministry than in the past to share information about oil advances and detailed oil production data.

7. ***We note that staff project an increase in non-oil tax revenue, from 3.2 billion South Sudanese pounds in 2016/17 to 4.1 billion South Sudanese pounds in 2020/21. We wonder if these projections are perhaps optimistic given the limited scope of the non-oil economy. Could staff elaborate on where they see potential for increases in non-oil tax revenue?***

- NRA has already improved domestic revenue collection by reducing cash leakages by requiring taxpayers to pay taxes directly into tax accounts at commercial banks. Further, the cessation of fighting has enabled reopening of border posts, boosting cross border trade between South Sudan and its neighbors. Domestic revenue will also receive a boost because of the impact of upward revisions in customs valuations.

8. ***The plan to clear the outstanding stock of oil advances and refrain from contracting new ones is welcome and we would appreciate staff's update on whether the planned repayment of $100 million of oil advances has been completed?***

- Three cargos of crude oil were earmarked for repayment of advances in March and April 2019. There is usually no uncertainty with repayment of oil advances, since the marketing companies simply deduct repayments directly from oil export proceeds.

Monetary and exchange rate policies

9. ***We wonder whether, given the low level of development and fragility of South Sudan, the monetary/exchange-rate system advocated by staff (money targeting, exchange-rate flexibility) is superior to other options, like a crawling peg or other forms of managed floats. Staff's comments are welcome.***

- In staff's view, only a flexible system will ensure elimination of the large parallel market spread. A fixed regime will lack credibility due to low foreign exchange reserves and recent policy slippages. Based on past experiences, the elimination of the parallel market spread is important to reduce corruption vulnerabilities and rent seeking behavior. Moreover, the government budget stands to benefit from a market-based system as it will eliminate current implicit subsidies to various non-budgetary activities through government FX sales to the central bank at below-market prices.

Financial sector

10. ***We also agree with the need to address the situation of undercapitalized banks and urgently improve banking regulation and supervision. Could staff further elaborate on the lack of enthusiasm that the authorities may have on these reforms, as we could infer after reading paragraph 25 on the authorities' views?***

- The Bank of South Sudan is cognizant of the need to address this problem urgently, however, this is a sensitive matter due to the large number of undercapitalized banks and skewness towards domestic banks. Moreover, our understanding is bank ownership by influential people creates additional challenges in the resolution of some banks. In this context, the authorities requested Fund TA to help develop bank resolution tools and frameworks that would guide the process.

11. ***We take note of staff's recommendation on the banking resolution regulation and minimum capital requirements. In this context, we would appreciate staff's comments on the underlying reasons for the lack of implementation of the earlier bank recapitalization plan. Staff should also elaborate more specifically on the***

available options for the authorities to make concrete progress this time round, including suggestions to better deal with impediments such as political resistance if any.

- The authorities are committed to improving financial risk management and regulatory oversight despite facing some resistance. Already, the BSS has re-issued a circular on new minimum capital requirements effective end-2019 (US$30 million for foreign banks and US$15 million for domestic banks). Further, the BSS is finalizing the bank resolution framework for troubled banks. Meanwhile, all 14 commercial banks that are non-compliant with the minimum statutory requirements have been presented with the options to either: (i) raise capital, (ii) merge with stronger banks, or (iii) be liquidated. As the economy picks up and political power will be shared in the transitional government of national unity, the conditions for reform should improve.

12. ***How do staff assess the commercial banks' capacity to meet reserve requirements on foreign currency deposits against the backdrop of surrender requirements and exchange restrictions?***

- Since surrender requirements do not apply to FX deposits, banks should be able to meet reserve requirements on FX deposits as normal. Banks are only required to surrender FX to the central bank when Special Account holders sell FX, however, when this happens, reserve requirements will fall accordingly since FX deposits fall by the full amount of the FX sale.

13. ***Staff's comments on the authorities' efforts to address the rising non-performing loans in the banking sector are welcome.***

- The BSS will continue to enhance onsite supervision while laying the foundation for risk-based supervision, supported by IMF TA. Acknowledging the elevated levels of NPLs, the authorities are encouraging commercial banks to address these vulnerabilities, including through strengthening lending practices and implementing recovery efforts. The success of these efforts will ultimately depend on whether peace is taking hold and economic recovery materializes.

External debt

14. ***Given the substantial outstanding stock of short-term oil advances, we support staff's call for the authorities to seek a longer-term and preferably concessional loan to clear this stock. Could staff advise on the likelihood of securing such a loan?***

- The most likely option is that the authorities seek a medium-term loan from the oil operating companies. They have provided loans to the government in the past and the loan is easily collateralized through their direct access to the country's oil resources.

15. ***Can staff elaborate on the factors behind the projected sharp rise in debt over the medium term despite a forecast steady increase in the fiscal surplus?***

- The DSA shows a rise in public debt in percent of GDP in the medium-term despite a small fiscal surplus over the same period. The rise in public debt is attributed to (i) a substantial depreciation of the official (indicative) exchange rate, which is used to convert foreign currency debt into local currency; (ii) some debt is assumed not to be disbursed to the central government (e.g. loans to the airport authority); thus, this debt is not reflected in central government accounts; and (iii) central government saving of oil revenue (to support an increase in FX reserves) is in some years partly offset by borrowing, which will increase debt.

Structural reforms

16. ***Given the limited institutional capacity, how do staff consider the sequencing and prioritizing of necessary reforms for economic diversification?***

- South Sudan has suffered from low institutional capacity and severe budget constraints. With achievement of peace, the authorities should shift spending away from security towards investments in development and diversification. Since lack of infrastructure is a common issue across the non-oil sectors, investment in roads to improve access to markets and in rural development to support returning farmers, who were previously displaced, should be the priority.

Fund issues and capacity development

17. ***We would welcome staff's view on the willingness and capacity of donors to engage with South Sudan to support the capacity development strategy for 2019-21 in Annex IV. Do staff think possible TA funding resources (e.g. the Measuring Natural Resource Wealth Topical Trust Fund or future membership of East AFRITAC) will be enough to complete this strategy?***

- Staff will respond to this question during the Board meeting.

18. ***We would be interested to understand more about the next steps for membership of East AFRITAC? And how staff would envisage their engagement with South Sudan evolving if the peace agreement leads to reconciliation and economic recovery?***

- Staff will respond to this question during the Board meeting.

19. ***Considering the lack of long-term expert (LTE) presence in the country since February 2017, we are wondering about the prospects and feasibility of re-installing LTE on the back of an improved security situation?***

- With the dedicated Trust Fund for South Sudan coming to an end, the financing options for long-term experts have become more difficult. East AFRITAC will not have resources to finance LTEs and other available financing vehicles' scope to finance LTEs is very limited. However, there may be a possibility of bilateral donors to directly finance LTEs in collaboration with IMF capacity building activities.

20. ***Given the resumption of onsite Fund surveillance, we would also appreciate some elaboration on the practical delivery of TA and implementation going forward.***

- Staff will respond to this question during the Board meeting.

21. ***The immediate fiscal risks stem from substantial external and domestic debt arrears and implementation costs of the peace agreement, which puts additional pressure on the near-term government spending. The IMF engagement to assist the authorities in dealing with these challenges would be critical and we would welcome greater clarity of staff on the envisaged surveillance plan.***

- Staff will respond to this question during the Board meeting.

22. ***We notice that the authorities foresee a financing gap and urge the IMF to support its case for external resource mobilization with donors. We would appreciate staff's comments on the Fund roles in this case and share similar experiences in other countries if any?***

- Staff will respond to this question during the Board meeting.