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April 11, 1984

To: Members of the Executive Board
From: The Secretary
Subject: Sudan - Request for Stand-By Arrangement

Attached for consideration by the Executive Directors is a paper on a request from Sudan for a stand-by arrangement equivalent to SDR 90 million. Draft decisions appear on page 35.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Kavar (ext. (5)7138).

Att: (1)

INTERNATIONAL MONETARY FUND

SUDAN

Request for Stand-by Arrangement

Prepared by the Middle Eastern Department, the Exchange and Trade
Relations Department, and the Fiscal Affairs Department

(In consultation with the Legal Department
and the Treasurer's Department)

Approved by A.K. El Selehdar and Subimal Mookerjee

April 11, 1984

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I. Introduction

In the attached letter dated April 5, 1984 from the Minister of Finance and Economic Planning and the Governor of the Bank of Sudan to the Managing Director, the Government of Sudan requests a stand-by arrangement for one year in the amount of SDR 90 million, equivalent to 53.0 percent of Sudan's quota. 1/

On March 31, 1984, the outstanding use of Fund credit by Sudan was equivalent to SDR 611.0 million (360.0 percent of quota), of which SDR 507.6 million (299.1 percent of quota) arose from purchases in the credit tranches and under the extended and supplementary financing facilities, and SDR 103.3 million (60.9 percent of quota) resulted from purchases under the compensatory financing facility. 2/

The expected purchases and scheduled repurchases by Sudan during the period June 1, 1984-May 31, 1985, the approximate period of the proposed arrangement, are shown in Table 1. On the assumption that all the proposed purchases are effected, the outstanding use of Fund credit would decrease to the equivalent of 350.2 percent of quota at the end of May 1985 or 314.7 percent of quota excluding compensatory financing facility purchases. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement is being proposed.

II. Background

The economic and financial developments in Sudan in recent years have been described in previous staff reports. 3/ The most striking development during the mid-1970s was a marked deterioration in the external payments situation due to a combination of domestic and external factors.

1/ Discussions on the framework and elements of the program were held in Washington during the periods of the 1983 Annual Meetings, October 27-28, 1983, November 23-24, 1983, and March 16-21, 1984, and in Khartoum during the periods of October 4-24, 1983 and November 16-22, 1983. The staff team comprised Messrs. M. Yaqub (Head), P. Clawson, S. Kavar (all of MED), R. Kibuka (FAD), and R. Pownall (ETR), Miss J. Muncy (secretary, MED), and Mrs. B. Monsma (secretary, EXR). Mr. A.S. Shaalan (Director, MED) also participated in some of the meetings. The mission's work was assisted by Mr. J. Dodsworth, the Fund resident representative in Sudan. Mr. M. Tadros, IBRD resident representative in Khartoum, participated in the work of the October mission. Mr. S. Hassan, Advisor to the Executive Director for Sudan, attended some of the meetings.

2/ See Appendix I for additional details on Sudan's relations with the Fund.

3/ In particular, see EBS/82/7 (1/14/82), EBS/83/9 (1/11/83) and Sups. 1-4, and EBS/83/174 (8/16/83) and Sup. 1.

Table 1. Sudan: Fund Position During Period of Arrangement

	Outstanding at May 31, 1984	1984			1985	
		June	July-Sept.	Oct.-Dec.	Jan.-Mar.	April-May
(In millions of SDRs)						
Transactions under tranche policies (net) <u>1/</u>	...	17.9	20.4	-1.6	10.0	-9.0
Purchases	...	20.0	25.0	20.0	12.5	12.5
Ordinary resources	(...)	(10.0)	(12.5)	(10.0)	(6.3)	(6.3)
Enlarged access resources	(...)	(10.0)	(12.5)	(10.0)	(6.3)	(6.3)
Repurchases	...	-2.1	-4.6	-21.6	-2.5	-21.5
Ordinary resources	(...)	(-2.1)	(-4.6)	(-5.6)	(-2.5)	(-12.1)
Enlarged access resources	(...)	(--)	(--)	(-16.0)	(--)	(-9.4)
Transactions under special facilities (net) <u>2/</u>	...	--	-11.2	-11.2	-6.7	-6.7
Purchases	...	--	--	--	--	--
Repurchases	...	--	-11.2	-11.2	-6.7	-6.7
Total Fund credit outstanding (end of period)	592.4	610.3	619.5	606.7	610.0	594.3
Under tranche policies <u>1/</u>	496.3	514.2	534.6	533.0	543.0	534.0
Special facilities <u>2/</u>	96.1	96.1	84.9	73.7	67.0	60.3
(As percent of quota)						
Total Fund credit outstanding (end of period)	349.1	359.6	365.1	357.5	359.5	350.2
Under tranche policies <u>1/</u>	292.5	303.0	315.0	314.1	320.0	314.7
Special facilities <u>2/</u>	56.6	56.6	50.0	43.4	39.5	35.5

Sources: The Treasurer's Department and staff projections.

1/ Ordinary and enlarged access resources.2/ Compensatory financing facility.

These included (a) slow growth of output and exports, particularly of the principal export commodity, cotton, caused mainly by inadequate financial incentives for tenant farmers, deterioration of management and fixed capital, and labor shortages due to migration of workers to the neighboring oil producing countries; (b) cost/price distortions arising from controls on prices, profit margins, and interest rates and from the maintenance of an overvalued exchange rate; (c) excessive monetary expansion reflecting increased borrowing by the public and private sectors; (d) higher cost of essential imports, particularly petroleum and sugar, due to increases in international prices; and (e) heavy burden of servicing external debt due to rising international interest rates and the expiry of grace periods on debts contracted in the early 1970s. By about mid-1978, Sudan was faced with an acute shortage of foreign exchange and a buildup of external payments arrears. To redress the situation, the Sudanese authorities have since then pursued corrective policies within the context of adjustment programs supported by the Fund and the World Bank. ^{1/} The adjustment policies focused on the stimulation of output, particularly of cotton, correction of price distortions, elimination of subsidies, and restraint in government borrowing from the domestic banking system through major revenue raising/expenditure reducing measures.

The policy initiatives taken during the period 1978-82 (summarized in Appendix III) contributed to an expansion in agricultural output and an improvement in the Government's financial position. However, the external payments position remained weak in part because of a substantial worsening of the terms of trade between 1980 and 1982 but also because of the growing burden of external debt repayment. It became increasingly clear that no internal adjustment, consistent with social stability, would be feasible to enable Sudan to service all the maturing external debt obligations and that domestic effort must be supported by additional nonproject external assistance and by large-scale debt relief. For these reasons, the stand-by arrangement that was approved "in principle" in January 1983 entered into effect in February 1983 after major debt relief had been granted by Sudan's creditors.

^{1/} Fund support began with a first credit tranche purchase (in June 1978). This was succeeded by a three-year extended arrangement (with effect from May 1979) which was replaced by a one-year stand-by arrangement (with effect from February 1982), and was followed by the stand-by arrangement which became effective in February 1983 and expired in March 1984. World Bank support included an Agricultural Rehabilitation Loan (approved in April 1980) and three loans to rehabilitate individual agricultural schemes (approved in 1980 and 1981). Details regarding financial relations between the World Bank and Sudan are provided in Appendix II.

III. Performance Under the 1983 Stand-By Arrangement

The economic program supported by the stand-by arrangement that became effective on February 23, 1983 aimed mainly at alleviating pressures on the external payments position without disrupting the flow of essential imports and capital goods needed to rehabilitate and expand the economy's productive capacity. For the achievement of this objective, policy actions were taken to encourage output and exports, contain less essential imports, attract remittances by Sudanese expatriates, improve controls over public expenditures, and achieve better utilization of external aid and foreign exchange resources. The important policy actions included devaluation of the Sudanese pound and expansion in the volume of transactions channeled through the free market for foreign exchange, more effective enforcement of a ban on the importation of some less essential goods, implementation of several budgetary measures to reduce reliance on bank financing, increase in interest rates, easing of controls on retail prices, and elimination of budgetary subsidies.

1. Production developments

The major emphasis of production policies was on increasing the output of agricultural exportables and the main import substitutes. Toward this end, the authorities increased the procurement prices of exportables, acted to ensure that inputs required by the public agricultural entities would be available in sufficient quantities, and effected improvements in the transport system. In the case of the irrigated agricultural schemes, yields and output responded favorably to these measures (Table 2); particularly encouraging was the sharp increase in the output of cotton in the 1982/83 season ^{1/} to a level not achieved since 1974/75. However, the increased output of the irrigated sector was more than offset by a sharp drop in production from the rainfed areas where drought conditions had adversely affected the groundnuts and sorghum crops.

In the case of the leading import substitutes (sugar and textiles), production of sugar increased substantially owing to improved operations at the publicly owned sugar mills and the completion of some rehabilitation work. However, the textiles industry continued to be seriously affected by shortages of labor and electrical power, with a consequent stagnation of output.

In overall terms, the decline in output from rainfed agriculture more than offset the growth in irrigated agriculture and agro-manufacturing with the result that real GDP is estimated to have declined by 2.7 percent in 1982/83 compared with the program's target of a 3.5 percent growth.

^{1/} The Sudanese agricultural season extends from June to May.

Table 2. Sudan: Production and Exports of the Principal Agricultural Commodities

(Thousands of tons unless otherwise indicated)

	<u>Production in 1982/83</u>		<u>Exports in 1983</u>	
	Program projections	Actuals	Program projections	Preliminary actuals
Cotton lint (thousand bales)	912	1,160	700	1,129
Long staple	(500)	(477)	(400)	(621)
Medium staple	(385)	(617)	(285)	(500)
Short staple	(27)	(66)	(15)	(8)
Groundnuts	795	501	270 <u>1/</u>	130 <u>1/</u>
Sorghum (dura)	2,700	1,919	300	256

	<u>Area in 1982/83</u>		<u>Yield in 1982/83</u>		<u>Production in 1982/83</u>	
	Program projections	Actuals	Program projections	Actuals	Program projections	Actuals
	<u>(Thousands of feddans)</u>		<u>(Tons per feddan)</u>			

Memorandum items:

Irrigated sector						
Cotton lint <u>2/</u>	850	816	3.9	4.9	885	1,094
Groundnuts	400	232	750	802	300	186
Sorghum (dura)	600	570	500	393	300	224
Rainfed sector						
Cotton lint <u>2/</u>	90	172	1.0	1.3	27	66
Groundnuts	1,900	1,385	260	227	495	315
Sorghum (dura)	8,400	7,961	285	213	2,400	1,695

Sources: Data provided by the Sudanese authorities and staff projections.

1/ Includes groundnut oil and groundnut cake.

2/ Yield in kantars of seed cotton per feddan. In ginning, a kantar of seed cotton yields lint cotton in approximately the following amounts: 125 lbs for short staple, 120 lbs for medium staple, and 108 lbs for long staple. Production is in thousands of 420-lb bales.

2. Monetary developments

The program aimed to contain expansion in the supply of money and quasi-money in 1982/83 1/ to 28 percent which, in combination with the projected growth in real GDP, was expected to contain the rate of inflation to about 30 percent. In the event, the expansion in the money supply was 37 percent (Table 3). 2/ Under the combined impact of reduced output and higher monetary growth, inflationary pressures intensified, with the cost of living rising by an estimated 40 percent in 1982/83. 3/

Since the monetary expansion in 1982/83 exceeded by a significant margin the program's target for that year, the authorities decided to contain it in 1983/84 to a level that would achieve the target set in the program for the two fiscal years. Consequently, the target for monetary expansion for 1983/84 was lowered from the original 26 percent to 18 percent. To help achieve the new target, a number of measures were adopted. In the public sector, budgetary measures were implemented in order to hold government borrowing from the banking system to a lower level than in 1982/83. The prices of goods and services provided by some public entities were increased in order to contain their borrowing; at the same time a significant retirement of credit was expected from the cotton marketing corporation as a result of improved monitoring of its financial flows. As regards the private sector, several measures were introduced in August 1983 to restrain credit including a reserve requirement on bank deposits, prohibition of certain types of bank credit, and increases in the margin requirements for less essential imports. The initial impact of these measures was to sharply curtail the growth in domestic liquidity (4.7 percent increase in the first four months of 1983/84).

1/ The Sudanese fiscal year extends from July 1 to June 30.

2/ An analysis of the factors underlying the monetary expansion shows that borrowing by the Government, public entities, and private sector was within the relevant ceilings and targets, but that the external sector turned out to be much less contractionary than anticipated under the program. The monetary developments in 1982/83, in relation to the program target, were discussed at length at the September 1983 Executive Board meeting on the Article IV consultation and mid-term review of the program.

3/ It is difficult to make a precise estimate of the rate of inflation in Sudan because of the lack of adequate price indices. The available general index is based on the consumption pattern of government employees in the Khartoum area. The weights are based on a 1967/68 household survey and, moreover, include a number of commodities, such as petroleum products, sugar, and wheat whose prices are administratively determined.

Table 3. Sudan: Changes in Domestic Liquidity, 1980/81-1983/84

Changes During Period	1980/81	1981/82	Program 1982/83	Actuals 1982/83	Program 1983/84
(In millions of Sudanese pounds)					
Money and quasi-money	489.2	349.0	575.0	705.1	470.0
Impact of the external sector	-92.2	-16.8	-260.0	-29.2	--
Blocked accounts	-16.0	-52.5	--	-28.6	--
Domestic credit extension	597.4	418.4	835.0	762.9	470.0
Claims on Government (net) 1/	289.3	33.0	110.0	43.9	100.0
Claims on public entities	131.5	204.4	310.0	303.5	125.0
Claims on private sector and specialized banks	172.8	237.9	405.0	365.2	245.0
Other items (net)	3.8	-56.9	10.0	50.3	--
(Changes in percent) 2/					
Money and quasi-money	46	23	28	37	18
Claims on Government (net)	29	3	8	3	12
Claims on public entities	46	49	50	49	13
Claims on private sector and specialized banks	33	34	43	39	19
(Changes as percent of broad money at beginning of period) 2/					
Impact of external sector	-9	-1	-14	-2	--
Blocked accounts	-1	-3	--	-1	--
Domestic credit extension	56	27	44	40	18
Claims on Government (net)	27	2	6	2	4
Claims on public entities	12	13	16	16	5
Claims on private sector and specialized banks	16	15	21	19	9
Other items (net)	--	-4	1	3	--

Source: Appendix Table 11.

1/ Includes the net change in government domestic arrears, which were LSd 14.0 million on June 30, 1980 and LSd 105.8 million on June 30, 1981.

2/ Because of the revisions in the monetary data, the percentage changes for 1982/83 for the program parameters, which had been projected on the basis of the unrevised series, are not strictly comparable with those derived from the revised series.

However, in November and December the money supply rose at a fast rate resulting in 13.8 percent growth during the first six months of 1983/84 (Appendix Table 11). Detailed information is not yet available to explain the reasons for the resurgence in monetary growth in November and December. 1/

3. Budgetary developments

The program target was to contain the budget deficit to LSd 655 million (7.2 percent of GDP) and the Central Government's borrowing from the domestic banking system to LSd 110 million (1.2 percent of GDP) in 1982/83 (Table 4). The preliminary outcome of the 1982/83 budget indicates a deficit of LSd 564 million (6.1 percent of GDP), of which LSd 44 million (0.5 percent of GDP) was financed by domestic bank borrowing. The better than expected outcome is due to a shortfall in expenditures, estimated at LSd 122 million, which was partly offset by a LSd 30 million shortfall in revenues.

The shortfall in expenditures was manifested in all the broad categories of spending: current, development, and equity participation. About one half of the total shortfall in expenditures was accounted for by development expenditures and was mainly attributable to bottlenecks in project implementation and to delays in completing negotiations for external assistance (Appendix Table 12). Current expenditures were contained below the program level (by LSd 40 million) mainly because of lower outlays for subsidies on wheat, flour, and pharmaceuticals (as a result of their elimination ahead of schedule) as well as for interest on external debt which together more than compensated for other components overshooting of targets. The shortfall in outlays for equity participation (of some LSd 20 million) resulted from delays in launching a number of joint ventures in which the Government is a participant.

The relatively small shortfall (of LSd 30 million) in revenues concealed significant shifts in the performance of the individual revenue sources. There was a shortfall (estimated at LSd 18 million) in collections from taxes on goods and services (Appendix Table 13) mainly as a result of (a) the idling of the beer factories because of maintenance and repair requirements and (b) the Government's decision to suspend collections of excise duties on sugar in order to alleviate the difficult cash-flow position of the publicly owned sugar factories.

1/ As was reported at the time of the Board meeting in September 1983, there are many deficiencies in monetary statistics, particularly with regard to the reporting and recording of foreign liabilities of the banking system. Some revisions in data have been effected and work on the improvement of monetary statistics is being continued with Fund technical assistance. However, at present analysis of factors affecting changes in domestic liquidity remains constrained by data deficiencies.

Table 4. Sudan: Central Government Budget Operations, 1980/81-1983/84

			1982/83		1983/84	
	1980/81	1981/82	1983 Program projections	Prelim- inary actuals	1983 Program projections	1984 Program projections
(In millions of Sudanese pounds)						
Revenue	732.1	890.6	1,302.9	1,272.0	1,482.4	1,478.0
Tax	591.6	736.0	1,058.1	1,068.2	1,261.9	1,166.0
Nontax	140.5	154.6	244.8	203.8	220.5	312.0 1/
Expenditure	1,263.2	1,487.4	1,958.0	1,836.3	2,315.5	2,252.5
Current and other operations, of which:	923.4	1,149.2	1,416.7	1,373.3	1,609.3	1,552.3
Interest on external debt	(51.1)	(59.8)	(166.7)	(126.0)	(289.2)	(234.2)
Development	290.5	306.4	476.3	418.0	609.8	609.8
Equity	49.3	31.9	65.0	45.0	96.4	90.4
Overall deficit	-531.1	-596.8	-655.1	-564.3	-833.1	-774.5
Financing	531.1	596.8	655.1	564.3	833.1	774.5
External (net)	241.8	563.8	525.1	490.4	673.1	614.5
Domestic	289.3	33.0	130.0	73.9	160.0	160.0
Banking system	(289.3)	(33.0)	(110.0)	(43.9)	(100.0)	(100.0)
Other	(--)	(--)	(20.0)	(30.0)	(60.0)	(60.0)
(As percent of GDP)						
Revenue	13.5	13.3	14.3	13.8	12.8	12.8
Expenditure	23.3	22.2	21.8	20.0	20.0	19.5
Overall deficit	9.8	8.9	7.2	6.1	7.2	6.7
External financing (net)	4.5	8.4	5.8	5.0	5.9	5.4
Domestic bank financing	5.3	0.5	1.2	0.7	0.9	0.9

Sources: Ministry of Finance and Economic Planning; Bank of Sudan; IMF, EBS/83/9 (1/11/83); and staff estimates.

^{1/} Includes revenues from increasing the retail prices of petroleum products.

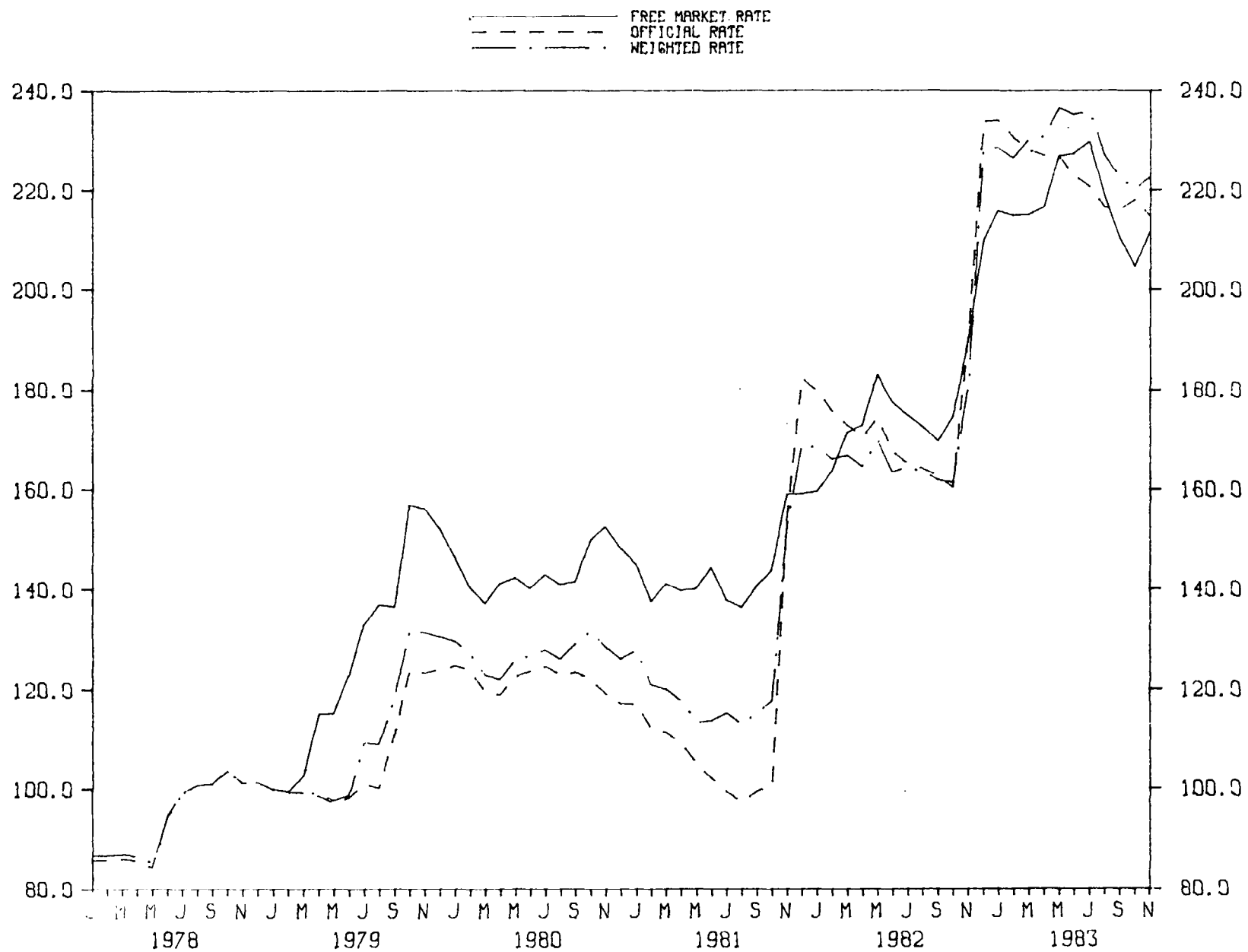
This shortfall was, however, more than offset by increased revenue from taxes on income and foreign trade. Nontax revenues recorded a substantial shortfall resulting mainly from lower than anticipated transfers of profits by the public entities and lower collections from fees and charges and miscellaneous sources. The proceeds from the sale of bonds contributed LSd 30 million toward financing the deficit, compared with the target of LSd 20 million.

4. Exchange market developments

Following the devaluation of the Sudanese pound in the official exchange market from LSd 0.90 to the U.S. dollar to LSd 1.30 to the U.S. dollar in November 1982, a major objective of the exchange rate policy was the establishment of a broad-based free foreign exchange market in which the rate is determined by demand and supply conditions. A freely functioning market was regarded as essential to absorb excess demand for foreign exchange in the economy, foster confidence in the exchange system, and ensure a steady flow of remittances from Sudanese working abroad. By February 1983, all private sector imports (with the sole exception of essential drugs) were transferred to the free market. At the same time, the market was broadened by the issuance of licenses to commercial banks to deal in the free market in competition with the exchange dealers. However, in March 1983 the licenses of all nonbank dealers were revoked and they were asked to reapply for permits after having restructured their businesses and satisfied certain capitalization and licensing requirements. Licenses were recently reissued to five of the dealers who are now legally operating in the free market. The monthly average of the free market rate ranged between LSd 1.75 and LSd 2.00 to the U.S. dollar in the first half of 1983. The introduction of new credit control measures and more effective enforcement of import licensing procedures led to a temporary curtailment in the demand for foreign exchange in the free market during the period August-October 1983. There was a consequent appreciation of the Sudanese pound from about LSd 2.02 to the U.S. dollar at the beginning of August to LSd 1.78 to the U.S. dollar in October. Thereafter, the pound came under pressure again and the rate quoted by the unlicensed exchange dealers depreciated to the range LSd 2.10-2.30 to the U.S. dollar by March 1984. However, the commercial bank rate has remained unchanged at LSd 1.78-1.80 to the U.S. dollar since October 1983. This rigidity in the banks' quotations is explained by the fact that shortly after being allowed to deal in the free market, a group of banks began to quote rates more depreciated than those set by the other banks, and this resulted in a temporary suspension of their licenses to deal in foreign exchange. These licenses were subsequently reinstated, but it was established that all commercial banks would quote the same rate, to be agreed upon through the Bankers Association. Because of their inability to set rates that are competitive with those quoted by the unlicensed dealers, commercial banks have not been able to capture a significant share of the market.

SUDAN: MOVEMENT OF EFFECTIVE EXCHANGE RATES

(JANUARY 1979 = 100)



Despite the generous debt relief accorded in 1983, Sudan was in arrears to various multilateral and bilateral creditors at the end of the year. In addition, there were arrears to suppliers, generally dating back to 1979 and earlier years. Some of the suppliers' arrears are being settled through the acquisition of foreign exchange from the free market and through the Bank of Sudan.

At the end of 1983 Sudan had arrears to some multilateral lending agencies and regional institutions; however, most of these arrears were of short duration and have since been settled. With regard to bilateral creditors, Sudan has negotiated rescheduling agreements with 12 members of the Club of Paris and in March 1984 settled the amounts due under the 1983 overall rescheduling framework to the countries with whom agreements had been reached. Separate rescheduling agreements have also been negotiated with a number of Eastern European countries and payments to these creditors were made. Sudan is committed to conclude agreements for rescheduling of debt with remaining bilateral creditors on terms comparable with those given by the Club of Paris members under the 1983 rescheduling agreement. Discussions about the rescheduling of obligations to some OPEC members are reported to be under way; in the meanwhile Sudan is in arrears to these creditors. As regarding the remaining group of creditors, the commercial banks, Sudan was fully current on payments owed through March 1984.

5. Balance of payments developments

The latest estimates indicate several deviations in the outcome of the balance of payments in 1983 compared with the program projections (Table 5). While exports were only marginally below the level anticipated in the program, imports are estimated to have been substantially lower, reflecting effective enforcement of licensing for less essential imports, tightening of credit policies, depreciation of the free market rate, cutbacks in petroleum imports due to foreign exchange difficulties experienced by the Bank of Sudan, and bottlenecks in the implementation of development projects financed with external assistance. As a consequence, the trade deficit is estimated to have been lower than the program projections. The services account showed a larger deficit than projected but this was more than offset by higher than anticipated official transfers and, as a result, the current account deficit was lower than projected in the program. The higher than anticipated level of official transfers resulted mainly from a switch from loans to grants by donors and creditors, with a consequent impact on the capital account where receipts were sharply lower than anticipated. The overall balance of payments is estimated to have recorded a small deficit compared with the program target of a small surplus with the provision of net resources from the Fund serving to build up some working balances of foreign exchange.

Table 5. Sudan: Balance of Payments, 1981-83

(In millions of U.S. dollars)

	1981	1982	1983	
			Program projections	Estimated actuals
Exports	500	542	675	662
Cotton	(114)	(124)	(238)	(305)
Other	(386)	(418)	(437)	(357)
Imports	-1,702	-1,678	-1,800	-1,601
Petroleum	(-360)	(-435)	(-469)	(-420)
Sugar	(-152)	(-84)	(-60)	(-24)
Other	(-1,190)	(-1,159)	(-1,271)	(-1,157)
Services	-175	-224	-82	-164
Receipts	(240)	(240)	(525)	(245)
Payments, other than interest	(-260)	(-250)	(-450)	(-250)
Interest - official	(-143)	(-199)	(-157)	(-138)
Interest - private	(-12)	(-15)	(--)	(-21)
Private transfers	350	400	430	430
Current account balance (excluding official transfers)	<u>-1,027</u>	<u>-960</u>	<u>-777</u>	<u>-673</u>
Official transfers	100	283	270	476
Current account balance	<u>-927</u>	<u>-677</u>	<u>-507</u>	<u>-197</u>
Capital account	392	546	514	126
Official receipts	(480)	(607)	(584)	(189)
Official payments	(-98)	(-71)	(-70)	(-38)
Private receipts	(70)	(70)	(--)	(70)
Private payments	(-60)	(-60)	(--)	(-95)
Other transactions including short-term capital and errors and omissions	189	-29	) ) )	60 7 -11
Monetary movements	<u>-346</u>	<u>-160</u>)	
Financing	<u>346</u>	<u>160</u>	<u>-7</u>	<u>11</u>
Fund (net)	173	46	150	154
Purchases	(195)	(79)	(196)	(198)
Repurchases	(-22)	(-33)	(-46)	(-44)
Other	173	114	-157	-143
Bank of Sudan	(45)	(119)	(-157)	(-18)
Commercial banks	(128)	(-5)	(--)	(-125)

Sources: Bank of Sudan; IMF, EBS/83/9 (1/11/83); and staff estimates.

The volume of cotton exports in 1983 was much higher than originally projected, reflecting a depletion of stocks as demand for Sudanese cotton was boosted by its relatively low prices. Consequently, although the realized prices were lower than anticipated, earnings from cotton exports were significantly higher than their projected level. For groundnuts and sorghum, however, export receipts fell considerably short of targets, mainly reflecting lower production but also the lower prices for sorghum (Appendix Table 14).

On the import side, outlays for petroleum products were lower than projected as the import volume was constrained by the difficult foreign exchange situation of the Bank of Sudan. While the volume of oil imports was lower, unit cost was higher than that prevailing in the international market due to costly charges and intermediation fees for securing financing. Better than anticipated output of sugar from the domestic mills enabled the country to contain imports below the level projected in the program. Other imports were significantly lower than the original estimates reflecting, as mentioned before, restrictions on credit for imports, depreciation of the free market rate, effective enforcement of the licensing mechanism, and bottlenecks in the implementation of development projects (Appendix Table 15).

The widening of the services deficit reflects revision in data rather than a fundamental change in the underlying situation. It was found that the historical data, which served as basis for the projections, had included foreign currency inflows to commercial banks as elements of service receipts without adjusting for the fact that such foreign exchange was also included as private transfers. The adjustments in data widened the services deficit from US\$82 million in the program projections to US\$164 million in the estimated actuals for 1983.

As for foreign assistance, there have been two significant deviations from the program projections. First, there was a higher level of official transfers as most of the principal bilateral donors gave assistance in the form of grants rather than loans. Second, there was a sizable shortfall in disbursement of assistance by various donors resulting from a variety of factors including bottlenecks in project implementation, delays in concluding aid agreements, cancellation of pledges by some donors, and difficulties in reaching agreement on the composition of commodity assistance and in contracting for commodities available under aid agreements.

6. Observance of performance criteria

Sudan complied with all the performance criteria under the program, including observance of credit ceilings (Table 6) and payment of debt service obligations to those creditors with whom rescheduling agreements had been concluded, and purchased the full amount of SDR 170 million.

Table 6. Sudan: Performance Under Stand-By Arrangement Borrowing Ceilings

	Cumulative Changes over June 30, 1982				Cumulative Changes over June 30, 1983			
	March 31, 1983		June 30, 1983		September 30, 1983		November 30, 1983	
	Program	Actuals	Program	Actuals	Program	Actuals	Program	Actuals
(In millions of Sudanese pounds)								
Net domestic borrowing	610	593	835	767	224	52	294	224
Central Government								
(net) 1/	95	78	110	48	40	-40	55	44
Public entities	225	214	310	304	112	112	146	86
Private sector and								
specialized banks	300	266	405	365	72	-19	93	32
Other items (net)	-10	35	10	50	--	1	--	62
(In millions of U.S. dollars)								
Nonconcessional public								
and publicly								
guaranteed external								
borrowing	--	--	--	--	--	--	--	--
Maturity of 1-5 years	--	--	--	--	--	--	--	--
Maturity of 1-10 years	--	--	--	--	--	--	--	--

Sources: Bank of Sudan and IMF, EBS/83/174 (8/16/83).

1/ After adjusting for the 21-day average level of the Government's current account balance with the Bank of Sudan head office.

IV. The Proposed Stand-By Arrangement

The program to be supported by the proposed stand-by arrangement is in continuation of the one for 1983 and has been formulated in the context of a medium-term framework, encompassing the period 1983/84-1985/86. The economic policies aim at strengthening the production base so as to stimulate the output and availability of the principal exportables and import substitutes, restraining domestic demand in order to contain the growth of imports and reduce inflationary pressures, and fostering economic environment conducive to increased flow of remittances by Sudanese expatriates.

1. Medium-term objectives, targets, and policies

The overriding medium-term objective of economic policy in Sudan remains raising the growth rate of output and achieving a more stable financial framework in order to move toward a viable external payments position. Given Sudan's endowments and the existing organization of economic activity, the growth of output must emanate from revitalized irrigated agriculture and agro-related manufacturing activities. Stimulation of this growth would involve (a) continuation of the rehabilitation effort in the key irrigated schemes, the sugar factories, and the textile mills and (b) ensuring that sufficient financial incentives are maintained. While the potential to develop rainfed agriculture by using large-scale modern farming methods is recognized, expansion of rainfed agriculture would require large amounts of capital and involve major outlays on the internal transport system and on social infrastructure.

To sustain the required high output growth, additional real savings need to be mobilized to finance the higher real investment. In the public sector, additional resources could be generated through stricter controls over recurrent expenditures and better financial performance by the public entities. In the private sector, there is much potential to tap resources, including the savings of the large community of Sudanese working abroad, that, for lack of suitable opportunities, are now attracted toward trade and real estate activities.

In order to encourage saving and promote genuinely productive investments, it is equally important that Sudan achieves financial stability. To realize this objective, the Sudanese authorities have formulated a medium-term framework that aims at: (a) reducing the annual growth of domestic liquidity from 37 percent in 1982/83 to not more than 10 percent in 1985/86; (b) decreasing the Central Government's overall budget deficit as a proportion to GDP from 6 percent in 1982/83 to 3 percent in 1985/86, while at the same time ensuring that by 1985/86 a surplus on current budget operations is generated; and (c) progressively reducing the deficit on the current account of the balance of payments.

The achievement of these targets would entail a concerted program of action that would, among other considerations:

(i) Contain the annual growth of domestic bank borrowing by the Central Government and other borrowers through (a) stricter control over the increase in recurrent expenditures; (b) closer monitoring of the operations and finances of the public entities coupled with adjustments in the prices of goods and services provided by them; (c) phased increases in deposit and lending rates intended to achieve a positive level of real interest rates; and (d) gradual absorption of the present high level of excess liquidity in the commercial banks.

(ii) Increase the Government's resource mobilization by:
(a) steadily expanding tax collections and (b) increasing the yield and improving marketing procedures for government bonds so as to expand the scope for domestic nonbank borrowing.

(iii) Improve efficiency and cost recovery in the public sector by: (a) developing mechanisms to ensure timely settlement of accounts between and within government departments and public entities and (b) continuing to focus on rehabilitation of agricultural and manufacturing fixed capital and investment in economic infrastructure.

(iv) Evaluate the functions to be performed by the various public sector nonfinancial entities, undertake reorganization, and adjust prices of goods and services with the aim of increasing their profitability and contribution to the Central Government's resources.

(v) Improve resource utilization and the climate for private sector investment by eliminating controls on prices and profit margins and unifying the markets for foreign exchange.

(vi) Continue to improve the quality and timeliness of fiscal, monetary, and other data for better monitoring of performance of the economy and formulation of economic policies.

2. Short-term policies

a. Production policies

Agricultural policy continues to focus on expanding the output of cotton, groundnuts, sesame, and gum arabic during 1983/84 and 1984/85. Toward this end, the minimum procurement prices for these commodities were increased between October and December 1983 by amounts ranging, on average, from 23 percent to 45 percent (Table 7). In addition, acreage of cotton and groundnuts in the major public irrigated schemes (Gezira, Rahad, and New Halfa) was increased by 12 percent. This expansion was made possible by the equipment and inputs provided under various World Bank agricultural rehabilitation loans and essential inputs (fertilizer, insecticides, and jute bags) procured under commodity aid.

Table 7. Sudan: Agricultural Procurement Prices, 1981/82-1983/84

(In Sudanese pounds per kantar)

	1981/82 <u>1/</u>	1982/83	1983/84
Cotton (ex farm gate)			
Long staple			
Grade 1	91.0	104.0	127.0
2	87.0	100.0	122.0
3	83.0	96.0	117.0
4	79.0	92.0	112.0
5	75.0	88.0	107.0
Medium staple			
Grade 1	59.0	72.0	90.0
2	57.0	70.0	86.0
3	55.0	68.0	82.0
4	53.0	66.0	78.0
5	51.0	64.0	74.0
Groundnuts (ex El-Obeid)	7.2	10.0	12.5
Sesame (ex Gadaref)	13.4	19.4	24.5
Gum arabic (ex El-Obeid)	19.0	27.5	40.0

Sources: Ministry of Agriculture and Irrigation, and Ministry of Commerce and Supply.

1/ Since the cotton prices announced for the 1981/82 season were on an ex-ginnery basis, a ginning, transport, and insurance factor of LSd 11 per kantar was deducted from the announced prices for comparability with subsequent years.

In order to increase the efficiency of resource utilization in the public agricultural schemes, some of the capital resources and essential inputs have been transferred from the schemes with endemic managerial and productivity difficulties to the more efficient schemes. Furthermore, the supply of electricity from the ongoing expansion of the Blue Nile grid is being increased to expand water availability in the pump-irrigation schemes and to alleviate the constraints on ginning cotton that had become apparent during the 1982/83 season with the sizable increase in cotton output. To expand the access of groundnuts and sesame producers to home and export markets, efforts have been made to increase capacity utilization in the railway corporation. To this end, tariff rates were raised in order to increase cash flow of the corporation and its ability to maintain equipment, and agreements were negotiated with a number of aid donors to provide critical spare parts and needed rolling stock.

Manufacturing sector policies will continue to focus on expanding the output of two basic commodities, sugar and textiles. A principal aim is to improve capacity utilization to an extent that will eliminate sugar imports and preclude the need to import the cement required for the development effort. The four public sector sugar factories had in the past operated at low capacity because of cash-flow difficulties which led to the neglect of capital maintenance, as well as managerial/labor difficulties. In the 1983/84 season, the financial position of the factories is expected to improve as a result of the increase in the output price from LSd 250 per ton to LSd 400 per ton ^{1/} making possible a better maintenance of equipment and more competitive working conditions thereby serving to reduce labor turnover. In addition, managements have been given increased powers to cope with the constraints on individual factory operations, essential spare parts are being procured under commodity aid agreements, and the rehabilitation of fixed capital is continuing. In the textiles industry, sizable investments had been made in the 1970s but production was limited by infrastructural and input constraints. Since 1981, the authorities have provided special financial incentives, including relief from the servicing of debt to domestic banks and provision of cotton lint at below market prices. Together with planned improvements in the availability of electric power these developments are expected to contribute to a significant improvement in capacity utilization.

Energy policy will continue to emphasize conservation by steadily increasing prices while simultaneously endeavoring to reduce the interruptions in imports that adversely affected manufacturing activity in the past. The prices of motor gasoline were increased by about

^{1/} The delivered price of imported sugar, presently about US\$350 per ton, translates into about LSd 455 per ton at the official exchange rate and about LSd 770 per ton at the free market exchange rate which applies to private sector imports.

50 percent 1/ in December 1983 and the electricity rates were doubled in May 1983 and increased by a further 50 percent in December 1983. On the supply side, work has been nearly completed on the Khartoum North electric power plant and efforts are being concentrated on expanding the capacity of the Burri plant. Together these will expand Sudan's capacity by 23 percent (100 megawatts) and, more importantly, will ensure that adequate power is available for manufacturers located in the Khartoum area, and for the agricultural pumps and ginneries located on the banks of the Blue Nile. Work on developing Sudan's petroleum resources was significantly advanced in October 1983 with the awarding of a US\$380 million contract to lay the 900-mile pipeline from the Unity-Heglig fields in southwestern Sudan to Marsa Nimeiry on the Red Sea. The project is expected to be completed in 1986 with an initial capacity of 50,000 barrels per day. However, the recent civil disturbances in the southern region, if continued for an extended period, may affect the timetable for the completion of the project. Present estimates indicate that the fields are capable of sustaining a production capacity of up to 200,000 barrels per day but this would be confirmed only after the start of production operations.

b. Domestic financial policies 2/

(1) Monetary policy

The financial program was formulated with the objectives of achieving a significant reduction in the rate of monetary expansion while simultaneously meeting the genuine financing requirements of the economy. As indicated before, the rate of monetary expansion is expected to be slowed down from 37 percent in 1982/83 to 18 percent in 1983/84. The authorities intend to further reduce the growth of domestic liquidity to 12 percent in 1984/85. Such a reduction in liquidity growth, in conjunction with a projected annual expansion in real GDP of about 5 percent in 1983/84 and 1984/85, would be expected to result in a substantial decline in the underlying rate of inflation.

Given the target rate of monetary expansion and the expected neutral impact of the external sector, a ceiling on the permissible expansion in net domestic assets and a subceiling on net domestic borrowing by the Central Government were established for the period ending June 30, 1984. Because the program period covers parts of two fiscal years and two agricultural seasons, it is intended that ceilings for the periods ending September 30, 1984, December 1984, and March 1985 would be established at the time of a planned review of fiscal policy in June 1984.

1/ The present retail price for regular grade motor gasoline of LSd 4.50 per imperial gallon translates into about US\$630 per ton when converted at the free market exchange rate of LSd 2.20 = US\$1. This compares with the delivered import price of about US\$375 per ton.

2/ The principal objectives and assumptions of the financial program are indicated in Appendix IV.

(a) Credit to the public entities. In the two fiscal years prior to 1983/84, credit to the public entities was the major contributing factor to the fast rate of monetary expansion. In the credit program for 1983/84, the borrowing requirements of the public sector agricultural entities while continuing to be assigned first priority were estimated to be smaller than during the previous two seasons. This is for a number of reasons. The financial operations of the agricultural entities during 1983/84 have benefited from: (i) rising overall productivity in the major schemes reflecting increased financial incentives and the progress of rehabilitation; (ii) increases in agricultural land and water charges; and (iii) high sales from the 1982/83 cotton crop which, because of the customary marketing practice, was paid for during the period October 1983-March 1984. ^{1/} Moreover the nonagricultural entities are expected not to resort to bank borrowings on a net basis as a result of sizable increases in the output prices and charges for services.

(b) Credit to the private sector. Credit to the private sector increased at a rather fast pace in 1981/82 and 1982/83. To restrain its growth in 1983/84, the Bank of Sudan adopted in August 1983 a number of measures including: (i) imposition of a 10 percent reserve requirement on all bank deposits; (ii) instruction to the banks that the counterpart of all customer payments of local currency against overdue foreign settlements be transferred to a blocked account maintained with the Bank of Sudan; (iii) prohibition from extending credit for real estate and against personal guarantee; (iv) increase in margin requirements for imports as well as those for advances against the pledging of certain goods; (v) increase in penalty rates for noncompliance by banks with the quantitative credit ceilings; and (vi) improvement in inspection capabilities.

Notwithstanding increases in the level of interest rates (by 5-7 percentage points) since 1981, the interest rate structure remains negative in real terms with adverse implications for saving, investment, and resource allocation. The Sudanese authorities recognize the importance of positive real rates but consider that Sudan's commitment to the process of "Islamization" of the economy precludes an active use of the interest rate policy. The staff has been informed that alternative arrangements, that involve a greater degree of participation in risk taking and profit sharing between debtor and creditor, are being studied and evaluated. The authorities believe that introduction of such arrangements would make it possible to achieve similar results as those envisaged from changes in the level of interest rates. The staff intends to discuss the progress achieved in making alternative arrangements and its implications at the time of the September review of the program.

^{1/} Sudanese cotton is harvested during the period November-March and offered for sale by about the middle of March. However, as a marketing incentive, payment is not due until several months later and carrying charges are not incurred until October. Storage is free of charge.

(c) Credit to the Central Government. The budgetary outlook for 1983/84 is reviewed in the next section. It is envisaged that borrowing by the Central Government from the banking system will be restricted to LSd 100 million, equivalent to less than 1 percent of the projected GDP for that year. Ceilings for borrowing by the Government in 1984/85 are to be set at the time of the review of the budget in June 1984.

(2) Government finances

The budgetary projections for 1983/84, as agreed in the course of reviewing performance under the 1983 stand-by arrangement in June 1983, showed revenues of LSd 1,482 million (17 percent higher than 1982/83), expenditures at LSd 2,315 million (26 percent higher than 1982/83), and an overall deficit of LSd 833 million (equivalent to 7.2 percent of GDP). In these projections, expenditures on external debt servicing had been adjusted to include the full extent of the debt relief already secured for the calendar year 1983 (which covers the first half of the fiscal year) but incorporated a relief of only LSd 167 million in the first half of 1984. To help achieve this outturn, the Sudanese authorities implemented during August/September 1983 fiscal measures intended to generate LSd 275 million (2.4 percent of GDP) in resources to the budget. ^{1/}

The budgetary prospects weakened, however, in the ensuing months due to a number of factors including: (a) the banning of the production and consumption of alcoholic beverages which worsened the prospects for tax revenues from excises on locally produced beverages and customs duties on imports; (b) the establishment of Khartoum and its immediate surroundings as another regional government with a resulting increase in outlays by the Central Government on the facilities and administrative arrangements for the new region; (c) the increase in the civil service wage/salary level to partially compensate for the increase in the cost of living; (d) the slackening of the less essential imports which bear relatively higher customs duties; (e) the breakdown in the national electricity system which adversely affected manufacturing activity for about four weeks in August/September 1983 thereby reducing excise taxes; and (f) the decision to phase in the elimination of customs duty exemptions hitherto enjoyed by certain domestic manufacturers instead of effecting it immediately as had been the initial intention. These developments were estimated to increase the overall deficit in 1983/84 by more than LSd 100 million. To compensate for the budgetary effects of these factors, the Sudanese authorities acted to mobilize additional domestic resources in the remainder of 1983/84 by: (i) raising the prices of cigarettes by amounts ranging from 11 percent to 21 percent effective November 9, 1983 for an estimated annual yield of LSd 28 million (or LSd 16 million in the balance of the fiscal year); (ii) increasing the prices of the major petroleum products by amounts

^{1/} For details of the fiscal measures effected in August/September 1983, see EBS/83/174, Sup. 1 (9/12/83).

ranging from 16 percent to 72 percent effective December 6, 1983 for an estimated annual yield of LSd 137 million (LSd 80 million in the remainder of the fiscal year); and (iii) reducing expenditures on items directly controlled by the Ministry of Finance (personnel overtime, training abroad, transfers to certain public agencies and institutes of higher education, and minor capital expenditures) intended to achieve budgetary savings of about LSd 19 million in the rest of the fiscal year.

The authorities have meanwhile instituted, with Fund technical assistance, a new reporting system designed to produce a monthly summary of key budgetary developments, thereby greatly improving their monitoring capability. Earlier, a special unit had been set up within the Ministry of Finance to monitor the implementation of commodity aid agreements and ensure that the local currency equivalent of the commodity aid accrues to the Treasury. Both of these developments are intended to increase budgetary control and enhance the prospects for achieving the budgetary targets.

With the above-indicated budgetary measures and institutional developments, the overall budget deficit is projected at LSd 775 million, equivalent to 6.7 percent of GDP, and is being financed to the extent of LSd 615 million from external assistance (mostly grants), LSd 100 million from domestic bank borrowing, and LSd 60 million from sales of government bonds. The projected slight increase in the overall deficit as a proportion of GDP (from 6.1 percent in 1982/83) results entirely from higher payments for interest on external debt; had these remained at the previous year's level, the overall deficit would be equivalent to 5.8 percent of GDP.

The authorities are committed to take appropriate measures to further reduce the deficit in the budget for 1984/85. In addition, they have recently announced plans to introduce a major reorganization of revenues and expenditures intended to achieve greater conformity with Islamic fiscal practices through setting up a "Zakat Fund" and eliminating taxes on the incomes of Moslems; the Fund would be financed by levies on their assets and would assume responsibility for regional and local expenditures. Although full details are not yet known, the introduction of the Zakat will have no impact on budgetary outcome in 1983/84 as the reform is to become effective on September 26, 1984. Understandings on the means to achieve the agreed budgetary targets for 1984/85 would be reached during the June 1984 staff visit. In addition to the review of the 1984/85 budget, the staff would at that time review the implications of the reorganization of taxes and expenditures and the establishment of the Zakat Fund.

c. External financial policies

(1) Exchange rate policy

At present Sudan's exchange system consists of two markets for foreign exchange: an official market and a free foreign exchange market. The free market is further subdivided into the one operated until recently only by commercial banks, 1/ and another operated by unlicensed dealers. 2/ The official rate (of US\$1 = LSd 1.30) is relevant for exports, some essential imports, and debt servicing by the public sector.

Sudan is committed to follow an exchange rate policy that ensures a remunerative return to exports and gradual expansion of the scope of the free market as well as free movement of the rate in that market. Given that Sudan's exports consist almost entirely of agricultural commodities whose prices are internationally determined, a staff study conducted in April 1983 had concluded that, on the basis of the prevailing agricultural cost structure, crop yields, international prices, and arrangements to surrender export earnings, the effective export rate of about LSd 1.43 to the U.S. dollar provided sufficient scope to set procurement prices at levels that ensured incentives for expanding the production of exportables. Since then, the rise in yield and international prices and the continued import of agricultural inputs at the official rate have been such that production incentives have been maintained at least for cotton notwithstanding the domestic inflation. However, a subsequent sharp rise in cost of production and/or reduction in yields or international prices may necessitate an exchange rate action. The appropriateness of the official rate and surrender arrangements for ensuring incentives to exports will be periodically evaluated by the staff.

On the import side, petroleum, sugar, wheat, essential drugs, agricultural inputs, and spare parts continue to be imported by the public sector at the official rate. While the economic justification of their transfer to a more depreciated rate is recognized, the social and political implications of the consequent increase in prices are considered to be unacceptable at present. In these circumstances, a more gradual approach to the transfer of imports to the free market is considered

1/ As indicated earlier, five licensed dealers have recently begun to operate in the market.

2/ At the end of March 1984, the rates in the three markets were as follows: (1) official market: LSd 1.30 to the U.S. dollar; (2) free market operated by banks and licensed dealers: LSd 1.78/1.80 to the U.S. dollar; and (3) market operated by unlicensed dealers: LSd 2.10-2.30 to the U.S. dollar. In addition, there was a different exchange rate for exporters (effective rate of about LSd 1.43 to the U.S. dollar), calculated as a weighted average of the official rate (75 percent) and the free market rate (25 percent).

preferable. The Sudanese authorities intend to gradually move some of the transactions from the official to the free market with the aim of achieving full unification of the rates.

(2) Balance of payments prospects for 1984

(a) Goods, services, and private transfers. The trade deficit is projected to decline by 7 percent from US\$939 million in 1983 to US\$875 million in 1984 (Table 8). Exports are projected to grow by 8 percent, with nearly all the increase accounted for by a projected increase in realized prices of cotton, attributable to favorable conditions in the international markets. With the depletion of cotton stocks in 1983, it is considered prudent to utilize a part of the expected increase in output to build up some inventories; in addition, the expected increase in capacity utilization by domestic textile mills will require increased domestic utilization of cotton. Earnings from other exports are not expected to be much different from those in 1983 as improvements in the performance of sesame, gum arabic, and livestock are likely to be nearly offset by declines in exports of groundnuts and dura. Despite efforts to encourage the production of groundnuts by offering higher domestic prices and expanding acreage, the preliminary indications are that the crop has been adversely affected, for the third consecutive year, by inadequate rainfall and consequent falling yields.

Imports are projected to decline marginally largely owing to the demand restraining policies, including the restrictions on credit, effective enforcement of restrictions on nonessential imports, and the depreciation of the free market exchange rate. In addition, the continued expansion in domestic production will allow a reduction in imports of sugar. On the other hand, under the present arrangement for financing petroleum imports, these imports are projected to increase partly due to a slight increase in the volume to enable fuller utilization of production capacity in the production sectors and the higher consumption of fuel oil following the completion of the Khartoum North electric power station. The services transactions, excluding official and private interest payments, are projected to remain largely in a position of near balance. Private transfers are projected to grow by only about 5 percent. The net improvement in trade, services, and private transfers excluding interest is projected at US\$79 million.

(b) External aid. In view of the weak balance of payments position of recent years, the Sudanese authorities requested at the Consultative Group meeting in January 1983 that more aid be made available in the form of cash and commodities. Many donors, with the exception of most multilateral lending agencies whose charters preclude them from engaging in nonproject finance, responded to this appeal by undertaking to disburse about US\$514 million in cash and commodity assistance (on a gross basis) in 1983 in addition to about US\$300 million in project assistance.

Table 8. Sudan: Balance of Payments Estimates, 1983-89

(In millions of U.S. dollars)

	1983	1984	1985	1986	1987	1988	1989
Exports	662	715	820	1,010	1,200	1,440	1,720
Cotton	(305)	(348)	(360)	(380)	(400)	(420)	(440)
Other	(357)	(367)	(460)	(550)	(610)	(670)	(740)
Petroleum	(--)	(--)	(--)	(80)	(190)	(350)	(540)
Imports	-1,601	-1,590	-1,640	-1,770	-1,950	-2,150	-2,370
Petroleum	(-420)	(-490)	(-450)	(-470)	(-510)	(-570)	(-630)
Sugar	(-24)	(-12))				
Other	(-1,157)	(-1,098)	)(-1,190)	(-1,300)	(-1,440)	(-1,580)	(-1,740)
Services	-164	-450	-441	-464	-435	-390	-365
Receipts	(245)	(245)	(245)	(240)	(250)	(265)	(280)
Payments, other than interest	(-250)	(-255)	(-260)	(-270)	(-290)	(-315)	(-340)
Interest - official	(-138)	(-420) ^{1/}	(-456)	(-414)	(-375)	(-320)	(-285)
Interest - private	(-21)	(-20)	(-20)	(-20)	(-20)	(-20)	(-20)
Private transfers	430	450	480	520	540	560	580
Current account balance (excluding official transfers)	<u>-673</u>	<u>-875</u>	<u>-831</u>	<u>-704</u>	<u>-645</u>	<u>-540</u>	<u>-435</u>
Official transfers	476	435	450	450	450	450	450
Current account balance	<u>-197</u>	<u>-440</u>	<u>-381</u>	<u>-254</u>	<u>-195</u>	<u>-90</u>	<u>15</u>
Capital account	126	-220	-347	-312	-245	-260	-280
Official receipts	(189)	(273)	(275)	(275)	(275)	(275)	(275)
Official payments	(-38)	(-490)	(-619)	(-584)	(-515)	(-530)	(-550)
Private receipts	(70)	(70)	(70)	(70)	(70)	(70)	(70)
Private payments	(-95)	(-73)	(-73)	(-73)	(-75)	(-75)	(-75)
Other transactions	-60)))))))
Overall balance	<u>-11</u>)	<u>-660</u>)	<u>-728</u>)	<u>-566</u>)	<u>-440</u>)	<u>-350</u>)	<u>-265</u>)
Financing:							
Fund (net)	154	10	-85	...	...	...	...
Purchases	(198)	(99)	(26)	(...)	(...)	(...)	(...)
Repurchases	(-44)	(-89)	(-111)	(-99)	(-136)	(-140)	(-106)
Other, Bank of Sudan	-18	...	...	...	...	...	...
Commercial banks	-125	...	...	...	...	...	...

Sources: Bank of Sudan and staff estimates.

^{1/} After allowing for the debt relief (US\$101 million) accorded by commercial banks.

However, disbursements are estimated to have fallen considerably short of these levels because of factors ranging from delays in concluding disbursement agreements, slowness in agreeing on the composition of commodities and in initiating procedures for disbursement, and the cancellation of some pledges. ^{1/} Recognizing the critical importance of expediting disbursements, the Sudanese authorities have recently established two agencies for the purpose of improving the rate of utilization of assistance. An Export-Import Bank has been established with the primary function of centralizing and coordinating the import requirements of the public sector and by assisting the Ministry of Finance in negotiating aid agreements that help in meeting those requirements. Similarly, a Commodity Aid Committee has been established within the Ministry of Finance to follow up on the pace of aid disbursement.

At the meeting of the Consultative Group in December 1983, the donors pledged to disburse US\$474 million ^{2/} in cash and commodity aid in 1984 and US\$275 million of project assistance. Anticipating that in 1984 the rate of utilization of aid will improve somewhat compared with 1983, it is estimated that disbursement of about US\$435 million of commodity and cash aid will materialize.

(c) External debt obligations. Sudan's external payments position could not have been managed in an orderly fashion in 1983 without the major rescheduling of official debt service obligations by bilateral creditors and the commercial banks. The general framework of the bilateral rescheduling involved consolidation of all arrears outstanding at the beginning of 1983 together with obligations falling due in that year into one loan and limiting the payments due in 1983 to one half of the interest on the loan; the rescheduling by the commercial banks reduced payments in 1983 to US\$30 million.

The external debt obligations for 1984 prior to any relief by creditors are estimated at about US\$1,100 million, including about US\$89 million of repurchases from the Fund (Table 9). Informal consultations have been going on with the creditor groups, primarily the bilateral creditors under the auspices of the Club of Paris, the principal OPEC member creditors, and the commercial banks on the level of payments that would be consistent with Sudan's external prospects in 1984.

^{1/} Table 5 indicates that disbursements of cash and commodity assistance in 1983 are estimated at US\$458 million. This figure, however, includes US\$93 million committed by Saudi Arabia outside the Consultative Group framework. Hence the disbursements that have materialized out of the Consultative Group pledges are estimated at US\$365 million.

^{2/} These figures include staff estimates of disbursements from Saudi Arabia, Japan, and Finland. Since the Consultative Group, additional aid pledges of about US\$15 million have been made, raising the total cash and commodity assistance to US\$489 million.

Table 9. Sudan: Estimated Debt Service on Public and Publicly Guaranteed Loans, 1984-89 ^{1/}

(In millions of U.S. dollars)

	1984		1985		1986		1987		1988		1989	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
Multilateral institutions	221	86	202	100	192	95	230	89	255	78	234	73
Abu Dhabi Fund	11	1	11	6	11	5	16	5	16	5	16	4
African Development Bank/Fund	14	1	1	1	1	1	2	1	2	1	2	1
Arab Fund	11	4	12	6	12	7	12	8	13	8	16	9
Arab Monetary Fund	39	6	22	8	19	9	10	10	19	12	43	14
European Development Fund	3	--	1	--	1	--	1	--	1	--	1	--
IBRD/IDA	9	8	7	10	7	10	6	11	7	12	8	13
IMF 2/	95	60	124	59	113	53	151	38	155	28	115	19
Kuwait Fund	17	3	8	3	8	3	9	3	9	3	8	3
OPEC Fund	3	--	5	--	5	--	5	--	5	--	5	--
Saudi Fund	16	2	8	3	12	3	12	6	12	6	14	7
Other	3	1	3	4	3	4	6	4	6	3	6	3
Bilateral creditors	357	272	341	244	306	229	236	217	231	204	379	183
Club of Paris	195	138	128	117	130	113	66	103	67	100	107	95
I	(59)	(29)	(66)	(21)	(68)	(17)	(25)	(7)	(23)	(5)	(23)	(3)
II	(10)	(19)	(--)	(18)	(--)	(18)	(--)	(18)	(17)	(17)	(33)	(14)
III	(25)	(58)	(--)	(58)	(--)	(58)	(--)	(58)	(--)	(58)	(30)	(58)
Other	(101)	(32)	(62)	(20)	(62)	(20)	(43)	(20)	(27)	(20)	(21)	(20)
OPEC members	130	119	181	112	141	101	36	100	142	92	250	82
Kuwait	(13)	(46)	(52)	(42)	(52)	(37)	(52)	(35)	(61)	(29)	(110)	(25)
Saudi Arabia	(94)	(60)	(96)	(53)	(66)	(48)	(76)	(54)	(76)	(52)	(120)	(47)
Other	(23)	(13)	(33)	(17)	(23)	(16)	(8)	(11)	(5)	(11)	(20)	(10)
CMEA members	14	5	13	6	11	6	8	6	6	5	4	2
Other	18	10	19	9	24	9	26	8	16	7	18	4
Commercial banks	--	163 3/	186	112	186	90	186	68	186	45	44	29
Rescheduling agreement	--	137 3/	186	86	186	64	186	42	186	19	44	3
Other	--	26	--	26	--	26	--	26	--	26	--	26
Total	578	521	729	456	684	414	652	374	672	327	657	285

Sources: Ministry of Finance and Economic Planning, Bank of Sudan, and staff estimates.

^{1/} Includes debt service on new loans estimated at US\$402 million in 1983, US\$366 million in 1984, and US\$275 million per annum in 1985-89.^{2/} Includes Trust Fund and SDR charges.^{3/} Obligations prior to the debt relief accorded on April 2, 1984. Under the relief, these obligations have been reduced to US\$36 million.

To assist in this process, Mr. Frank A. Southard Jr. has since September 1983 been serving as external finance coordinator for Sudan, consulting with the Government of Sudan and its principal creditors. In early April 1984, the major commercial banking creditors accepted to provide Sudan with debt relief on the same basis as in 1983; the relief is estimated at about US\$100 million. The Sudanese authorities intend to approach all their bilateral creditors for relief on the scale accorded in 1983. The Club of Paris has already been requested to meet following the Executive Board's consideration of this stand-by arrangement.

(d) The unfinanced gap in 1984. Taking into account the estimated aid disbursements for existing commitments, allowing for scheduled official repayments of principal on external debt obligations and taking account of the debt relief accorded by commercial banks, Sudan will have an overall gap of about US\$660 million in its balance of payments in 1984. As net financing from the Fund under the proposed stand-by arrangement, and taking account of the last purchase under the 1983 arrangements, amounts to about US\$10 million, the remaining unfinanced gap amounts to about US\$650 million. The four possible sources of financing this gap are: (a) debt rescheduling; (b) savings in the cost of petroleum imports through definitive financing arrangements; (c) more bilateral aid in cash or commodity form; and (d) additional domestic policy actions. The bulk of this gap is expected to be covered through rescheduling of external debt service obligations due to bilateral creditors and through savings in petroleum import costs if a petroleum financing agreement, under consideration at present, soon becomes operative. Depending on the outcome of debt rescheduling and the timing of the petroleum financing arrangement, any residual gap will have to be covered by additional aid and domestic policy adjustments.

3. Medium-term balance of payments prospects

The prospects for Sudan's balance of payments in the medium term depend upon some factors that are largely outside the country's control. These include the rate at which Sudan's petroleum resources enter into production, the recovery of rainfall to its long-term average level, and the terms of trade. The staff forecast is based on assumptions which would seem reasonable in light of current developments. However, any of several plausible developments, including continued drought or delays in the start of oil production, could result in a considerable deviation in the outcome.

Sudan's trade deficit and deficit on current account are both expected to shrink steadily from 1984 to 1989, if the underlying projections which follow are realized. The volume of imports and exports is projected to grow at approximately the 5 percent per annum real growth in the economy assumed in the medium-term public sector investment program. Prices of traded goods are expected to rise by about 5 percent per annum, except for cotton, the price for which is not expected to increase after 1986. The major source of improvement in the balance of payments prospects from 1986 is the potential for oil exports, if the

oil pipeline is completed on schedule. The prospects for the realization of these additional earnings, however, depend crucially on the ability to complete and operate the project that is located in areas of recent disturbances. The commercial sales prospects are not in doubt inasmuch as the field developer is a subsidiary of the Standard Oil Company of California, which has guaranteed lifting all production at the contemplated first-year level of about 50,000 barrels per day.

Net services, excluding interest on official external debt, are projected to remain in about a balanced position. Private transfers depend on the response of remittances to the institutional and financial improvements in the Sudanese economy and on the pace of economic activity in the neighboring oil exporting countries. Under these assumptions of maintenance of the economy's real growth rate and its terms of trade, adherence to financial stabilization policies, commencement of oil exports, small growth of expatriate remittances, and continuation of the present level of external aid (roughly US\$700-725 million annually), Sudan's external transactions before allowing for any servicing of external debt obligations would be in a surplus of US\$450-550 million after 1985. However, external debt service obligations will remain in excess of that range and this would necessitate continued rescheduling of bilateral and commercial obligations.

4. Performance criteria

a. Ceilings on the expansion in net domestic assets and in net credit to the Government during successive periods (Table 10). As in recent stand-by arrangements, the net credit to the Government will be adjusted on the basis of its average level in the 21 working days centered around the monitoring date; this is for the purpose of evening out the fluctuations in the government position.

b. Prohibition on the Government's contracting or guaranteeing of new external debt in the maturity range of less than 12 years at commercial terms except insofar as this results from the rescheduling of previously incurred debt. Debts incurred by or for the White Nile Petroleum Company up to US\$200 million are also excluded. This limitation is intended to prevent a worsening of the debt profile.

c. The standard clauses, suitably adapted, dealing with the trade and payments system: (a) not to impose or intensify restrictions on payments and transfers for current international transactions other than on external debt servicing obligations in the period until agreements on comprehensive debt rescheduling are concluded; (b) not to introduce or modify multiple currency practices except for the elimination of the dual exchange market or the transfer of transactions from the official to the free market; (c) not to conclude bilateral payments agreements which are inconsistent with Article VIII; and (d) not to impose or intensify import restrictions for balance of payments reasons.

Table 10. Sudan: Ceilings for Domestic and External Borrowing
During the Period June 1983-March 1985

(In millions of Sudanese pounds)

End of Period	Actuals	Program			
	1983	1984			1985
	June 30	June 30	Sept. 30	Dec. 31	Mar. 31
Stocks					
Net domestic borrowing	3,163.5	3,633.5	... 1/	... 1/	... 1/
Government (net)	1,016.1	1,116.1	...	...	...
Public entities	927.8	1,052.8	...	...	...
Private sector and specialized banks	1,301.8	1,546.8	...	...	...
Other items (net)	-82.2	-82.2	...	...	...
Flows					
Net domestic borrowing	...	470	... 1/	... 1/	... 1/
Government (net)	...	100	...	...	...
Public entities	...	125	...	...	...
Private sector and specialized banks	...	245	...	...	...
Other items (net)	...	--	...	...	...
Gross external borrowing 2/	...	--	--	--	--

Source: Data provided by the Sudanese authorities.

1/ Because of uncertainty regarding the seasonal factors affecting credit demand in the period after June 30, 1984, no ceilings have been established at this stage for the increase in net domestic borrowing and in credit to the Government during the periods ending September 30, 1984, December 31, 1984, and March 31, 1985. Ceilings for these periods will be established at the time of reviewing fiscal policy in June 1984.

2/ Nonconcessional government and government guaranteed in the maturity of up to 12 years. The ceilings apply throughout the year and exclude new contracts that result from refinancing or rescheduling existing debts. Debts incurred by the Government on behalf of the White Nile Petroleum Company up to US\$200 million are also excluded.

d. To review in June 1984 and reach understandings, inter alia, on the 1984/85 budget, on the exchange system, and on the subsequent credit ceilings.

e. To review performance under the arrangement not later than September 30, 1984 and to reach understandings on needed adjustments in the areas of fiscal, monetary, and exchange rate policies and on progress in renegotiating external debt obligations. This is for the purpose of effecting needed corrections at a sufficiently early stage in the period of the arrangement.

V. Staff Appraisal

The Sudanese authorities in recent years have endeavored to redress the weak external payments situation by pursuing adjustment policies formulated in consultation with the Fund and the World Bank and supported by liberal debt relief and assistance by various creditors and donors. Economic and financial performance during the period covered by the latest stand-by arrangement that expired on March 9, 1984 showed mixed results. There has been an expansion of output in the irrigated agricultural sector, particularly in the case of the principal export commodity--cotton--whose production exceeded by considerable margin the program target for the 1982/83 season. Budgetary performance improved with both the overall deficit and government borrowing declining substantially as a proportion of GDP in the fiscal year 1982/83. All remaining budgetary subsidies have been eliminated ahead of the timing agreed in the program. The main weakness in performance was the excessive monetary expansion which, in combination with reduced production in the rainfed agricultural sector, slow growth of output in the manufacturing sector, and a lower level of imports, added to inflationary pressures in the economy. Moreover, in spite of major policy initiatives, including a devaluation of the Sudanese pound, and generous debt relief, the balance of payments remained under pressure and the program target of building up some working balances of foreign exchange for the Bank of Sudan did not materialize. These developments underline the deep-rooted nature of the problem whose solution would require a persistent effort on the part of the Sudanese authorities to pursue corrective policies for several years during which period financial support from donors and creditors is essential.

The staff agrees with the authorities that in order to gradually achieve a fundamental improvement in the balance of payments, Sudan's medium-term economic policy should continue to aim at realizing a high rate of growth of output and moderation in inflationary pressures. The policies aimed at increasing output and reducing inflation should be supplemented by relative price adjustments that encourage exports and inflow of remittances and reduce imports and leakages of foreign exchange abroad. In this regard, pursuit of active interest rate and exchange rate policies is of major importance.

The proposed stand-by arrangement has been formulated within a medium-term framework and focuses on expanding production of exportables and import substitutes, and on restraining the growth of domestic liquidity. The authorities have already implemented various actions that will contribute to the realization of the program's output and financial objectives. In the agricultural sector, the increase in procurement prices for cotton and other major exportables, expansion in the area under cultivation in the major irrigated schemes, and timely availability of fertilizer and chemicals for the coming planting season will help sustain the momentum of expansion in the irrigated agricultural sector. In the manufacturing sector, sugar output is expected to expand further following the recent increases in output price and strengthening of the management of sugar mills. On the financial side, the main emphasis is to contain the monetary expansion to 18 percent in 1983/84, a rate of growth less than one half of the expansion in 1982/83. For this purpose, several budgetary measures have been implemented in order to hold government borrowing from the domestic banking system as a proportion of GDP to a negligible level in 1983/84. The financial position of the public entities has been improved through the increases in land and water charges, higher electricity rates and railway tariffs, and improved cost effectiveness through better management. Consequently, their requirements for borrowing from the domestic banking system have been curtailed in 1983/84 compared with the previous years, while at the same time fully meeting credit requirements for productive and trade activities. Credit to the private sector is being curtailed through selective controls on borrowing for nonessential and speculative purposes. The staff intends to discuss with the authorities at the time of the review of the 1984/85 budget in June 1984 the means for achieving a further reduction in monetary expansion that is consistent with the credit requirements of the productive and trade sectors of the economy.

Given Sudan's difficult foreign exchange position and high rate of inflation, flexibility in exchange rate policy is essential. In the staff's judgment, an appropriate exchange rate policy should have three essential ingredients: (a) producers must be ensured adequate financial incentives for expansion in production of exportable goods, (b) the imbalance in the foreign exchange receipts and payments of the Bank of Sudan should be gradually eliminated by the transfer of import payments to the free market, and (c) the coverage, depth, and freedom of the free foreign exchange market must be broadened. The staff had reported to the Executive Board in September 1983 the conclusions of its study on the adequacy of the prevailing effective exchange rate for exports. It is believed that the recently announced increases in procurement prices, based on the present crop yields and international prices, continue to provide sufficient financial incentive for export expansion at the prevailing effective rate. At the time of the review of fiscal policy in June 1984 which will coincide with the start of the 1984/85 agricultural season, the staff intends to re-evaluate the appropriateness of present exchange rate arrangement for the maintenance of production incentives. As regards the need for reduction in imbalance in the foreign exchange

receipts and payments of the Bank of Sudan and the institutional improvement in the functioning of the free foreign exchange market, the staff is confident that the Sudanese authorities will soon take appropriate measures.

The balance of payments projections indicate that the current account, excluding official transfers and official interest payments, will improve from a deficit of US\$535 million in 1983 to a deficit of US\$455 million in 1984. This trend is projected to continue and record a marked acceleration after 1986 when Sudan is expected to begin to export petroleum. If official interest payments are included, the current account deficit (excluding official transfers) would be about US\$0.9 billion in 1984. Taking into account the estimated official transfers of US\$435 million and a net outflow of US\$217 million on official capital account, there would be an uncovered balance of payments gap of about US\$660 million in 1984 or US\$650 million net of the proposed use of Fund resources. The staff estimates indicate that debt relief on the very generous terms similar to those given in 1983, including rescheduling of interest due in 1984 on debt rescheduled in 1983, would amount to about US\$570 million. Additionally, the cost of petroleum imports could be reduced by about US\$40 million if financing arrangements that will eliminate the excessive costs of financing and procurement are put in place by midyear. This will still leave a minimum gap of US\$40 million that must be filled through additional nonproject aid and/or additional domestic measures. The program will become effective only when resources become available to finance the entire gap in the balance of payments. Under the proposed decision, such arrangements would need to be finalized, and found satisfactory by the Executive Board to finance the gap, by May 31, 1984.

The fundamental weakness of Sudan's balance of payments will require exceptional foreign assistance and debt relief over a number of years. The Fund's role in the circumstances will of necessity have to be catalytic essentially serving to maintain the confidence of the donors and the creditors. Taking into account Sudan's outstanding use of Fund resources and the possibility of further use in later years and in light of the continued adjustment effort envisaged under the program, the amount of Fund assistance in the stand-by arrangement is proposed to be SDR 90 million, equivalent to 53 percent of quota; about 22 percent of this amount will be available when the program becomes effective. Four subsequent purchases are conditional on observance of the June criteria and the successful conclusion of the June review, which would cover the 1984/85 budget, the formulation of the quantitative performance criteria for the remaining period of the arrangement, and exchange rate policy and exchange arrangements.

In recent months the authorities have taken steps to begin the enforcement of Islamic practices and regulations with regard to interest rate and taxation which would have important bearing on resource mobilization in the public sector and overall savings and investment in the economy during a transitional period. These matters will be examined

during the June review. Another important concern is the continuation of civil disturbances in the southern region which may increase budget expenditures and reduce revenue collection. There is the risk that this may slow down the work on the exploration and development of oil resources which will affect the medium-term prospects. These matters will be taken up during the June 1984 review.

On the whole, the staff believes that the program presented by the Sudanese authorities provides a realistic balance between the need to reduce domestic absorption and the maintenance of public support for the policies of adjustment. The actions that have already been taken, and the policy framework that has been agreed, provide sufficient ground for believing that the program's targets will be realized, provided that the anticipated aid disbursements and debt relief materialize and financial arrangements for petroleum imports are agreed upon not later than May 31, 1984 to become operative by early July 1984.

Sudan's statistical base remains highly unsatisfactory. Major data deficiencies exist even in areas such as monetary and fiscal statistics. Ongoing work with Fund technical assistance has led to some improvement but further work is very necessary. Continued Fund technical assistance and concerted effort by the Sudanese authorities are needed for a meaningful improvement in economic and financial statistics.

The authorities have expressed their intention to take further steps at an early date to enlarge the scope and freedom of the free foreign exchange market with a view to unifying the exchange system in due course. The staff recommends that the approval of the multiple currency practice arising from the existence of the official and free markets be extended for a further period. In addition, Sudan maintains exchange restrictions subject to Fund approval under Article VIII arising from the arrears on payments and transfers for current international transactions. Arrears to bilateral creditors and commercial banks are subject to rescheduling; Sudan is committed to negotiate with the bilateral creditors concerning the settlement of arrears. Some of the arrears to suppliers are being eliminated through exchange obtained in the free market. Given the current difficult foreign exchange situation, and the commitment of the authorities under the proposed arrangement, the staff recommends temporary Board approval of this restriction.

VI. Proposed Decisions

The following draft decisions are proposed for adoption by the Executive Board:

Stand-By Arrangement

1. The Government of Sudan has requested a stand-by arrangement for a period of one year for an amount equivalent to SDR 90 million.

2. The Fund approves the stand-by arrangement set forth in EBS/84/83, Sup. 1 (4/ /84), subject to 3. below, and waives the limitation in Article V, Section 3(b)(iii).

3. The stand-by arrangement set forth in EBS/84/83, Sup. 1 shall become effective on the date, but not later than May 31, 1984, on which the Fund finds that satisfactory arrangements have been made to finance the uncovered gap in Sudan's balance of payments in 1984.

Exchange System

1. The Fund approves the multiple currency practice arising from the existence of the dual exchange market, as described in EBS/84/83 (4/11/84), until the completion of the next Article IV consultation with Sudan, but not later than December 31, 1984.

2. The Fund approves the restriction on payments and transfers for current international transactions arising from payments arrears, as described in EBS/84/83 (4/11/84), until the expiration of the stand-by arrangement set forth in EBS/84/83, Sup. 1 (4/ /84).

Sudan - Fund Relations
(As of March 31, 1984)

(Amounts in millions of SDRs, unless otherwise indicated)

I. Membership Status

- (a) Date of membership: September 5, 1957
(b) Status: Article XIV

A. Financial Relations

II. General Department (General Resources Account)

- (a) Quota: 169.7
(b) Total Fund holdings of Sudanese pounds: 780.7 (460.0 percent of quota)
(c) Fund credit: 611.0 (360.0 percent of quota)
 Of which:
 Credit tranches 86.5 (51.0 percent of quota)
 EFF 122.6 (72.2 percent of quota)
 SFF 163.9 (96.6 percent of quota)
 EAR 134.8 (79.4 percent of quota)
 CFF 103.3 (60.9 percent of quota)
(d) Reserve tranche position: --
(e) Current Operational Budget (maximum use of currency): --
(f) Lending to the Fund: --

III. Stand-By Arrangements

- (a) Current stand-by: none.
(b) Recent arrangements:

	<u>Date of Effectiveness</u>	<u>Amount</u>	<u>Utilization</u>
Stand-by (one year)	2/23/83	170	170
Stand-by (one year)	2/22/82	198	70
Extended (three year)	5/4/79	427	251
Stand-by (one year)	8/14/74	24	19

- (c) Special facilities since 1981: Sudan purchased SDR 45.7 million on April 13 and 14, 1981 and SDR 39.1 million on March 16, 1983 under the compensatory financing facility.

IV. SDR Department

(a) Net cumulative allocation:	52.2
(b) Holdings:	0.2 (0.4 percent of net cumulative allocations)
(c) Current Designation Plan:	Nil

V. Administered Accounts

(a) Trust Fund Loans	
(i) Disbursed	70.4
(ii) Outstanding	67.4
(b) SFF Subsidy Account	
(i) Donations) to the Fund	Nil
(ii) Loans)	Nil
(iii) Payments by Fund	11.9

VI. Overdue Obligations to the Fund

(a) General Department:	0.7 (settled on April 5, 1984)
(b) SDR Department:	Nil
(c) Trust Fund:	Nil

B. Nonfinancial Relations

VII. Exchange rate arrangement:

Sudan maintains a multiple exchange rate regime. Foreign exchange is transacted in two markets.

(1) The official market: the official exchange rate is pegged at LSd 1.3 = US\$1. Three quarters of export proceeds are surrendered to the Bank of Sudan at the official exchange rate and are used to finance imports of wheat, wheat flour, petroleum, sugar and certain other commodities used by the public sector. Since 25 percent of export proceeds are exchanged in the free market, the effective export rate has been about LSd 1.43 = US\$1.

(2) The free market: commercial banks and dealers licensed to deal in foreign exchange constitute a second market for foreign exchange called the "free" market. The rate was LSd 1.78/1.80 = US\$1 at the end of March 1984. There is also another market, mostly composed of exchange dealers whose licenses were revoked in early 1983 and have not been reinstated. The exchange rate in this market ranged between LSd 2.10 and LSd 2.30 to the U.S. dollar in March 1984.

The Fund granted approval for the practice arising from the existence of the official and free markets until February 22, 1984.

VIII. The last Article IV consultation and review under stand-by arrangement were held in June 1983. The Staff Report (SM/83/174 and Sup. 1) was discussed by the Executive Board on September 14, 1983. Article IV consultations with Sudan are on a 12-month cycle.

The Executive Board's decision (Decision No. 7475 (83/140)), adopted September 14, 1983, with respect to that Article IV consultation was as follows:

1. The Fund takes this decision relating to Sudan's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1983 Article XIV consultation with Sudan, in the light of the 1983 Article IV consultation with Sudan conducted under Decision No. 5392-(77/63) adopted April 29, 1977 (Surveillance over Exchange Rate Policies).

2. Sudan's exchange system gives rise to multiple currency practices. The Fund notes that Sudan is taking steps to narrow the divergence between the official and free market rates with a view to unifying the two markets in due course. In the circumstances of Sudan, the Fund grants approval for the multiple practice arising from the existence of the dual market as described in EBS/83/174 (8/16/83) until February 22, 1984.

The Executive Board's decision (Decision No. 7525-(83/140)), adopted September 14, 1983 with respect to the Review Under the Stand-By Arrangement was as follows:

1. Sudan has consulted with the Fund in accordance with paragraph 4(b) of the stand-by arrangement for Sudan (EBS/83/9, Sup. 1, 1/27/83) and paragraph 4 of the letter of the Minister of Finance dated January 5, 1983 annexed thereto in order to review policies and to establish performance criteria subject to which purchases may be made by Sudan during the remaining period of the arrangement.

2. The attached table setting limits on the expansion of net domestic assets of the banking system and the increase in net claims on Government during the periods ending September 30 and November 30, 1983 shall be annexed to the stand-by arrangement for Sudan, and the letter of January 5, 1983 shall be read as supplemented by this table.

3. Sudan will not make purchases under the stand-by arrangement that would increase the Fund's holdings of Sudan's currency in the credit tranches beyond 25 percent of quota or increase the Fund's holdings of that currency resulting from purchases of borrowed resources beyond 12.5 percent of quota:

During any period in which the data at the end of the preceding period indicate that:

(i) the limit on net domestic assets described in paragraph 16 of the statement annexed to the letter of January 5, 1983 and in the attached table, or

(ii) the limit on net claims on the Government described in paragraph 16 of the statement annexed to the letter of January 5, 1983 and in the attached table

has not been observed.

Financial Relations of the World Bank Group with Sudan 1/

	<u>Disbursed</u>		<u>Undisbursed</u>	
	IDA	IBRD	IDA	IBRD
(In millions of U.S. dollars)				
Agriculture, livestock, and rural development	140.2	5.0	59.8	--
Irrigation	69.8	48.0	211.0	--
Power and utilities	53.5	24.0	34.5	--
Transport	113.2	81.7	20.8	0.3
Industry	11.0	--	--	--
Education	17.4	--	1.1	--
Technical assistance	4.5	--	4.7	--
Total	409.6	158.7	331.9	0.3
Repayments	104.9			
Debt outstanding, including undisbursed	795.6			
Commitments, July 1, 1982- June 30, 1983	130.0			
Disbursements, July 1, 1982- June 30, 1983	89.1			
IFC investments	25.8 (outstanding commitments)			

Recently approved loans by IDA

1. Gezira Rehabilitation project (June 1983). Provides SDR 74.2 million for the rehabilitation of the Gezira irrigated area through (a) improved irrigation, drainage, and pumping systems; (b) rehabilitation of infrastructure including roads, communication network, railway, staff housing and ginneries; (c) provision of farm machinery; (d) improved farmer training, research, and extension; and (e) improved health and water systems.

2. Agricultural Rehabilitation Program II (June 1983). Provides SDR 46.4 million for (a) fertilizer, pesticides, herbicides, and jute sacks for the irrigated agricultural subsector; (b) spare parts for the Rahad and Suki Irrigation schemes; (c) spare parts to the Sudan Railways Corporation; and (d) studies of selected issues in the agricultural sector.

Aid Consultative Group

The last meeting was held under the chairmanship of the IBRD in December 1983 in Paris. The next meeting is expected to convene in late 1984-early 1985.

1/ The IBRD/IDA lending positions as of September 30, 1983. Credits denominated in SDRs were converted to U.S. dollars at the September 30, 1983 rate.

Principal Policy Measures Effectuated
Between Early 1979 and Late 1982

A. Agricultural sector

1. The discriminatory exchange rate and export taxes applicable to cotton were eliminated and the price of lint sold domestically was raised to export price levels.
2. A cotton incentive system was established encompassing the announcement of prices prior to harvesting, speedier payment after crop delivery, and bonuses for higher yields.
3. Rehabilitation programs for the New Halfa, Blue Nile, and White Nile schemes were started with the technical and financial help of the World Bank.
4. The Public Agricultural Production Corporation was dissolved and its component schemes reorganized into separate corporations with financial and managerial autonomy.
5. At the start of the 1981/82 agricultural season, the joint account and profit-sharing systems for allocating common costs and repaying the Government for its investment and recurring costs in managing the irrigated schemes were replaced by individual accounts and a system of cost recovery through fixed land and water charges.

B. Manufacturing sector

1. The Sugar and Distilling Corporation was dissolved and its four constituent mills reconstituted into individual corporations with autonomous management.
2. A rehabilitation program encompassing (a) physical rehabilitation, (b) management contracts with foreign companies, (c) expansion of acreage under sugarcane, and (d) strengthening the capital structure of the sugar corporations was begun.
3. Preparations were begun to reorganize the cement and textiles sectors.

C. Domestic financial policies

1. Tax increases included a defense surcharge on imports established at 5 percent in June 1979 and doubled in March 1981; changing the valuation basis for customs levies from LSd 0.5 = US\$1 to LSd 0.90 = US\$1 in July 1982 and to LSd 1.30 = US\$1 in November 1982; increases in departmental fees and charges in September 1980, July 1981, and November 1982; increases in

excise taxes and duties on cigarettes, liquor, and certain luxury imports in March 1981; and converting certain excise taxes from a specific level to an ad valorem rate and raising rates in November 1982.

2. Prices of controlled commodities were increased as follows: sugar and petroleum products in July-August 1979, petroleum products in March 1981, cement products in June 1981; cigarettes in November 1982, petroleum products in December 1982, wheat and flour in April 1982, and milk and milk powder in November 1982.
3. Charges for public utilities were raised in July 1979 and in July 1981.
4. A high-level committee was established in January 1980 to approve large credit applications.
5. Borrowing by public entities to finance current deficits was made subject to approval by the Minister of Finance and National Economy.
6. Interest rates on loans and deposits were raised by 2 percent in February 1981 and a further 2 percent in November 1981.

D. External policies

1. The exchange and trade system was simplified with the abolition of the nil-value system and the establishment of a parallel exchange market with a depreciated rate to cover 5 percent of exports and 45 percent of imports in September 1979.
2. Obligations to certain bilateral creditors were rescheduled under the auspices of the Club of Paris in November 1979.
3. Coverage of the parallel market was expanded to include all exports and 50 percent of imports in September 1980 and June 1981.
4. Commercial banks were authorized to offer foreign currency accounts paying interest rates at international levels.
5. The free market in foreign exchange was legalized in July 1981 to cover most private sector imports.
6. The official exchange rate was changed from LSd 1 = US\$2 to LSd 1 = US\$1.11 in November 1981.
7. Obligations to commercial banks (arrears on principal and interest) were rescheduled in December 1981.

8. Debt to bilateral creditors was rescheduled under the auspices of the Club of Paris in March 1982.
9. The official exchange rate was changed from LSd 1 = US\$1.11 to LSd 1 = US\$0.77 in November 1982.

Main Elements of the Program

A. Objectives and policies

1. Objectives

a. Alleviating pressures on the external payments position by encouraging the traditional exports, reducing imports of sugar, wheat, and certain less essential consumption goods, and attracting a higher level of expatriate remittances.

b. Reducing the rate of inflation to 20 percent.

2. Assumptions

a. Output of cotton, groundnuts, and wheat grown in the irrigated agricultural sector would increase by 8 percent, 45 percent, and 55 percent, respectively. Output of sugar would increase by 25 percent.

b. Real GDP would grow by 5.5 percent.

c. Income velocity of money of 4.1, an increase of 5 percent over 1982/83.

d. External assistance of not less than US\$700 million and servicing of external debt on terms comparable to 1983.

e. Free foreign exchange market will be allowed to clear itself through rate changes.

3. Policies

a. Real sector

(1) Stimulate production of the principal export commodities, cotton, groundnuts, sesame, and gum arabic, and the principal import substitutes, wheat and sugar, by: (a) increasing procurement prices paid to producers, (b) ensuring that the essential production inputs (fertilizer, pesticides, and gasoil) are available (in the required quantities and on time) by contracting to acquire the inputs under aid agreements and with the assistance of a World Bank commodity loan, and (c) continuing with the rehabilitation of the fixed assets of the schemes.

(2) Expand the capability of the transport system by strengthening the financial condition and management of Sudan Railways and by acquiring essential spare parts and rolling stock through aid agreements.

(3) Enlarge the capacity of the electricity generation system by expediting work on completing the expansion of the thermal power stations.

(4) Improve the allocation of resources by raising the prices of petroleum products and removing controls on retail prices.

b. Domestic financial sector

Contain monetary expansion to 18 percent in 1983/84 by limiting the growth of credit to Government, the public entities, and the private sector. Credit to Government to be held to LSd 100 million (less than 1 percent of GDP) by implementing fiscal actions and by expanding sales of government bonds. Credit to public entities to be contained by (a) enlarging the resource base of the producing agricultural entities through raising charges for agricultural land and water, (b) increasing electricity and railway tariffs and the factory price of sugar, and (c) ensuring timely retirement of seasonal credit, especially credit to the Cotton Marketing Corporation. Credit to the private sector to be contained and its allocation improved through selective credit controls. Monetary expansion to be reduced to 12 percent in 1984/85.

c. External financial sector

(1) Restrain imports of less essential commodities by maintaining restrictions on the agreed list of 39 commodities.

(2) Increase the disbursement from available commodity aid agreements by improving procedures for agreeing with donors on the composition of aid.

4. Internal consistency

Given validity of the assumption on the income velocity of money, a growth rate of 5.5 percent in GDP in combination with monetary expansion of 18 percent should enable the containment of increase in prices to 20 percent in 1983/84. The deceleration of the rate of monetary expansion in a year of faster real growth is justified because of the liquidity overhang from the large monetary expansion in previous years. Also, the credit growth ensures that the financial requirements of the agricultural sector, where most of the growth would occur, are satisfied. Similarly the real output growth is considered compatible with a decline in imports because of actions to encourage domestic production of import substitutes, restrain the growth of luxury imports and actions to reorient the composition of imports toward agricultural inputs, machinery and equipment, and other developmental imports.

B. Medium-term objectives and policies

1. Real growth of the economy

The real growth of the economy is projected to remain at about 5 percent per annum over the period 1984/85-1988/89. This is predicated on: (a) continuation of the annual stabilization effort that focuses on maintaining production incentives, preventing the emergence of cost/price distortions, restraining monetary growth, and flexibility in exchange rate policy; (b) a public investment program that emphasizes rehabilitation of capital in the irrigated schemes and sugar mills and investment in electric power generation and transport and that is sufficiently funded by external assistance; and (c) private investment oriented away from trading and real estate activity and into mechanized agriculture and manufacturing. The main stimulus is expected to be provided by high growth of output in agriculture. Value added in the agricultural sector (crops and livestock) is expected to increase at a compound annual rate of 6.5 percent during the period, with most of the increase occurring in the crop producing component. The expected growth of output is based on steady expansion of area under cultivation and small improvements in yields. A relatively modest rate of growth is expected for cotton, in the aftermath of the sharp increases of 1981/82 and 1982/83, but much larger growth is projected for groundnuts, sorghum, wheat, and sugarcane.

2. Balance of payments

The policies to stimulate investment and output are being combined with actions to hold the real growth of public and private consumption to the rate of population growth, projected at 3 percent per annum. These actions include limits on the growth of current expenditures, elimination of budgetary subsidies, greater flexibility in adjusting prices, and increases in returns on financial assets. The margin between the overall growth and the increase in consumption would make possible increased investment and a reduced imbalance on the current account of the balance of payments. Additionally, the performance of exports would be boosted after 1985 by the expected commencement of petroleum exports. Nevertheless, the payments situation will remain dominated by the heavy burden of external debt servicing and maintenance of orderly international payments would require continued provision of debt relief by creditors.

Sudan: Selected Economic and Financial Indicators, 1981/82-1983/84

	Actual 1981/82	Program 1982/83	Actual 1982/83	New Program 1983/84
(Annual percent changes, unless otherwise specified)				
National income and prices				
GDP at constant prices	20	3.5	-2.7	5.5
GDP deflator	15	30	40	20
Consumer prices	24	30	40	20
External sector (on the basis of U.S. dollars) <u>1/</u>				
Exports, f.o.b.	8	25	22	8
Imports, c.i.f.	-1	7	-5	-1
Non-oil imports, c.i.f.	-7	7	-5	-7
Nominal effective exchange rate (depreciation-)	-30	...	2	...
Government budget				
Revenue	22	46	43	16
Total expenditure	18	32	23	23
Money and credit				
Net domestic assets <u>2/</u>	27	44	40	18
Government (net)	2	6	2	4
Public entities	13	16	16	5
Private sector	15	21	19	9
Money and quasi-money (M ₂)	23	28	37	18
Interest rate (annual rate, one-year savings deposit)	12	15	15	15
(In percent of GDP)				
Central government budget deficit	8.9	7.2	6.1	6.7
Domestic bank financing	0.5	1.2	0.7	0.9
Foreign financing	8.4	5.8	5.0	5.4
Current account deficit, including official transfers <u>1/</u>				
Excluding interest	7	5	--	--
Including interest	10	7	2	6
Public external debt, inclusive of use of Fund credit <u>1/</u> (in billions of U.S. dollars)	6.9	7.6	7.3	7.1
Debt service <u>3/</u>	49	23	24	104 <u>4/</u>
Interest payments <u>3/</u>	27	13	15	44 <u>4/</u>
Overall balance of payments <u>1/</u> (In millions of U.S. dollars)	-160	7	-11	-660

Sources: Ministry of Finance and Economic Planning, Bank of Sudan, and staff estimates.

1/ Calendar years 1982, 1983, and 1984.

2/ Increase as a percentage of money and quasi-money at the beginning of the period.

3/ Includes IMF as a percent of exports of goods and nonfactor services.

4/ Before debt relief other than commercial banks.

Table 11. Sudan: Monetary Survey, 1980-83

(In millions of Sudanese pounds)

	Old Basis 1/						New Basis		
	1980		1981		1982		1983	1983	
	June	Dec.	June	Dec.	June	Dec.	June	June	Dec.
Foreign assets (net)	-354.1	-376.8	-446.3	-1,212.9	-1,575.0	-2,491.2	-2,686.2	-2,686.2	-2,505.7
Bank of Sudan	-323.4	-362.0	-380.7	-938.8	-1,347.2	-2,101.7	-2,342.6	-2,342.6	-2,317.2
Assets	(8.9)	(19.8)	(21.4)	(14.7)	(22.7)	(26.9)	(21.9)	(21.9)	(21.5)
IMF liability	(-0.2)	(-0.2)	(-0.2)	(-0.2)	(-38.8)	(-32.0)	(-176.7)	(-176.7)	(-248.5)
Other liabilities	(-332.1)	(-381.6)	(-401.9)	(-953.3)	(-1,331.1)	(-2,096.5)	(-2,187.8)	(-2,187.8)	(-2,090.2)
Treasury liability to IMF	-126.5	-160.3	-250.7	-420.7	-430.7	-606.7	-624.2	-624.2	-590.0
Commercial banks	95.8	145.5	185.1	146.6	202.9	217.3	280.6	280.6	380.0
Assets	(132.4)	(217.5)	(273.1)	(278.9)	(304.4)	(375.9)	(473.9)	(473.9)	(532.3)
Liabilities	(-36.6)	(-72.0)	(-88.0)	(-132.3)	(-101.5)	(-158.6)	(-193.3)	(-193.3)	(-152.3)
Offsets to foreign liabilities	--	--	--	806.1	1,111.9	2,036.7	2,193.9	2,193.9	2,208.6
Rescheduling adjustment	--	--	--	--	305.8	485.1	566.3	566.3	581.0
Devaluation offsets	--	--	--	806.1	806.1	1,551.7	1,627.6	1,627.6	1,627.6
1981 IMF	(--)	(--)	(--)	(247.5)	(247.5)	(247.5)	(247.5)	(247.5)	(247.5)
1981 other	(--)	(--)	(--)	(558.6)	(558.6)	(558.6)	(558.6)	(558.6)	(558.6)
1982 IMF	(--)	(--)	(--)	(--)	(--)	(265.4)	(265.4)	(265.4)	(265.4)
1982 other	(--)	(--)	(--)	(--)	(--)	(480.2)	(556.1)	(556.1)	(556.1)
Net domestic assets	1,651.6	2,020.2	2,157.4	2,341.9	2,681.5	3,120.7	3,510.5	3,510.5	3,646.8
Claims on Government (net)	983.0	1,155.7	1,180.5	1,319.2	1,319.3	1,335.3	1,363.1	1,363.1	1,304.8
Claims on public entities	288.4	376.7	419.9	535.0	624.3	726.9	927.8	927.8	1,002.9
Claims on private sector	525.9	615.9	698.7	806.7	936.6	1,173.1	1,301.8	1,301.8	1,407.5
Other items (net)	-145.7	-127.6	-141.9	-391.0	-198.7	-114.6	-148.4	-82.2	-68.4
Blocked accounts 2/	-250.0	-271.9	-266.0	-279.1	-318.5	-358.3	-347.0	-347.0	-309.6
Total assets = total liabilities	1,047.4	1,261.4	1,445.1	1,655.9	1,899.9	2,308.3	2,605.0	2,671.2	3,040.1
Money and quasi-money	1,047.4	1,261.4	1,445.1	1,655.9	1,899.9	2,308.3	2,605.0	2,671.2	3,040.1
Currency	388.3	508.2	516.2	629.8	718.3	820.4	963.5	963.8	1,024.5
Private demand deposits	435.2	532.4	624.5	649.6	732.1	882.7	999.5	1,065.5	1,252.6
Public entities' deposits	45.0	29.3	55.4	86.2	75.1	147.3	61.8	61.7	108.9
Quasi-money	179.0	191.5	249.1	290.3	374.4	457.9	580.2	580.2	654.1

Sources: Bank of Sudan and staff calculations.

1/ Prior to revisions which incorporated in the money supply the margin deposits held with commercial banks against import letters of credit.

2/ Includes devaluation adjustments to blocked accounts.

Table 12. Sudan: Central Government Expenditure, 1980/81-1983/84

(In millions of Sudanese pounds)

	1980/81	1981/82	1982/83		1983/84	
			Program	Prelim. actuals	Program	New program
Current expenditure and other operations	923.4	1,149.1	1,416.7	1,386.5	1,609.3	1,552.3
Defense and security	131.5	204.7	...	...	233.6	233.6
Education and health	65.6	82.5	...	...	139.5	134.5
Economic services	36.8	46.2	...	...	71.5	71.5
Transfers to regional government	263.7	296.7	314.0	315.0	335.7	338.7
Interest payments	68.7	78.7	191.7	152.5	324.2	269.2
Internal	(17.6)	(18.9)	(25.0)	(25.0)	(35.0)	(35.0)
External	(51.1)	(59.9)	(166.7)	(126.0)	(289.2)	(234.2)
Central administrative, unallocable, and other operations ^{1/}	357.1	440.3	...	...	504.8	504.8
Development expenditure	290.5	306.4	476.3	418.0	609.8	609.8
Agriculture and irrigation	59.7	59.6	...	...	169.7	169.7
Industry, mining, electricity, and water	32.0	88.9	...	...	165.0	165.0
Transport and communication	39.6	44.3	...	...	77.8	77.8
Other	159.2	113.6	...	...	197.3	197.3
Equity budget ^{2/}	49.3	31.9	65.0	45.0	96.4	90.4
Total outlays	1,263.2	1,487.4	1,958.0	1,836.3	2,315.5	2,252.5
Memorandum item:						
Development expenditure	290.5	306.4	476.3	418.0	609.8	609.8
Local	174.4	184.4	179.8	202.0	272.5	272.5
Foreign	116.1	122.0	296.5	216.0	337.3	337.3

Sources: Ministry of Finance and Economic Planning and staff estimates.

^{1/} Includes movements in the asset accounts for those years for which final accounts are available.

^{2/} Excludes payment for IMF quota increase. Includes government financial investment and some net lending operations.

Table 13. Sudan: Central Government Revenue, 1980/81-1983/84

(In millions of Sudanese pounds)

	1980/81	1981/82	1982/83		1983/84	
			Program	Prelim. actuals	Program	New program
Tax revenue	<u>591.6</u>	<u>736.0</u>	<u>1,058.1</u>	<u>1,068.2</u>	<u>1,261.9</u>	<u>1,166.0</u>
Taxes on income and profits	109.8	134.9	197.3	203.0	235.0	233.0
Taxes on goods and services	130.4	152.5	216.8	198.6	229.2	198.0
Excise duties	(62.8)	(60.9)	(102.2)	(90.6)	(114.0)	(98.0)
Development tax	(36.9)	(27.5)	(30.5)	(35.9)	(37.7)	(33.0)
Stabilization Fund exercises	(30.7)	(60.5)	(79.0)	(65.2)	(70.5)	(60.0)
Sales tax	(--)	(3.6)	(5.0)	(6.9)	(7.0)	(7.0)
Taxes on inter-national trade	345.5	444.6	644.0	660.4	789.7	727.0
Import duties	(236.9)	(321.3)	(483.2)	(495.7)	(616.1)	(566.0)
Import additional tax	[--]	[47.7]	[113.4]	[145.2]	[204.5]	[188.0]
Export taxes	(41.7)	(23.3)	(10.0)	(9.6)	(12.0)	(12.0)
Development taxes on exports	(--)	(7.9)	(9.0)	(12.7)	(9.0)	(9.0)
Consumption duties	(23.7)	(26.8)	(35.6)	(24.3)	(27.6)	(25.0)
Defense tax	(43.2)	(65.3)	(106.0)	(118.1)	(125.0)	(115.0)
Other taxes	5.9	4.0	--	6.2	8.0	8.0
Nontax revenue	<u>140.5</u>	<u>154.6</u>	<u>244.8</u>	<u>203.8</u>	<u>220.5</u>	<u>312.0</u>
Profits of public entities	30.7	29.0	66.3	50.6	30.0	30.0
Banks	(27.1)	(23.5)	(27.3)	(28.4)	(25.5)	(25.0)
Sudan Development Corporation	(2.3)	(--)	(5.0)	(--)	(--)	(--)
Others	(1.3)	(5.5)	(34.0)	(22.2)	(4.4)	(5.0)
Land sales	11.7	0.7	5.0	16.8	17.2	17.0
Interest, rent, and dividends	20.1	6.0	10.0	7.5	15.0	15.0
Fees and charges	53.3	75.9	102.0	92.4	90.0	90.0
Pension contribution	21.0	24.4	31.5	25.9	35.0	35.0
Other <u>1/</u>	3.7	18.6	30.0	10.6	33.3	125.0 <u>2/</u>
Total revenue	<u>732.1</u>	<u>890.6</u>	<u>1,302.9</u>	<u>1,272.0</u>	<u>1,482.4</u>	<u>1,478.0</u>

Sources: Ministry of Finance and Economic Planning and staff estimates.

1/ Sundry receipts from public agencies including unclassified revenue but excludes repayments for loans.

2/ Includes LSd 16 million and LSd 75 million from domestic price increases in cigarettes and petroleum products, respectively.

Table 14. Sudan: Export Receipts, 1981-84

(Value in millions of U.S. dollars;
volume in thousands of tons)

	1981	1982	Original Proj. 1983	Actual	Proj. 1984
Cotton					
Long-staple	78.5	80.6	151.0	183.2	175.5
Volume 1/	199.2	278.3	400.0	620.9	450.0
Unit value 2/	394.1	289.6	378.0	295.1	390.0
Medium staple	35.6	43.2	87.0	121.4	174.0
Volume 1/	144.1	189.7	300.0	507.6	600.0
Unit value 2/	247.1	227.2	290.0	239.2	290.0
Groundnuts	82.6	36.1	65.0	12.7	8.5
Volume	94.4	88.9	150.0	18.0	10.0
Unit value	875.0	406.1	435.0	704.1	850.0
Groundnut oil	15.1	8.4	15.2	7.8	5.0
Volume	22.0	18.2	22.0	9.2	5.0
Unit value	686.4	461.5	690.0	850.8	1,000.0
Groundnut cake	12.2	12.6	15.5	17.3	16.2
Volume	81.9	72.5	100.0	103.8	85.0
Unit value	148.9	173.8	155.0	166.3	190.0
Sesame	43.1	40.0	46.2	54.0	63.8
Volume	58.7	60.8	66.0	66.1	75.0
Unit value	734.2	657.9	700.0	816.6	850.0
Sesame cake	5.6	2.3	5.1	1.2	4.0
Volume	25.5	12.2	27.0	6.4	20.0
Unit value	219.6	188.5	190.0	186.7	200.0
Dura	52.8	111.4	84.0	51.2	16.0
Volume	241.3	412.8	300.0	256.2	80.0
Unit value	218.8	269.9	280.0	199.9	200.0
Gum arabic	43.9	42.3	45.0	58.6	65.3
Volume	32.9	31.9	30.0	41.7	45.0
Unit value	1,334.4	1,326.0	1,500.0	1,404.7	1,450.0
Livestock	99.5	116.9	111.0	122.3	125.0
Other	30.6	48.6	50.0	31.7	61.7
Total	<u>499.5</u>	<u>542.4</u>	<u>675.0</u>	<u>661.4</u>	<u>715.0</u>

Sources: Data provided by the Sudanese authorities, and staff estimates and projections.

1/ In thousands of 420 lb bales.

2/ In U.S. dollars per bale.

Table 15. Sudan: Composition of Imports, 1981-84

(In millions of U.S. dollars) 1/

	1981	1982	Original Proj. 1983	Estimated Actual	Proj. 1984
Wheat	53.6	33.2	66.0	70.0	63.0
Flour	53.0	42.9	33.0	29.4	27.0
Sugar	151.5	83.8	60.0	24.3	12.0
Petroleum and products, oils, and lubricants	360.0	435.0	469.0	420.0	490.0
Chemicals	141.2	136.7	178.0	200.5	200.0
Manufactured goods	368.4	271.8	355.0	264.9	240.0
Machinery and equipment	241.0	278.3	294.0	290.0	320.0
Transport equipment	186.6	242.8	169.0	133.5	120.0
Textiles	60.6	49.3	30.0	23.7	15.0
Other (mainly foodstuffs and beverages)	86.1	103.8	145.0	144.7 2/	103.0 2/
Total	<u>1,702.0</u>	<u>1,677.6</u>	<u>1,800.0</u>	<u>1,601.0</u>	<u>1,590.0</u>

Sources: Data provided by the Sudanese authorities, and staff estimates and projections.

1/ Converted at the rate of LSd 1 = US\$2.00 to July 1982, the rate used for customs purposes, and at the official exchange rate thereafter.

2/ Includes payments in foreign exchange for locally procured sugar.

Table 16. Sudan: Official External Debt, 1982-83 ^{1/}

(In millions of U.S. dollars)

	Estimated Debt Outstanding End-1982	Estimated Debt Outstanding End-1983
Multilateral institutions	<u>1,687</u>	<u>1,907</u>
Abu Dhabi Fund	36	42
African Development Bank/Fund	24	26
Arab Fund	176	158
Arab Monetary Fund	84	106
European Development Fund	16	16
IBRD/IDA	393	452
IMF ^{2/}	580	730
Kuwait Fund	93	95
OPEC Fund	54	53
Saudi Fund	116	121
Other ^{3/}	115	108
Bilateral creditors	<u>4,213</u>	<u>4,358</u>
Club of Paris	<u>1,711</u>	<u>1,797</u>
OPEC members	1,968	2,041
Kuwait	(515)	(529)
Saudi Arabia	(1,109)	(1,160)
Others	(344)	(352)
CMEA members	107	102
Other	427	418
Commercial banks	<u>1,008</u>	<u>1,046</u>
Rescheduled	790	828
Other	218	218
Total	<u>6,908</u>	<u>7,311</u>
Memorandum item:		
Private debt	<u>473</u>	<u>447</u>

Source: Ministry of Finance and National Economy, Bank of Sudan, and staff estimates.

^{1/} Includes arrears on principal and interest.

^{2/} Excludes US\$57 million in SDR allocation but includes US\$77 million in Trust Fund loans.

^{3/} Arab Authority for Agricultural Investment and Development, Arab Petroleum Investments Corporation, Food and Agriculture Organization, Islamic Development Bank, and International Fund for Agricultural Development.

CONFIDENTIAL

March 21, 1984

Dear Mr. de Larosiere:

1. Since mid-1978, the Government of the Sudan has endeavored to redress the country's economic and financial problems by pursuing corrective policies in the context of structural and financial adjustment programs supported by the Fund, the World Bank, and regional and bilateral donors and creditors.
2. The adjustment effort has been aimed at promoting sustained economic growth while restraining domestic demand and moderating inflationary pressures in order to help achieve a viable external payments position. However, as in the case of many developing countries facing deep-rooted structural problems and financial imbalances, the recovery effort in the Sudan must extend over several years during which period the continued support of the international community is crucial.
3. In order to carry forward Sudan's program of economic reform, we have adopted a package of policy actions for 1984. This needs to be backed by additional external financial assistance, including debt relief. For this process to succeed, Fund support is considered essential. Accordingly, we request a new stand-by arrangement for one year in an amount of SDR 90 million.
4. The annexed statement of economic and financial policies presents, inter alia, targets and policy actions relating to the program period. The Government of the Sudan stands ready to implement any further measures that may be appropriate to achieve the objectives of this program and will, in this regard, continue to consult with the Fund in accordance with the policies of the Fund on such consultation. Performance under the program will be reviewed periodically, the first such review to take place not later than September 30, 1984.

Yours sincerely,

Ibrahim Moneim Mansour
Minister of Finance and
Economic Planning

Farouk Ibrahim El-Magboul
Governor
Bank of Sudan

Attachment

Mr. J. de Larosiere
Managing Director
International Monetary Fund
Washington, D.C. 20431

Statement of the Government of the Sudan
on its Economic and Financial Policies

1. During the mid-1970s, the Sudan's external payments position was adversely affected by the stagnation of output and export volume, a deterioration in the terms of trade, cost/price distortions, an excessive expansion of domestic demand, and a growing burden of external debt. The weak payments position resulted in shortages of essential imports and difficulty in servicing external debt obligations which, in turn, aggravated the underlying causes of the problem.

2. By about mid-1978, the Sudan was faced with a severe shortage of foreign exchange and the buildup of external payments arrears. To redress the economic and financial problems, corrective policies have since been pursued within the context of adjustment programs supported by the Fund and the World Bank, and backed by the provision of external assistance and debt relief by various donors and creditors. Initially, the adjustment effort was concentrated on: (a) structural and institutional reform of the agricultural sector to rehabilitate capital stock and provide greater incentives to producers, (b) increased revenue generation and reduced outlays for subsidies in order to lessen the Government's reliance on domestic bank borrowing, and (c) reform and liberalization of the trade and exchange system in an effort to encourage production, exports, and remittances.

3. The policy initiatives taken during the period 1978-83 contributed to improved performance in a number of areas. In particular, production of the two main agricultural and manufacturing commodities, cotton and sugar, rose sharply during 1981/82 and 1982/83. Similarly, the Central Government's overall financial position improved, thereby permitting a steady decline in borrowing from the domestic banking system. However, difficulties persisted in other areas. For example, we were not fully successful in our efforts to contain growth in the Government's current expenditures. The operations of many public sector entities remained hampered by input shortages and high production costs, reflecting deterioration of management and capital; the resulting low capacity utilization led to increased bank borrowing thereby contributing to excessive monetary expansion and upward pressure on prices. The balance of payments situation remained weak, reflecting: (a) the high growth of domestic demand which precluded a slackening in imports, (b) the worsening of the Sudan's terms of trade as a result of weak international demand for agricultural commodities and higher import prices, (c) the excessive cost of financing imports due to the lack of foreign exchange reserves, and (d) the burden of external debt servicing.

4. Notwithstanding the continuing weakness in the external payments position, the Government of the Sudan firmly believes that the objectives of its stabilization program were correct. It is clear, however, that the program must continue over several years and that the Sudan would not be able to bear the social cost of adjustment that relies exclusively on

domestic effort to enable full servicing of maturing external debt obligations while at the same time allowing for the flow of basic consumer goods and production inputs. Hence, it is considered essential that the domestic policy measures be supported by the provision of additional untied balance of payments assistance and a further restructuring of external debt. Such external assistance is not regarded as a substitute for domestic effort. Indeed, it is on the basis of a significant and continuing domestic effort that the Sudan has presented to donors its case for further assistance and is now seeking debt relief from creditors.

5. The domestic economic policies of the Sudan will continue to aim at the achievement of a high rate of output growth and moderation of the inflationary pressures. To realize these objectives, policies will be geared toward: (a) increasing domestic savings, (b) channeling investment toward the rehabilitation of productive capacity and economic infrastructure, (c) improving the efficiency of resource utilization by reducing price and incentive distortions, and (d) strengthening the external payments position.

6. In pursuing the stabilization objectives, we have formulated a medium-term perspective that establishes indicative targets for the key macroeconomic variables over the period 1983/84 to 1985/86. These include, inter alia, (a) reduction in the annual growth of domestic liquidity from 37 percent in 1982/83 to about 10 percent in 1985/86; (b) lowering of the Central Government's overall budget deficit as a proportion of GDP from 6 percent in 1982/83 to 3 percent in 1985/86, while at the same time ensuring that by 1985/86 a surplus on current operations is generated; and (c) progressive reduction in the deficit on the current account of the balance of payments as a proportion of GDP.

The achievement of these targets would entail pursuing a concerted program of action that, among others, would: (1) establish limits on the increase in recurrent government expenditures, expand the capacity for closer monitoring of the operations and finances of the public sector entities, and increase charges for borrowing; (2) improve the efficiency of tax administration; (3) adjust the prices of goods and services provided by public entities to ensure full cost recovery; (4) intensify the effort for the mobilization of private savings; (5) evaluate the functions of the various nonfinancial public entities and undertake reorganization, including privatization, as necessary; (6) continue to prepare and implement the development program in the context of a medium-term investment framework that focuses on rehabilitation of the capital stock and an expansion of economic infrastructure; (7) improve public and private sector resource allocation through gradual elimination of controls on prices and profit margins and by allowing prices of inputs and outputs to be determined competitively; and (8) unify the markets for foreign exchange.

7. Within the above-indicated medium-term objectives and policies, particular attention will be paid to four important areas: (a) the performance of the nonfinancial public entities; (b) the level of charges for borrowings and returns on savings; (c) the development of petroleum resources; and (d) the exchange rate system.

Despite the large investments undertaken in recent years, the financial performance of most public sector entities has remained unsatisfactory, requiring continued budgetary support and/or financing from the banking system. We intend to evaluate the role and management of the principal entities and to effect necessary organizational, managerial, and financial reforms with a view to increasing their contribution to resource mobilization; in particular, the prices charged by the public entities for non-traded goods will be adjusted to ensure cost recovery.

The present rates of return on savings and charges for borrowing remain negative in real terms. We realize the importance of positive real rates for stimulating savings and improving the allocation of resources. However, at present, the Sudan's institutional environment precludes the pursuit of a more active policy to adjust interest rates. We are, nevertheless, contemplating alternative arrangements that would achieve the same results. Based on the evolving institutional setup, we intend to pursue policies for ensuring that returns and charges on financial savings and borrowings, respectively, become positive in real terms.

The Government is committed to an active program of energy conservation through appropriate pricing of electricity and petroleum products and an improvement in the efficiency of the transportation system. Petroleum being an important source of energy, considerable oil exploration activity is presently taking place in various areas of the Sudan and commercially exploitable deposits, estimated to be capable of sustaining a production level in excess of 100,000 barrels per day, have already been identified. We have recently awarded a contract to construct a pipeline from the discovered fields to an export terminal on the Red Sea. The pipeline will have an initial capacity of 50,000 barrels per day but could be expanded subsequently by installing booster pumping stations. We anticipate production and exports to begin in 1986. At the initial export capacity of 50,000 barrels a day, and after allowing for full servicing of the financing costs and operations of the project, the net foreign exchange receipts are projected at about US\$160 million annually. We intend to undertake a study, in consultation with the World Bank, on the problems of the transportation sector, relative prices of petroleum products and their effect on production and exports, and to take appropriate action in light of the outcome of the study.

We also intend to pursue a flexible exchange rate policy and, in particular, to allow greater competition in the functioning of the free foreign exchange market. The Bank of Sudan will continue to monitor closely the recently liberalized arrangements in the free exchange market

with a view to broadening its base, enhancing its competitiveness, and ensuring that the exchange rate in that market reflects the underlying forces of supply and demand.

8. The economic program for 1984 is in continuation of the one formulated for 1983 and aims to strengthen the production base so as to stimulate the output and availability of exportable goods, restrain domestic demand in order to contain the growth of imports and reduce inflationary pressures, and improve the external payments position.

9. In furthering the above objectives, the Government of the Sudan has already adopted the following policy measures:

a. In order to stimulate output, particularly of exportable commodities, the minimum procurement prices for the key commodities, cotton, groundnuts, sesame, and gum arabic for the 1983/84 season were increased by amounts ranging from 25 percent to 45 percent. The availability of electricity to the irrigated agricultural schemes is being improved by accelerating work on completing the expansion of the Blue Nile grid. A quick-yielding program to improve the capacity utilization of Sudan Railways is presently being effected by means of acquiring critical spare parts and essential rolling stock.

b. A number of measures have been taken to limit bank borrowing by the Government, the public entities, and the private sector and to siphon away excess liquidity in the commercial banks.

In the course of implementing the budget for 1983/84, actions were taken to generate LSd 216 million (equivalent to 2 percent of GDP) in new revenues or expenditure savings. Notwithstanding these actions, which included eliminating subsidies on wheat and pharmaceuticals, raising excise duties and improving collection procedures, and increasing customs duties, budgetary prospects were adversely affected by the impact of actions to reduce inessential imports, and by certain unforeseen factors, including a breakdown of the electric power system in the summer of 1983, the banning of the consumption of alcoholic beverages, and exemptions to certain domestic manufacturing activities from the supplementary customs duties imposed at the beginning of the year. To compensate for these developments, the Government of the Sudan has implemented measures intended to generate LSd 110 million in resources during the balance of the fiscal year. These included raising the prices of cigarettes and petroleum products and reducing Central Government expenditure.

As part of efforts to contain borrowing by the nonfinancial public entities, the prices and rates charged by a number of these entities, including sugar refineries, the National Electricity Corporation, and Sudan Railways Corporation were sharply increased during 1983. In addition, the Bank of Sudan has implemented procedures to monitor more closely the receipts and payments of the principal borrowing entity, the Cotton Public Corporation, in order to ensure that it retains only small

working balances with commercial banks and uses the bulk of its receipts from cotton sales to retire outstanding credit. Furthermore, the finances of the public agricultural entities have been strengthened as a result of higher irrigation and management charges for the 1983/84 agricultural season.

The Bank of Sudan has implemented a number of measures to restrain private sector credit. These include increases in the margin requirements for the financing of imports, prohibition on credit for real estate investment, a 10 percent reserve requirement on deposits, and instructions to banks to transfer the counterpart of all deposits held against unpaid external obligations to the Bank of Sudan.

c. The functioning of the free market for foreign exchange has been expanded through the relicensing of dealers. The authorities do not interfere in the functioning of the market and are committed to ensuring its freedom to move rates in accordance with underlying market forces.

d. The investment program for 1983/84 was formulated with a focus on rehabilitation of the key irrigated agricultural schemes and the sugar refineries, and on upgrading the economic infrastructure. Additionally, management of the public sector entities is being strengthened through technical assistance and a start on the privatization has commenced with the incorporation as private companies of the four sugar refineries and Sudan Airways.

10. The policies to increase production incentives in the agricultural and agro-related sectors and improve the availability of inputs coupled with the ongoing efforts to rehabilitate physical capital and strengthen management of the public entities are projected to result in a 5-6 percent growth in real output during 1983/84.

11. A key objective of financial policy in 1984 is to reduce the rate of inflation. To this end, and consistent with the projection for real growth in the economy, we intend to reduce the pace of monetary expansion to 18 percent in 1983/84 and to 12 percent in 1984/85. To ensure the attainment of the monetary targets, and keeping in view the projected balance of payments outcome, ceilings on the expansion of the net domestic assets of the banking system and subceilings on the net claims on the Government have been established for the period ending June 30, 1984. These are shown in the table appended to this statement. Ceilings for the period ending September 30, 1984 will be established in the course of discussions on the 1984/85 budget, which will take place in early June 1984. Ceilings for the remainder of the program period will be established at the time of the review of the program and will be contained in a supplement to the table appended to this statement.

12. The objective of fiscal policy will continue to be the containment of bank borrowing so as to help achieve the monetary growth targets and to ensure that sufficient financing is available for the implementation

of the investment program. The overall budget deficit for 1983/84 would be financed to the extent of LSd 60 million from the mobilization of resources from the domestic non-banking sector and by LSd 100 million in net borrowing from the domestic banking system, with the balance to be financed from net external resources. In order to help achieve the financial targets of the program, we will consult with the Fund while formulating the budget for 1984/85. It is our intention to reduce the overall budget deficit as a proportion of GDP to 5 percent in 1984/85. We also intend to reduce further the deficit on current operations and domestic bank financing of the budget. On the institutional side, we intend to achieve further improvement in the ongoing work, supported by Fund technical assistance, for more prompt reporting and monitoring of expenditure. More significantly, we intend to use the Commodity Aid Committee and the recently established Export-Import Bank as effective vehicles for the proper recording and control of the inflows of external commodity assistance to ensure that the full value of such assistance is transferred to the budget of the Central Government.

13. The new scale of irrigation and management charges in the agricultural schemes is about 33 percent higher than the previous scale, and it is our intention to implement a further increase to take effect for the 1984/85 season. Furthermore, tariffs charged by Sudan Railways and the National Electricity Corporation have been increased to cover the increases in prices of petroleum products and to preclude the need for budgetary transfers or domestic bank financing for these entities. Consistent with the aim of restructuring the public sector sugar refineries, the Government intends to allow them freedom to price and market their output on a commercial basis.

14. We expect our recently implemented import and credit policies to restrain the growth in imports. This, together with the anticipated increase in production of exportables, is projected to reduce the trade gap in 1984. Notwithstanding such an improvement, as well as growing inflows of remittances by Sudanese expatriates and a continuation of generous assistance by the international community, the burden of the Sudan's external debt service is far in excess of its ability to pay. Given the foreign exchange constraint, and the need to ensure a level of imports sufficient to sustain the economic recovery program, we intend to seek a rescheduling of external debt and are hopeful that it will be on generous terms.

Nevertheless, it is likely that some time will elapse before agreements on a rescheduling of obligations, pursuant to the terms agreed in multilateral negotiations, are concluded with individual creditors. During the period of the stand-by arrangement, therefore, we may not be able to avoid arrears on debt obligations falling due. However, from the date that an agreement is concluded with a creditor, we shall not incur any arrears on the rescheduled debt service obligations. Of course, we shall continue to meet all debt service obligations on the debt rescheduled following the meeting of the Club of Paris in February 1983. Progress on the envisaged debt rescheduling will be reviewed with

the Fund not later than September 30, 1984. In addition, we will not incur any arrears in respect of payments and transfers for current international transactions other than on external debt service obligations, as envisaged above, during the period of the stand-by arrangement.

15. Consistent with the balance of payments objectives and the importance of avoiding further increases in the heavy external debt servicing burden, the Government of the Sudan, with a sole exception noted below will not enter into any new nonconcessional public or publicly guaranteed foreign borrowing in the maturity range of up to and including 12 years during the period of this stand-by arrangement, excluding new contracts that may result from refinancing or rescheduling of existing debts. The only exception will be for debts incurred by the Government of Sudan for the White Nile Petroleum Corporation (in an amount not exceeding US\$200 million in 1984) in the course of financing the export pipeline and its ancillary production and export facilities.