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INFORMATION

November 9, 1984

To: Members of the Executive Board  
From: The Secretary  
Subject: Sudan - Staff Report for the 1984 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1984 Article IV consultation with Sudan. A draft decision appears on page 26.

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).

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INTERNATIONAL MONETARY FUND

SUDAN

Staff Report for the 1984 Article IV Consultation

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

In consultation with the Legal Department, the Research  
Department, and the Treasurer's Department

Approved by A.S. Shaalan and Subimal Mookerjee

November 7, 1984

I. Introduction

The 1984 Article IV consultation discussions were held in Khartoum during the period August 30-September 3, 1984 and concluded in Washington on September 24, 1984. The Sudanese representatives included the Minister of Finance and Economic Planning, the Governor of the Bank of Sudan, the Minister of State for Finance, and senior officials from the Ministries of Agriculture, Commerce, Finance, Industry, and Labor, the Bank of Sudan, and various public sector corporations. The staff team comprised Messrs. M. Yaqub (Head - MED), P. Clawson (MED), S. Geadah (MED), S. Kavar (MED) and D. McDonald (FAD), and Miss L. Choy-Luy (Secretary - ETR). Mr. J. Dodsworth, the Fund's resident representative in Sudan, and Mr. J. de Leede (IBRD) also participated in the discussions.

A one-year stand-by arrangement for SDR 90 million (53 percent of quota), that was approved "in principle" on April 30, 1984, became effective on June 25, 1984 following the finalization of various arrangements to cover the projected external payments gap in 1984 and settlement by Sudan of overdue financial obligations to the Fund. The initial purchase of SDR 20 million was made on July 2, 1984. Subsequent purchases depended, in addition to the observance of relevant credit ceilings and other performance criteria, on a review of performance and reaching understandings on economic policies to be followed in the period beyond June 30, 1984. However, the review could not take place because Sudan had again fallen in arrears to the Fund with effect from July 13, 1984, and under the present procedures the staff could not enter into negotiations relating to further use of resources in a period of arrears to the Fund. <sup>1/</sup> In addition, the authorities had failed to carry out certain

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<sup>1/</sup> Since then, Sudan has not discharged any of its financial obligations to the Fund and these arrears increased to SDR 53.8 million by end-October 1984. Details on Sudan's relations with the Fund, including the composition of arrears, are provided in Appendix I. A statement on World Bank group operations in Sudan is attached as Appendix II.

exchange reform measures which they had undertaken to do in July 1984. The staff, therefore, insisted that the agreed actions be taken before further discussions are held on policies to be followed under the program. As prospects for discussion relating to use of Fund resources diminished, it was agreed to hold 1984 Article IV consultation discussions so as to maintain the annual cycle of such consultations; the last Article IV consultation discussions were held in June-July 1983.

Sudan continues to avail itself of the transitional arrangements under the provisions of Article XIV.

## II. Background

The economic and financial developments in Sudan in recent years have been extensively reviewed in previous staff papers. <sup>1/</sup> A major turning point in the economy came in the mid-1970s when a sharp deterioration in the external payments position led to a severe shortage of foreign exchange and a buildup of external payments arrears. The main factors for the deterioration included (1) slow growth in output of agricultural export commodities, (2) acceleration of domestic inflation, (3) an overvalued exchange rate, (4) worsening of Sudan's external terms of trade, and (5) growing burden of external debt. In the context of the difficult economic and financial situation, Sudan adopted in June 1978 a stabilization program supported by a first credit tranche stand-by arrangement with the Fund. This was followed by a three-year extended arrangement starting in 1979 and by three one-year stand-by arrangements in each of 1982, 1983, and 1984. The extended arrangement was terminated prematurely and two of the three subsequent stand-by arrangements became inoperative, either because of policy disagreement at the time of review of performance or due to the failure of the authorities to take policy actions in accordance with understandings in effect. <sup>2/</sup> Nevertheless, during the period 1978-83, the Sudanese authorities did take a number of major policy initiatives for structural adjustment in the economy. These included (a) institutional and policy reform to provide incentives for expansion in agricultural output, (b) measures to increase resource mobilization by the Central Government, (c) exchange reform to lessen the extent of overvaluation of the exchange rate and correct distortions in the economy, (d) elimination of all explicit budgetary subsidies and adjustment in prices in order to better reflect market developments, and recently (e) effective enforcement of restraints on expansion of credit to the public entities and private sector. These institutional and policy measures contributed to a revival of cotton production, a reduction in domestic bank borrowing by the Government, a moderation in the rate of monetary expansion, and a slowdown in the underlying rate of domestic price inflation.

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<sup>1/</sup> In particular, see EBS/82/7 (1/14/82), EBS/83/9 (1/11/83) and Sups. 1-4, EBS/83/174 (8/16/83) and Sup. 1, and EBS/84/83 (4/11/84) and Sups. 1-6.

<sup>2/</sup> Further details on the various arrangements with the Fund since 1978 and a summary evaluation of performance under each arrangement are provided in Appendix III.

Notwithstanding the policy initiatives and the resultant improvement in the domestic financial balance and reduction in price distortions, as well as rescheduling of external debt service obligations on favorable terms, Sudan's external payments position remained precarious. Different factors have operated at various times to offset the favorable effects of the above described policy actions on the balance of payments but these may be divided into three broad categories: natural, domestic policy, and external factors. The most dominant natural factor has been the drought during the three most recent years which has unfavorably affected the quantity and quality of agricultural output and livestock, thereby directly weakening the balance of payments position. An equally important factor was the inability of the Sudanese authorities to maintain continuity and momentum in their adjustment effort. At several times during the last six years there has been a discontinuity in policy adjustments either because of a delay in recognition of the need for policy actions or failure to effect on time the required policy measures. In a fragile economy like that of Sudan with little room for maneuverability, such disruptions in the adjustment effort not only stall the momentum of recovery but may also negate the gains achieved in a previous period of adjustment. Furthermore, at times abrupt institutional and policy changes, introduced for noneconomic reasons, have aggravated the economic problems. Finally, international factors have also contributed to the failure of the country to realize an improvement in the balance of payments. These included deterioration in the external terms of trade, unanticipated increases in interest rates, larger than anticipated burden of external debt obligations, and lower than expected disbursement of foreign aid. This, in turn, led the Bank of Sudan to resort to expensive short-term borrowing adding to the balance of payments difficulties in the subsequent periods.

Since September 1983, the Government has introduced many institutional changes that have affected the short-term prospects for private sector activity, the Central Government's budgetary position, and remittances by Sudanese expatriates. The most important of these changes have been the replacement of various civil and penal laws by those of the Islamic Sharia, abolition of the limited liability form of business organization, cessation of enforcement of interest payment features of contracts, and introduction of "Zakat" (wealth tax) to replace some of the traditional taxes. Additionally, a state of emergency was declared in April 1984 but was lifted at the end of September 1984. These abrupt and far-reaching changes have added to the uncertainties and led to a number of adverse consequences including the renewal of civil disturbances in the southern region of Sudan. The resultant security problems brought about a suspension of work on two principal development projects, 1/ the completion of which was to greatly benefit the balance of payments over the medium term.

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1/ These are: (a) the 900-mile petroleum pipeline linking the fields being developed in southwestern Sudan to an export terminal on the Red Sea; and (b) the Jonglei Canal for diverting the White Nile River from the marshes of southern Sudan in order to increase its water flow and permit an expansion in the cultivated area.

The more immediate effect of the disturbances, however, was increased government expenditures on internal security. Additionally, the heightened domestic uncertainty contributed to a reduction in expatriate remittances and an increased outflow of private capital. The authorities' attempts to help consumers of essential commodities through confiscation of stocks and punishment of merchants judged guilty of stockpiling have discouraged private sector imports and contributed to a general slowing down of trade and business activity. In addition to the jolting effect of the institutional and policy developments that have recently taken place, there remains considerable uncertainty about the nature and pace of future changes with adverse effects on economic prospects.

Against this general background, an attempt is made to analyze in the subsequent sections the economic outcome in 1983/84 and the prospects for 1984/85. 1/

### III. Economic and Financial Developments in 1983/84

#### 1. Overall economic activity

The focus of production policies in 1983/84 was on attaining a growth rate of 5.5 percent mainly through an expansion in the output of principal agricultural and manufacturing commodities (Table 1). Toward this end, the authorities acted to stimulate agricultural production by increasing the minimum procurement prices, expanding acreage of cotton and groundnuts in the principal irrigation schemes, and providing essential agricultural inputs in a timely manner. However, aside from cotton, the output objectives were not realized for several reasons, some of which were beyond the control of the authorities. For example, production of most crops in the rainfed sector was affected by lower than normal rainfall which reduced crop yields; drought conditions also affected some irrigation schemes where rainfall is relied upon for the initial watering and germination of seeds. In addition, interruptions in irrigation because of reduced river flow as well as damage to some irrigation canals contributed to pest infestation of cotton which adversely affected the quality of the crop and its price. There were also delays in the arrival of herbicides and insecticides procured under aid agreements. At the same time, output in the manufacturing sector continued to be hindered by several factors including inadequate availability of raw materials, insufficiency of financial resources, interruptions in the availability of fuel and electric power, and shortages of skilled labor.

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1/ Until June 1984, Sudan's fiscal year covered the period July 1-June 30. Effective September 26, 1984, the fiscal year was changed to conform with the Islamic (Hijri) calendar which is shorter than the Gregorian calendar year by 11-12 days. However, the analysis in this report (except in the case of the 1984/85 budget) will cover the July-June period in order to facilitate historical comparison as well as to conform with the cycle of agricultural production in Sudan.

Table 1. Sudan: Output of Principal Commodities, 1982/83-1983/84

(In thousands of tons unless otherwise specified)

	1982/83	1983/84	
		Target	Actual
<b>Agricultural commodities</b>			
Irrigated:			
Cotton (thousand bales)	1,035	1,160	1,148
Long staple	(409)	(415)	(432)
Medium staple	(626)	(745)	(716)
Groundnuts	181	270	212
Sorghum	233	250	333
Wheat	141	250	162
Rainfed:			
Cotton (thousand bales)	25	65	19
Groundnuts	311	425	233
Sorghum	1,705	2,225	1,486
Sesame	163	225	203
Gum arabic	41	43	38
<b>Manufacturing commodities</b>			
Sugar	360	440	419
Cement	232	...	198
Textiles <u>1/</u> (thousand meters)	10,839	...	9,138
<b>Memorandum item:</b>			
Growth rate of real GDP (percent)	-3.6	5.5	-1.3

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

1/ Public sector corporations only. These accounted for 17 percent of Sudan's production of textiles in 1982/83.

As a result of these developments, real value added in the agricultural sector declined by about 5 percent, compared to the targeted growth of 9 percent, while that in the manufacturing sector stagnated; this in turn affected activity in the closely related sectors of transportation and trade. Consequently, real GDP is estimated to have declined by about 1 percent as against the target of 5.5 percent growth.

2. Domestic financial developments

a. Monetary expansion

The financial program supported by the stand-by arrangement was formulated with the objective of reducing the rate of monetary expansion from 37 percent in 1982/83 to 18 percent in 1983/84. This, in combination with the projected growth of the economy, was expected to help lower the rate of inflation from the estimated 40 percent in 1982/83 to about 20 percent in 1983/84. Such a reduction in monetary expansion was considered to be consistent with the objective of assuring continued availability of credit for the productive sectors of the economy, and was expected to be achieved by a curtailment of government borrowing, a more effective enforcement of credit restraint on nonessential uses in the private sector, and reduced borrowing by public sector entities brought about by higher prices at the production corporations and timely retirement of seasonal credit by the trading corporations.

Monetary expansion was indeed contained within the target rate of 18 percent (Table 2). However, because of several deficiencies in the official monetary statistics, it has not been possible for the staff to correctly identify the sources of the monetary expansion. The reported data show that one third of the expansion was attributable to the foreign sector, and that, on a net basis, the Government had retired borrowing from the Bank of Sudan (thus exerting a contractionary impact on money supply). Neither the balance of payments nor the budgetary developments are consistent with such a presentation. While it was not possible to identify precisely the inaccuracies in the monetary statistics, qualitative information indicated that the government position benefited from such factors as less than full payment in local currency for the budgeted external debt service, indirect diversion to the government account of external borrowing by the petroleum corporation, and less than anticipated payment by the Government for the output of the sugar corporations. Similarly, the difficulties experienced in effecting external payments do not appear to be consistent with the reduction, recorded in the monetary statistics, in the net foreign liabilities of the banking system. On the basis of tentative adjustments made by the staff, it is estimated that net government borrowing in 1983/84 exceeded by a wide margin the program target. <sup>1/</sup> The Sudanese representatives indicated their awareness of the data problems and stated that an internal working group has been

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<sup>1/</sup> The estimate indicated in Tables 2 and 3 for net borrowing by Government from the banking system in 1983/84 reflects only the factors which the staff has been able to quantify.

Table 2. Changes in Domestic Liquidity, 1982/83-1983/84

	1982/83	Program 1983/84	Actuals 1983/84
<u>(In millions of Sudanese pounds)</u>			
Money and quasi-money	705.1	470.0	480.5
Impact of external sector	-29.2	--	183.4
Foreign assets (net)	(-1,111.2)	(--)	(173.9)
Devaluation adjustment	(821.5)	(--)	(--)
Rescheduling account	(260.5)	(--)	(9.5)
Domestic credit extension	734.3	470.0	297.2
Claims on Government	(15.3)	(100.0)	(98.2) <sup>1/</sup>
of which: blocked accounts <sup>2/</sup>	[-28.5]	[--]	[6.2]
Claims on public entities	(303.5)	(125.0)	(97.2)
Claims on private sector and specialized banks	(365.2)	(245.0)	(258.9)
Other items (net)	(50.3)	(--)	(-157.1)
<u>(Change in percent)</u>			
Money and quasi-money	37.1	18.0	18.0
Claims on Government	1.5	9.8	9.7
Claims on public entities	48.6	13.5	10.5
Claims on private sector and specialized banks	39.0	18.8	19.9
<u>(As percent of broad money at beginning of period)</u>			
Impact of external sector	-1.5	--	6.9
Domestic credit extension	38.6	18.0	11.1
Claims on Government	(0.8)	(3.8)	(3.7)
Claims on public entities	(16.0)	(4.8)	(3.6)
Claims on private sector and specialized banks	(19.2)	(9.4)	(9.7)
Other items (net)	(2.6)	(--)	(-5.9)

Sources: Bank of Sudan and staff estimates.

<sup>1/</sup> After adjusting the government position by LSd 330.4 million to offset the effect of "checks in transit." Before this adjustment, the reported magnitude (LSd -232.2 million) indicated a contractionary effect of government transactions.

<sup>2/</sup> Prior to July 1983, the blocked accounts were not included along with the main government account for purposes of establishing the government position.

set up to study them, and depending upon the findings, Fund technical assistance may be sought for the purpose of improving the accounting practices of the Bank of Sudan.

The overshooting of the borrowing target by the Government, as estimated by the staff, was offset by lower than projected expansion of credit to other borrowers. Vigilance and closer scrutiny by the Bank of Sudan of the financial operations of the public sector entities led to a significant retirement of credit by the trading corporations which helped offset some unexpected borrowing by the sugar and railways corporations. In projecting the public sector borrowing requirements at the time of formulating the financial program for 1983/84, it was assumed that the price of sugar procured from the domestic producing corporations and the transport rates of Sudan Railways Corporation would be set in a manner that these corporations would not have to resort to bank credit to finance their operations; this expectation did not materialize. In the case of the sugar corporations, the unexpected borrowing resulted from a dispute about prices between the Government and the corporations. As regards Sudan Railways, its carrying operations are reported to have been adversely affected, among other factors, by a weakening in its competitive position relative to road transport following railway tariff increases. As a result, it incurred losses which have been financed by borrowing from the Bank of Sudan. As for credit to the private sector, its growth was restrained by controlling excess liquidity in commercial banks, and by effective enforcement by the Bank of Sudan of credit ceilings. Moreover, a lower than anticipated level of imports, resulting from a slowdown in economic activity and destocking of goods by traders due to the fear of penalties for hoarding, contributed to a slackening of demand for credit.

Notwithstanding the achievement of the target for monetary expansion, in 1983/84, the decline in real GDP prevented the attainment of the target for the overall rise in the price level. The rate of increase in prices declined from 40 percent in 1982/83 to about 25 percent in 1983/84 but was higher than the target of 20 percent for the year.

b. Budgetary developments

The reported preliminary data for 1983/84 show that the overall deficit of the Central Government declined marginally to 6.5 percent of GDP from 6.7 percent in 1982/83 (Table 3). However, as explained in the previous section, this apparent improvement does not reflect accurately the underlying developments in government financial operations because the reported data have several deficiencies including: (1) less than budgeted domestic currency payments on external obligations; (2) the understatement of government bank financing; and (3) indirect financing provided by the General Petroleum Corporation. Notwithstanding these reservations, it may be noted that revenue increased by about 15 percent, thus almost realizing the budget target, while total expenditure grew by about 17 percent compared to the budgeted 22 percent.

Table 3. Sudan: Central Government Operations, 1982/83-1984/85

	1982/83	<u>Program</u> 1983/84	<u>Prelim.</u> <u>Actuals</u> 1983/84	<u>Interim</u> <u>Budget</u> <u>1/</u>	<u>Staff</u> <u>Proj.</u> <u>Interim</u> <u>Budget</u> <u>1/</u>	<u>Budget</u> 1984/85 <u>2/</u>	<u>Staff</u> <u>Proj.</u> 1984/85 <u>2/</u>
(In millions of Sudanese pounds)							
Total revenue	1,275.4	1,478.0	1,469.0	335.0	335.0	1,639.9	1,555.6
Tax revenue	1,083.9	1,166.0	1,244.4	288.8	288.8	1,336.8	1,277.0
Nontax revenue	191.5	312.0	224.6	46.2	46.2	303.1	278.6
Total expenditure	1,839.6	2,252.5	2,149.1	515.0	610.8	2,453.0	3,057.8
Current expenditure	1,085.8	1,552.3	1,300.0	410.0	443.8	1,715.0	2,068.2
Development expenditure	414.0	609.8	483.2	100.0	84.0	658.0	609.6
Equity expenditure	31.4	90.4	52.6	5.0	5.0	80.0	60.0
Other operations (net)	308.4	--	313.3	--	78.0	--	320.0
Deficit (-)	-564.3	-774.5	-680.1 <u>3/</u>	-180.0	-275.8	-813.1	-1,502.2
Financing	564.3	774.5	680.1 <u>3/</u>	180.0	275.8	813.1	1,502.2
External (net)	490.4	614.5	571.2	183.0	87.1	708.0	68.9
Grants	(...)	(...)	(437.0)	(...)	(79.3)	(...)	(644.8)
Loans	(...)	(...)	(238.2)	(...)	(36.4)	(...)	(265.2)
Amortization	(...)	(-123.9)	(-104.0)	(-52.3)	(-28.6)	(-210.0)	(-841.1)
Domestic	73.9	160.0	108.9	-3.0	188.7 <u>4/</u>	105.1	1,433.3 <u>4/</u>
Bank	(43.9)	(100.0)	(98.2)	(...)	(...)	(...)	(...)
Nonbank	(30.0)	(60.0)	(10.7)	(...)	(...)	(...)	(...)
(As percent of GDP)							
Revenue	15.2	14.2	14.1	...	...	13.7	13.0
Expenditure	21.9	21.6	20.6	...	...	20.5	25.5
Deficit (-)	-6.7	-7.4	-6.5	...	...	-6.8	-12.5
External financing	(5.8)	(5.9)	(5.5)	(...)	(...)	(5.9)	(0.6)
Domestic financing	(0.9)	(1.5)	(1.0)	(...)	(...)	(0.9)	(11.9)

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

1/ Covers the period July 1, 1984-September 25, 1984.

2/ Covers the period September 26, 1984-September 15, 1985.

3/ This deficit, as measured on an actual payments basis, is believed to significantly understate the true deficit. As a result of the availability of other domestic and external financing, other expenditures are believed to have taken place.

4/ Financing gap.

The growth in revenue was almost entirely due to discretionary measures taken in the July-December 1983 period and which were reflected in the budget estimates. <sup>1/</sup> In addition, an increase in the defense tax on imports from 10 percent to 15 percent in January 1984 yielded about LSd 30 million during the remainder of the fiscal year. Even with discretionary measures yielding the equivalent of more than 2 percent of GDP, the revenue/GDP ratio remained virtually unchanged indicating the low elasticity of the revenue system.

The reduction in overall expenditure relative to the budgeted amount resulted from shortfalls in payments of the local currency counterpart of external interest payments and in development spending (due to implementation problems and a slowdown in project aid disbursements). Expenditure other than for external debt service and for development increased at a rate (16 percent) which was twice the rate envisaged in the budget. Further breakdown of domestic current expenditures reveals that defense expenditure accounted for the bulk (33 percent) of the total increase in expenditure, reflecting the deteriorating security situation during the year. Another feature of expenditure developments was the continued high level of extrabudgetary operations. While little detail of these operations is available, the staff understands that in large part extrabudgetary expenditures are financed from local counterpart of commodity aid not remitted to the Central Government.

### 3. External sector developments

#### a. Balance of payments

The deficit on merchandise trade declined by about 30 percent in 1983/84 reflecting a significant increase in exports and a decline in imports (Table 4). Exports increased by nearly 28 percent, with the expansion entirely attributable to the near doubling of cotton exports. The increase in cotton exports reflected primarily an increase in volume (by 73 percent) following the recent growth of production. Exports of groundnuts, sesame, and gum arabic also increased but this was more than offset by lower exports of sorghum brought about by the removal of subsidies in a key foreign market. Imports declined by about 9 percent mainly due to reduced imports of sugar, nonagricultural intermediate goods, and capital goods. The lower imports of sugar reflected the increase in domestic production, while the decline in other imports was attributed to shortfalls in aid disbursement and lower demand for imports in the private sector reflecting mainly the heightened domestic uncertainty. As regards the services account, there was a decline in net receipts reflecting in part increased expenditures on travel abroad. Private transfers declined marginally (after several years of steady increase) mainly due to the domestic uncertainty and institutional developments, but possibly also in reflection of the reduced level of economic activity in neighboring countries where these transfers originate. There

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<sup>1/</sup> These revenue measures were described in EBS/84/83 (4/11/84) and are summarized in the accompanying report on Recent Economic Developments.

Table 4. Sudan: Balance of Payments, 1983-85

(In millions of U.S. dollars)

	1982/83	1983/84	Projections 1984/85	Stand-By Projections 1984	Revised Projections 1984	Projections 1985
Exports	573	732	644	715	675	668
Cotton	(175)	(344)	(311)	(348)	(310)	(340)
Other	(398)	(388)	(333)	(367)	(364)	(328)
Imports	-1,516	-1,388	-1,356	-1,550	-1,328	-1,425
Petroleum	(-353)	(-373)	(-377)	(-450)	(-380)	(-400)
Wheat and flour	(-72)	(-82)	(-89)	(-90)	(-90)	(-90)
Sugar	(-53)	(-24)	(-10)	(-12)	(-10)	(--)
Other	(-1,038)	(-909)	(-880)	(-1,008)	(-848)	(-935)
Services	-241	-290	-581	-215	-344	-664
Receipts <u>1/</u>	(250)	(225)	(200)	(245)	(210)	(200)
Payments except interest <u>1/</u>	(-300)	(-300)	(-300)	(-255)	(-255)	(-300)
Interest payments	(-191)	(-215)	(-481)	(-205)	(-300)	(-564)
Private transfers	415	380	410	450	350	450
Current account balance	<u>-769</u>	<u>-556</u>	<u>-883</u>	<u>-600</u>	<u>-648</u>	<u>-971</u>
Official transfers	462	336	449	522	359	430
Cash	(28)	(18)	(9)	(27)	(27)	(--)
Commodity	(310)	(233)	(364)	(353)	(281)	(330)
Project	(124)	(85)	(76)	(142)	(51) <u>2/</u>	(100)
Official capital receipts	219	194	179	223	153	210
Cash	(40)	(54)	(--)	(38)	(19)	(--)
Commodity	(55)	(59)	(39)	(52)	(38)	(60)
Project	(124)	(81)	(140)	(133)	(96) <u>2/</u>	(150)
Official capital payments	-58	-16	-417	-162	-135	-584
Other transactions	-74	-- <u>3/)</u>		-3 )		
		)	<u>-672</u>	)	<u>-271</u>	<u>-915</u>
Overall balance	<u>-220</u>	<u>-- )</u>		<u>-20 )</u>		

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

1/ Partly estimated.

2/ On the assumption that arrears to multilateral organizations are discharged. Because of the existence of these arrears, disbursements by most multilateral lenders had ceased as of the first half of 1984.

3/ Due to the deficiencies in monetary data mentioned in the relevant section and lack of information on other transactions, it is not possible to quantitatively estimate the overall balance for 1983/84.

was also a sharp decline in the disbursement of official aid particularly for projects; this reflected delays in reaching aid agreements, problems with project implementation, and reaction of some donors to unsatisfactory servicing of debt by Sudan.

Sudan's gross official reserves have been low for several years and as of June 1984 amounted to about US\$6 million, equivalent to about two days of imports.

b. External debt and payments arrears

Sudan's external payments situation is dominated by the burden of external debt payments (Table 5). Without debt relief, Sudan's debt servicing obligations in 1983/84 would have exceeded total exports of goods and nonfactor services. External obligations falling due in 1984/85 are estimated at US\$1,000 million compared to total projected exports of goods and nonfactor services of US\$844 million. Obligations to the Fund and other multilateral institutions which do not reschedule debts are projected at more than 45 percent of exports of goods and nonfactor services in 1984/85.

Sudan's bilateral and commercial creditors have provided extraordinary debt relief during each of 1983 and 1984. 1/ Under the most recent rescheduling agreement, the Paris Club consolidated all interest and principal falling due in 1984, excluding those related to the White Nile Petroleum Project and from the February 1983 rescheduling, into a 16-year loan with 6 years' grace, with one half the interest on the consolidated loan to be paid in 1984 and one half to be added to the consolidated loan; in addition, one half the interest due under the 1983 rescheduling is to be paid in 1984. Saudi Arabia and Kuwait provided even more generous relief by agreeing to forego all payments due in 1984. Commercial banks also provided debt relief by agreeing to defer most of the interest that would have been due under the terms of the 1981 comprehensive rescheduling of Sudan's obligations to banks, and limiting payments to about US\$8 million per quarter. 2/

In spite of liberal debt relief, Sudan's debt service performance has been unsatisfactory. In addition to being in arrears to the Fund, as of end-June 1984, Sudan was in arrears to several other multilateral lending agencies (Table 5) and had not made the payments due to be placed in an escrow account under the 1984 Paris Club rescheduling agreement. The progress in reaching agreement on rescheduling terms with non-Paris Club bilateral creditors has also been slow and no payments have been made to them. As of end-June 1984, Sudan was current in its payments under the 1983 rescheduling agreement with all Paris Club members except France, and with the commercial banks under the terms of both 1983 and 1984 rescheduling; however, Sudan is reported to have failed to make the October 1984 payments due to commercial banks.

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1/ See SM/83/54 (3/15/83) and SM/84/202 (8/16/84) for details.

2/ The 1981 rescheduling had consolidated arrears of interest into a three-year loan payable beginning in 1983 and arrears of principal into a seven-year loan payable beginning in 1985.

Table 5. External Arrears as of June 1984 and External Public Debt Service Obligations, 1984/85-1989/90

(in millions of U.S. dollars)

	Arrears		Prin.		Int.		Prin.		Int.		Prin.		Int.	
	Prin.	Int.	1984/85	1984/85	1985/86	1985/86	1986/87	1986/87	1987/88	1987/88	1988/89	1988/89	1989/90	1989/90
	June 1984	June 1984	1/	1/										
Multilateral Institutions	79	25	276	109	208	82	205	74	189	66	158	58	129	51
Abu Dhabi Fund	8	3	11	4	3	2	3	2	3	2	3	2	3	2
African Development Fund Bank	2	--	3	--	1	1	2	1	2	1	2	1	2	1
Arab Fund for Social and Economic Development	11	6	21	10	12	6	12	6	12	7	14	8	17	9
Arab Monetary Fund	17	5	40	9	27	5	13	5	4	5	4	5	3	5
EEC/EDF	2	1	3	1	1	--	1	--	1	--	1	--	1	--
IBRD/IDA	1	2	8	10	7	7	7	8	7	9	7	10	8	11
IMF	--	--	118	59	135	52	144	43	134	32	100	21	68	12
Islamic Development Bank	15	1	30	1	1	--	1	--	1	--	1	--	1	--
Kuwait Fund for Arab Economic Development	10	4	18	7	8	3	8	3	8	3	8	3	8	3
OPEC Fund for International Development	1	--	5	2	3	2	4	--	5	--	5	--	5	--
Saudi Fund for Development	9	2	17	5	9	4	9	4	9	5	9	7	9	8
Other	3	1	6	3	2	2	2	3	3	3	5	2	5	2
Paris Club	--	5	58	103	119	133	92	127	63	121	81	117	121	113
1979 Rescheduling	--	--	30	10	63	17	45	11	24	6	23	4	23	3
1982 Rescheduling	--	--	--	8	--	15	--	15	8	15	23	15	30	14
1983 Rescheduling	--	--	--	25	--	50	--	50	--	50	14	50	42	48
1984 Rescheduling	--	5	--	48	--	25	--	25	--	25	--	25	7	25
Other	--	--	28	13	56	26	47	26	31	25	22	24	19	24
Non-Paris Club Bilateral	--	15	109	114	197	157	173	151	139	146	182	124	333	96
1983 Rescheduling 2/	--	15	--	64	--	68	--	68	--	68	76	60	227	45
1984 Rescheduling 2/	--	--	--	11	--	18	--	18	--	18	--	18	9	18
Other	--	--	109	39	197	71	173	65	139	60	106	46	97	33
Commercial banks	--	--	81	156	162	182	162	173	162	151	162	129	103	109
Rescheduling agreement	--	--	81	58	162	84	162	75	162	53	162	31	103	11
Other	--	--	--	98	--	98	--	98	--	98	--	98	--	98
<b>Total</b>	<b>79</b>	<b>45</b>	<b>524</b>	<b>481</b>	<b>685</b>	<b>554</b>	<b>632</b>	<b>524</b>	<b>552</b>	<b>483</b>	<b>583</b>	<b>427</b>	<b>686</b>	<b>369</b>

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

1/ Including arrears

2/ Where no agreement has yet been reached, rescheduling along the same lines as accorded by the members of the club of Paris is assumed

### III. Economic and Financial Prospects for 1984/85

Sudan's economic prospects for the period ahead will be affected by factors which have existed for some time and which stem from basic imbalances in the economy. In addition, there are also the considerations of the continuation of drought conditions, the impact of recent institutional changes, and uncertainty about economic policies to be followed. Until these are clarified, the prevailing conditions will probably continue to exert a depressing effect on economic activity.

#### 1. Overall economic activity

Agricultural crop prospects for 1984/85 do not appear encouraging as large areas in western and eastern Sudan have been seriously affected by the low rainfall in the summer of 1984. The drought conditions will result in a further decline in the groundnuts crop and lead to a southward migration of livestock herds that normally graze on the northern pastures. In the central and eastern regions of the country, the drought, while less severe than in the other areas, is expected to adversely affect the yield of sorghum, groundnuts, and sesame. Even the irrigated schemes may be affected if the drought results in a lower than normal level of the Blue Nile. It is estimated that agricultural production may decline by about 6-7 percent in 1984/85. Activity in the trade and transport sectors, which are traditionally dependent on agriculture, and where the private sector plays the leading role, is also projected to decline. This is expected not only because of the weakened prospects due to the drought, but also the decline in private sector investment activity as a result of the uncertainty prevailing in the country. Consequently, real GDP is estimated to decline by 3-4 percent in 1984/85 following the declines of the two preceding years.

The Sudanese representatives, while being concerned about the agricultural prospects, indicated that policy actions are being taken to at least partly offset the effect of the drought on agricultural yields. These include arrangements to ensure sufficient availability of agricultural inputs (fertilizer, insecticides, and herbicides) and fuel as well as timely provision of financing. They also intend to announce agricultural procurement prices that will ensure sufficient production incentives. Similarly, they are hopeful that uncertainty affecting private sector activity will soon be removed.

#### 2. Domestic financial prospects and policies

##### a. Monetary and banking policies

At the time of the negotiations on the elements of the stand-by program in November 1983, it was envisaged that the rate of monetary expansion could be further reduced to about 12 percent in 1984/85 without unduly squeezing credit to the main productive sectors. The mission reviewed the situation again in September 1984 and concluded that the monetary target could be achieved particularly in view of the slowdown in

private sector trading and real estate activity, provided the Government did not resort to borrowing from the banking system. At the request of the authorities, the mission prepared a credit program based on a 12 per cent growth in money supply and a neutral foreign sector. Keeping in view the production prospects and estimated financial flows, the mission felt that the credit requirements of the public agricultural corporations would amount to about LSd 105 million, leaving scope for expansion in credit to the private sector of about LSd 275 million. That level of borrowing by the private sector was judged to be more than adequate keeping in view the current production prospects, import projections, and the anticipated level of private sector economic activity. Depending upon the actual level of production and trade activity, the relative shares of the two sectors could be adjusted within the overall limit of credit expansion. The mission, however, felt that within the above monetary target there was very little scope for borrowing by the Government from the domestic banking system. The Sudanese representatives thought that the borrowing requirements of the public sector entities would be considerably in excess of the staff estimates because the sugar and railway corporations would have to cover their operating deficits at current levels of revenues and costs. They also indicated that the Government may have to resort to borrowing in the face of uncertain revenue prospects and rising government expenditures. The mission cautioned that such a course would intensify inflationary pressures and that actions should be taken to strengthen the position of public commercial corporations as well as the Government.

While reviewing the prospects for the introduction of interest-free banking and the consequent changes that are expected to be made in the banking practices, the mission advised that any structural adjustment in the system should be carried out with careful planning and with full awareness of the economic and financial implications of the contemplated actions. The cessation of enforcement of interest-bearing features in contracts had already created uncertainty in the banking system. Most of the banks had not yet assessed the implications of this development, particularly as regards the treatment of overdue interest obligations and its effects on the profitability and viability of banking business, and some customers were seeking to take advantage of the opportunity to avoid paying interest. Referring to the instructions issued by the Bank of Sudan to commercial banks to cease paying interest on foreign currency deposits, the mission pointed out that these would have adverse repercussions on expatriate remittances and capital flows. The Sudanese representatives indicated that the instructions with regard to interest on foreign currency deposits were not being enforced as yet. Moreover, they stated that the Government was fully aware of the importance of the stability of the banking system and added that changes in the banking system would be effected in an orderly fashion with due consideration to the need for adequate return on savings and charges for borrowings.

b. Budgetary policy

In March 1984 the Sudanese authorities announced that the 1984/85 fiscal year would be changed to coincide with the Islamic year 1405 (starting on September 26, 1984) and that government finances during the interim period between the end of the 1983/84 fiscal year (June 30, 1984) and the start of the new fiscal year would be covered by a transitional budget.

The transitional budget, as presented by the authorities, projected a deficit for this period of LSd 180 million, or about LSd 750 million on an annualized basis. As a percentage of GDP this would represent little change from the 1983/84 outcome. However, taking into account external debt obligations that had not been fully budgeted <sup>1/</sup> and making allowance for extrabudgetary expenditure on a scale similar to that of recent years, the mission felt that the deficit for the interim budget period would be considerably higher (about LSd 276 million or about LSd 1,150 million on an annualized basis) than estimated by the Sudanese authorities (see Table 3). Moreover, in view of the slowdown in net aid inflows, the bulk of the deficit was likely to be financed from borrowing from the domestic banking system.

The budgetary prospects for the fiscal year 1405 (1984/85) had been clouded by uncertainties concerning the fiscal impact of the new Zakat law and the accompanying changes in the revenue system that were announced in March 1984. <sup>2/</sup> The original Zakat legislation had abolished, effective the start of the fiscal year 1405 (1984/85), all direct and indirect taxes on domestic activity and a significant part of taxes on international trade; these taxes accounted for over 45 percent of revenue in 1983/84. However, at the time of the formulation of the budget for 1984/85 the Government decided to implement measures to compensate for the losses to the budget from the cancellation of taxes. The mission was informed that the abolished indirect taxes, both on international trade and on domestic goods and services, had been replaced by more general taxes with the rates set at levels that ensure a net revenue gain to the

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<sup>1/</sup> The mission assumed that one-half of the external debt service obligations falling due in the period July-December 1984 would be charged to the interim budget and that external debt service arrears outstanding as of end-June 1984 would not be paid in the interim budget period.

<sup>2/</sup> The revenue yield of the Zakat tax itself is difficult to predict. Zakat on wages and salaries would be collected regularly during the year, but its yield would be quite small given the low rate of assessment (2.5 percent). On the other hand, Zakat on value added in crop production would also be collected after the harvest at the rate of either 5 percent (irrigated crops) or 10 percent (rainfed crops), but given that agriculture has previously been lightly taxed, the yield is difficult to predict. Most other forms of Zakat, falling primarily on property, would be collected after the end of the fiscal year. It is also not clear as to what type of expenditures would be financed from the Zakat revenue.

Government. In a number of cases, the rates were increased and the coverage was widened to include most raw materials and production inputs previously exempt. A new stamp duty schedule with increased rates and extended coverage was also introduced. Furthermore, the cancellation of the corporate profits tax was not expected to affect collections in the 1984/85 budget period since this was assessed on the previous year's income. The authorities feel that the only significant loss to the budget as a result of the reorganization of the tax structure would be from the elimination of taxes on personal income, partly offset by a portion of Zakat collections accruing to the budget. Accordingly, the authorities have projected 12 percent growth in revenues in 1984/85.

The budget projected a 16 percent increase in expenditure over the 1983/84 preliminary data, mainly due to a rise in development expenditure (about 36 percent), equity expenditure (50 percent), and defense expenditure (28 percent). Expenditure other than these three categories shows little increase over the preliminary actuals for 1983/84, and the budget does not include an estimate for extrabudgetary operations.

The official estimates of revenue and expenditures showed an overall budget deficit of LSd 813 million (equivalent to 7 percent of GDP) which was expected to be financed mostly through external grants and loans leaving an uncovered gap of about LSd 105 million. The Sudanese representatives indicated that this small gap was likely to be financed by transferring responsibility for expenditures of that amount to the Zakat Fund, and that there would be no recourse to domestic bank borrowing by the Government.

The mission indicated to the authorities that, in its judgment, the official budget estimates had overstated revenues and understated expenditures. In particular, revenue estimates appeared to be based on optimistic assumptions for collections from taxes on international trade, while expenditures were significantly understated by failing to include the full extent of maturing external debt service obligations (including arrears) and not allowing for extrabudgetary expenditures which have assumed increased importance in recent years. If adjustments are made to include an estimate for extrabudgetary operations on about the level of 1983/84, and to provide for servicing all maturing external debt obligations as well as allowing for adjustments in revenues, it was the mission's judgment that the overall budget deficit would increase to about LSd 1,500 million (equivalent to 13 percent of GDP). The Sudanese representatives, while acknowledging that large extrabudgetary operations had occurred in recent years, believed that the mission's projection of the magnitude of these operations was very high. They explained that such outlays reflected to a large part the retention by public sector agencies of the domestic currency counterpart of commodity aid, and that a tightening up of procedures for transfer of such funds to the Central Government would significantly reduce the extent of extrabudgetary expenditures. As for external debt service obligations, the Sudanese representatives stated that the budget estimates did not include full local currency servicing of these obligations because it was assumed that debt relief would be

forthcoming in 1985 on the same basis as in 1983 and 1984 and, moreover, some of these external obligations were not incurred by the Government and did not have to be serviced by it. In this connection, the mission stated that debt relief in 1985 could not be taken for granted and also that the terms of any rescheduling could not be anticipated. Furthermore, the mission stressed that anticipation of debt relief should not lead to a slackening of the domestic resource mobilization effort; in fact, the extent of any debt relief would depend on a demonstration by the authorities of a serious domestic effort.

The mission welcomed the authorities' decision to take steps to minimize the drain on budgetary resources from the intended changes in the fiscal system, but pointed out some of the changes that were effected may undermine the budgetary position. Moreover, it was also pointed out that, in view of the inelasticity of the revenue structure, the substantial discretionary measures effected in recent years have, at best, limited the erosion in the revenue/GDP ratio. The mission thus concluded that, without a substantial additional effort for mobilization of resources and restraint on expenditures, the budget deficit will be larger than estimated by the authorities and that this would in all likelihood be financed by increased borrowing from the domestic banking system which, in turn, will lead to an acceleration in the rate of monetary growth.

The mission thought that a number of areas held promising prospects for additional resource mobilization while also offering the benefit of improving resource allocation. These included: (a) increasing customs duties through adjusting the exchange rate used for customs valuation, currently the official exchange rate of LSd 1.30 to the U.S. dollar, even though private sector imports are effected at the more depreciated free market rate; (b) improving the finances of public entities in order to allow better service of debts and greater transfer of profits to the Government; (c) tightening control over extrabudgetary operations in order to limit unplanned credit to public enterprises in the form of unpaid taxes and unremitted local counterpart of commodity aid; and (d) adjusting fees, charges, and prices of goods and services provided by the public sector at least in line with the rate of inflation.

### 3. External financial prospects and policies

#### a. Balance of payments

On the basis of the likely production of agricultural exportables and import substitutes, the outlook for the international prices of Sudan's exports, and expected disbursement of foreign aid, Sudan's external payments position, before allowing for the servicing of external debt obligations, is not expected to improve significantly in 1984/85 (Table 4). Exports of noncotton commodities are projected to decline in reflection of the unfavorable production prospects, while cotton exports will no longer benefit from the reduction of stocks which had provided a boost to earnings in 1983/84. Imports on the other hand are

projected to increase slightly reflecting higher imports of petroleum and increased disbursements on development projects; private sector imports are not likely to show a significant increase unless the present uncertainties are removed. The consequent worsening of the trade balance, however, is expected to be offset by a slight increase in private transfers following the lifting of the state of emergency, and by increased disbursement of aid. After taking into account the scheduled external debt service obligations, 1/ including repurchases to the Fund, Sudan is estimated to have an unfinanced external payments gap of nearly US\$800 million in 1984/85.

The mission pointed out the implications of such a large gap which would not be covered even if debt relief were provided along the lines of previous years. In the absence of foreign exchange reserves, the implications are that: (1) either debt service payments will not be met; (2) essential imports will not be financed; or (3) the Bank of Sudan will have to engage in additional short-term borrowing on unfavorable terms which, if it could materialize, would merely defer the difficulty to a subsequent period. The mission pointed out that in the circumstances, the only orderly option was to intensify the domestic adjustment effort which could serve as a basis for provision by the international community of debt relief on more liberal terms and additional balance of payments assistance. In addition to demand management and production policies, exchange reform should constitute an important element of the domestic adjustment effort.

b. Exchange rate policy

Sudan's exchange system comprised four different exchange rates in September 1984: (a) a fixed official rate (LSd 1.30 to the U.S. dollar) applicable for most public sector transactions; (b) a commercial bank rate (LSd 1.80 to the U.S. dollar) covering some public and private imports; (c) a rate for exports (about LSd 1.42 to the U.S. dollar) reflecting a weighted average of the official (75 percent) and commercial bank (25 percent) rates; and (d) a freely fluctuating private dealers' rate (about LSd 2.40 to the U.S. dollar) covering most private imports and certain exports transacted outside official channels. 2/

Since early 1983, the focus of staff recommendations for exchange reform has been to move toward unification of the rates by narrowing the difference between the commercial bank and dealer rates while simul-

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1/ These are estimated on the basis of the debt rescheduling that has already taken place for 1984 but without allowing for any rescheduling of obligations falling due in 1985, and provides for full servicing of all the arrears outstanding at the end of June 1984.

2/ It is estimated that in 1983/84 about 14 percent of imports were effected at the commercial bank rate, about 93 percent of exports were effected at the export rate, while about 7 percent of exports, 27 percent of imports, 75 percent of service payments, 65 percent of service receipts, and all private remittances were effected at the free market rate.

taneously reducing the scope of the official rate through transfer of transactions from the official to the free market. Actions along these lines were envisaged under the program supported by the currently inoperative stand-by arrangement.

As indicated earlier, the authorities did not implement the first stage of reform as agreed upon and, moreover, during the last several months, various other factors contributed to a worsening of the balance of payments position. In view of these developments, the staff conducted a re-evaluation of the exchange rate options for Sudan. On the basis of a comprehensive study on the competitiveness of Sudan's principal exports, it was concluded that a significant depreciation of the effective rate for exports would be required to provide sufficient production incentives. However, it was determined that the various combinations for attaining such a depreciation would leave an unsustainable imbalance in the official market. Consequently, the staff concluded that the only viable solution was immediate unification of the official market with the free market and allowance for greater flexibility in the exchange rate thereafter. Such a reform, it was emphasized, would need to be accompanied by adherence to tight fiscal and monetary policies, the imposition of export taxes where necessary to eliminate windfall profits, and continuation of present import licensing system. The Sudanese representatives agreed that additional incentives need to be provided to exports and stated that consideration was being given to do so on a selective basis. However, they did not regard the unification of the exchange markets as a desirable or feasible policy option for the immediate future. They stressed that in view of the prevailing drought in the country, the present time was not opportune for a major exchange reform and, moreover, that the imbalance in the external accounts of the country could not be eliminated by a devaluation and floating the exchange rate.

#### IV. Medium-term Balance of Payments Prospects

Sudan's external payments prospects during the rest of the 1980s would depend, in addition to the level of rainfall, on external factors such as the terms of trade and the nature and amount of foreign assistance and debt relief and on domestic factors such as production, investment, financial, and exchange rate policies. On the assumption that rainfall recovers to a more normal level, there is no deterioration in the terms of trade, the authorities pursue appropriate domestic financial and exchange rate policies, and the international community maintains its present level of assistance in real terms, it is plausible to expect the economy to grow at a rate in the range of 4-5 percent per annum during 1985/86 and 1986/87. The World Bank staff feels that such a growth rate is attainable mainly through recovery of the agricultural sector and rehabilitation of capital in the manufacturing sector; they do not anticipate an acceleration in investment level, either in the public or in the private sector, in the coming few years. The performance of the economy beyond this initial period of recovery will depend on the public

investment program and recovery of private sector investment from the present low levels. In addition, medium-term growth and balance of payments prospects will be affected by the timing of resumption of work on the country's petroleum pipeline and on increasing the water flow of the Nile River through completion of the Jonglei Canal; in this regard, the security situation and political environment will play an important role.

In spite of the uncertainties mentioned above, the staff has attempted medium-term balance of payments projections (Table 6). These are based on the assumption that: (1) the initial recovery of the economy from the recent drought, together with policies to restrain the growth of domestic consumption to that of the growth of population while providing sufficient incentives for the production of exportables, would make possible a 4.5 percent growth in export volume and limit the growth of imports to 3 percent per annum during 1985/86 and 1986/87; (2) there would be some deceleration in the growth of exports in the remainder of the period reflecting the stagnation in the investment level; (3) exports of crude oil will commence in mid-1988 at the level of 100,000 barrels per day; (4) there would be no change in the terms of trade; (5) receipts from invisibles would not change in real terms while payments for invisibles increase at an average 3 percent per annum; (6) receipts from private transfers would increase by 1 percent per annum in real terms; (7) aid flows will be maintained in real terms at their present levels and there will be no change in the composition of aid; and (8) there would be rescheduling of external debt outstanding at the end of 1984 and any net new borrowing would be on highly concessional terms with repayment dates falling outside the projection period.

The projections made on the above assumptions indicate that the current account deficit will narrow gradually over the 1985/86-1987/88 period and turn sharply around in 1988/89 with the start of oil exports. Nevertheless, the weight of debt repayment is such that notwithstanding a surplus on the current account, a gap in the overall payments position would persist. In order to attain the situation where covering the gap is made possible by debt relief, Sudan would have to continue a strong domestic policy effort and receive a stable level of international assistance (in real terms). In the absence of a continuation of domestic adjustment effort and international support in the form of foreign aid and debt relief, Sudan's growth prospects could be expected to be significantly lower than the above projections, and the balance of payments position would be less sustainable.

Table 6. Sudan: Balance of Payments, 1983/84-1989/90

(In millions of U.S. dollars)

	1983/84	Projected					
		1984/85	1985/86	1986/87	1987/88	1988/89	1989/90
Exports	732	644	713	812	864	1,465	1,563
Cotton	(344)	(311)	(350)	(375)	(398)	(420)	(444)
Petroleum	(--)	(--)	(--)	(--)	(--)	(551)	(596)
Others	(388)	(333)	(363)	(437)	(466)	(494)	(524)
Imports	-1,388	-1,356	-1,476	-1,578	-1,676	-1,778	-1,886
Petroleum	(-373)	(-377)	(-416)	(-448)	(-478)	(-507)	(-537)
Wheat and flour	(-82)	(-89)	(-93)	(-98)	(-104)	(-111)	(-117)
Sugar	(-24)	(-10)	(--)	(--)	(--)	(--)	(--)
Other	(-909)	(-880)	(-967)	(-1,031)	(-1,094)	(-1,160)	(-1,231)
Services	-290	-581	-661	-645	-618	-580	-539
Receipts	(225)	(200)	(204)	(212)	(221)	(229)	(239)
Interest	(-215)	(-481)	(-554)	(-524)	(-483)	(-427)	(-369)
Other payments	(-300)	(-300)	(-311)	(-333)	(-356)	(-382)	(-409)
Private transfers	380	410	461	485	509	535	562
Current account balance	<u>-556</u>	<u>-883</u>	<u>-963</u>	<u>-926</u>	<u>-921</u>	<u>-358</u>	<u>-300</u>
Official transfers	336	449	439	456	474	494	513
Cash	(18)	(9)	(--)	(--)	(--)	(--)	(--)
Commodities	(233)	(364)	(337)	(350)	(364)	(379)	(394)
Projects	(85)	(76)	(102)	(106)	(110)	(115)	(119)
Official capital receipts	194	179	214	223	231	241	251
Cash	(54)	(--)	(--)	(--)	(--)	(--)	(--)
Commodities	(59)	(39)	(61)	(64)	(66)	(69)	(72)
Projects	(81)	(140)	(153)	(159)	(165)	(172)	(179)
Official capital payments	-16	-417	-565	-504	-434	-495	-623
Other transactions	-- <u>1/</u>	--	--	--	--	--	--
Overall balance	<u>--</u>	<u>-672</u>	<u>-875</u>	<u>-751</u>	<u>-650</u>	<u>-118</u>	<u>-159</u>
<u>Memorandum item:</u>							
Fund repurchases	-65	-110	-120	-128	-118	-88	-63
Total debt service (interest, principal, and Fund repurchases)	-296	-1,008	-1,239	-1,156	-1,035	-1,010	-1,055

Source: Staff estimates based on data provided by the Sudanese authorities.

1/ Due to the deficiencies in monetary data mentioned in the relevant section and lack of information on other transactions, it is not possible to quantitatively estimate the overall balance for 1983/84.

#### V. Staff Appraisal

The Sudanese authorities have in the last several years taken significant policy measures that have led to an expansion in cotton output, improvement in the Central Government's finances, and a slowdown in the rate of monetary expansion. The domestic effort was supported by the international community in the form of foreign aid and debt relief. However, these efforts fell short of what was required and Sudan's external payment situation has remained weak. This reflected not only natural factors such as a prolonged drought but also interruptions in domestic policy effort and shortfalls in external assistance. Since mid-1983, the difficulties have been compounded by the increasing severity of drought conditions and by the abrupt moves to alter the institutional and financial structure of the country. In addition, resurgence of civil disturbances in the southern region has led to increased government expenditures on internal security and to the suspension of work on the oil pipeline and the Jonglei Canal, adversely affecting the medium-term balance of payments prospects.

The structural weakness of Sudan's economy is compounded by an external debt service burden which is projected to increase to the equivalent of nearly 120 percent of earnings from exports of goods and services in 1984/85. The balance of payments projections show that full servicing of external debt obligations would leave an unsustainable external payments gap, estimated to fall in the range of US\$800-1,000 million through 1987/88. Similarly, the local currency counterpart of debt obligations would amount to more than 100 percent of the existing tax revenues.

The severe balance of payments difficulties underscore the importance of implementing without interruption a comprehensive medium-term strategy for economic recovery, export expansion, and relative price stability that goes beyond the piecemeal approach of the recent past. The staff believes that within a medium-term framework, the policy program for 1984/85 should include, as a minimum, policy actions in three areas: (a) the mobilization of domestic resources in order to finance a major part of the Central Government budget gap in a noninflationary manner; (b) a reduction in controls and cost/price distortions and improvement in the institutional environment that would contribute to revitalization of private sector activity; and (c) a reform of the exchange system so as to stimulate domestic output and exports and dampen demand for imports. Such a policy approach has been discussed by the staff with their World Bank colleagues who support its scope and content. However, even with the implementation of a comprehensive domestic adjustment effort, it would appear beyond the capacity of the country to generate enough domestic resources to cope with the projected external payments and budgetary gaps. Accordingly, the staff believes that a sustained domestic adjustment effort should continue to be supported by the international community in the form of debt relief and external assistance.

In order to cover the fiscal gap, the Central Government will need to expand its revenue base and improve tax elasticity in order to arrest the erosion of tax revenues which has taken place in recent years. At the same time, policies are required to improve the efficiency of the operations of the public sector entities to achieve greater cost recovery and increase their contribution to the Central Government's budget. Similarly, adjustments in the prices of public goods and services should be regularly made at least in line with the rate of inflation in the economy. These measures need to be supplemented by the introduction of instruments and policies for the mobilization of nonbank private savings and stricter expenditure controls in the entire public sector.

The Government's resource mobilization effort can succeed better in a period of expanding economic activity in the private sector. Therefore, the authorities would be advised to pay immediate attention to increasing incentives for production, savings, and investment in the private sector where confidence is presently at a low ebb. An important first step in this direction will be a clear enunciation of the role of the private sector in the economy and a commitment to a clearly defined medium-term policy and institutional framework in which the private sector can make economic decisions with a greater degree of certainty and confidence. As the banking system plays an important role in the mobilization of private savings and allocation of loanable funds, it is necessary that the present institutional uncertainty be resolved as fast as possible and a system of adequate real return to savings and charges for borrowing be put in place and enforced. Moreover, the existing controls on prices and profit margins and licensing requirements need to be rationalized and a greater reliance placed on price signals that reflect more promptly and accurately the underlying forces in the economy.

A more appropriate exchange rate policy is essential in improving production incentives and ensuring a more efficient allocation of resources. A study prepared by the staff has indicated that the present exchange arrangements do not provide sufficient incentives for expansion of traditional exports. Moreover, the overvalued exchange rate is stifling the potential for new exports while encouraging imports. In addition, the official market is faced with a structural imbalance that has in the last few years led to an interruption in the availability of essential imports, unsatisfactory performance in servicing external debt, and increased short-term borrowing by the Bank of Sudan. An attempt to provide a more favorable effective exchange rate to exports without appropriate adjustments in the structure of the foreign exchange market would widen the imbalance in the official market. The staff, therefore, believes that the only viable solution lies in the unification of the official market with the free market and adoption of a flexible approach thereafter. Moreover, in order for such an exchange reform to achieve the intended effects, it must be supported by restrained demand management policies.

The problem of Sudan's large arrears to the Fund is of a major significance for the Fund's relationship with Sudan. The staff has urged the authorities to give high priority to settling overdue financial obligations to the Fund, and explained the Fund's policies and procedures on overdue payments. In addition to implications for further use of Fund resources, there may be consequences for foreign assistance, debt relief, and trade credit, and these were pointed out to the authorities. The Sudanese representatives recognize the importance of settling the Fund arrears but, referring to the scarcity of foreign exchange and the drought conditions in the country, have asked for flexibility on the part of the Fund. Nevertheless, the staff believes that the authorities should make a concerted effort to clear arrears to the Fund and to other creditors. In the meantime, the Fund should be able to provide, if requested, technical assistance in the formulation and implementation of policies for improving the country's balance of payments position.

The quality of Sudan's national statistics had deteriorated since the early 1970s largely in reflection of the shortage of specialized staff. During the last two years, the Fund has helped Sudan improve its statistical base both through technical assistance and staff work. While progress has been made in improving statistics, it is important for Sudan to continue the effort. The staff particularly urges improvement in the accounting practices of the Bank of Sudan.

Sudan has a number of restrictive practices in its exchange and payments system. These include the multiple exchange rate arrangement, and arrears on external payments. The restrictions subject to approval by the Fund have been approved until the expiration of the stand-by arrangement, but the approval of Sudan's multiple currency practice lapses upon the completion of the 1984 Article IV consultation. The staff urged the Sudanese authorities to eliminate these restrictions at the earliest opportunity. In view of the lack of progress on a comprehensive reform of the exchange system, the staff is not recommending an extension of approval of the multiple currency practice.

The Sudanese authorities have agreed to maintain the present annual cycle of consultation.

VI. Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

1. The Fund takes this decision relating to Sudan's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1984 Article XIV consultation with Sudan, in the light of the 1984 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 includes a multiple currency practice and restrictions on payments and transfers for current international transactions as described in SM/84/253, 11/9/84. These restrictions are subject to approval by the Fund under Article VIII, Section 2. The Fund urges Sudan to take prompt steps to unify the exchange system and to eliminate the restrictions on payments and transfers for current international transactions.

Sudan - Fund Relations  
(As of October 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)

(As percent of quota)

(a) Quota:	169.7	100.0
(b) Total Fund holdings of Sudanese pounds:	779.9	459.6
(c) Fund credit:	610.2	359.6
Of which:		
Credit tranches	93.6	55.2
EFF	121.3	71.5
SFF	154.5	91.0
EAR	144.8	85.3
CFF	96.1	56.6
(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: A one-year arrangement for SDR 90 million became effective on June 25, 1984 and a purchase of SDR 20 million was made on July 2, 1984. The arrangement is now inoperative.
- (b) Recent arrangements:
- |                       | <u>Date of</u><br><u>Effectiveness</u> | <u>Amount</u> | <u>Utili-</u><br><u>zation</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                            |
- (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:	Nil
(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:	27.4
(b) SDR Department:	23.4
(c) Trust Fund:	3.0

B. Nonfinancial Relations

VII. Exchange rate arrangement:

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

(1) The official market where the official exchange rate has been pegged at LSd 1.3 = US\$1 since November 1982. Three quarters of export proceeds are surrendered to the Bank of Sudan at the official exchange rate and are used to finance imports of petroleum and certain other commodities used by the public sector, mainly agricultural inputs and certain spare parts. The remaining 25 percent of export proceeds are exchanged at the commercial bank rate in the free market; the nominal export rate has been about LSd 1.42 = US\$1.

(2) The free market comprising commercial banks and dealers licensed to deal in foreign exchange. The rate at commercial banks has been set at LSd 1.78/1.80 = US\$1 since October 1983. The exchange rate set by other licensed dealers has been free to move and stood at about LSd 2.40 to the U.S. dollar at the end of September 1984.

The Fund granted approval for the practice arising from the existence of the official and free markets until the completion of the next Article IV consultation, but not later than December 31, 1984.

VIII. The last Article IV consultation and review under stand-by arrangement were held in June and July 1983. The Staff Report (SM/83/174 and Sup. 1) was discussed by the Executive Board on September 14, 1983. The decision (No. 7524-(83/140), adopted September 14, 1983 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 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.

Article IV consultations with Sudan are on a 12-month cycle.

The Executive Board discussed Sudan's request for a stand-by arrangement at meeting 84/69, April 30, 1984. At that time, the following decision was adopted on the 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), from the date in paragraph 3 of Executive Board Decision No. 7685-(84/69), adopted April 30, 1984, until the expiration of the stand-by arrangement set forth in EBS/84/83.

IX. Technical assistance

(a) CBD: One expert has been assigned since October 1983 to serve with the Joint Monitoring Committee, which is responsible for monitoring progress under the adjustment programs supported by the Fund and the World Bank and for coordination with external donors; another expert has been assisting the External Debt Management Unit at the Ministry of Finance since February 1984; an advisor on bank supervision took up his assignment with the Bank of Sudan in August 1984.

(b) Fiscal: An advisor on expenditure control and accounting of aid receipts completed a two-year assignment in June 1984.

X. Resident representative

Mr. J. Dodsworth was appointed resident representative in August 1983.

World Bank Group Operations in Sudan 1/

World Bank Group gross commitments to Sudan to date total US\$1,009.5 million. Of this, US\$33.0 million are IFC commitments. There have been eight loans (two on Third Window terms) and 36 credits for a total of 38 projects. Nineteen projects are under implementation. Over 50 percent of total Bank/IDA lending has been for agricultural development: seven irrigation projects, three rainfed mechanized farming projects, four smallholder development projects, a livestock marketing project; an agricultural research project, two Agricultural Rehabilitation Program Credits, and an agricultural credit project. Projects in other sectors include: three power projects, three education projects, three highway projects, a domestic aviation project, four railway projects, two port projects, two technical assistance projects, and two industrial credit projects.

Physical progress in implementing development projects in Sudan has been mixed. Many projects have difficulty in getting key materials--cement, fuel, and timber--of which there are periodic shortages. Belated delivery of equipment and supplies due to transportation difficulties also affects most projects. The continuing drain of skilled manpower to the Middle East oil rich countries takes its toll on effective preparation and implementation of projects. There have also been lengthy delays in meeting effectiveness conditions, mainly because of problems in establishing new institutions or project accounts, hiring key staff, completing necessary legal documentation, or concluding cofinancing arrangements. These problems have been brought to the attention of government authorities, both through supervision missions and annual Country Implementation Reviews, and steps have been taken to resolve some of them such as in procurement and obtaining legal opinions.

The disbursement rate, i.e., actual disbursements during the year as a percentage of the undisbursed balance at the beginning of the year, declined from 23.4 percent in FY78 to 12.1 percent in FY81, but the rate improved markedly to 27.7 percent in FY82 and 25.8 percent in FY83. The FY84 disbursement rate declined to 10.0 percent, as compared to 23.0 percent for Eastern Africa and 23.4 percent Bank-wide, as the result of delays in implementation of several large projects and the completion of disbursements of the Agricultural Rehabilitation Program (IDA Credit 1000-SU).

The Bank Group assistance strategy has been to encourage the Government to undertake a broad program of economic reform aimed at addressing the structural imbalances in the economy. The Bank has been working very closely with the Government and the IMF in the development and implementation of Sudan's economic recovery program, which formed the basis for Consultative Group meetings in January and December 1983 that were chaired by the Bank. This was followed by the creation of a Joint Monitoring Committee (JMC), where the aid donors and the Government

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1/ Prepared by the World Bank staff

jointly monitor progress in carrying out the program, and continued Bank involvement in reviewing an updated version of the recovery program for 1984/85-1986/87. In broad outline, this program concentrates government resources on the rehabilitation of existing capital investments, particularly those which can contribute to expanding export earnings, while restraining investment in new projects. At the project level, IDA has continued to emphasize the rehabilitation of irrigated agriculture, Sudan's major export earner, plus improvements in infrastructure needed to service the agricultural sector. The Agricultural Rehabilitation Program was effective in providing badly needed spare parts and replacement machinery for the irrigated sector, as well as encouraging the Government to take some important steps toward improving incentives to farmers through better cotton prices and costing arrangements for the irrigated schemes, and the Second Agricultural Rehabilitation Program (IDA Credit 1389-SU) followed up this earlier effort with the financing of recurrent agricultural inputs.

A third Agricultural Rehabilitation Program is in preparation but appraisal is being delayed by the absence of policy measures that would ensure incentive prices for farmers and reduction in subsidies to irrigated agriculture, as well as by the uncertainty about the Government's economic policies in general. The Bank believes that substantial exchange rate action, combined with appropriate demand management measures, is required to achieve the objectives of this program credit. IDA lending will continue to be directed toward the rural sector in the form of recently approved credits for sugar rehabilitation and livestock routes, and with proposed projects in agricultural research and extension; a modest power rehabilitation project is in an advanced stage of preparation.

A. Statement of Bank Loans and IDA Credits - Sudan  
(As of March 31, 1984)

<u>Loan/ Credit No.</u>	<u>Year</u>	<u>Purpose</u>	<u>Amount (US\$ million)</u> <u>(Net of Cancellations)</u>		<u>Undis- bursed</u>
			<u>Bank</u>	<u>IDA</u>	
7 loans and 15 credits fully disbursed:			139.0	256.1	
Credit 547	1975	Education II		10.0	0.6
Credit 614	1976	Technical Assistance		4.0	0.1
Credit 782	1978	Livestock Marketing		25.0	12.2
Credit 804	1978	Mechanized Farming III		16.0	7.7
Credit 834	1978	Agricultural Research		15.0	7.8
Credit 882	1979	Highway II		41.0	2.7
Credit 904	1979	So. Region Agriculture		15.0	7.6
Credit 1,006	1980	Third Power		65.0	30.3
Credit 1,022	1980	New Halfa Rehabilitation		40.0	30.8
Credit 1,118 <u>1/</u>	1981	Blue Nile Pump Rehab.		32.0	25.5
Credit 1,119 <u>1/</u>	1981	White Nile Pump Rehab.		35.0	27.3
Credit 1,153 <u>1/</u>	1981	Second Tech. Assistance		6.0	4.1
Credit 1,181 <u>1/</u>	1981	Western Savannah		13.0	4.5
Credit 1,201 <u>1/</u>	1982	Agricultural Services		18.0	15.7
Credit 1,233 <u>1/</u>	1982	Second Port		25.0	10.2
Credit 1,388 <u>1/</u>	1983	Gezira Rehabilitation <u>2/</u>		80.0	80.0
Credit 1,389 <u>1/</u>	1983	Agric. Rehab. Program II		50.0	49.4
Credit F011 <u>3/</u>	1984	Third Education Project <u>2/</u>		10.0	10.0
Credit 1,451 <u>1/</u>	1984	Third Education Project <u>2/</u>		5.4	5.4
Credit 1,450 <u>1/</u>	1984	Third Highway Project		16.0	16.0
Total			<u>139.0</u>	<u>777.5</u>	<u>343.8</u>
Of which repaid			<u>96.4</u>	<u>4.2</u>	
Total now outstanding			<u>42.6</u>	<u>773.3</u>	
Amount sold			5.8	8.3	
Of which repaid			(5.8)	(8.3)	
Total held by Bank and IDA			<u>42.6</u>	<u>773.3</u>	
Total undisbursed			--	<u>343.8</u>	<u>343.8</u>

1/ IDA 6 Credits, U.S. dollar equivalent of SDRs at time of negotiations. (Note: SDR amounts of these 11 credits are: SDR 25.1 million, SDR 27.5 million, SDR 4.9 million, SDR 11.2 million, SDR 15.7 million, SDR 21.5 million, SDR 74.2 million, SDR 46.4 million, SDR 9.6 million, SDR 5.2 million and SDR 15.5 million, respectively.)

2/ Not yet effective.

3/ Special Fund Credit.

Performance Under Economic Adjustment Programs,  
1978/79-1982/83

The policies pursued by the Sudanese authorities to strengthen Sudan's external payments position may be briefly summarized as having aimed at: (1) encouraging the production of agricultural exportables and import substitutes; (2) sustaining the ongoing development program in order to enlarge the economy's production capacity; (3) restraining domestic credit expansion in order to reduce excess demand and control inflationary pressures; and (4) normalizing external economic relationships by rescheduling external debt and meeting payment obligations. Toward this end, significant initiatives were taken between 1978 and 1983; however, performance generally fell short of expectations (Chart 1 and Table 7). The policy initiatives undertaken as well as the main reasons for the inadequate performance may be summarized as follows:

1. The program for 1978/79

a. Policy actions

The official exchange rate was devalued from LSd 1 = US\$2.87 to LSd 1 = US\$2.50 while the effective rate applied to noncotton exports and imports was reduced from LSd 1 = US\$2.50 to LSd 1 = US\$2.00.

b. Performance

The production targets were not realized because of (a) severe floods in July 1978 which disrupted production in the irrigated schemes and (b) the delays in correcting the distortions in the cost structure of cotton farmers which adversely affected yields. Monetary expansion exceeded targets because of the inability of the Government and public entities to adhere to their borrowing targets. Concerning budgetary performance, there was a significant shortfall of revenues which was only partially compensated for by a shortfall in expenditures and by higher than expected external financing. More importantly, however, the expenditure performance manifested a large underimplementation of the development program and an excess of current spending reflecting public sector wage increases. External performance was better than anticipated as the export shortfall was more than compensated for by a lower than expected level of imports, in part reflecting the underimplementation of the development effort, and by higher than expected external assistance.

2. The extended arrangement, 1979/80-1980/81

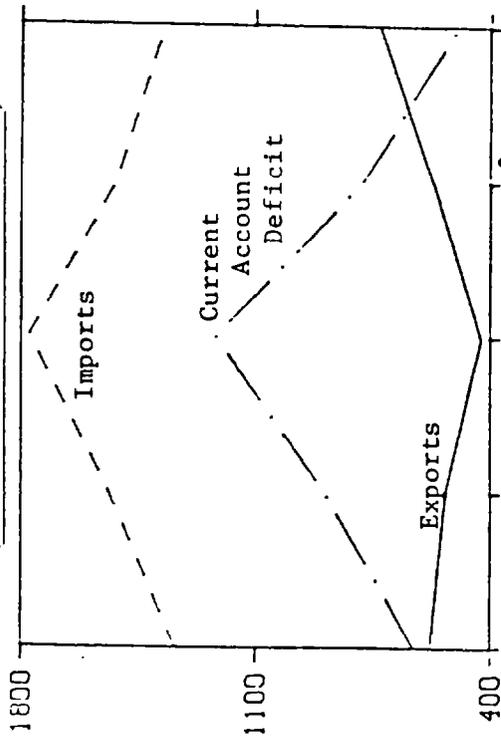
a. Policy actions

(1) Agricultural sector

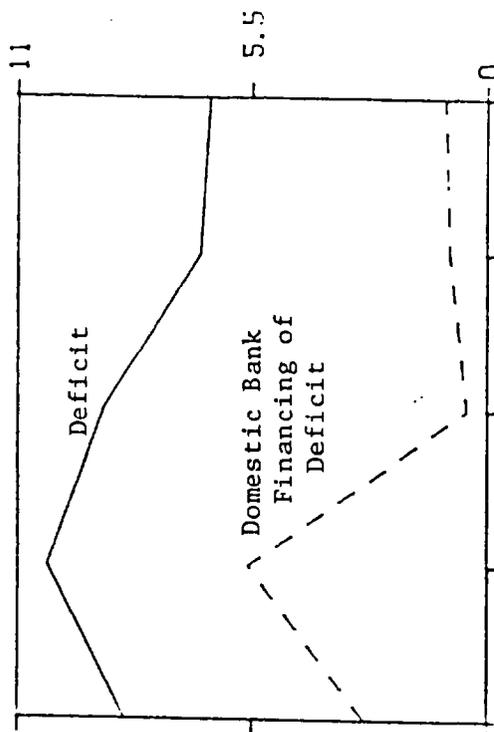
- (i) The discriminatory exchange rate and export taxes applicable to cotton were eliminated.

Chart 1. Sudan: Principal Financial Indicators, 1979/80-1983/84

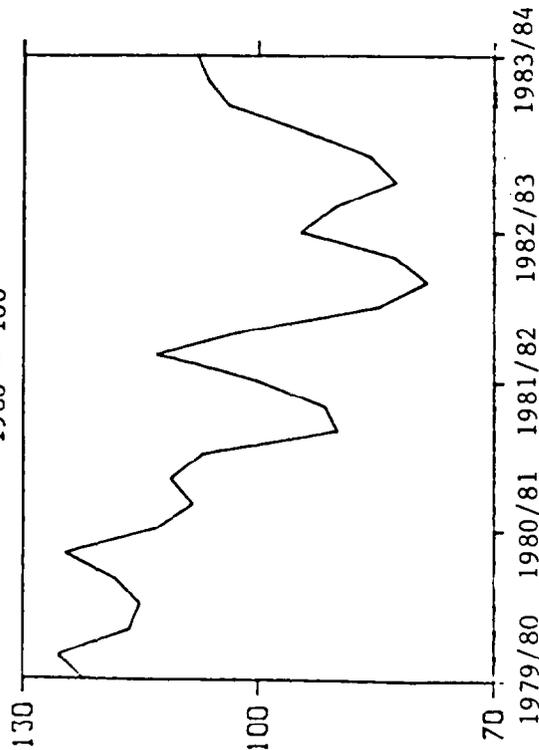
Current Account Balance  
(In millions of U.S. dollars)



Fiscal Deficits as a Percent  
of GDP



Real Effective Exchange Rate  
1980 = 100



Monetary Growth  
(As a percent of initial broad money supply)

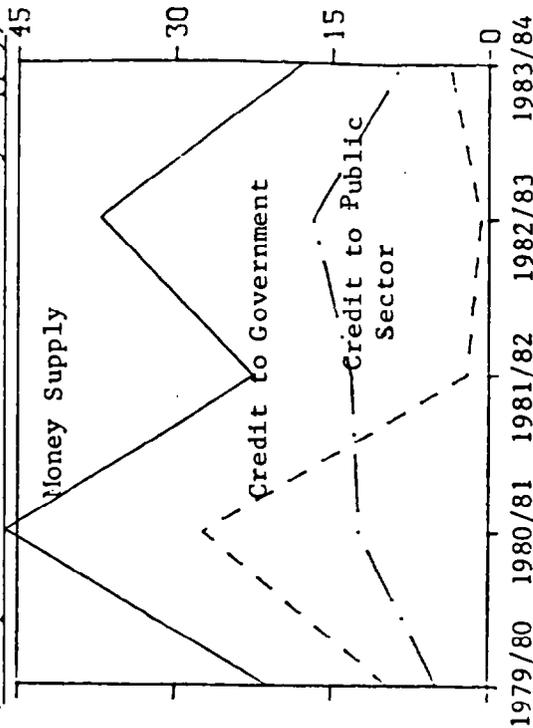




Table 7. Sudan: Main Targets and Performance Under Adjustment Programs, 1978/79-1982/83

	1978/79		1979/80			1980/81			1981/82			1982/83 1/		
	Targets	Actuals	Original Targets	Revised Targets	Actuals									
<b>Output</b>														
Growth of real GDP (in percent)	3	-5	3	3	4	4	3	3	5	2	7	4	4	-4
Cotton area (thousands of feddans)	1,200	1,036	1,300	1,223	996	1,500	1,100	964	1,550	888	958	940	940	988
Cotton output (thousands of bales)	1,100	747	1,170	1,100	585	1,405	650	543	1,470	575	854	912	912	1,060
(In millions of Sudanese pounds)														
Monetary growth	150	208	160	230	184	150	170	490	180	450	349	575	575	705
Net domestic credit, of which:	200	279	200	276	269	190	320	591	180	675	455	835	835	734
Credit to government	(120)	(150)	(120)	(118)	(143)	(110)	(130)	(283)	(100)	(135)	(69)	(110)	(110)	(44)
Credit to public entities	(20)	(73)	(30)	(52)	(43)	(20)	(70)	(132)	(10)	295	(204)	(304)	(304)	(304)
Public finance														
Revenues	611	504	634	631	582	771	768	732	981	981	886	1,303	1,303	1,275
Expenditures, of which:	-828	-805	-955	-1,026	-928	-1,266	-1,313	-1,263	-1,526	-1,526	-1,483	-1,958	-1,958	-1,840
Development	(-224)	(-165)		(-285)	(-221)	(-328)	(-371)	(-290)	(-514)	(-514)	(-315)	(-476)	(-476)	(-414)
Overall deficit, of which	-217	-301	-321	-395	-346	-495	-545	-531	-545	-545	-597	-655	-655	-564
Amount financed externally	(97)	(146)	(171)	(284)	(238)	(371)	(363)	(242)	(562)	(562)	(564)	(525)	(525)	(490)
(In millions of U.S. dollars)														
Balance of payments														
Exports, of which:	605	527	790	580	581	905	500	479	1,040	560	432	675	662	662
Cotton	(320)	(321)	(360)	(260)	(333)	(410)	(180)	(182)	(470)	(160)	(69)	(238)	(305)	(305)
Imports, of which:	-1,310	-1,138	-1,470	-1,530	-1,340	-1,590	-1,500	-1,540	-1,720	-1,670	-1,774	-1,800	-1,601	-1,450
Petroleum	(...)	(-178)	(...)	(...)	(-254)	(...)	(-390)	(-290)	(...)	(-405)	(-339)	(-469)	(-420)	(-370)
Sugar	(...)	(-28)	(...)	(...)	(-123)	(...)	(...)	(-184)	(...)	(-65)	(-159)	(-60)	(-24)	(-24)
Services, of which:	-60	-104	-85	-95	-82	-90	-201	-49	-90	-206	-65	-82	-164	-194
Interest	(70)	(78)	(-80)	(...)	(-70)	(-100)	(-176)	(-105)	(-120)	(-261)	(-190)	(-157)	(-159)	(-144)
Transfers	270	257	290	290	293	325	447	427	350	505	523	700	906	886
Current account deficit (Including official transfers)	-495	-458	-475	-755	-547	-450	-754	-683	-420	-811	-884	-507	-197	-96

Source: EBS/78/304 (6/15/78); EBS/79/250 (3/26/79); EBS/80/10 (1/17/80); EBS/80/58 (3/18/80); EBS/80/830 (10/27/80); SM/81/65 (3/25/81); EBS/82/7 (1/14/82); SM/82/174 (8/23/82); SM/82/179 (8/30/82); EBS/83/9 (1/11/83); EBS/83/174 (8/16/83); EBS/84/83 (4/11/84)

1/ The balance of payment targets for the stand-by arrangement in January 1983 related to the calendar year 1983.

- (ii) A cotton incentive system was established encompassing the announcement of prices prior to harvesting and speedier payment after crop delivery.
- (iii) Rehabilitation programs for the New Halfa, Blue Nile, and White Nile schemes, as well as a program involving the acquisition of inputs and equipment to all schemes, were started with the support of the World Bank.
- (iv) The Public Agricultural Production Corporation was dissolved and its component schemes reorganized into separate corporations.

(2) Manufacturing sector

- (i) The Sugar and Distilling Corporation was dissolved and its four constituent mills reconstituted into individual corporations with autonomous management.
- (ii) A rehabilitation program for the sugar factories was begun 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.

(3) Domestic financial policies

- (i) Discretionary tax measures included increasing the defense surcharge on imports, departmental fees and charges, and excise taxes and duties on cigarettes, liquor, and certain luxury imports.
- (ii) Prices of sugar, petroleum products, and cement products were increased.
- (iii) Charges for public utilities were raised.
- (iv) A high-level committee was established to approve borrowings in excess of LSd 100,000 from the nationalized banks.
- (v) Interest rates on local currency loans and deposits were raised by 2 percentage points on two occasions.

(4) External policies

- (i) 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. The coverage of the market was gradually expanded to include all exports and 50 percent of imports.

- (ii) The free market in foreign exchange was legalized in July 1981 to cover most private sector imports.
- (iii) Obligations to certain bilateral creditors were rescheduled under the auspices of the Paris Club.

b. Performance

The targets for the production of the principal exportables could not be achieved during the first two years of the arrangement because of the inability to expand cultivated land (reflecting the slow pace of physical rehabilitation) and by declines in yields due to delays in the implementation of the restructuring of incentive patterns. In addition, increases in costs of importing essential commodities, in particular petroleum (due to higher international prices) and sugar (due to both higher international prices and lower domestic production) contributed to the deviation from the program's targets for improvement in the current account position. Because of the Government's unwillingness to pass the increased costs of these and other essential imports to consumers, new budgetary subsidies merged. Budgetary performance was also weakened by factors including: (a) revenue shortfalls; (b) unanticipated expenditures on security and assisting refugees from neighboring countries; and (c) higher than expected outlays on wage and salary increases in the public sector. Consequently, the targets for containing domestic bank borrowing by the Government and monetary expansion could not be achieved. Equally noticeable was the failure to mobilize resources needed to raise public sector investment.

Implementation problems surfaced in the early months of the arrangement and by the close of the second year of the arrangement, developments in the economy had diverged so widely from what had been anticipated that it did not seem realistic to attain the targets for the final year. Accordingly, the authorities requested cancellation of the arrangement and its replacement by a one-year stand-by arrangement.

3. The stand-by arrangement of 1982

a. Policy actions

(1) Agricultural sector

The joint account and profit-sharing systems in the irrigated schemes were replaced by individual accounts and a system of cost recovery through land and water charges.

(2) Domestic financial policies

- (i) The coverage of the sales tax was expanded; excise duties on sugar and cement were increased; an income tax was imposed on Sudanese expatriates; a 10 percent import surcharge was imposed; the valuation basis for levying customs duties on selected commodities was increased; selective expenditure reductions were effected.
- (ii) Subsidies on pharmaceutical products, milk, wheat, and flour were eliminated by raising their prices. Also, prices of petroleum products, sugar, and cigarettes, were increased.

(3) External financial policies

- (i) The official exchange was devalued to LSd 1 = US\$1.11.
- (ii) Debt rescheduling agreements were negotiated with commercial banks (December 1981) and the Paris Club (March 1982).

b. Performance

There was a sharp expansion in the production of cotton and other exportables following the implementation of a major restructuring of production and financial relationships and a depreciation of the exchange rate. Despite several resource mobilization measures, revenues were short of targets. On the other hand, current expenditures exceeded the target and the development program was underimplemented. However, a large increase in external assistance permitted a sharp declaration in government borrowing and in monetary expansion. The external payments position, however, continued to be weak leading to a buildup of arrears. Exports declined because of depressed international prices. Imports of essential commodities were higher than anticipated because of bottlenecks in domestic production of wheat and sugar and the need to import higher amounts of refined petroleum products (instead of crude oil) due to the prolonged closure of the country's only refinery. The overall deficit was contained only because disbursements of external assistance exceeded expectations and because of failure to effect all debt service.

4. The stand-by arrangement of 1983

a. Policy actions

(1) Agricultural sector

- (i) Procurement prices for key exportables were increased. Cotton acreage in the irrigated schemes was expanded.

(2) Domestic financial policies

- (i) The valuation basis for levying customs duties was raised as were departmental fees and charges. Various excise taxes were converted from specific to ad valorem.
- (ii) Prices of milk, cigarettes, and petroleum products were increased.
- (iii) Interest rates were increased by 3 percentage points.
- (iv) Price controls on the private sector were relaxed.

(3) External financial policies

- (i) The official exchange rate was devalued to LSd 1 = US\$0.77.
- (ii) Commercial banks were issued licenses to operate in the free market for foreign exchange and to purchase 25 percent of export proceeds at the free market rate.
- (iii) Importation of 39 inessential commodities was banned.
- (iv) External debt obligations were rescheduled by the Paris Club (February 1983) and commercial banks (April 1983).

b. Performance

The arrangement was negotiated and presented for Board approval prior to the expiry of the previous arrangement which had become inoperative as a result of the failure to complete the mid-term review and because of the buildup of arrears on certain official debt servicing obligations. The arrangement entered into effect only after debt relief by all groups of creditors had reduced debt servicing obligations to a level consistent with Sudan's ability to pay.

Economic and financial performance under the arrangement has shown mixed results. Output of cotton surpassed expectations but this was more than offset by declines in production of most other crops mainly due to drought conditions. The budget strengthened considerably with revenue targets nearly attained while expenditures fell below expectations, partly reflecting the usual underimplementation of the development program, but also actions to eliminate budgetary subsidies ahead of schedule. The overall deficit declined from 10 percent of GDP to 7 percent and government borrowing from the domestic banking system was contained to less than 1 percent of GDP. On the other hand, a continuation of large borrowing by the rest of the public sector and the private sector contributed to excessive monetary expansion which together with the decline of noncotton output added to the inflationary pressures in the economy. The overall balance of payments target was nearly realized but that came at the expense of a considerable shortfall in imports, partly reflecting a shortfall in disbursement of external assistance.

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

	<u>Actual</u> 1981/82	<u>Program</u> 1982/83	<u>Actual</u> 1982/83	<u>Program</u> 1983/84	<u>Actual</u> 1983/84
<u>(Annual percent changes, unless otherwise specified)</u>					
National income and prices					
GDP at constant prices	6.6	3.6	-3.6	5.5	-1.3
GDP deflator	20	30	30	20	27
Consumer prices	24	30	40	20	25
External sector (on the basis of U.S. dollars) <u>1/</u>					
Exports, f.o.b.	8	25	22	8	11
Imports, c.i.f.	-1	7	-5	-1	-13
Non-oil imports, c.i.f.	-7	7	-5	-7	-14
Real effective exchange rate (depreciation-)	6	...	15	...	...
Government budget					
Revenue	22	46	43	16	15
Total expenditure	18	32	23	23	17
Money and credit					
Net domestic assets <u>2/</u>	27	44	40	18	11
Government (net)	2	6	2	4	4 <u>3/</u>
Public entities	13	16	16	5	4
Private sector	15	21	19	9	10
Money and quasi-money (M <sub>2</sub> )	23	28	37	18	18
Interest rate (annual rate, one-year savings deposit)	12	15	15	15	15
<u>(In percent of GDP)</u>					
Central government budget deficit	8.9	7.3	6.7	6.7	6.5
Domestic bank financing	0.5	1.2	0.5	0.9	1.0
Foreign financing	8.4	5.8	5.8	5.9	5.5
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)					
Debt service <u>4/</u>	6.9	7.6	7.3	7.1	...
Interest payments <u>4/</u>	49	23	24	104 <u>5/</u>	...
Interest payments <u>4/</u>	27	13	15	44 <u>5/</u>	...
Overall balance of payments <u>1/</u> (In millions of U.S. dollars)	-160	7	-11	-20	...

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/ Staff estimates.

4/ Includes IMF. As a percent of exports of goods and nonfactor services.

5/ Before bilateral debt relief.