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**FOR  
AGENDA**

EBS/83/9  
Supplement 1

CONFIDENTIAL

January 27, 1983

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

The attached paper containing the draft decisions on the stand-by arrangement and exchange system relating to Sudan, and the text of the stand-by arrangement for Sudan, is circulated for the consideration of the Executive Directors.

This subject has been placed on the agenda for discussion on Friday, January 28, 1983.

Att: (1)

Sudan--Draft Decisions Proposed for Adoption by Executive Board

Stand-by arrangement

1. The Government of Sudan has notified the Fund that it wishes to replace the stand-by arrangement that became effective on February 22, 1982 (EBS/82/7, Sup. 2, 2/23/82) with a new stand-by arrangement for a period of one year for an amount equivalent to SDR 170 million that would take effect upon the cancellation of the existing arrangement.

2. The Fund notes the cancellation of the existing stand-by arrangement as of the effective date of the stand-by arrangement set forth in EBS/83/9, Sup. 1, approves that arrangement subject to 3 below, and waives the limitation in Article V, Section 3(b)(iii).

3. The stand-by arrangement set forth in EBS/83/9, Sup. 1 shall become effective on the date on which the Fund finds that satisfactory arrangements have been made for the reduction of Sudan's debt service obligations for 1983 to a level consistent with Sudan's program.

Exchange system

1. The Fund approves the restriction on payments and transfers for current international transactions arising from payments arrears, as described in EBS/83/9 (1/11/83), until the expiration of the stand-by arrangement set forth in EBS/83/9, Sup. 1.

2. The Fund approves the multiple currency practice arising from the existence of the dual exchange market, as described in EBS/83/9 (1/11/83), until the completion of the next Article IV consultation with Sudan, or the review under the stand-by arrangement, whichever is earlier.

Sudan--Stand-By Arrangement

Attached hereto is a letter, dated January 5, 1983, from the Minister of Finance and Economic Planning, with an annexed statement on economic and financial policies, requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the Government of Sudan intends to pursue for the period of this stand-by arrangement; and

(b) understandings of Sudan with the Fund regarding a review that will be made of progress in realizing the objectives of the program and of the policies and measures that the Government of Sudan will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. For a period of one year from the effective date of this arrangement Sudan will have the right to make purchases from the Fund in an amount equivalent to SDR 170 million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR 68 million until May 20, 1983, SDR 93.5 million until August 20, 1983, SDR 119 million until November 20, 1983, and SDR 144.5 million until 13 days from the date of expiration of this stand-by arrangement, but none of these limits shall apply to a purchase under this stand-by arrangement that would not increase the Fund's holdings of Sudan's currency in the credit tranches beyond 25 per cent of quota or increase the Fund's holdings of that currency resulting from purchases of supplementary financing or borrowed resources beyond 12.5 per cent of quota.

3. Purchases under this stand-by arrangement shall be made from borrowed resources until they reach the equivalent of SDR 937,499, then from ordinary resources and with borrowed resources in the ratio of 1 to 1.2 until purchases under this stand-by arrangement reach the equivalent of SDR 78,363,802 and then with borrowed resources, provided that any modification by the Fund of the proportion of ordinary and borrowed resources shall apply to amounts that may be purchased after the date of modification.

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

(a) during any period until August 20, 1983 in which the data at the end of the preceding period indicate that

- (i) the limit on net domestic assets described in paragraph 16 of the annexed statement, or
- (ii) the limit on net claims on the Government described in paragraph 16 of the annexed statement,

are not observed; or

(b) during any period after August 19, 1983 until understandings have been reached on

- (i) limits on net domestic assets and on net claims on the Government for the period of the arrangement after June 30, 1983 referred to in paragraph 16 of the annexed statement,
- (ii) pricing policies in order to help achieve import policy targets referred to in paragraph 9(b) of the annexed statement,
- (iii) exchange rate policy, including policy regarding the dual exchange market,
- (iv) minimum level of collection from land and water charges referred to in paragraph 11 of the annexed statement, or
- (v) progress on the envisaged debt restructuring referred to in paragraph 17 of the annexed statement,

or after such understandings have been reached, while they are not being observed; or

(c) during any period within 14 days from the date of expiration of this stand-by arrangement, in which the intention to eliminate subsidies referred to in the second sentence of paragraph 10 of the annexed statement is not carried out; or

(d) during the entire period of this stand-by arrangement, if Sudan

- (i) fails to observe the limit on foreign borrowing referred to in paragraph 18 of the annexed statement,
- (ii) imposes or intensifies restrictions on payments and transfers for current international transactions except as specified with respect to payments arrears in paragraph 17 of the annexed statement,

- (iii) introduces or modifies multiple currency practices except for the elimination of the dual exchange market or the transfer of transactions from the official market to the free market;
- (iv) concludes bilateral payments agreements which are inconsistent with Article VIII, or
- (v) imposes or intensifies import restrictions for balance of payments reasons.

When Sudan is prevented from purchasing under this stand-by arrangement because of this paragraph 4, purchases will be resumed only after consultation has taken place between the Fund and Sudan and understandings have been reached regarding the circumstances in which such purchases can be resumed.

5. Sudan's right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of Sudan. When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this stand-by arrangement will be resumed only after consultation has taken place between the Fund and Sudan and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, and may be made in SDRs if, on the request of Sudan, the Fund agrees to provide them at the time of the purchase.

7. The value date of a purchase under this stand-by arrangement involving borrowed resources will be normally either the 15th day or the last day of the month, or the next business day if the selected day is not a business day. Sudan will consult the Fund on the timing of purchases involving borrowed resources.

8. Sudan shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

9. (a) Sudan shall repurchase the outstanding amount of its currency that results from a purchase under this arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as Sudan's balance of payments and reserve position improves.

(b) Any reductions in Sudan's currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

(c) The value date of a repurchase in respect of a purchase financed with borrowed resources under this stand-by arrangement will be normally either the 6th day or the 22nd day of the month, or the next business day if the selected day is not a business day, provided that repurchase will be completed not later than seven years from the date of purchase.

10. During the period of the stand-by arrangement Sudan shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to Sudan or of representatives of Sudan to the Fund. Sudan shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of Sudan in achieving the objectives and policies set forth in the attached letter and annexed statement.

11. In accordance with paragraph 5 of the attached letter Sudan will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the Government or whenever the Managing Director requests consultation because any of the criteria in paragraph 4 above have not been observed or because he considers that consultation on the program is desirable. In addition, after the period of the stand-by arrangement and while Sudan has outstanding purchases in the upper credit tranches, the Government will consult with the Fund from time to time, at the initiative of the Government or at the request of the Managing Director, concerning Sudan's balance of payments policies.

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January 5, 1983

Dear Mr. de Larosiere:

1. Sudan's economic and financial performance has suffered in recent years from the effects of price and incentive distortions in the agricultural sector, shortages of skilled manpower brought about by labor migration to the Arabian peninsula region, and foreign exchange constraints, all of which contributed to the stagnation of output and decline of export volume, particularly of our most basic crop, cotton.

2. Since mid-1978 the Government of Sudan has endeavored to redress the unsatisfactory performance by pursuing corrective policies in the context of structural and financial adjustment programs supported by the Fund and the World Bank. Although we have made much progress in strengthening the production and financial base of the Sudanese economy, much remains to be done before a viable external payments position is attained. Our recent performance has been particularly affected by the heavy burden of Sudan's external debt and by the need to rehabilitate the physical capital of an important part of Sudan's agricultural and manufacturing base.

3. The stand-by arrangement from the Fund that was approved in February 1982 became inoperative. We would like to have the continued support of the Fund for our policies of stabilization, however, and consider this essential to securing the support of our creditors for a meaningful restructuring of Sudan's external debt without which we are convinced it would not be possible to make progress toward the attainment of a viable external payments position. The Government of Sudan remains committed to the revitalization of the economy and the strengthening of its financial base. This is reflected in the actions we have already implemented and in our policy intentions as expressed in the attached statement on economic and financial policies. We regard support by the Fund and the World Bank to our adjustment efforts as being essential for the success of these efforts. Accordingly, we request the replacement of the present stand-by arrangement with a new stand-by arrangement for one year in an amount of SDR 170 million. The arrangement is being reinforced by Sudan's agreement with the World Bank on a three-year investment program.

4. The annexed statement of economic and financial policies presents key targets and policy commitments during the program period. Not later than May 31, 1983 we will review with the Fund the performance under the program.

5. The Government of Sudan believes that the measures described in the attached statement are adequate to achieve the objectives of its program, but will take any further measures that may become appropriate for this purpose. Sudan will continue to consult with the Fund on the adoption of any measures that may be appropriate in accordance with the policies of the Fund on such consultation.

Yours sincerely,

Ibrahim Moneim Mansour  
Minister of Finance and  
Economic Planning

Attachment

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



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

1. Starting in the mid-1970s the Sudanese economy experienced serious internal and external imbalances. Slow growth in output and exports coupled with a sharp rise of domestic demand as well as unfavorable external conditions led to serious external payments difficulties. Sudan experienced a succession of large deficits in the current account of the balance of payments, increased external indebtedness, and the accumulation of payments arrears.

2. Beginning in mid-1978 the Government of Sudan has sought to redress the economic and financial situation by pursuing corrective policies in the context of adjustment programs supported by the International Monetary Fund and the World Bank. The main objectives of the adjustment programs have been to contain the deficit on the current account of the balance of payments to a level consistent with reasonable expectations of capital inflows, protect the development effort, and expand the pace of economic activity. The objectives were to be achieved through mutually reinforcing policies including: first, structural reforms of the irrigated agricultural sector designed to reorient production toward Sudan's most competitive crops; second, rehabilitation of the physical capital of the public agricultural schemes; third, elimination of price and cost distortions; fourth, restrained fiscal and monetary policies; and, fifth, liberalization of trade and exchange restrictions and the fostering of an environment which would be conducive to encouragement of private sector activities and the inflow of Sudanese expatriate remittances and foreign capital. It is with these objectives and by means of such policy actions that the financial program supported by the stand-by arrangement approved in February 1982 was formulated.

3. Performance under the stand-by arrangement has been satisfactory on the domestic economic and financial side. Real GDP is estimated to have increased by 7 per cent in 1981/82, reflecting an unexpectedly good agricultural harvest and associated expansion in trade and distribution activity; in particular, the production of cotton rose sharply as a result of increases in yields following the implementation of a fundamental restructuring of production and financial relationships in the irrigated agricultural sector and a sharp increase in procurement prices made possible by exchange rate depreciation. Public sector finances have been significantly strengthened by the implementation of several revenue/expenditure measures in 1981/82. The overall budget deficit declined from 11 per cent of GDP in 1980/81 to 8 per cent, while at the same time the domestic bank financing of the budget declined from 5 per cent of GDP to 2 per cent, thereby contributing to a marked reduction in the pace of monetary expansion.

4. The external payments situation, however, continued to be under stress. The current account deficit widened as the deterioration in the trade balance more than offset the higher inflow of official and private transfers. Net capital inflows were sharply higher, to an important extent reflecting the additional financial support committed at the donor group meeting of January 1982, but were still not sufficient to offset the current account deficit. As a result, there was another large overall balance of payments deficit, a further buildup of external payments arrears, and a widening of the differential between the official exchange rate and the free market rate at which most private import transactions are effected.

5. The worsening of the balance of payments situation reflected a multitude of factors among which were: first, a weakening of the international prices of virtually all of Sudan's principal exports; second, a higher than envisioned volume of wheat and sugar imports caused by lower than anticipated domestic production; third, higher than projected petroleum import costs resulting from financing constraints in the early months of the year which forced a substitution of more costly imports of refined products for less costly imports of crude oil; fourth, a shortfall in the disbursement of assistance pledged at the donor group meeting that was held in January 1982 to provide supplementary balance of payments support for Sudan; fifth, the fact that the new money facility envisaged under the refinancing agreement with the commercial banks did not materialize; and, sixth, an underestimation of the magnitude of Sudan's debt servicing obligations falling due in 1982. Sudan's acute external payments position as of mid-1982, apart from resulting in the accumulation of arrears on the servicing of officially rescheduled debt and preventing the timely servicing of other obligations, has constrained the availability of such essential imports as fuel, spare parts, and basic agricultural inputs, with adverse implications for the economy's output and export performance.

6. At the time the stand-by arrangement was prepared, Sudan's official external debt had been estimated to be in the range of US\$4.0-4.5 billion. However, recently available comprehensive tabulations by the international accounting firm of Peat, Marwick, Mitchell, and Company have resulted in the upward revision of the extent of external indebtedness to the range of US\$6.5-7.0 billion in mid-1982. Debt servicing obligations during 1982, which had been projected at US\$520 million at the time the stand-by arrangement was formulated, may reach about US\$1 billion if Sudan were to fully service its external obligations, even assuming rescheduling of arrears accumulated on all categories of external debt. This would exceed Sudan's projected total receipts from exports of goods and nonfactor services.

7. The Government of Sudan is convinced that the magnitude of Sudan's external obligations is now such that domestic adjustment must be supplemented by sufficient external support from Sudan's friends over a long enough duration to permit the adjustment efforts to reach fruition without generating excessive social strain in the process. The

Government of Sudan firmly believes that the objectives of the recent adjustment programs were correct and that future adjustment efforts must continue to be guided by essentially the same objectives and policy orientation, including the institutional and structural reforms designed to enhance the economy's production base and the financial restraints designed to stabilize prices and rationalize the domestic allocation of resources.

8. The focus of Sudan's economic policies over the months ahead will be on strengthening the external payments position while at the same time encouraging the inflow of those capital goods imports needed to improve the economy's productive capacity and continuing the recent achievements in increasing the competitiveness of the Sudanese economy. The policies have been formulated in a medium-term framework which includes agreement with the World Bank on a three-year investment program. Along with the domestic adjustment effort, Sudan will seek relief from its heavy debt burden by approaching external creditors with a view to effecting a comprehensive restructuring of Sudan's external debt aimed at affording the Sudanese economy the breathing space needed to enlarge productive capacity and expand exports without which a viable external payments position would not be sustainable. The short-term policy initiatives will aim to stimulate output, encourage exports, reorient the allocation of imports toward intermediate and capital goods, and increase the incentives for expatriate private remittances.

9. To improve economic prospects for 1982/83, strengthen the financial situation, and maintain the momentum of structural and institutional reforms, the Government of Sudan has adopted the following policy actions:

a. Regarding the exchange rate of the Sudanese pound, effective November 15, 1982, we have changed the official exchange rate from LSd 0.90 = US\$1 to LSd 1.30 = US\$1.

b. Regarding the allocation of imports, in order to alleviate the existing acute external payments situation, the importation of some commodities has been temporarily banned. The licensing mechanism is now being modified with the aim of curtailing the availability of less essential imports while at the same time facilitating the importation of fuel, equipment, and spare parts required for the attainment of the objectives of the investment and output programs. In addition, the controls on prices and profit margins applied at the retail and intermediate goods level are now being implemented in a flexible manner with the aim of improving incentives to domestic producers and encouraging import substitution as well as increasing the profitability of importing essential consumer and producer goods and thereby redirecting scarce foreign exchange resources toward those goods.

c. Regarding financial savings and credit policy, the commercial banks' Sudanese currency deposit and minimum lending rates have been increased by 3 percentage points as of January 1, 1983. Banks have also been instructed to ensure that rates offered on foreign currency deposits are maintained at levels equal to those available to private holders in international markets.

d. In the area of central government finance, revenue generating measures with an estimated annual yield of LSd 231 million have been implemented and will contribute to lowering the budget deficit as a ratio to GDP to 7 per cent in 1982/83 from 8 per cent in 1981/82. These measures include: (1) increasing the prices of domestically produced and imported cigarettes by an average 20 per cent, as of October 30, 1982, with an expected yield of LSd 12 million; (2) shifting the valuation basis for customs duty collection purposes in respect of all imported commodities from the old to the new official exchange rate, as of November 15, 1982; this is projected to generate LSd 152 million in supplementary revenues; (3) raising the factory gate price of domestically produced cement by about 67 per cent as of November 27, 1982 with the aim of generating about LSd 16 million in additional revenue; (4) increasing various excise taxes as of December 29, 1982 with the intention of generating about LSd 20 million; (5) raising land rents on mechanized farms effective this season, landing and navigation fees as of January 1, 1983, and airport departure fees as of January 5, 1983 for an estimated yield of LSd 14 million; and (6) increasing the prices of petroleum products as of January 3, 1983 to eliminate the budgetary subsidy arising from the exchange rate depreciation and to generate additional budget revenues estimated at LSd 17 million. In view of the price impact of the adjustment package and to reduce the extent of erosion of real wages in the public sector, we have decided to provide financial compensation to government employees amounting to not more than LSd 30 million during the remainder of the fiscal year.

In a subsequent stage of corrective action, we will eliminate any remaining subsidy on wheat, flour, and pharmaceutical products before the expiry of the stand-by arrangement. We will make appropriate adjustments in the prices of the other key public sector imports referred to above in light of changes in international prices and if necessary take additional measures to ensure that no additional claims on budgetary resources are incurred in the 1982/83 and 1983/84 fiscal years.

10. The exchange rate adjustment represented a 30.8 per cent depreciation of the official rate of exchange of the Sudanese pound in terms of the U.S. dollar. It is our intention to fully reflect the effects of this depreciation on domestic prices except for those essential consumption commodities noted in the last section of paragraph 9 whose prices will be adjusted not later than two weeks before the expiry of the stand-by arrangement.

In pursuit of a flexible exchange rate policy, periodic reviews will be conducted taking into account the behavior of the U.S. dollar rate, inflationary pressures in Sudan, the relative profitability of Sudan's major exports and import substitute activities, and balance of payments developments. We are also studying the possibility of linking the Sudanese pound to a currency basket.

11. To provide for the proper allocation of production costs among the various crops in the irrigated agricultural schemes, the Ministry of Agriculture has set the land and water charges in the irrigated agricultural schemes for the 1982/83 agricultural season. Not later than May 31, 1983 understandings will be reached with the Fund concerning the minimum level of collection from land and water charges in the period ending August 31, 1983.

12. Reinforcing the relative price and allocational effects of the policy actions already taken will be a further tightening of financial policy designed to reduce the present excess demand in the economy, thereby alleviating the upward pressure on prices and diminishing the incentive to engage in activities that are encouraged by the inflationary environment. The underlying rate of inflation in the Sudanese economy was estimated at about 30 per cent in 1981/82. The exchange rate and price actions already implemented will increase further the upward pressure on prices in 1983. A key objective of our financial policy in 1983 will be to reduce the underlying rate of inflation to about 25 per cent. Toward this end, and consistent with the projection of a 3 per cent real growth in the economy, we will aim to hold the growth of domestic liquidity in 1983 to about 27 per cent. It is our intention to contain the growth of domestic liquidity to about 26 per cent in 1983/84 and to less than 20 per cent in 1984/85. We have already completed preparation of a new banking control legislation which will considerably expand the ability of the Bank of Sudan to control bank credit extension. In order to absorb some of the excess liquidity in the nonbanking sector, we plan to begin issuing, in early March 1983, a new type of government bonds, bearing attractive interest rates, for sale to the nonbanking sector. The recent increase in the interest rate structure will go only part of the way in redressing the disincentives to holding financial assets and the encouragement to borrowing. We intend to pursue an active interest rate policy and to effect further adjustments in the rates on a selective basis. An important aim of interest rate policy will be to increase the attractiveness of Sudanese currency denominated financial assets in order to limit the extent of switching toward financial assets denominated in foreign currencies which has contributed to increasing the pressures on the Sudanese pound exchange rate in recent months.

13. The objective of fiscal policy will be to ensure that our monetary growth targets are achieved and that sufficient financing is available for the implementation of the development program and the performance of capital maintenance. We expect to reduce the ratio of the overall budgetary deficit to GDP to 7 per cent in 1982/83 and to contain domestic bank financing to 1 per cent of GDP. The projected overall deficit of LSd 655 million will be financed to the extent of LSd 525 million from external sources (of which LSd 402 million represents existing aid commitments) while LSd 110 million will be provided for through domestic bank borrowing, and at least LSd 20 million will be raised for the first time from the sale of bonds to the domestic nonbank sector.

Fiscal policy will be reviewed with the Fund not later than May 31, 1983 with a view to formulating the budget for 1983/84 that will continue with the objectives of restricting domestic demand through further curtailment in the deficit and restraint in bank financing.

14. The three-year Public Investment Programme for the period 1982/83-1984/85 is consistent with the internal and external financing resources that are expected to be available during this period, provided that debt relief is sufficient to reduce the debt service ratio to a manageable level. The program focuses only on the highest priority projects consistent with the goal of maximizing the earning and/or saving of foreign exchange. The Government will emphasize, first, completion of ongoing projects with high economic potential, second, rehabilitation of existing projects for export production or efficient import substitution, and, third, provision of supporting infrastructure services. The Government will prepare revised three-year programs on an annual basis and will prepare annual development budgets on the basis of these programs.

The manufacturing sector now suffers from low capacity utilization brought about by structural problems and is in need of an injection of capital, strengthening of management, and adequate tariff protection. We intend to pursue concerted efforts at revitalizing key components of this sector, particularly textiles and sugar refining, through appropriate official support.

15. Sudan depends on petroleum for an important component of its energy requirements. The Government is committed to an active program of energy conservation through appropriate pricing of electricity and oil products and improving the efficiency of rail and river transport. Considerable oil exploration activity is presently taking place in various areas in Sudan by a number of international companies, and commercially exploitable deposits have been identified in southwestern Sudan. In view of the promising size of the discoveries made, estimated to be capable of sustaining a production level in excess of 100,000 barrels per day, we have deferred our earlier plans of constructing a 25,000 barrels per day refinery at Kostî and are now planning to construct an export pipeline. We are presently in the process of arranging for the necessary financing for this pipeline and expect production to commence in early 1986.

16. To ensure the attainment of the monetary target, and in line with the projections for the balance of payments in 1983, we intend to limit the expansion of the net domestic assets of the banking system in the period October 31, 1982 through December 31, 1983. Ceilings on the expansion of the net domestic assets of the banking system and sub-ceilings on the increase in net claims on the Government have been established for the quarters ending March 31, 1983, and June 30, 1983. The relevant ceilings are shown in the table appended to this statement. Because it is still too early to determine the seasonal borrowing pattern for the second half of the calendar year 1983, it is not possible to establish ceilings for that period at this time. These ceilings will be established at the time of the review of the program and will be contained in a supplement to the table appended to this statement.

17. The heavy debt servicing burden of Sudan's substantial external indebtedness has resulted, particularly over the past three years, in a steady accumulation of payments arrears. In order to eliminate these arrears and prevent future accumulation, we have entered into rescheduling agreements with our official creditors under the aegis of the Paris Club (November 1979 and March 1982) and our commercial bank creditors in December 1981. Despite the debt relief afforded, however, the continuing shortage of foreign exchange has impaired Sudan's ability to meet all debt servicing obligations with the result that new arrears, including arrears on previously rescheduled amounts, have been accumulated. As of June 30, 1982 the amount of external arrears is estimated at about US\$2 billion. The medium-term debt profile indicates that projected payments falling due in 1983 and for several years beyond (including assumptions regarding the rescheduling of the above-mentioned arrears) will amount to over US\$1 billion per annum. This compared with actual debt service payments which Sudan has been able to effect over the past two years amounting to about US\$0.2 billion per annum. Given our foreign exchange constraints, and the need to ensure a level of imports sufficient to sustain the economic recovery program, we shall be unable to discharge our debt service obligations in both the short and medium terms without a comprehensive restructuring of our external indebtedness involving all creditors and in line with our debt servicing capacity. A start has already been made on this process with the selection, through the auspices of the Fund and World Bank, of an external finance coordinator and agreements in principle on the restructuring of Sudan's official external debt are expected to be reached at the meeting of the Consultative Group and other creditors set for mid-January 1983 in Paris. However, it is likely that some time will elapse before implementing agreements on a rescheduling of obligations are concluded. During the period of the stand-by arrangement, therefore, we may not be able to avoid arrears on debt obligations falling due, including those on obligations previously rescheduled under the 1979, 1981, and 1982 agreements. However, from the date that any agreements are concluded with our creditors, we shall not incur any arrears on those rescheduled debt service obligations. Progress on the envisaged debt restructuring will be reviewed with the Fund not later than May 31, 1983. In addition, it is our intention not to incur any arrears in respect of payments and transfers for current international transactions other than on external debt service obligations, as envisaged above, during the whole of the stand-by period.

18. Consistent with the balance of payments objectives and the importance of avoiding the intensification of the heavy external debt servicing burden, during the period of this stand-by arrangement the Government will not enter into any new nonconcessional public or publicly guaranteed foreign borrowing in the maturity range of over one year and up to and including ten years. This limitation, however, will not apply to new contracts that may result from refinancing or rescheduling of existing debts.

Sudan: Ceilings on Credit Expansion, March-June, 1983

	<u>Actual Level</u>	<u>Cumulative Changes over</u>	
	<u>June 30, 1982</u>	<u>June 30, 1982</u>	<u>June 30, 1983</u>
		<u>March 31, 1983</u>	
<u>(In millions of Sudanese pounds)</u>			
Net domestic assets	<u>3,223.4</u>	<u>610.0</u>	<u>835.0</u>
Claims on Government (net)	1,247.1	95.0 <u>1/</u>	110.0 <u>1/</u>
Claims on public entities	624.3	225.0	310.0
Claims on private sector and specialized banks	936.6	300.0	405.0
Other items (net)	415.3	-10.0	10.0
<u>(In per cent)</u>			

Memorandum:

Annual growth

Net domestic assets	25.9
Claims on Government (net)	8.8
Claims on public entities	49.7
Claims on private sector and specialized banks	43.2
Money and quasi-money	28.4

1/ For purposes of determining the subceiling on credit extension to the Government, changes in the net claims on Government as derived from the monthly monetary survey of the Bank of Sudan will be adjusted on the basis of the average government position with the Bank of Sudan headquarters. This average government position will be established as the midpoint of the 21 working days around the end of the month.