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AGENDA**

EBS/83/9

CONFIDENTIAL

January 11, 1983

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

Attached for consideration by the Executive Directors is a paper on a request from Sudan for a one-year stand-by arrangement. This paper does not propose a draft decision for adoption by the Executive Board and does not include a draft stand-by arrangement.

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

Att: (1)

INTERNATIONAL MONETARY FUND

SUDAN

Request for Stand-By Arrangement

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

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

Approved by A.S. Shaalan and Subimal Mookerjee

January 10, 1983

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I. Introduction

In the attached letter dated January 5, 1983 from the Minister of Finance and Economic Planning to the Managing Director, the Government of Sudan requests a stand-by arrangement of one year for a total amount of SDR 170 million or the equivalent of 128.8 per cent of quota. 1/ The arrangement would replace, following the cancellation of, the existing inoperative stand-by arrangement that was approved in principle by the Executive Board on February 18, 1982 (EBS/82/7, Cor. 1 and Sups. 1 and 2). 2/ The request for a stand-by arrangement is accompanied by a request for a purchase under the Compensatory Financing Facility (CFF).

On December 31, 1982 the Fund's holdings of Sudanese pounds were equivalent to SDR 586.3 million, or 444.1 per cent of quota, of which SDR 353.1 million (267.5 per cent of quota) arose from purchases in the credit tranches and under the extended and supplementary financing facilities, and SDR 101.2 million (76.6 per cent of quota) resulted from purchases under the compensatory financing facility and the oil facility. 3/ These holdings included repurchases of SDR 3.8 million that were due on December 8, 1982 and December 23, 1982, but which were discharged on

1/ Negotiations on the framework and elements of the adjustment program began in Toronto during the period of the 1982 Annual Meetings, continued in Khartoum during the period September 22-October 9, 1982, and were concluded in Washington during the period December 1-4, 1982. The staff team that visited Khartoum comprised Messrs. Karamali (Head), Kawar, Nashashibi, Yaqub (all of MED), Hansen (IBRD), Kibuka (FAD), and Pownall (ETR), and Ms. Aldridge (Secretary - MED). During its visit to Khartoum, the mission was assisted by Mr. M. Hosny, the resident representative in Sudan.

2/ The stand-by arrangement became effective on February 22, 1982 following settlement by Sudan of overdue payments to the Fund.

3/ See Appendix I for a summary of Fund relations with Sudan.

January 10, 1983. The request for the stand-by arrangement is being accompanied by a statement of the Minister that Sudan would not request a purchase while it is in arrears in its payments to the Fund.

The expected purchases and scheduled repurchases by Sudan during the period of the arrangement are shown in Table 1. Assuming that the full amount of the arrangement is purchased and that repurchases falling due are effected as presently scheduled, the Fund's holdings of Sudanese pounds excluding holdings under the CFF would increase to the equivalent of SDR 641.1 million, 485.7 per cent of quota, by January 31, 1984. A waiver of the limitation in Article V, Section 3(b)(iii) of the Articles of Agreement is being proposed.

II. Background

Sudan's external payments position has been seriously weakened in recent years by a number of factors. Price and incentive distortions in the agricultural sector, large-scale labor migration to the Arabian peninsula region, and shortages of imported inputs have slowed down the growth of output, particularly of the principal export commodity, cotton. At the same time, internal financial imbalances emerged as a result of excessively expansionary fiscal and monetary policies. The unsatisfactory output and export performances coupled with the sharp growth of domestic demand led to a succession of large deficits in the current account of the balance of payments after 1975, and these were financed through external borrowing and the accumulation of arrears on current payments and debt service.

Since mid-1978 the Sudanese authorities have sought to redress the unsatisfactory economic performance by pursuing corrective policies in the context of adjustment programs supported by the Fund and the World Bank. Successive programs, initially under a first credit tranche purchase (approved in June 1978) and subsequently under a three-year extended arrangement (approved in May 1979), aimed to expand the pace of economic activity while containing the deficit on the current account of the balance of payments. The World Bank also provided financial support during 1980 and 1981 for the purpose of rehabilitating the agricultural sector and improving export performance.

Notwithstanding important policy initiatives implemented between 1978 and 1980, the achievement of the production and financial objectives for the three fiscal years starting 1978/79 ^{1/} was frustrated by diverse factors. These included institutional obstacles which slowed down the process of structural reform in the agricultural sector, interruptions in the flow of essential imported inputs, social considerations which delayed the implementation of policy measures affecting the cost of living, and an unanticipated deterioration in the external security situation which required additional budgetary outlays for defense and for assisting refugees from neighboring countries. Furthermore, sharply higher international prices for such key imported commodities as petroleum and sugar contributed to the weakening of the balance of payments.

^{1/} The Sudanese fiscal year begins July 1 and concludes June 30.

Table 1. Sudan: Projected Fund Holdings of Sudanese Pounds,
January 1983-January 1984

	Jan.- Mar.	Apr. June	July- Sept.	Oct.- Dec.	Jan. 1984
	1983				
	(In millions of SDRs)				
Purchases under proposed stand-by	68.0	25.5	25.5	25.5	25.5
Repurchases excluding those under compensatory financing facility (CFF)	--	1.9	4.6	7.4	--
Extended Fund facility	(--)	(1.9)	(--)	(5.3)	(--)
Credit tranches	(--)	(--)	(4.6)	(2.1)	(--)
Net purchases	68.0	23.6	20.9	18.0	25.5
Total Fund holdings of currency excluding holdings under CFF <u>1/</u>	553.1	576.7	597.6	615.6	641.1
Memorandum items:					
Purchases under CFF	34.0	--	--	--	--
Repurchases under CFF	7.2	7.2	7.2	4.5	--
Total Fund holdings of currency <u>1/</u>	677.3	693.7	707.5	721.0	746.5
	(In per cent of quota)				
Total Fund holdings of currency excluding holdings under CFF <u>1/</u>	419.0	436.9	452.7	466.4	485.7
Total Fund holdings of currency <u>1/</u>	513.1	525.5	536.0	546.2	565.5

Source: Data provided by IMF Treasurer's Department.

1/ End of period.

Sudan's three-year extended arrangement from the Fund was to be in effect until May 1982. However, because of the delay in reaching understandings on a program for the final year as well as the significant deviation of performance under the arrangement from the targets, it became clear that the quantitative objectives of the arrangement could not be attained in its remaining period. Accordingly, the authorities requested cancellation of the extended arrangement and its replacement with a one-year stand-by arrangement. This was approved by the Executive Board on February 18, 1982 and became effective on February 22, 1982.

III. Performance Under the 1982 Stand-By Arrangement

The stand-by arrangement was presented for approval by the Executive Board after the authorities had implemented a comprehensive package of exchange rate, fiscal, and credit measures and after pledges had been made in a donor group meeting to cover the projected unfinanced gap in the balance of payments for 1982. A major objective of the program was to raise output through structural and institutional improvements including first, strengthening the individual reward system in the irrigated agricultural schemes; second, reducing cost/price distortions by eliminating subsidies on key consumer goods and increasing prices of various intermediate manufactured goods; third, increasing competition by ending government monopolies in various areas of production and trade; and fourth, increasing budgetary allocations to enable replacement of equipment and better maintenance of capital stock. Other objectives were: (a) to reduce the underlying rate of inflation from about 40 per cent to about 25 per cent; (b) to maintain a more rational exchange system that would stimulate exports and contribute to restraining demand for imports; and (c) to normalize external economic relations by eliminating outstanding external arrears and working to restore the confidence of external creditors in Sudan's ability to meet external commitments. These objectives were to be pursued by adhering to restrained fiscal and monetary policies with the intention of sharply reducing the pace of monetary expansion, by following a more flexible exchange rate policy, and by rescheduling maturing debt service obligations.

1. Domestic economic and financial developments

Performance under the stand-by arrangement has been mixed. Preliminary indications are that domestic economic developments in 1981/82 were encouraging (Table 2). The growth of real GDP is estimated at 7 per cent reflecting sharp increases in the production of major crops and associated expansion in trade and nonfinancial services.

Table 2. Sudan: Movements in Key Economic Indicators, 1977/78-1982/83

(In per cent)

	1977/78	1978/79	1979/80	1980/81	1981/82	Proj. 1982/83
Annual growth rates						
Real GDP at constant factor cost	5.2	-4.8	-0.6	5.6	7.0	3.5
Nominal GDP at current market prices	22.6	18.1	24.4	34.0	23.0	35.0
Cost of living index	15.9	26.7	37.1	20.3	30.0 ^{1/}	30.0
Cotton production	31.6	-26.4	-21.7	-7.0	44.1	16.3
Central government revenues	17.9	12.8	15.4	26.8	24.1	42.3
Central government expenditures	7.0	30.8	15.3	45.6	8.2	33.9
Money and quasi-money	26.3	31.1	21.0	50.2	27.2	28.4
Exports ^{2/}	-7.2	-4.4	10.5	-17.8	-20.3	33.5
Imports ^{2/}	20.5	-4.2	17.8	21.8	11.7	1.8
Ratios to GDP						
Central government budget deficit	6.1	9.2	8.5	11.3	8.2	7.3
Central government domestic bank borrowing	4.7	4.7	2.9	5.5	1.9	1.2
Public sector deficit	6.3	11.5	9.6	13.7	11.3	10.7

Source: Data provided by the Sudanese authorities.

^{1/} Estimated.

^{2/} Calculated from data expressed in U.S. dollars.

The production of cotton rose by 44 per cent in reflection of sharply higher yields and there were large increases in the production of such principal crops as sorghum, dukhn, and gum arabic (Table 3 and Appendix Table 14). The recovery of cotton production followed the implementation of the fundamental restructuring of production and financial relationships in the irrigated agricultural sector wherein the system of sharing costs among farmers on the basis of output and of surrendering half the profits to the Government was replaced by a system of individual cost allocation and full profit retention; moreover, the authorities' decision to apply the more depreciated parallel market exchange rate instead of the official rate ^{1/} made possible higher procurement prices for the various cotton grades, thereby further increasing the return from cotton cultivation and reinforcing the effect of the restructuring of production and financial relationships on incentives. In the case of sorghum, financial incentives were provided by the higher international prices that prevailed at the start of the cropping season. The performance of the manufacturing sector, however, continued to be disappointing despite the authorities' efforts to strengthen the finances of individual units and to increase competition in a number of subsectors. These efforts involved the dissolution of public sector holding companies in the sugar, textiles, and cement sectors and the establishment of their component factories as individual corporations with increased autonomy over production. Furthermore, producer prices for sugar and cement were sharply increased thereby improving cash flow and enabling the performance of some capital stock maintenance which had been neglected. Output, however, continued to be affected by shortages of power, inputs, and spare parts, often caused by scarcity of foreign exchange, and also by losses of personnel.

Public sector finances were strengthened by the implementation of several revenue/expenditure initiatives in 1981 and 1982, including the complete elimination of budgetary subsidies on most consumer goods (petroleum, sugar, wheat and flour, pharmaceuticals, and milk powder) and higher duties on imports. The overall budget deficit is estimated to have declined from 11 per cent of GDP in 1980/81 to 8 per cent in 1981/82 and this, along with an unchanged proportion of foreign financing, enabled the Central Government to sharply reduce its domestic bank borrowing. This contributed to lowering the rate of monetary expansion from the more than 50 per cent of 1980/81 to 27 per cent in 1981/82. The strengthening of the Central Government's financial position made it possible to hold the growth in net credit to the Government and in overall domestic credit to the ceilings established under the stand-by arrangement (Table 4), as well as the elimination of remaining commodity subsidies in the budget before the envisioned date. Furthermore, all other performance criteria relating to domestic policies were observed.

^{1/} The official rate of the Sudanese pound was LSd 1 = US\$2.00 from June 1978 until November 1981. In September 1979 a parallel market was established for some exports, imports, and service transactions at the rate of LSd 1 = US\$1.25 and the coverage of this market was expanded in September 1980 and in June 1981. In November 1981 the official and parallel markets were unified at the rate of LSd 1 = US\$1.11.

Table 3. Sudan: Production and Exports of the Principal
Agricultural Commodities, 1977/78-1982/83

(Area in thousands of feddans;
export receipts in millions of U.S. dollars)

	1977/78	1978/79	1979/80	1980/81	1981/82	Proj. 1982/83
I. Production						
Cotton						
Area harvested	1,139	1,036	996	964	865	940
Long staple	548	485	618	566	514	550
Medium staple	423	422	301	251	270	300
Short staple	168	129	77	147	81	90
Output (thousands of bales)	1,015	747	585	544	784	912
Long staple	548	347	330	309	438	500
Medium staple	429	363	238	193	327	385
Short staple	38	37	17	42	19	27
Yield (large kantar per feddan)	3.4	2.8	2.2	2.1	3.3	3.6
Long staple	(3.8)	(2.7)	(2.1)	(2.1)	(3.3)	(3.5)
Medium staple	(3.9)	(3.3)	(2.8)	(2.7)	(4.2)	(4.5)
Short staple	(0.9)	(1.1)	(0.8)	(1.0)	(0.8)	(1.0)
Groundnuts						
Area harvested	2,629	2,327	2,352	2,162	2,376	2,300
Output (thousand tons)	(1,021)	(804)	(852)	(707)	(700)	(795)
Yield (kilogram/feddan)	(385)	(346)	(362)	(327)	(295)	(345)
Sorghum						
Area harvested	6,662	7,202	6,349	6,956	9,289	9,000
Output (thousand tons)	(2,017)	(2,408)	(1,669)	(2,068)	(3,356)	(2,700)
Yield (kilogram/feddan)	(303)	(334)	(263)	(297)	(361)	(300)
II. Exports						
Cotton						
Export volume (thousand bales)	749	884	969	466	260	500
Export receipts	295.8	320.7	333.4	182.0	69.4	163.0
Unit value	207.2	190.3	180.6	205.0	267.7	326.0
Groundnuts						
Export volume (thousand tons)	135	40	28	70	108	127
Export receipts	80.1	25.5	14.2	65.6	48.1	54.0
Unit value	593.3	637.5	507.1	937.1	445.0	425.0
Sorghum						
Export volume (thousand tons)	58	55	340	266	260	250
Export receipts	8.6	9.7	68.7	71.4	64.4	70.8
Unit value	148.2	158.2	202.0	268.4	247.9	283.0

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

Table 4. Sudan: Performance Under Stand-By
Arrangement Borrowing Ceilings

(Cumulative changes over October 31, 1981)

	<u>March 31, 1982</u>		<u>June 30, 1982</u>	
	Program	Actual	Program	Actual
<u>(In millions of Sudanese pounds)</u>				
Net domestic borrowing	<u>395.0</u>	<u>353.3</u>	<u>511.0</u>	<u>508.8</u>
Government (net)	<u>13.0</u>	<u>7.2</u> ^{1/}	<u>3.0</u>	<u>1.4</u> ^{1/}
Public entities	99.0	75.4	213.0	122.1
Private sector and specialized banks	133.0	114.8	156.0	158.1
Other items (net)	150.0	155.9	139.0	227.2
<u>(In millions of U.S. dollars)</u>				
Nonconcessional public and publicly guaranteed external borrowing (gross)	<u>200.0</u>	--	<u>200.0</u>	--
Maturity of 1-5 years	<u>50.0</u>	--	<u>50.0</u>	--
Maturity of 5-10 years	150.0	--	150.0	--
<u>(In per cent)</u>				
Memorandum item:				
Change over June 30, 1981				
Net domestic borrowing			32	32
Money and quasi-money			26	27

Source: Bank of Sudan.

^{1/} After adjusting the government current account balance by the average deviation around the end period position. The adjustments increased the net claims on government by LSd 13.2 million on March 31 and by LSd 8.8 million on June 30, 1982.

The lower rate of monetary expansion along with the growth of output, contributed to the alleviation of underlying inflationary pressures from the estimated 40 per cent annual rate that prevailed in late 1981 to about a 30 per cent rate in the middle of 1982; the exact extent, however, cannot be determined from the official data which have been biased in recent months as a result of the imposition of controls on the prices of many food items.

2. External financial developments

The external payments situation in 1982, however, was weaker than projected in spite of the beneficial impact of certain unanticipated developments. The most significant of these were the receipt of about US\$130 million in grants from Saudi Arabia and the favorable terms of the rescheduling by the Paris Club of external debt servicing obligations falling due in 1982. The weakness in the external payments situation (Table 5) was brought about by several factors. First, the continuing weak international demand for primary commodities curtailed export earnings, particularly from cotton, below projected levels. Second, Sudan had to import larger than expected quantities of wheat and sugar as a result of lower domestic production attributable, in the case of sugar, to the deterioration of the physical capital of a number of sugar refineries and, in the case of wheat, to lower yields caused by constraints on irrigation and the availability of other inputs. Third, imports of petroleum exceeded the projected level due to the closure of Sudan's only refinery in the early part of the year which required recourse to imports of higher cost refined products in lieu of crude oil which could be refined domestically. Fourth, disbursement of commodity aid pledged at the donor group meeting, which was convened in late January 1982 to cover the unfinanced gap in the balance of payments, fell short of commitments as a result of delays in concluding protocols and in contracting for shipments. Fifth, some trade financing from commercial banks that was expected in the wake of the rescheduling agreement concluded between Sudan and commercial bank creditors in December 1981 failed to materialize. Lastly, because of unavailability of comprehensive data, the balance of payments projections had significantly underestimated the extent of external debt servicing obligations.

3. Mid-term review of the arrangement

The external payments difficulties were exacerbated by the interruption of purchases from the Fund under the stand-by arrangement. The arrangement became inoperative in the summer of 1982 because of the failure to observe performance criteria relating to the completion of the mid-term review of the program and the build-up of arrears on servicing rescheduled official external debt.

Satisfactory completion of the mid-term review, which was conducted in mid-May 1982 along with Article IV consultation discussions, required that understandings be reached on four issues: (1) the credit program, including ceilings on the expansion of overall domestic credit and of net credit to the Government, for the period July-October 1982; (2) the minimum level of revenue to be generated by the boards of the irrigated agricultural schemes from land and water charges for the period ended August 31, 1982; (3) the maximum level of credit to the cotton marketing entities to enable prompt payment to farmers upon delivery of the 1981/82 cotton crop; and (4) the appropriateness of exchange rate policy. In the event, there was agreement on all issues except exchange rate policy.

Table 5. Sudan: Balance of Payments, 1982

(In millions of U.S. dollars)

	Stand-By Program Projections	Preliminary Estimates
Exports	<u>592</u>	<u>477</u>
Cotton	180	97
Other	412	380
Imports	<u>-1,706</u>	<u>-1,816</u>
Petroleum	-415	-449
Sugar	-51	-76
Wheat and flour	-80	-115
Other	-1,160	-1,176
Trade balance	<u>-1,114</u>	<u>-1,339</u>
Services	<u>-249</u>	<u>-287</u>
Receipts	379	470
Payments	-329	-400
Interest, of which:	-299	-357
Obligations under rescheduling agreements	(-193) <u>1/</u>	(-136) <u>2/</u>
Transfers (net)	<u>510</u>	<u>683</u>
Private	380	400
Official	130	283
Current account	<u>-853</u>	<u>-943</u>
Official capital	<u>676</u>	<u>425</u>
Receipts	861 <u>3/</u>	772
Payments, of which:	-185	-347
Obligations under rescheduling agreements	(-45) <u>1/</u>	(-50) <u>2/</u>
Overall balance	<u>-177</u>	<u>-518</u>
Financing	<u>177</u>	<u>518</u>
Net use of Fund credit	189	40
Other (reserve movements, arrears, etc.)	-12	478

Sources: EBS/82/7 and staff projections.

1/ Includes liquidation of arrears.

2/ Excludes liquidation of arrears.

3/ Includes US\$336 million of supplementary assistance and US\$53 million of debt relief committed as a result of the January 1982 donor group meeting.

The problem in the exchange rate area stemmed from the widening gap between the free market rate of exchange and the official rate which was contributing to distortion in the allocation of resources and in foreign trade. The free market rate had depreciated from about LSd 1.10 = US\$1 at the time of unification of the official and parallel markets in November 1981 (the unification level being LSd 0.90 = US\$1) to about LSd 1.40 = US\$1 in May 1982. During the mid-term review, the authorities were of the view that the depreciation of the Sudanese pound in the free market reflected exceptional causes such as malpractices in the operation of the free market, including capital outflows by both residents and nonresidents, which were exacerbating the extent of the depreciation of the free market rate. 1/ For these reasons, they believed that unification of the two rates was not appropriate.

Sudan's difficult foreign exchange situation in the early months of 1982 resulted in serious problems with the servicing of external debt obligations. At the time of the mid-term review of the program, Sudan was current on its obligations to commercial banks under the rescheduling agreement of December 1981 but had developed arrears on the servicing of debt owed to members of the Paris Club under the debt consolidation and rescheduling agreement of November 1979. In the ensuing months, arrears on the servicing of debt owed to commercial banks as well as various other categories of debt developed or increased.

The problems with the servicing of external debt obligations followed from the deterioration in the balance of payments position explained earlier but also reflected the considerable underestimation of the magnitude of obligations falling due in 1982. Sudan's official external debt had been estimated to be in the range of US\$4.0-4.5 billion at the end of 1981. However, the recently available more comprehensive tabulations by the international accounting firm of Peat, Marwick, Mitchell, and Company have resulted in the upward revision of the debt to about US\$6.8 billion, of which about US\$1.8 billion consisted of arrears. Debt servicing obligations during 1982, which had been projected at about US\$520 million at the time the 1982 stand-by arrangement was negotiated, 2/ would in all likelihood exceed US\$1 billion if arrears to official creditors, international and regional organizations, and commercial banks were to be eliminated through rescheduling in the standard manner. Furthermore, projections of the debt servicing profile indicate that if Sudan is to fully discharge its existing payment obligations, including reduction of arrears through standard rescheduling, it would have to maintain this level of disbursements annually up to 1985 (Table 6 and Appendix Table 22).

1/ In an effort to stem the decline in the free market rate, the authorities decided at the end of June 1982 to fix maximum buying and selling rates in the free market at LSd 1.13/1.15 to the U.S. dollar. These controlled rates compared to the levels of LSd 1.40/1.42 then prevailing in the free market and their imposition effectively stopped transactions at the decreed rates. The decree establishing the ceilings on buying and selling rates in the free market was rescinded effective August 25, 1982.

2/ Comprising US\$299 million for interest payments, US\$185 million for principal payments, and US\$40 million in Fund repurchases.

Table 6. Sudan: External Public Debt Service Obligations, 1982-85 ^{1/}

(In millions of U.S. dollars)

	<u>Principal Interest</u> 1982		<u>Principal Interest</u> 1983		<u>Principal Interest</u> 1984		<u>Principal Interest</u> 1985	
Bilateral	<u>232.9</u>	<u>131.0</u>	<u>314.8</u>	<u>133.7</u>	<u>328.4</u>	<u>117.6</u>	<u>298.7</u>	<u>100.7</u>
OECD countries	61.9	47.9	96.7	57.1	122.8	49.8	118.9	41.8
Paris Club I ^{2/}	(38.7)	(34.8)	(44.9)	(31.6)	(71.6)	(26.0)	(78.6)	(20.3)
Paris Club II ^{3/}	(2.0)	(8.0)	(2.0)	(8.0)	(4.5)	(8.0)	(4.5)	(8.0)
Other bilateral	(2.1)	(0.9)	(5.7)	(6.1)	(6.2)	(6.7)	(6.2)	(6.7)
Other suppliers ^{4/}	(1.2)	(0.4)	(24.2)	(6.2)	(22.6)	(4.5)	(13.5)	(3.0)
Other financial institutions ^{4/}	(17.9)	(3.8)	(19.9)	(5.2)	(17.9)	(4.6)	(16.1)	(3.8)
Eastern bloc	30.2	6.9	29.6	6.3	19.7	4.6	19.8	3.9
Oil producers	140.8	76.2	188.5	70.3	185.9	63.2	160.0	55.0
Multilateral	<u>95.4</u>	<u>71.9</u>	<u>93.5</u>	<u>76.4</u>	<u>136.5</u>	<u>84.9</u>	<u>172.4</u>	<u>78.8</u>
IMF	39.6	54.4	46.4	60.1	96.6	69.0	129.6	63.4
SDR	(--)	(7.3)	(--)	(7.3)	(--)	(7.3)	(--)	(7.3)
Trust Fund	(--)	(0.4)	(--)	(0.4)	(5.8)	(0.4)	(12.6)	(0.4)
Other	(39.6)	(46.7)	(46.4)	(52.4)	(90.8)	(61.3)	(117.0)	(55.7)
IBRD	3.9	2.7	4.5	2.5	4.8	2.3	5.0	2.1
IDA	0.6	2.2	1.0	2.8	1.5	3.3	2.0	3.7
Other	51.3	12.6	41.6	11.0	33.6	10.3	35.8	9.6
Suppliers	<u>8.7</u>	<u>2.0</u>	<u>8.3</u>	<u>1.6</u>	<u>5.1</u>	<u>1.2</u>	<u>5.1</u>	<u>1.0</u>
Financial institutions	<u>50.0</u>	<u>152.5</u>	<u>121.7</u>	<u>107.5</u>	<u>76.3</u>	<u>86.6</u>	<u>117.7</u>	<u>74.3</u>
Commercial banks--								
rescheduling agreement	9.0	92.9	94.0	62.5	51.3	48.0	93.2	42.9
Other multiple lenders	41.0	17.4	27.7	12.6	25.0	9.4	24.5	7.1
Arab financial institutions ^{5/}	--	42.2	--	32.4	--	29.2	--	24.3
Short term	--	--	--	--	--	--	--	--
Total	<u>387.0</u>	<u>357.4</u>	<u>538.3</u>	<u>319.2</u>	<u>546.3</u>	<u>290.3</u>	<u>593.9</u>	<u>254.8</u>

Sources: IBRD and staff estimates.

^{1/} On debt committed by December 31, 1981, including interest on the proposed stand-by arrangement and compensatory financing purchase. All data converted to U.S. dollars at rates prevailing December 31, 1981. Excludes interest on arrears as well as any reduction of arrears. Assumes a LIBOR of 13 per cent in 1982, 10 per cent in 1983, 9 per cent in 1984, and 7.5 per cent in 1985.

^{2/} Debt consolidation and rescheduling of November 1979.

^{3/} Debt consolidation and rescheduling of March 1982.

^{4/} Some of this may not be guaranteed by creditor governments. On the assumption that the loans from financial institutions are not guaranteed, the 1982 obligations are assumed not to have been included in the 1982 rescheduling.

^{5/} On the assumption that repayments of principal are rolled over and that interest is calculated at the LIBOR.

This would exceed projected receipts from exports of goods and nonfactor services and would be considerably in excess of recent debt servicing experience. For example, in 1978/79 and 1979/80, Sudan allocated only 20 per cent of its export receipts for payment of interest and capital amortization and this ratio was increased to about 23 per cent in 1980/81 and to 33 per cent in 1981/82 largely because of higher capital inflows in the form of quick-disbursing commodity aid and cash loans.

During the summer of 1982 efforts were made to clear the obstacles in the path of reactivating the stand-by arrangement. There was a narrowing of differences with the Sudanese authorities on the course of exchange reform, the Paris Club was approached with the aim of resolving the problem of Sudan's arrears with the Club's members, and the authorities prepared proposals to present to the commercial banks for settlement of overdue payments. However, in view of the new information on Sudan's external debt and the re-emergence of a large unfinanced gap in the balance of payments, as well as the little likelihood that arrangements would be speedily put in place to dispose of arrears on rescheduled debt, the existing stand-by arrangement became invalid. Moreover, a program covering a longer period of time than the remaining short life of the existing arrangement was considered essential in order to approach Sudan's creditors and secure their agreement on a meaningful restructuring of external debt servicing; without such a global restructuring in line with Sudan's debt servicing capabilities, it does not appear possible to make progress toward the attainment of a viable external payments position. Accordingly, the Sudanese authorities have requested the replacement of the present stand-by arrangement with a new one-year arrangement.

IV. The Proposed Stand-By Program

The economic program to be supported by the new stand-by arrangement aims in the first place to strengthen the external payments position without reducing imports of those essential production inputs and capital goods needed to expand the economy's productive capacity. It also aims at achieving further progress in correcting the structural imbalances of the Sudanese economy in order to sustain a faster growth of output. The program, while focusing on short-term objectives, has been formulated in the context of a medium-term perspective that includes Sudan's agreement with the World Bank on a three-year public investment program and the delineation of a medium-term policy framework. This framework establishes annual targets over the 1982/83-1984/85 period for reducing the overall budget deficit, the pace of domestic credit expansion, the current account deficit of the balance of payments, and identifies key areas for future policy actions.

At the core of the program is a major reform of the exchange, trade, and financial systems designed to: (1) provide additional encouragement to exports; (2) discourage less essential imports; and (3) increase incentives for remittances by Sudanese expatriates. These reforms would be reinforced by: (a) efforts to expand the output and improve the marketing of the

principal exportable agricultural commodities; (b) restraining the growth of domestic demand while at the same time ensuring that sufficient resources and financing are available for achieving the short- and medium-term investment and output objectives; and (c) seeking a restructuring of external debt servicing obligations that would permit proper servicing of debt without jeopardizing the ability of the Sudanese economy to achieve the required economic adjustment in an orderly fashion. The main quantitative targets are indicated in Table 7. The program comprises policy actions that have already been implemented, as well as some that will be effected in the course of the year, to improve the economy's productivity.

1. Production policies

Recognizing that the decline in the volume of agricultural exports was a major contributor to the deterioration of external economic performance in recent years and consistent with the aim of strengthening the balance of payments, the objectives of production policies in the period ahead will be to increase the production and availability of the principal exportable agricultural commodities as well as that of the two key import-substituting activities, sugar and textiles, and to make further progress in developing domestic sources of petroleum.

a. The agricultural sector

The focus of agricultural policy will be on increasing the production of cotton, which had traditionally been Sudan's principal export crop, and on improving the marketing of sorghum and groundnuts. Toward this end, the short-term emphasis in the case of cotton will be on improving incentives in order to raise yields, while in the case of the other crops, efforts will be devoted to improving the capability of rail transport and processing. The medium-term emphasis will continue to be on rehabilitating the irrigated agricultural schemes in order to permit an expansion of the cultivated area as well as realizing higher yields.

Cotton production had declined sharply from the mid-1970s, reaching a 25-year low in the 1980/81 cropping season, before rebounding strongly in 1981/82. The decline through 1980/81 is attributed to two main factors: (a) a financial reward structure that increasingly discriminated against cotton farmers, and (b) the deterioration of the managerial and physical capital of the irrigated schemes where most of Sudan's cotton is grown. The Sudanese authorities have for some time recognized the adverse effects of these factors on cotton production and their policy since 1978 has been directed at the twin goals of improving the financial incentives to cotton farmers and rehabilitating the physical capital of the schemes. The improvements in the financial reward structure have included: the abolition of export taxes on cotton, the periodic depreciation of the exchange rate of the Sudanese pound which permitted a rising trend in domestic procurement prices for cotton, and the institution of a system for prompt payment to farmers upon delivery of their crop.

Table 7. Sudan: Targets for the Proposed Stand-By Arrangement and Recent Performance, 1980/81-1983

	1980/81		1982		1983
	<u>Extended Arrangement</u> Modified Program	Actual	<u>Stand-By Arrangement</u> Program	<u>Preliminary</u> Estimates	<u>Proposed</u> Stand-By Arrangement
<u>(Changes in per cent)</u>					
Output and prices					
Nominal GDP					
(at factor cost)	20	35	27	36	30
Real GDP					
(at factor cost)	3	6	2	5	4
GDP deflator	17	28	25	30	25
Cotton production	25	-7	7 <u>1/</u>	44 <u>1/</u>	16 <u>2/</u>
<u>(As per cent of GDP)</u>					
Central government finances					
Revenues	16	14	16 <u>3/</u>	13 <u>3/</u>	15 <u>4/</u>
Expenditures	27	25	25 <u>3/</u>	21 <u>3/</u>	22 <u>4/</u>
Overall deficit	11	11	9 <u>3/</u>	8 <u>3/</u>	7 <u>4/</u>
Net domestic bank financing	3	6	2 <u>3/</u>	2 <u>3/</u>	1 <u>4/</u>
<u>(Changes as per cent of broad money at start of period)</u>					
Monetary system					
Net domestic credit	42	62	43	31	41 <u>4/</u>
Credit to private sector	17	16	...	16	20 <u>4/</u>
Credit to public sector entities	12	12	...	15	15 <u>4/</u>
Broad money	20	50	27	29	27
<u>(In millions of U.S. dollars)</u>					
Balance of payments					
Cotton exports	176	182	180	97	238
Net capital	375	413	676	425	789 <u>5/</u>
Reserve changes (increase-)	300	220	177	40	- <u>6/</u>
Current account deficit as a proportion of GDP					
Including official transfers	11	9	11	11	10
Excluding official transfers	12	10	13	15	12

Source: Data provided by the Sudanese authorities.

1/ 1981/82 crop year.

2/ 1982/83 crop year.

3/ 1981/82 fiscal year.

4/ 1982/83 fiscal year.

5/ After financing gap is covered.

6/ Net use of Fund resources and reserve buildup.

Most recently, at the start of the 1981/82 crop year, the joint account and profit-sharing systems of allocating common costs and repaying the Government for its investment and recurring costs was replaced by a system of individual accounts (wherein all costs are individually allocated) and governmental cost recovery from all crops through fixed land and water charges per unit of land.

For the 1982/83 agricultural season, the authorities will seek to stimulate cotton production through further improvements in incentives and by bringing in additional land under cultivation. To improve the overall and relative incentives to cotton farmers, the domestic currency procurement prices for cotton lint and cotton seed have been increased and the scale of land and water charges levied on sorghum grown in the Gezira scheme ^{1/} has been doubled. Reinforcing these financial improvements will be efforts to improve the utilization of agricultural equipment through increased allocations for maintenance and to minimize the disruptive effects of input shortages through the establishment of additional stores of fuel and pesticides. ^{2/} Adding to these factors, which are expected to contribute to further improvement in agricultural yields, will be an effort to expand cotton acreage by about 9 per cent. In recent cropping seasons, there had been a steady shrinkage of the area cultivated and harvested, reflecting: (a) equipment and infrastructural constraints which reduced the availability of water to some areas of the schemes, and (b) incentive distortions which encouraged farmers to tend to competing crops. However, the equipment shortages are expected to be alleviated to a significant extent starting with the 1982/83 season, thereby permitting some expansion of acreage particularly in the Gezira and Rahad schemes. This has been made possible through funds provided under the World Bank's Agricultural Rehabilitation Program loan of 1980.

Production of sorghum and groundnuts in the rainfed areas had increased recently with the expansion of mechanized farming. However, bottlenecks in the transport infrastructure developed into an increasingly critical constraint on moving output from the producing areas to consumption centers and to the export terminal at Port Sudan. The main problem has been the inability of the railway system to cope with the growing traffic volume because of the old age of the equipment and shortages of spare parts. When world prices of these commodities were high, growers were able to overcome the railway bottleneck by shifting to truck transport. However, with increasing fuel prices and the decline of world prices of groundnuts, the cost of this mode of transport became increasingly uneconomical. The authorities have launched a program to modernize the rolling stock of the national rail carrier (Sudan Railways) with the aim of increasing its capacity and reducing delays brought about by equipment failure. Particular emphasis will be on serving the rainfed production centers of Western Sudan where much of sorghum and groundnuts are grown.

^{1/} The Gezira scheme, involving an area of about 2 million feddans (1 feddan is equivalent to 1.04 acres), is the largest irrigated land project in Sudan, accounting for about one half of irrigated agricultural area.

^{2/} Shortages of fuel were a major factor contributing to the unsatisfactory yields realized during the generally good 1981/82 season by some irrigated schemes, of which the most adversely affected were the Blue Nile and the White Nile schemes.

The longer-term expansion of cotton and groundnuts output in the irrigated schemes is crucially dependent on the rehabilitation of their physical capital. The capital stock of most of the schemes has been inadequately maintained in recent years because the emphasis of development expenditures was on launching new projects at the expense of preserving the assets of existing projects. A start on needed revitalization, however, has been made through agreement with the World Bank in 1980 and 1981 on rehabilitating the capital of the New Halfa, Blue Nile, and White Nile schemes; plans are presently being prepared for the rehabilitation of the Gezira scheme, the cost of which is expected to be a major component of public sector investment during the 1982/83-1984/85 period.

b. The manufacturing sector

The performance of the manufacturing sector, and particularly that of public corporations, has worsened in the same manner as agricultural performance in recent years. The Government had launched in the mid-1970s a major program to install new manufacturing capacity but this was not completed in a timely fashion and even where the projects came on stream, their contribution was hampered by deficient design and by constraints in the electricity generating and distribution system which resulted in frequent power interruptions. Furthermore, during this period, existing capacity fell into disrepair as necessary maintenance and upkeep was neglected in an effort to reduce financing needs. This was particularly the case for the key import substitutes, cement, sugar, and textiles. Their operations suffered partly due to mismanagement and partly due to controls which restricted producers from passing higher costs to consumers. Private sector manufacturing concerns, on the other hand, were more affected by shortages of power, inputs, and spare parts often caused by scarcity of foreign exchange.

Recent policy actions have sought to stimulate production of the key import-substituting public sector manufacturing activity by strengthening management, increasing output prices to improve cash flow, starting rehabilitation of capital, and by seeking to improve capacity utilization. To alleviate the shortages of inputs that hampered private sector manufacturing firms, private manufacturers have been authorized to import their own fuel and not depend on availability from official sources; furthermore, waivers of customs duties have been granted for the importation of power-generating equipment, industrial spare parts, and heavy transport vehicles.

For the period ahead, manufacturing sector policy will focus on strengthening the operations of the sugar and textiles industries through institutional improvements and through official support actions. The institutional changes will be to allow increased flexibility in pricing by reducing the extent of controls on profit margins and by speeding up the process of approving price changes. Increased official support will be in the form of financial transfers to replenish working capital, strengthening of financial position by having the Government take over some of the long-term debt owed to the banking system, and increasing the extent of tariff protection in the case of textiles. In addition, the

authorities intend to strengthen further the management of the public corporations; in the case of sugar, negotiations are presently taking place with foreign firms to assume the management of the reorganized refineries. Moreover, a comprehensive plan for rehabilitating the physical capital of the older sugar concerns and for expanding cultivation to support a much higher level of capacity utilization has been prepared for implementation in stages and the necessary external financial support is now being sought from regional and international lending organizations; the first stage in the rehabilitation, which concentrates on the Guneid and New Halfa factories, has already started. Lastly, a major expansion of electricity generation capacity is now taking place through the third power project, partly financed by the World Bank, which should contribute to an easing of the power shortages that have adversely affected industrial production.

c. Energy

Increased payments for imported petroleum have been an important contributor to weakening the current account of the balance of payments. The Government has endeavored to encourage energy conservation through appropriate pricing of oil products and electricity and by improving the efficiency of rail and river transport. The prices of petroleum products have been raised on three occasions between March 1981 and January 1983 ^{1/} to ensure that domestic consumers bear the full cost of international prices, and, as indicated earlier, an active program of modernizing the rolling stock of the Sudan Railways Corporation is presently being implemented. In 1983, further adjustments in the prices of petroleum products will be made in light of changes in international prices.

On the energy development side, official policy has encouraged exploration for petroleum deposits through the granting of concessions on attractive financial terms. Considerable exploration activity is presently being conducted in various areas of Sudan by a number of international companies, and commercially exploitable deposits of relatively good quality light oil (35°-38° API, and low sulfur but high wax content) have been identified in southwestern Sudan. Initial estimates were that the petroleum finds would be capable of supporting a production level of about 25,000 barrels per day (b/d) and the authorities considered setting up a small-scale refinery to convert the crude petroleum output into refined products for domestic consumption. ^{2/} However, there have been additional discoveries in recent months leading to a considerable increase

^{1/} The most recent increases, effective January 3, 1983, were as follows: gasoil by 40 per cent to LSd 464 per ton; regular benzene by 72 per cent to LSd 917 per ton; super benzene by 75 per cent to LSd 1,070 per ton; kerosene by 32 per cent to LSd 459 per ton; and LPG by 129 per cent to LSd 800 per ton.

^{2/} Consumption during 1982 was estimated at slightly more than 20,000 b/d. However, due to foreign exchange shortages, consumption is being repressed by unavailability of supplies.

in the estimated production potential. Accordingly, plans have been prepared for the construction of a 900-mile export pipeline from Unity field, where the main reserves are located, to Port Sudan. The pipeline would have an initial pumping capacity of about 50,000 b/d that could be augmented to 100,000 b/d by the addition of booster pumps. The authorities are presently in the process of organizing the necessary financing, expected to be more than US\$1 billion, and exports of crude oil are planned for early 1986.

2. Domestic financial policies

The financial program has been formulated with the objectives of reducing the underlying rate of inflation and holding the current account deficit to a manageable level, while at the same time meeting the credit requirements of the public agricultural entities to provide for the realization of their production targets. The principal domestic financial objective will be to reduce the underlying rate of inflation to an average of 25 per cent for 1983. Toward this end, the authorities will seek to hold the growth of domestic liquidity to 27 per cent during that year. This aggregate expansion would be slightly lower than the projected expansion for 1982 (29 per cent) and is intended to be supportive of the target for real economic growth (3.5 per cent) for 1983. The targets, internal consistency, and main elements of the financial program are discussed in Appendix III. The authorities intend that a further tightening of monetary expansion be effected in the subsequent periods and that the growth of liquidity be reduced to about 26 per cent in 1983/84 and to about 19 per cent in 1984/85.

No recent information is available on the measured rate of inflation in Sudan. This is due to the fact that a fundamental reorganization of the data gathering and reporting system is presently taking place. Moreover, as indicated earlier, the cost of living index has been biased in recent months by the inclusion of controlled prices among its components. The last available data indicate that the cost of living index rose at the annual rate of about 37 per cent in the first quarter of 1982 after having declined sharply in the last quarter of 1981 following the imposition of price controls on various food items. However, estimates by various observers suggest that retail prices were rising at an annual rate of about 30 per cent in the summer of 1982. Sharp increases in the cost of living will be registered in the early part of 1983 as a result of exchange rate depreciation and the attendant increases in the prices of key consumer goods, as well as the excise and consumption tax increases and the relaxation of controls over prices. ^{1/} These policy actions are projected to result in a one-time jump in the price level estimated at about 15 per cent. However, these adjustments are expected to be largely absorbed by the second half of the year and hence the expectation of a gradual abatement of inflationary pressures, as measured by movements in the cost of living index following relaxation of controls, in the latter part of the program period.

^{1/} These actions will be described later. See pp. 23-24 and 26 below.

The target for the expansion of the net domestic assets of the banking system during the program period was derived from the target for overall monetary expansion and the expected overall balance of payments deficit (Table 8). Within the overall target, subceilings on net borrowing by the Government and indicative targets for the other principal sectoral components were established for the quarters ending March and June 1983 on the basis of domestic and external financing demands. Because the program period falls in two fiscal years and two agricultural seasons, it is still too early to determine the seasonal borrowing pattern for the period subsequent to June 30, 1983, and hence no borrowing targets were established for that period; these will be established during the review of the program.

a. Credit to the public entities

The requirements of the public sector agricultural entities (including the cotton marketing organization) during the first half of 1983 were assigned first priority in the credit program since they are the major producers of export crops (cotton and groundnuts). The overall borrowing target for the year ending June 1983 is very large both by historical standards and taking into account the recovery of cotton production during the 1981/82 season. However, it was recognized that many of these entities are in acute need of capital investments and maintenance expenditures that had been neglected in recent years. Some of these were budgeted for 1981/82 but could not be fully realized because of foreign exchange constraints and hence the large shortfall in the entities' actual expenditures from their budgeted levels. Furthermore, an important portion of the public entities' borrowing in 1982/83 will be going to the cotton marketing organization to finance a buildup of stocks caused by the depressed current state of international demand for cotton which has slowed down export shipments; these stocks are not expected to be liquidated until the last half of 1983. Moreover, the exchange rate depreciation is expected to contribute to higher costs through its effect on fuel costs and imported inputs.

Credit to the nonagricultural entities is expected to be confined to the four public sector sugar factories and will serve to cover operating losses caused by low capacity utilization. These factories are in urgent need of physical rehabilitation and until that is completed ^{1/} they will require either budgetary transfers or bank credit. Other nonagricultural borrowers, chiefly Sudan Railways and the Electricity Corporation, are not expected to require any net credit during 1982/83 because recent tariff increases and ongoing programs for modernization and capacity expansion have improved their operating conditions sufficiently to eliminate the need for increased domestic borrowing.

^{1/} As indicated earlier (p. 18), the rehabilitation of some factories has already commenced. Rehabilitation of the other factories will probably be carried out during the period 1983-85.

Table 8. Sudan: Changes in Domestic Liquidity, 1978/79-1982/83

Changes During:	1978/79	1979/80	1980/81	1981/82	Proj. 1982/83
(In millions of Sudanese pounds)					
Money and quasi-money	<u>207.9</u>	<u>184.4</u> ^{1/}	<u>533.3</u> ^{2/}	<u>433.4</u>	<u>575.0</u>
Impact of the external sector	<u>-21.5</u>	<u>-84.8</u>	<u>-126.1</u>	<u>-238.1</u>)
Foreign assets (net)	2.5 ^{3/}	-24.1	-110.0	-113.2)
From monetary survey	(2.5)	(-87.7)	(-110.0)	(-494.6))
Devaluation adjustment	(--)	(63.6)	(--)	(381.4)	) <u>-260.0</u>
Domestic counterpart of government external arrears	-24.0 ^{4/}	-60.7	-16.1	-124.9 ^{5/})
Domestic credit	<u>229.4</u>	<u>269.2</u>	<u>659.3</u>	<u>671.6</u>	<u>835.0</u>
Claims on Government (net)	<u>149.8</u> ^{3/4/}	<u>143.2</u> ^{1/}	<u>299.2</u> ^{2/}	<u>124.6</u>	<u>110.0</u>
Claims on public entities	73.3	42.7	131.5	204.4	310.0
Claims on private sector and specialized banks	88.8	118.7	172.8	237.9	405.0
Other items (net)	-82.5	-35.4 ^{6/}	55.8	104.7 ^{7/}	10.0
(Changes in per cent)					
Money and quasi-money	31	21	50	27	28
Claims on Government (net)	25	20	26	11	9
Claims on public entities	43	17	46	49	50
Claims on private sector	28	29	33	34	43

Source: Data provided by the Sudanese authorities.

^{1/} Includes LSd 14.0 million of government domestic arrears on June 30, 1980.

^{2/} Includes LSd 105.8 million of government domestic arrears on June 30, 1981.

^{3/} Excludes reclassification of Kuwaiti loan of LSd 14.3 million from a liability of the Bank of Sudan to a deposit liability of the Sudanese Government.

^{4/} Accumulation during last quarter of the year; includes a late payment due of LSd 3.5 million which was discovered later but not recorded.

^{5/} Excludes an estimated adjustment of LSd 79.5 million attributed to the November 1981 devaluation.

^{6/} Excludes an adjustment of LSd 63.6 million following the September 1979 devaluation.

^{7/} Excludes an estimated adjustment of LSd 460.9 million attributed to the November 1981 devaluation.

b. Credit to the private sector

The credit requirements of the private sector were established on the basis of the projected credit usage and taking into account the authorities' desire to expand the lending operations of the specialized banks. The large growth of private sector credit reflects the effect of the exchange rate depreciation on the financing of exports and the working capital requirements through increased costs of production (particularly for wages, fuel, and spare parts). Furthermore, the projected expansion in the output of exportable agricultural commodities will reinforce the price effect on the demand for credit to finance exports.

To restrain the growth of credit to the private sector, the Bank of Sudan had in the past operated by restricting its own lending to commercial banks and by establishing ceilings on the extension of credit by banks. However, because of ample reserves and liquidity, the commercial banks in recent periods have relied little on borrowing from the central bank and hence credit policies increasingly have relied on the establishment of quarterly ceilings on individual bank lending. Since credit was being rationed there was little reliance on interest rates for regulating credit demand. However, since early 1981, the Bank of Sudan has moved to increase the cost of borrowing to help in restraining the demand for credit and to improve credit allocation, one important aim being to discourage the stockpiling of commodities for speculative purposes. The structure of lending rates was increased by 4 percentage points in 1981 (2 points in February and another 2 points in November) and by amounts ranging from 1.5 percentage points to 3 percentage points effective January 1983 (Appendix Table 18). Nevertheless, the rate structure remains highly negative but the authorities intend to adjust the rates further on a selective basis. To increase the Bank of Sudan's control over commercial bank operations, a new banking control law has been drafted and is presently in the final stage of review. The law is expected to be enacted shortly and will increase the Bank of Sudan's ability to restrain credit through reliance on minimum reserve requirements and increased supervision of the activities of foreign-owned banks. Additionally, the Financial Act which regulates the form of government domestic borrowing was recently amended to enable the Government to sell bonds to the general public and thereby tap nonbanking financial resources and reduce the need to borrow from the banking system.

A noteworthy feature of recent domestic credit developments was the behavior of "other items (net)". This residual element which comprises bank reserves, capital, interbanking system transactions, and unclassified elements ordinarily exerts a contractionary effect on the movements of domestic credit. However, its performance in both 1980/81 and 1981/82 was markedly expansionary. This resulted from transitory factors including: (1) Bank of Sudan losses in 1980/81 on transactions involving acquisition of foreign exchange from the parallel market in order to finance imports valued at the official rate; (2) commercial bank reclassification of assets to equity participation and doubtful accounts in order to evade Bank of Sudan credit ceilings; and (3) devaluation adjustments in 1981/82 involving

assumption by the Government of certain commercial bank and private sector foreign exchange liabilities. These exceptional transactions are not expected to recur in 1982/83 and hence the projection of only a slight expansionary effect from the movement of that element.

c. Fiscal policy and borrowing by the Central Government

Fiscal initiatives were undertaken with two aims: first, to help constrain domestic borrowing by the Central Government to a level consistent with the achievement of the target for overall credit extension and second, to contribute to improved resource utilization through (a) reduction of budgetary subsidies for consumption, (b) enabling development expenditures to attain a level consistent with the achievement of the targets of the investment program, and (c) ensuring that current expenditures allow for improved maintenance of capital stock.

As initially presented in July 1982, the budget for 1982/83 projected a deficit of LSd 401 million on the basis of revenues of LSd 1,343 million and expenditures of LSd 1,744 million. These figures were subsequently adjusted to take into account the preliminary outturn for 1981/82, revisions in the development budget to bring it in line with the three-year investment program, and the financial objectives of the adjustment program. Following these revisions, the deficit is projected at LSd 655 million (7.3 per cent of GDP compared with 8.2 per cent in 1981/82) and would be financed in part by domestic bank borrowing in the amount of LSd 110 million (1.2 per cent of GDP compared with 1.9 per cent in 1981/82). The balance of LSd 545 million would be financed from external sources to the extent of LSd 525 million, of which LSd 402 million would be in disbursements from existing commitments while LSd 123 million represents disbursements from assistance expected to be made available at the January 1983 meeting of the Consultative Group and other creditors, and, for the first time, through sale of government bonds to the nonbanking sector (LSd 20 million). This outturn is predicated on revenues of LSd 1,303 million (14.5 per cent of GDP compared with 13.7 per cent in 1981/82) and overall expenditures of LSd 1,958 million, of which LSd 476 million will comprise the development budget and LSd 60 million the subsidy provided to wheat and flour and pharmaceuticals as a result of the exchange rate devaluation of November 1982.

The discretionary fiscal measures introduced with the 1982/83 budget consisted of adjusting the valuation basis for levying customs duties in respect of most imports ^{1/} from LSd 0.50 to the U.S. dollar to LSd 0.90 to the U.S. dollar effective July 26, 1982; this was estimated to generate LSd 35 million for the balance of the year but was completely offset by selective reductions in the duty rate structure. Subsequently, in October, a 20 per cent increase in the prices of domestically produced and imported cigarettes was introduced and is estimated to generate an additional LSd 12 million in excise and consumption tax revenues on an annual basis. Additional fiscal initiatives were implemented in November and December 1982 in line with the modified stabilization objectives. These included:

^{1/} The valuation basis for other imports had been adjusted in November 1981.

(a) raising the valuation basis for levying customs duties from the previous official exchange rate of LSd 0.90 to the U.S. dollar to the new rate of LSd 1.30 to the U.S. dollar; this shift, which was not offset by adjustments in the duty structure, is projected to yield an additional LSd 152 million on an annual basis; (b) adjusting the excise tax structure by converting certain taxes 1/ from a specific level to an ad valorem rate and increasing the applicable rate, for a total annual yield of LSd 36 million; the largest change was in the case of cement where the excise tax rate was increased by LSd 80 per ton (with a yield of LSd 16 million on an annual basis); (c) increasing certain fees and charges 2/ with the aim of generating an additional LSd 14 million annually; (d) raising the prices of petroleum products to pass to the consumer the higher import costs arising from the exchange rate depreciation and to generate additional revenues estimated at LSd 17 million annually; and (e) eliminating the subsidy on milk powder arising from its valuation at the new official exchange rate by allowing its retail price to rise by the full extent of the depreciation. For social and political considerations, it was decided to permit a re-emergence on a transitional basis of subsidies on wheat and wheat flour and on pharmaceutical products, and to delay the elimination of these until late in 1983.

The revenue measures and expenditure savings (from the elimination of subsidies on petroleum and milk powder), however, were partially offset by the awarding of special compensation to government employees amounting to LSd 29 million in 1982/83. The combined fiscal effect of the tax and subsidy actions, on an annual basis, was estimated at LSd 231 million, or more than 2 per cent of the projected GDP for 1983. The change in the budget position is indicated in Table 9. This shows that, notwithstanding the substantial revenue generating efforts of 1981 and 1982, the growth of current expenditure will once again result in a current deficit; although in this instance the extent of this deficit is more than accounted for by external debt servicing obligations.

In the remainder of the fiscal year and during the 1983/84 year the authorities intend to take other fiscal actions to (a) ensure that changes in the international prices of the key public sector imports do not lead to new claims on the budget; (b) maintain the incentives for some export commodities through possible reductions or abolition of export taxes which are still in effect, should international price developments weaken the competitive position of the commodities taxed; and (c) restrain the importation of less essential commodities, as well as providing encouragement to producers of domestic substitutes, through adjustments in the customs duty structure. The budgetary costs of any such actions will, however, be offset by appropriate adjustments in other components of the central government budget. The authorities also intend to improve control over expenditures.

1/ In descending order of yield: cement, wines and beers, vegetable oils, soap, soft drinks, tiles, dry batteries, macaroni, and detergents.

2/ Land rental charges paid by mechanized farms, landing and navigation fees, and airport departure fees.

Table 9. Sudan: Summary of Central Government Operations, 1978/79-1982/83

	1978/79	1979/80	1980/81	1981/82		1982/83	
			Prov. Actual	Program	Est. Actual	Budget	Program ^{1/}
(In millions of Sudanese pounds)							
Total revenue	504.2	581.9	738.0	981.0	915.7	1,342.6	1,302.9
Tax revenue	413.9	471.7	596.0	826.0	756.6	1,007.7	1,083.1 ^{2/}
Nontax revenue	90.3	110.2	142.0	155.0	159.1	334.9	219.8 ^{3/}
Total expenditure	804.8	928.2	1,351.3	1,526.2	1,462.0	1,744.2	1,958.0
Current expenditures, of which:	565.5	645.2	893.2	961.9	1,045.7	1,202.0	1,416.7 ^{4/}
Interest on external obligations	(17.4)	(21.3)	(51.1)	(58.3)	(46.3)	(128.6)	(166.7)
Subsidies	(...)	(...)	(...)	(...)	(...)	(...)	(60.0) ^{5/}
Development expenditures	164.6	221.3	383.7	514.3	340.0	502.2	476.3
Equity budget and other operations	74.7	61.7	74.4	50.0	76.3	39.9	65.0
Overall deficit	-300.6	-346.3	-613.3	-545.2	-547.0	-401.5	-655.1
Financing	300.6	346.3	613.3	545.2	547.0	401.5	654.8
External net	146.4	237.6	346.0	561.7	416.0	350.7	524.8 ^{6/}
Drawing	(...)	(...)	(404.2)	(...)	(470.0)	(567.6)	(695.8)
Amortization	(...)	(...)	(-58.2)	(...)	(-54.0)	(-216.9)	(-294.0)
Domestic	153.7	108.7	267.3	135.0	124.6	50.0	130.0
Banking system	(153.7)	(116.3)	(299.2)	(135.0)	(124.6)	(--)	(110.0)
Other	(--)	(--)	(--)	(--)	(--)	(50.0)	(20.0)
Residual, surplus(-)	0.5	-7.6	-31.9	-151.5	6.4	0.8	0.3
(As per cent of GDP)							
Memorandum items:							
Revenues	15.5	14.4	13.6	16.1	13.7	15.8	14.5
Expenditures	24.7	22.9	24.9	25.1	21.9	20.5	21.8
Deficit	9.2	8.5	11.3	9.0	8.2	4.7	7.3
Bank financing	4.7	2.9	5.5	2.2	1.9	--	1.2

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

^{1/} Includes the effect of an exchange rate devaluation of 44.4 per cent in terms of Sudanese pounds.

^{2/} Includes new revenue measures estimated to yield LSd 124 million for the balance of 1982/83.

^{3/} Includes new revenue measures estimated to yield LSd 16 million in 1982/83.

^{4/} Includes a compensation package to government employees of LSd 29 million in 1982/83.

^{5/} Subsidies arising for wheat and flour (LSd 44 million) and pharmaceuticals (LSd 16 million) following adjustment in the exchange rate.

^{6/} Includes LSd 123 million in supplementary external assistance expected to be committed at the January 1983 meetings of the Consultative Group and other creditors.

Technical assistance has been obtained from IDA to help strengthen procedures for effecting foreign purchases, including improved procedures for tendering and contracting. Assistance has also been obtained from the Fund in the area of expenditure reporting and control as well as the accounting for commodity aid disbursements.

3. External financial policies

A major objective of economic policy in the period ahead will be to strengthen the external payments position without weakening the economy's current and future production ability. This objective will be pursued through a combination of exchange rate adjustment, encouragement of production of exportable commodities, control of the growth of nonessential imports, additional inducements to encourage remittances by expatriate Sudanese, and global restructuring of Sudan's external debt.

a. Exchange rate policy

Following the legalization of the free market for foreign exchange in mid-1981 and the channeling of much of the private sector's demand for imports and for effecting capital transfers to that market, its size expanded to the extent that it is now estimated to finance about one third of imports of goods and services. As indicated earlier (see p. 11 above), the exchange rate in the free market depreciated steadily since mid-1981 and the growing divergence between the official and the free rates ^{1/} contributed to the emergence of serious distortions in the allocation of resources. Since exports and an important component of imports, in particular petroleum products, continued to be transacted at the official rate, the overvaluation of the official rate served to divert potential exports to the domestic market and to encourage economic activities which were intensive in the use of imports transacted at the official rate. Moreover, the coexistence of the two exchange markets with different supplies and demands soon led to a situation wherein the free private market, able to attract foreign exchange resources from expatriate Sudanese and unimpeded by price rigidities, was financing imports of various categories of less essential consumer goods. In contrast, the official market charged with financing imports of essential producer and consumer goods, including petroleum, sugar, and agricultural inputs, experienced growing shortages of foreign exchange.

Recognizing the adverse effects of the growing gap between the two exchange rates and desiring to stimulate exports and to discourage imports of less essential goods, the authorities decided to undertake a comprehensive reform of the exchange rate system. As a first step, the Sudanese pound was depreciated from its official rate of LSd 0.90 to the U.S. dollar to LSd 1.30 to the U.S. dollar effective from November 15, 1982. This change will not directly affect imports financed through the

^{1/} Quotations for the free market rate ranged between LSd 1.05 and LSd 1.20 to the U.S. dollar during the second half of 1981 and between LSd 1.20 and LSd 1.54 to the U.S. dollar between January 1 and November 15, 1982.

free market, although it is expected that the free market rate will rise to some extent following the devaluation. ^{1/} The operation of the free market and the peg of the official exchange rate to the U.S. dollar were not altered at this stage because of uncertainty about the net benefit from changing the functioning of the system. The authorities, however, have requested Fund technical assistance to evaluate the present dual exchange market and recommend suitable modifications; a mission is being planned for February 1983. The authorities are also studying the possibility of linking the Sudanese pound to a currency basket; this matter will also be discussed with that mission.

The new rate for the U.S. dollar represented a 44.4 per cent depreciation of the official rate of exchange in terms of Sudanese pounds. Domestic prices of nearly all exports and imports previously transacted at the official rate were adjusted upward to fully reflect the new rate of exchange, the exceptions being the prices of the key consumer goods, wheat/flour and pharmaceuticals, which will continue to be subsidized for an interim period. For the period ahead, the authorities intend to be flexible in their exchange rate policy; periodic reviews will be conducted taking into account factors such as the behavior of the U.S. dollar rate, price trends in Sudan, the relative profitability of Sudan's major exports and import-substitution activities, and balance of payments developments.

b. Encouragement of exports

Apart from the exchange rate adjustment, additional incentives have been provided through the elimination of, or substantial reduction in, export taxes. These will be further reinforced by measures to stimulate the production and availability of the key exportable agricultural commodities, cotton, groundnuts, and sorghum. As explained earlier, production potential in agriculture is being encouraged through expansion of cotton acreage, improved maintenance of equipment, and establishment of larger stocks of fuel and pesticides. Moreover, the recent completion of a fertilizer factory should alleviate the recurring shortages of imported fertilizer. In the case of sorghum and groundnuts grown in the rainfed areas, the efforts devoted to improving the transport system should improve their availability for export markets.

c. Discouragement of imports

The price effect of the exchange rate action on imports is being reinforced by increases in the customs valuation for duty levying purposes in respect of imported commodities. The valuation basis has been changed from the previous official rate to the new unified rate of exchange and the existing surcharge on imports has been maintained. However, because of the excess demand for imports in the economy which is expected to

^{1/} Following the depreciation of the official rate, the quotation in the free market rose sharply from LSd 1.54 to the U.S. dollar to about LSd 2.10 to the U.S. dollar before declining to about LSd 1.75 to the U.S. dollar at the end of November 1982.

continue even after the demand-restraining measures are implemented, these price adjustments will not be sufficient to reduce the demand for imports to alleviate the external payments constraints. Hence, as an interim measure, import restrictions have been introduced on the less essential commodities. However, since the private sector has been financing these imports with own foreign exchange resources, including proceeds of remittances by expatriate Sudanese, an attempt will be made to reorient these resources to more essential imports. Consequently, the import restrictions were coupled with a relaxation of controls applied on profit margins of the intermediate and capital goods imports. Additionally, the importation of commodities hitherto confined to the public sector will shortly be permitted for the private sector.

d. Stimulating private expatriate remittances

One objective of the exchange reform, together with the domestic and external adjustment policies, is to improve confidence in the future prospects of the Sudanese economy and the flow of financial savings from Sudanese expatriates. It is estimated that more than one-half million Sudanese, many of whom possess professional and managerial skills, have found employment in the Arabian peninsula region. So far, the level of their remittances has not been consistent with potential, and the amounts transferred had gone mostly for family support and for investment in housing. The authorities are hopeful that remittances can be encouraged to flow into the growing investment opportunities in the country and are trying to achieve this by demonstrating their commitment to stabilization of the economy and continued adherence to policies of economic liberalization. Moreover, Sudanese banks are now offering higher interest rates on financial savings denominated in Sudanese pounds and also offer rates equal to those prevailing in international markets on financial savings denominated in foreign currency.

e. The balance of payments outcome

The trade gap is projected to decline from US\$1,339 million in 1982 to US\$1,125 million in 1983 in response to efforts to promote exports and to contain imports (Table 10). Nearly two thirds of the improvement will be from an expansion of cotton exports while the rest is made up of an increase in noncotton exports and a small reduction in total imports. The decline in imports reflects the demand-restraining policies, as well as the restrictions on less essential imports, and includes a relative shift in import composition toward production inputs and capital goods. Imports of petroleum products are projected to grow in volume to enable fuller utilization of the economy's productive capacity, while those of sugar are projected to decline in reflection of lower international prices and a smaller import volume made possible by an expansion of domestic production.

Table 10. Sudan: Balance of Payments, 1979/80-1983

(In millions of U.S. dollars)

	1979/80	1980/81	1981/82	Projection	
				1982	1983
Exports <u>1/</u>	582.5	478.9	381.6	477.0	675.0
Cotton	333.4	182.0	69.4	97.0	238.0
Other	249.1	296.9	312.2	380.0	437.0
Imports <u>1/</u>	-1,339.9	-1,631.4	-1,798.9	-1,816.0	-1,800.0
Petroleum <u>2/</u>	-254.0	-393.0	-494.8	-444.0	-469.0
Sugar	-122.7	-183.6	-158.5	-76.0	-60.0
Other	-963.2	-1,054.8	-1,145.6	-1,296.0	-1,271.0
Trade balance	-758.4	-1,152.5	-1,417.3	-1,339.0	-1,125.0
Services	-82.0	-62.1	-61.2	-287.0	-244.0
Receipts	261.1	321.1	469.3	470.0	525.0
Payments	-272.6	-278.0	-346.3	-400.0	-450.0
Interest	-70.5	-105.2	-184.2	-357.0 <u>3/</u>	-319.0
Transfers (net)	293.2	426.6	523.5	683.0	580.0
Private	209.0	304.6	350.0	400.0	430.0
Official	84.2	122.0	173.5	283.0	150.0
Current account	-547.2	-788.0	-955.0	-943.0	-789.0
Official capital	442.1	412.8	587.7	425.0	-70.0
Receipts	532.2	499.0	685.0	772.0	572.0
Payments	-90.1	-86.2	-97.3	-347.0 <u>3/</u>	-642.0 <u>4/</u>
Other capital and errors and omissions	17.5	144.2	172.3	--	--
Allocation of SDRs	13.0	11.0	--	--	--
Overall balance	-74.6	-220.0	-195.0	-518.0	-859.0
Monetary movements (increase-)	74.6	220.0	195.0	...	...
Financing gap	--	--	--	-518.0	-859.0

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

1/ Customs basis.

2/ Excludes petroleum re-exports.

3/ Excludes servicing of arrears on external debt. These were estimated at US\$1.8 billion at the end of 1981.

4/ Includes an assumed US\$150 million for the servicing of arrears.

The current account balance, however, is expected to show a somewhat smaller improvement than the narrowing of the trade gap. This is mainly due to the projected decline of official transfers from the high level achieved in 1982 as a result of the unanticipated grants of crude oil and other commodities from Saudi Arabia. The services balance is projected to improve in reflection of the smaller interest obligations under the rescheduling agreement with the commercial banks. The net outcome of the trade, services, and transfer operations is to result in a reduction of the current account deficit from US\$943 million in 1982 to US\$789 million in 1983.

Net receipts from official capital transactions are projected to decline from US\$425 million in 1982 to a negative US\$70 million in 1983 on the basis of existing debt servicing obligations and on the assumption of some servicing of obligations in respect of arrears. Gross receipts are expected to decline mainly because of the nonrecurrence of the exceptional assistance received at the donor group meeting that convened in Paris during January 1982. Capital repayments, on the other hand, are expected to rise reflecting an increase in obligations to oil producing countries as well as to members of the Paris Club and the commercial banks under the debt rescheduling agreements negotiated in 1981 and 1982. The overall deficit is projected to widen from US\$518 million in 1982 to US\$859 million in 1983. Under the proposed stand-by arrangement and allowing for a purchase of SDR 34 million under the compensatory financing facility, a maximum of about US\$150 million (SDR 138 million) could be made available as net financing from the Fund. ^{1/} However, Sudan's gross external reserves presently amount to less than one week of imports at the projected 1983 level and a buildup of reserves to no less than four weeks of imports has been judged essential to provide a cushion for unexpected developments in the seasonal patterns of foreign exchange flows, thereby economizing on the high cost of short-term credit and middlemen's fees now being incurred. Consequently, a financing gap of US\$859 million is projected for 1983. Covering this gap will be a key item on the agenda of the meeting of the Consultative Group and other creditors of Sudan scheduled for January 12-14, 1983 in Paris.

f. Restructuring of external debt servicing

Sudan's external indebtedness and the terms of debt servicing are now such that, if the country were to fully discharge its existing payments obligations including rescheduling in the standard manner of amounts that are estimated to be in arrears at the end of 1982 (about US\$2.2 billion as shown in Appendix Table 22), it would have to disburse close to US\$1 billion yearly to its creditors between 1983 and 1985. Such a level of debt servicing would absorb nearly all receipts from exports of goods and nonfactor services. Difficulties with external debt servicing had been apparent for a number of years and the

^{1/} Comprising SDR 144.5 million of purchases under the stand-by arrangement (the remaining SDR 25.5 million of the arrangement's SDR 170 million becomes available in January 1984), SDR 34 million under the CFF, and repurchases of SDR 40 million.

authorities had sought to alleviate the burden through agreements with separate groups of creditors on the rescheduling of obligations. In this fashion, obligations to Arab oil exporting countries were rescheduled in 1978 and this was followed by rescheduling of debts due to industrial countries under the aegis of the Paris Club in 1979. Debts due to commercial banks were rescheduled in 1981 and a second rescheduling with the Paris Club took place in 1982. However, this approach has not been satisfactory both because the extent of the overall debt was, until recently, considerably underestimated and because the schedules agreed with each group of creditors were established independently leading to higher debt service obligations than the Sudanese economy was capable of supporting.

The magnitude of Sudan's debt servicing obligations is now such that no internal adjustment, consistent with the stability of the Sudanese society, would be feasible to accommodate the debt obligations. Moreover, any adjustment policy pursued by the authorities to reduce Sudan's internal and external imbalances would be undermined by the debt service burden. Recognizing this, the authorities have decided to seek a global restructuring of external debt. This process has started with the selection of an External Finance Coordinator by the Government and Sudan's major creditors, in cooperation with the Fund and the IBRD, to coordinate the formulation of a debt rescheduling arrangement that takes into account Sudan's future foreign exchange earning prospects. Progress on the debt restructuring effort will be described in a supplement to this paper to be prepared in light of the outcome of the January 1983 meeting of the Consultative Group and other creditors.

4. Medium-term policies and prospects

Sudan will need to pursue for several years strong domestic restraint policies and receive adequate external support to be able to achieve a sustainable external payments situation. The prospects for a sustained recovery depend on two key factors: (a) the success of domestic policies to stimulate output and improve export availability, and (b) adequate relief from the external debt burden and the securing of sufficient new aid commitments to complete the ongoing rehabilitation of agricultural and manufacturing capacity. These factors are interdependent. Without a strengthening of production and export performance, it would not be possible to sustain a debt servicing capability that is acceptable to creditors and this, in turn, would result in reduced aid flows, thereby jeopardizing the Sudanese economy's ability to maintain import and production levels. On the other hand, if existing debt service commitments are to be serviced in full without a compensating increase in aid flows, the economy's import capacity would be so reduced as to make it impossible to sustain recent output and export levels. These are the concerns being addressed in the forthcoming meeting of the Consultative Group and other creditors. The meeting will consider new project aid commitments, discuss comprehensive restructuring of external debt and short-term balance of payments support.

Assuming that the deliberations of the Consultative Group and other creditors result in a meaningful alleviation of the external debt burden and the securing of sufficient new aid commitments to ensure the realization of needed capital investments, the Sudanese economy's prospects will be determined by the authorities' continued adherence to domestic stabilization policies and the maintenance of proper production incentives. With a proper allocation of resources as well as the rehabilitation of the capital stock and the strengthening of infrastructure, Sudan's large resources of arable land, water, and livestock are capable of sustaining a much higher level of output than has been attained in recent years.

The Government of Sudan, in seeking the support of the international community for its efforts at economic recovery, has outlined medium-term objectives and policies it intends to pursue over the period 1982/83-1984/85. The objectives include:

- (1) achieving a real growth rate averaging 3.5 per cent over the period;
- (2) completion of economically viable ongoing projects;
- (3) rehabilitation of the economy's productive capacity, with emphasis on the agricultural and industrial sectors;
- (4) promoting higher levels of capacity utilization and increasing productivity throughout the economy;
- (5) maximizing exports and increasing efficient import substitution so as to reduce the trade gap;
- (6) supporting productive activity by expanding the necessary economic and social infrastructure;
- (7) promoting greater participation by the private sector in economic activity; and
- (8) accelerating the exploitation of natural resources, particularly crude oil and minerals.

To help with the attainment of these objectives, a public investment program involving an outlay of LSd 1,656 million over a three-year period has been prepared. The sectoral allocations and nature of the main investments are indicated in Appendix Table 17.

In support of the objectives of the medium-term recovery program and consistent with the long-term aim of correcting the structural imbalances in the economy, the authorities intend to adopt the following policy actions during the period 1982/83-1984/85: first, in the production sector of the economy (a) to reduce public sector participation in agricultural and manufacturing production by selling off some public entities to the private sector, (b) to strengthen management of public entities,

(c) to introduce improved disease control and feeding programs in order to increase livestock production, and (d) to provide improved storage and marketing facilities for grains and oil seeds; second, in the domestic financial sector (a) to adhere to restrained monetary and fiscal policies that result in a gradual reduction of the rate of monetary expansion to less than 20 per cent and the average rise of prices to about 15 per cent by 1984/85, (b) to increase the relative share of direct taxes in government revenues in order to reduce dependence on taxes on international trade, (c) to offer fiscal incentives that encourage increased real investment by the private sector and expatriate Sudanese, and (d) to enhance the attractiveness of existing financial assets by improving returns and by offering new types of assets; and third, in the external financial sector (a) to follow a more flexible exchange rate policy, (b) to maintain the trend toward liberalization of trade and transactions, and (c) to expand the role of the private sector in importing essential commodities.

Preliminary projections of trade and services flows for 1984 and 1985 indicate a steady improvement in the balance on goods, services, and private transfers (Table 11). These projections are predicated on a steady progress of capital stock rehabilitation, sharp reductions in the present constraints on the availability of production inputs (fuel, spare parts, and electric power), and proper pricing of staple food commodities such as sugar and wheat. On this basis, it is realistic to project an 8 per cent annual increase in the volume of cotton exports, a 5 per cent annual increase in the volume of other exports, a rise of domestic sugar production from the present 250,000 tons per year to 450,000 tons per year by 1985, and a reduction in imports of wheat, flour, fertilizer and textiles (net). Service receipts are projected to maintain their trend growth of recent years while net service payments are projected to grow at a slightly lower rate in response to the restrained policies. Private remittances are projected to grow at a somewhat lower pace because of expected slower growth of incomes in the Arabian peninsula.

The external payments position should improve further after 1985 with the start of petroleum production. On the assumption of a 50,000 b/d initial export level, projected international prices, and allowing for the full servicing of the costs of the export pipelines and field development, the net foreign exchange earnings from petroleum exports would be in the range of US\$200-225 million annually (calculated at 1982 prices).

5. Performance criteria

(1) Ceilings on the expansion in net domestic assets and in net credit to the Government during successive periods (Table 12). These are intended to monitor adherence to the credit program. It should be noted that the magnitude of net borrowing by the Government will be adjusted on the basis of its average level in the 21 working days centered on the monitoring date. This is in order to even out the large fluctuations in government borrowing that have been manifested during recent periods.

Table 11. Sudan: Trade and Services Projections, 1983-85 1/

(In millions of U.S. dollars)

	1983	1984	1985
Exports	<u>675</u>	<u>790</u>	<u>890</u>
Cotton	238	290	335
Other	437	500	555
Imports	<u>-1,800</u>	<u>-1,881</u>	<u>-1,973</u>
Petroleum	-469	-499	-550
Sugar	-60	-50	-18
Wheat and flour	-99	-75	-50
Fertilizer	-14	-7	--
Textiles	-30	-25	-20
Other	-1,128	-1,225	-1,335
Services and private transfers	<u>505</u>	<u>555</u>	<u>620</u>
Service receipts	525	585	655
Service payments <u>1/</u>	-450	-505	-555
Private transfers	430	475	520
Balance on goods, services, and private transfers	<u>-620</u>	<u>-536</u>	<u>-463</u>

Source: Staff projections.

1/ Excludes interest on external debt.

(2) Prohibition on the contracting of new public or publicly guaranteed foreign debt in the maturity range of one year to ten years at commercial terms except insofar as this results from the rescheduling of previously incurred debt. This limitation is intended to prevent a worsening of the debt profile.

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

Table 12. Sudan: Ceilings for Domestic and External Borrowing During the Period June 1982-November 1983

End of Period	Actual	Program			
	1982	1983			
	June 30	March 31	June 30	Sept. 30	Nov. 30
(In millions of Sudanese pounds)					
Stocks					
Net domestic borrowing	3,223.4	3,833.4	4,058.4	... 1/	... 1/
Government (net)	1,247.1	1,342.1	1,357.1	... 1/	... 1/
Public entities	624.3	849.3	934.3	...	...
Private sector and specialized banks	936.6	1,236.6	1,341.6	...	...
Other items (net)	415.3	405.3	425.3	...	...
(Cumulative change over June 30, 1982)					
Flows					
Net domestic borrowing		610.0	835.0	... 1/	... 1/
Government (net)		95.0	110.0	... 1/	... 1/
Public entities		225.0	310.0	...	...
Private sector and specialized banks		300.0	405.0	...	...
Other items (net)		-10.0	10.0	...	...
(In millions of U.S. dollars)					
Gross external borrowing ^{2/}		--	--	--	-- 3/
Maturity of 1-5 years		--	--	--	-- 3/
Maturity of 5-10 years		--	--	--	-- 3/

^{2/} Source: Data provided by the Sudanese authorities.

^{1/} Because of uncertainty regarding the seasonal factors affecting credit demand in the period after June 30, 1983, no ceilings have been established at this stage for the increase in net domestic borrowing and in credit to the Government during the periods ending September 30, 1983 and November 30, 1983. These ceilings will be established at the time of the review of performance under the program in May 1983.

^{2/} Nonconcessional public and publicly guaranteed. The ceilings apply throughout the year and exclude new contracts that result from refinancing or rescheduling existing debts.

^{3/} Ceiling also relates to December 31, 1983.

(4) To implement the intention to terminate the subsidy on wheat/flour and pharmaceuticals. This is in order to strengthen the 1983/84 budget and to hasten the correction of price distortions.

(5) To reach understandings with the Fund by May 31, 1983 concerning the minimum level of collection from land and water charges in the irrigated agricultural schemes for the period ending August 31, 1983. This is to ensure proper cost recovery, avoid discrimination against cotton, and strengthen the finances of the public agricultural entities.

(6) To review performance under the program not later than May 31, 1983 and to reach understandings on needed adjustments in the areas of pricing, fiscal, monetary, and exchange rate policies. This is for the purpose of reviewing achievements and effecting needed corrections at a sufficiently early stage in the life of the program.

V. Staff Appraisal

The adjustment policies pursued by the Sudanese authorities since mid-1981 resulted in a considerable improvement in domestic economic performance. Production of the leading export commodity, cotton, rose sharply in the 1981/82 agricultural season. The overall budget deficit as a proportion of GDP declined to 8 per cent, from 11 per cent in the previous year, thereby enabling a sharp reduction in recourse to domestic bank borrowing and a concomitant decline in the pace of monetary expansion from 50 per cent in 1980/81 to 27 per cent in 1981/82. The external payments position, however, has remained weak. Despite pledges of supplementary assistance by the donor group, the receipt of unexpected grants from Saudi Arabia, and the favorable terms of the second rescheduling by the Paris Club, Sudan experienced considerable difficulty in financing certain essential imports, including fuel and spare parts, and in servicing its external debt in a timely fashion.

The stand-by arrangement approved in February 1982 was rendered inoperative at the time of the mid-term review of the program as a result of the buildup of arrears on the servicing of officially rescheduled debt and the failure to reach understandings regarding exchange rate policy. Although most of these issues were eventually resolved, emerging developments concerning the magnitude of external debt obligations and the unfinanced gap in the balance of payments, as well as the delays in securing arrangements for the liquidation of arrears on rescheduled debt, rendered the existing arrangement invalid. Moreover, a program covering a longer period of time than the remaining short life of the existing arrangement was considered essential in order to obtain the agreement of Sudan's external creditors on a restructuring of external debt servicing that would be consistent with Sudan's ability to meet external obligations. Accordingly, the authorities have requested a new stand-by arrangement.

The objectives of the new arrangement are to strengthen the external payments position and to make further progress in correcting the structural imbalances of the economy. The program, while focusing on short-term objectives, has been formulated in the context of a medium-term framework that includes a three-year program for public sector investment expenditures and targets for monetary expansion and abatement of inflationary pressures, and policy actions to further strengthen the economic and financial environment. The Sudanese authorities have already implemented measures to help in the achievement of these objectives. In the irrigated agricultural sector, cotton acreage for the 1982/83 season has been expanded by about 9 per cent. Supporting infrastructure and the export processing facilities have been strengthened through larger budgetary allocations for repair and maintenance. Efforts are being exerted to build up stocks of essential inputs and to improve the availability of equipment and spare parts (made possible by disbursements under the World Bank's agricultural rehabilitation program loan). Financial incentives to cotton farmers have been improved through the setting of higher procurement prices and more rational treatment of cotton in the determination of the land and water charges to be paid by farmers on all crops. In the manufacturing sector, the position of sugar and textiles producers has been strengthened through managerial reorganizations that aim at increasing flexibility in production arrangements, infusion of additional working capital, and increased tariff protection and restrictions on competing imports.

The budget has been strengthened by new revenue initiatives and by price increases that eliminated subsidies on a number of essential consumer goods. Current revenues are projected to exceed current expenditures after excluding interest on external debt. Expenditure control procedures have been strengthened, with the help of technical assistance from the Fund and IDA, in order to reduce the extent of expenditure overruns. Credit policy is being strengthened through the additional powers given to the Bank of Sudan under the new banking control legislation, through the commencement of a bond sale program to reduce government reliance on domestic bank borrowing, and through the recent increases in interest rates; the interest rates, however, remain highly negative and the staff will urge the authorities to implement further increases in the rate structure soon.

The depreciation of the Sudanese pound, which is to be fully reflected in the prices of all public sector imports except wheat/flour and pharmaceuticals, will increase the cost of nearly two thirds of imports by 44 per cent. These actions will be reinforced by efforts to increase the availability of goods for exports, to encourage import substitution, to improve the allocation of resources through greater flexibility in pricing, and to stimulate the inflow of expatriate remittances. In addition, the reform of the exchange system will be continued, and the authorities intend to address the distortions inherent in maintaining a dual exchange rate system and the imbalance of foreign exchange resources between the private and public sectors.

The effects of actions already implemented together with the policy framework agreed upon are projected to result in a narrowing of the trade gap in 1983 while at the same time allowing for an increase in such essential imports as petroleum and capital goods. The deficit in the current account of the balance of payments is projected to decline but will continue to be very large, particularly if external debt is to be serviced according to existing schedules. The extent of Sudan's external debt now is such that no internal adjustment that is consistent with political and social stability would be feasible to accommodate the debt servicing obligations. Hence, the successful implementation of the program will depend on the outcome of the efforts by the External Finance Coordinator to achieve a meaningful relief from debt servicing obligations and the response of the participants in the Consultative Group to Sudan's appeal for project and balance of payments support.

Looking beyond the period of the proposed stand-by arrangement, the prospects for a sustained recovery of the Sudanese economy hinge crucially on: (1) the success of domestic policies to restrain aggregate demand while restructuring the economy to redirect resources and imports away from consumption and toward export expansion and investments, and (2) the availability of sufficient external assistance to complete the ongoing rehabilitation of agricultural and manufacturing capacity and provide the support needed until a sustainable current account position is reached. The attainment of a viable balance of payments position in Sudan will require determined action and steady progress over a number of years. Among other factors, it is critically dependent on (a) higher production of cotton and the other principal agricultural exports, groundnuts, sorghum, and livestock, (b) increased production of import substitutes such as sugar, textiles, and petroleum, (c) attraction of a larger volume of remittances, and (d) a combination of increased external assistance and debt relief.

The staff believes that the program presented by the Sudanese authorities provides a realistic balance between the immediate financial constraints and the need to raise production and exports. The actions that have already been taken, and the policy framework that has been agreed upon, provide sufficient assurances for approving the arrangement and for believing that the program will be effectively implemented, if the supplementary aid and the debt relief being sought, are forthcoming.

Sudan: Relations with the Fund 1/

Date of membership: September 5, 1957.

Status: Article XIV.

Quota: SDR 132 million.

Fund holdings of Sudanese pounds:

	<u>SDR Millions</u>	<u>Per Cent of Quota</u>
Total, of which:	<u>586.3</u>	<u>444.1</u>
Credit tranches	59.4	45.0
EFF	122.3	92.7
SFF	171.4	129.8
CFF	100.1	75.8
Oil facility	1.1	0.8

SDR position: Holdings were nil. The net cumulative allocation amounted to SDR 52.19 million.

Trust Fund loan disbursements (first and second periods): SDR 70.4 million.

Direct distribution of profits from gold sales (July 1, 1976-July 31, 1980): US\$11.4 million.

Gold distribution: 61,619.962 fine ounces.

Exchange system: Sudan has a dual exchange system. The official market with a fixed rate of exchange of LSd 1 = US\$0.77 handles all public sector transactions and some private sector trade and services transactions. The free market with a fluctuating rate handles remaining private sector transactions.

Technical assistance: The Fund has a resident representative stationed in Khartoum. A member of the FAD panel of experts is assigned to the Ministry of Finance to advise on expenditure reporting and control as well as the accounting of aid disbursements. A member of the CBD panel of experts is being assigned to the Bank of Sudan to advise on bank supervision.

Article IV consultation: Article IV consultation discussions were held in May 1982. The staff reports (SM/82/174 and SM/82/179) were discussed by the Executive Board on September 22, 1982.

1/ As of December 31, 1982.

Financial Relations of the World Bank Group with Sudan 1/

	<u>Disbursed</u>		<u>Undisbursed</u>	
	IDA	IBRD	IDA	IBRD
	(In millions of U.S. dollars)			
Agriculture, livestock, and rural development	104.5	3.9	135.1	--
Irrigation	75.6	34.3	41.3	--
Power and utilities	42.9	19.0	44.1	--
Transport	82.7	77.9	42.6	4.1
Industry	8.8	--	--	--
Education	15.6	--	2.7	--
Technical assistance	4.2	--	5.0	--
Total	334.3	135.1	270.8	4.1
Repayments		98.7		
Debt outstanding, including undisbursed		645.6		
Commitments, October 1981-October 1982		51.4		
Disbursements, October 1981-October 1982		83.8		
IFC investments		26.0 (outstanding commitments)		

Recently approved projects by IDA

1. Western Savannah project (October 1981). Provides SDR 11.2 million to (a) test strategies for improving livestock and range production; (b) identify and test agronomic packages and extension methods for crop production; and (c) test approaches to settlement and soil conservation.
2. Agricultural Services project (January 1982). Provides SDR 15.7 million for the restructuring and strengthening of the Agricultural Bank of Sudan including technical assistance and training, additional buildings, vehicles, and incremental operating costs. Will also provide pumpsets and spare parts, agricultural machinery and trucks, incremental farm inputs, cash advances, and other farm operational costs.
3. Second Port project (April 1982). Provides US\$25 million for improvements in Port Sudan harbor including: (a) berth modifications; (b) improvement of grain and edible oil handling facilities; (c) improvements to electrical power system; and (d) increased efficiency in port operations through provision of communications facilities, technical assistance, and training.

Aid Consultative Group

The last meeting was held under the chairmanship of the IBRD in April 1980 in Paris. The next meeting is scheduled for January 1983.

1/ The IBRD/IDA lending positions as of October 31, 1982. Credits denominated in SDRs were converted to U.S. dollars at the October 31, 1982 rate.

Sudan: Targets, Internal Consistency, and Main Elements
of the Financial Program

I. Targets

1. Cotton production to increase by 16 per cent in the 1982/83 crop year. Volumes of main agricultural exports in 1983 to increase by: 120 per cent (cotton); 36 per cent (ground nuts); 7 per cent (Gum arabic); 5 per cent (sesame); and 3 per cent (sorghum).
2. Volume of essential imports in 1983 to increase by: 16 per cent (crude oil and refined petroleum products); 35 per cent (fertilizer); 20 per cent (insecticides); 17 per cent (spare parts); 7 per cent (machinery); and 7 per cent (trucks). Import volume of most other commodities to decline.
3. The overall budget deficit of the central government to decline from 8.2 per cent of GDP in 1981/82 to 7.3 per cent in 1982/83. Net domestic bank borrowing by the central government to decline from 1.9 per cent of GDP in 1981/82 to 1.2 per cent in 1982/83.
4. The growth of domestic liquidity to decline from an estimated 29 per cent in 1982 to 27 per cent in 1983.
5. The balance of payments current account deficit to be reduced from US\$943 million in 1982 to US\$789 million in 1983.
6. The rate of domestic inflation to decelerate from an estimated 30 per cent in 1982 to 25 per cent in 1983.

II. Internal Consistency and Underlying Assumptions

The financial framework of the program was formulated on the basis of an estimated behavioral relationship between real money holdings and real GDP. The behavior of real GDP was projected on the basis of likely movements in the principal sectors of the economy with judgmental adjustments as to the effects of recent and prospective government actions on the productivity of the agricultural and manufacturing sectors. Projections for both real and nominal GDP are shown in Table 2 (p. 5). The underlying rate of inflation was projected on the basis of past developments as well as expected developments in the domestic and external markets. Judgmental allowances were made for the lagged effects of monetary expansion in 1980/81 and 1981/82 as well as the effects of official policy actions to increase prices. A feasible target for reducing the inflation rate was then formulated in light of this estimate. With these data, and given the estimated behavioral relationship, a target for nominal growth of money was established. The credit program was then the outcome of the interaction between the target for overall monetary expansion and the projected balance of payments deficit. Within the overall credit program, indicative targets for

the growth of credit to the public entities and the private sector were established on the basis of sectoral requirements that took into account domestic and external financing demands; the ceiling on the growth of credit to the Central Government was derived as the residual that would sustain the overall credit target.

In establishing the periodic credit ceilings for the various reference points during the year, data limitations precluded accounting for the behavior of output, the course of prices, and movements in the balance of payments within the year. Rather, the ceilings were established using the historical pattern of seasonality in credit extension (for private sector credit) and on the basis of projected cash flows (for the Central Government and the public entities) as derived from their budgets.

The financial flows assumed in the program are shown in Table 8 (Changes in Domestic Liquidity), Table 9 (Summary of Central Government Operations), and Table 10 (Balance of Payments).

The principal assumptions underlying the monetary projections and the external trade account are as follows:

1. Real GDP to grow by 3.5 per cent in 1983.
2. Nominal GDP to grow by 29 per cent in 1983.
3. Income velocity of money to decline by about 1 per cent in 1983.
4. Values and average unit values of principal exports to be as follows:

	1982		1983	
	Value	Unit value	Value	Unit value
<u>(Value in millions of U.S. dollars; unit value in U.S. dollars per ton)</u>				
a. Cotton				
Long-staple	61.0	1,750.0	151.0	1,985.0
Medium-staple	36.4	1,410.0	87.0	1,520.0
b. Groundnuts				
Hand-picked, select quality (HPS)	3.0	577.0	15.0	600.0
Fair, average quality (FAQ)	38.8	369.0	50.0	400.0
c. Groundnut oil	11.8	686.0	15.2	690.0
d. Groundnut cake	10.5	150.0	15.5	155.0
e. Sesame	41.6	665.0	46.2	700.0
f. Sesame cake	3.5	180.0	5.1	190.0
g. Sorghum (dura)	75.0	257.0	84.0	280.0
h. Gum arabic	41.4	1,474.0	45.0	1,500.0

5. Values and average unit values of key imports to be as follows:

	1982		1983	
	Value	Unit value	Value	Unit value
(Value in millions of U.S. dollars; unit value in U.S. dollars per ton)				
a. Wheat	78.0	240.0	66.0	220.0
b. Flour	34.0	325.0	33.0	300.0
c. Sugar	76.0	330.0	60.0	300.0
d. Petroleum and products, oils and lubricants (net)	444.0	...	469.0	...
e. Chemicals	167.0	...	178.0	...
f. Manufactured goods	400.0	...	355.0	...
g. Machinery and equipment	155.0	...	174.0	...
h. Transport equipment	125.0	...	100.0	...
i. Spare parts	155.0	...	190.0	...

III. Elements of the Program

1. Fiscal policy

The discretionary actions already implemented include:

	Yield		
	Annual (Million LSD)	1982/83 Year (Million LSD)	1982/83 Year (Per cent of GDP)
a. Adjusting the customs valuation basis for all imports	152	95	1.1
b. Increases in excise taxes	48	29	0.3
c. Increases in fees and charges	14	7	0.1
d. Increases in prices of petroleum products (net)	17	9	0.1

These actions will be partially offset by the awarding of LSd 29 million in additional compensation to government employees and by the emergence of LSd 60 million in subsidies on wheat/flour and pharmaceutical products.

2. Monetary policy

Domestic credit expansion in the period July 1982-June 1983 will be limited to LSd 835 million of which LSd 110 million will go to the central government, LSd 310 million to the public entities, LSd 405 million to the private sector.

Interest rates on all deposits have been increased by 3 percentage points effective January 1, 1983. Borrowing rates were increased by amounts ranging from 1.5 to 3 percentage points as of the same date.

3. External policy

The official exchange rate has been depreciated from LSd 0.9 to the U.S. dollar to LSd 1.3 to the U.S. dollar. Studies are presently being conducted to evaluate the possibility of delinking the Sudanese pound from the U.S. dollar and linking it, instead, to a currency basket. A Fund mission will visit Khartoum in early 1983 to analyze and recommend further adjustments in the exchange system. Most taxes on exports have been eliminated. Restrictions have been introduced on the importation of less essential commodities and the customs duty rate structure is being adjusted to further increase duties on less essential commodities. Private sector importers are being encouraged to switch their imports, from less essential to more essential imports, by means of a relaxation of controls on prices and profit margins.

A comprehensive restructuring of the external debt is being attempted in order to alleviate the immediate external payments difficulties, improve debt servicing performance and Sudan's creditworthiness.

Sudan: Chronology of Major Changes Since June 1978
in Effective Nominal Official Exchange Rates 1/

June 8, 1978: The official rate was changed from Lsd 1 = US\$2.87156 to Lsd 1 = US\$2.50. The tax/subsidy amount applied to the official rate was increased from 5.18 Sudanese piastres per US\$1 to 10 Sudanese piastres per US\$1, yielding a rate of Lsd 1 = US\$2.00, which applied to all transactions except receipts from cotton exports and expatriate remittances. The special incentive rate for remittances by Sudanese nationals working abroad remained unchanged at Lsd 1 = US\$1.75.

Effective nominal official exchange rate:
Lsd 1 = US\$2.13

March 27, 1979: The special incentive rate for remittances by Sudanese nationals working abroad was changed from Lsd 1 = US\$1.75 to Lsd 1 = US\$1.50.

Effective nominal official exchange rate:
Lsd 1 = US\$2.12

July 3, 1979: The tax/subsidy was extended to receipts of cotton exports, thereby yielding the effective rate of Lsd 1 = US\$2.00 for all exports.

Effective nominal official exchange rate:
Lsd 1 = US\$1.98

Sept. 16, 1979: Sudan's exchange system was reorganized into a dual exchange market (i.e., official and parallel markets). The tax/subsidy element was abolished and a direct official rate of Lsd 1 = US\$2.00 was established. The special incentive rate of Lsd 1 = US\$1.50 for expatriate remittances was also abolished, and a parallel exchange market was created at the rate of Lsd 1 = US\$1.25. Approximately 94 per cent of exports and 52 per cent of imports, official invisibles, cash loans, and debt servicing were effected through the official market while all other transactions were designated to the parallel market.

Effective nominal official exchange rate:
Lsd 1 = US\$1.66

1/ In terms of U.S. dollars; weighted by rates applicable to relevant items in the current account.

Sept. 21, 1980: All exports, except cotton, and all imports--except petroleum, sugar, wheat and wheat flour, milk, pharmaceuticals, and imports related to cotton--were moved from the official market to the parallel market. This shift represented an increase in the proportion of exports channeled through the parallel market from 6 per cent to about 64 per cent, while the proportion of imports was raised from 48 per cent to 56 per cent.

Effective nominal official exchange rate:
Lsd 1 = US\$1.56

June 8, 1981: Cotton exports were moved from the official market to the parallel market. In effect, all exports were henceforth effected at the parallel market rate of Lsd 1 = US\$1.25.

Effective nominal official exchange rate:
Lsd 1 = US\$1.45

July 15, 1981: The unofficial third market was legalized. Licensed dealers handle exchanges in this market with a freely fluctuating rate. The market has handled most of the remittances from abroad, private sector imports, and service transactions.

Nov. 9, 1981: The official market and the parallel market were unified at the rate of Lsd 1 = US\$1.11.

Effective nominal official exchange rate:
Lsd 1 = US\$1.11 1/

June 30-Aug. 25
1982: Maximum rates in the free market set by decree at Lsd 1 = US\$0.885 buying and US\$0.870 selling. The pre-decree rates were about Lsd 1 = US\$0.71.

Nov. 15, 1982: The official market rate was changed to Lsd 1 = US\$0.77.

Effective nominal official exchange rate:
Lsd 1 = US\$0.77 1/

1/ Excludes exchanges through licensed dealers at the free market rate.

Table 13. Sudan: Gross Domestic Product, 1976/77-1981/82

(In millions of Sudanese pounds)

	Actual		Estimated			
	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82
Agriculture	728	825	768	720	758	821
Manufacturing, mining, and quarrying	132	127	117	132	135	140
Electricity and water	34	33	35	42	45	48
Construction	103	100	105	115	120	120
Distribution and hotels	373	386	353	351	377	412
Transport and communications	220	226	207	206	221	240
Financial services	132	131	130	117	125	135
Personal and household services	50	47	53	54	55	56
Government services	220	221	228	248	260	270
GDP at factor cost at 1976/77 prices	<u>1,992</u>	<u>2,096</u>	<u>1,996</u>	<u>1,985</u>	<u>2,096</u>	<u>2,242</u>
GDP deflator	100	117	147	185	237	272
GDP at factor cost at current prices	<u>1,992</u>	<u>2,452</u>	<u>2,934</u>	<u>3,672</u>	<u>4,968</u>	<u>6,098</u>
Indirect taxes less subsidies	256	305	323	380	460	580
GDP at current market prices	<u>2,248</u>	<u>2,757</u>	<u>3,257</u>	<u>4,052</u>	<u>5,428</u>	<u>6,678</u>

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

Table 14. Sudan: Output, Cropped Area, and Yields of Major Noncotton Crops, 1976/77-1981/82

	1976/77	1977/78	1978/79	1979/80	1980/81	1981/82 ^{1/}
(In thousands of metric tons)						
Output						
Dura	1,715	2,017	2,408	1,669	2,068	3,356
Dukhn	467	488	550	309	491	573
Groundnuts	705	1,021	804	852	707	700
Sesame	203	245	214	209	221	242
Wheat	301	317	177	233	218	182
Gum arabic	32	35	28	24	32	37
(In thousands of feddans)						
Area						
Dura	6,153	6,662	7,202	6,349	6,956	9,289
Dukhn	2,784	2,984	3,078	2,320	2,598	2,618
Groundnuts	1,785	2,629	2,327	2,352	2,162	2,376
Sesame	2,104	2,349	2,057	1,989	2,011	1,971
Wheat	665	592	586	457	437	371
Aggregate	<u>13,491</u>	<u>15,216</u>	<u>15,250</u>	<u>13,467</u>	<u>14,164</u>	<u>16,625</u>
(In kilograms per feddan)						
Yields						
Dura	279	303	334	263	297	361
Dukhn	168	164	179	133	189	219
Groundnuts	395	385	346	362	327	295
Sesame	97	104	104	105	110	123
Wheat	452	535	302	510	499	491

Sources: Ministry of Agriculture and Irrigation and Gum Arabic Corporation.

^{1/} Preliminary.

Table 15. Sudan: Central Government Revenue, 1978/79-1982/83

(In millions of Sudanese pounds)

	1978/79	1979/80	1980/81	1981/82		1982/83	
				Program	Prov. Actual	Budget	Program
Tax revenue	413.9	471.7	596.0	826.0	756.6	1,007.7	1,083.1
Taxes on income and profit	55.8	82.9	115.7	140.0	147.7	203.0	197.3
Taxes on goods and services	88.4	122.6	130.4 ^{1/}	(205.0)	(158.2)	(212.0)	(241.8)
Excise duties	(58.4)	(59.7)	(62.8)	(968.0)	(64.9)	(104.4)	(102.2) ^{2/}
Development tax	(14.0)	(15.6)	(36.9) ^{1/}	(17.0)	(27.6)	(25.3)	(30.5)
Sugar monopoly profits	(3.0)	(26.2)	(--)	(40.0)	(...)	(--)	(25.1)
Stabilization fund excises	(3.0)	(21.1)	(30.7)	(75.0)	(60.8)	(77.3)	(79.0) ^{3/}
Sales tax	(--)	(--)	(--)	(5.0)	(4.9)	(5.0)	(5.0)
Taxes on international trade	266.8	264.9	346.0	481.0	450.7	592.7	644.0 ^{4/}
Import duties	(156.3)	(187.1)	(238.4)	(334.0)	(327.1) ^{5/}	(433.7) ^{5/}	(...)
Development tax on imports	(21.8)	(7.8)	(--)	(--)	(--)	(--)	(--)
Export duties	(15.5)	(8.5)	(40.7)	(20.0)	(21.7)	(22.0)	(...)
Development tax on exports	(10.7)	(13.2)	(...)	(10.0)	(9.2)	(20.0)	(...)
Consumption duties	(17.5)	(19.5)	(23.7)	(35.0)	(26.6)	(40.0)	(...)
Exchange Fund	(42.6)	(--)	(--)	(17.0)	(--)	(--)	(--)
Defense tax	(2.4)	(28.8)	(43.2)	(65.0)	(66.1)	(77.0)	(...)
Other taxes	2.9	1.3	3.9	--	--	--	--
Nontax revenue	90.3	110.2	142.0	155.0	159.1	334.9	219.8
Profits of public entities	32.6	27.5	30.8	37.0	25.6	94.4 ^{6/}	41.3
Banks	(16.2)	(21.7)	(27.1)	(25.0)	(23.5)	(32.0)	(27.3)
Sudan Development Corporation	(1.0)	(1.2)	(2.3)	(2.0)	(--)	(5.0)	(5.0)
Gezira Board	(7.0)	(--)	(--)	(--)	(--)	(--)	(--)
Others	(8.4)	(4.6)	(1.4)	(10.0)	(2.1)	(57.4) ^{6/}	(9.0) ^{7/}
Land sales	...	4.6	11.7	2.0	2.8	15.3	5.0
Interest, rent, and dividends	7.8	9.3	20.1	12.0	6.2	29.2	10.0
Fees and charges	29.6	36.8	53.4	60.0	71.2	140.5	102.0 ^{8/}
Pension contributions	9.2	13.9	21.0	37.0	27.5	46.2	31.5
Other	11.1	18.1	5.0	7.0	25.8	9.3	30.0
Total revenue	504.2	581.9	738.0	981.0	915.7	1,342.6	1,302.9

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

^{1/} Includes development tax on exports.^{2/} Includes an estimated LSd 11 million in increases in various excise taxes and LSd 10 million from additional taxation of cement.^{3/} Includes LSd 8 million resulting from an increase in cigarette prices.^{4/} Includes an estimated LSd 95 million resulting from changing the import valuation basis.^{5/} Includes import surcharge revenues amounting to LSd 48.3 million in 1981/82 and LSd 83.0 million in 1982/83.^{6/} Includes an estimated LSd 21 million in sugar monopoly profits.^{7/} Includes an estimated LSd 9 million resulting from increases in petroleum product prices.^{8/} Includes an estimated LSd 7 million in new measures.

Table 16. Sudan: Central Government Expenditures, 1978/79-1982/83

(In millions of Sudanese pounds)

	1978/79	1979/80	1980/81	1981/82		1982/83	
			Prov. Actual	Program	Est. Actual	Budget	Program
Current expenditures	565.5	645.2	893.2	961.9	1,045.7	1,202.0	1,416.7
Defense and security	75.6	107.4	131.5	166.5	195.8	188.0	...
Education and health	44.9	51.4	60.9	122.0	86.6	117.1	...
Economic services	29.8	33.2	41.2	52.7	44.8	47.6	...
Transfers to regional governments	131.2	209.1	263.6	298.7	282.8	299.0	...
Interest payments	31.6	48.0	68.7	76.3	64.3	153.6	191.7
Internal	(14.2)	(26.7)	(17.6)	(18.0)	(18.0)	(25.0)	(25.0)
External	(17.4)	(21.3)	(51.1)	(58.3)	(46.3)	(128.6)	(166.7)
General administration and unallocable	252.4	196.1	327.3	245.7	371.4	396.7	...
Development expenditure	164.6	221.3	383.7	514.3	340.0	502.2	476.3 ^{1/}
Agriculture and irrigation	55.4	46.9	59.7	113.7	...	128.6	...
Industry, mining, electricity, and water	33.5	37.9	32.0	166.0	...	134.9	...
Transport and communication	26.2	33.7	39.6	88.4	...	87.6	...
Other	49.5	102.8	252.4	146.2	...	151.1	...
Equity and other operations	74.7	61.7	74.4	50.0	76.3	39.9	65.0
Total expenditure	804.8	928.2	1,351.3	1,526.2	1,462.0	1,744.2	1,958.0

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

^{1/} Development expenditure scaled back to 90 per cent because of implementation constraints.

Table 17. Sudan: Allocations for the Three-Year Public Investment Program, 1982/83-1984/85 ^{1/}

(In millions of Sudanese pounds at current prices)

	1982/83	1983/84	1984/85	Total
Agriculture	140.8	197.2	194.8	532.8
Rehabilitation	48.3	82.3	87.7	218.3
Completion of ongoing projects	44.3	60.3	51.7	156.3
Infrastructure	30.7	37.5	34.9	103.1
Other	17.5	17.1	20.5	55.1
Manufacturing	25.0	40.0	40.5	105.5
Rehabilitation	18.5	37.0	40.5	96.0
Expansion	3.5	--	--	3.5
Other	3.0	3.0	--	6.0
Power	61.5	62.0	57.0	180.5
Water	19.0	25.0	24.0	68.0
Transport and communication	115.5	123.4	110.5	349.4
Roads and bridges	39.0	38.0	31.0	108.0
Telecommunications	17.0	14.5	17.0	48.5
Sudan Railways	22.0	31.0	27.0	80.0
Other	37.5	39.9	35.5	112.9
Education and health	46.0	56.5	65.0	167.5
Regional and local development	70.0	81.0	90.0	241.0
Other	6.5	5.0	--	11.5
Total	484.3	590.1	581.8	1,656.2

Source: Ministry of Finance and Economic Planning, Prospects, Programmes, and Policies for Economic Development, 1982/83-1984/85, October 1982.

^{1/} Covers allocations for the Central Government and the self-financing units. Foreign currency component of expenditures evaluated on the basis of LSd 0.90 = US\$1.00.

Table 18. Sudan: Commercial Banks' Interest Rates,
1978, 1981, and 1983 ^{1/}

(In per cent)

	<u>February</u> 1978	<u>February</u> 1981	<u>November</u>	<u>January</u> 1983
Lending rates				
Discount of bills of exchange	13.0	15.0	17.0	20.0
Advances against bills of exchange	13.5	15.5	17.5	20.0
Advances to industrial borrowers	)	12.0	14.0	17.0
Overdrafts and other advances (range)	) 10.0-14.5	) 12.0-16.5	14.0-18.5	17.0-20.0
Deposit rates				
A. Nongovernmental customers				
Demand deposits	--	--	--	--
Notice deposits (15 days)	1.0	1.0	3.0	6.0
Fixed deposits				
3 months	6.0	8.5	10.5	13.5
6 months	7.0	9.0	11.0	14.0
9 months	8.0	9.5	11.5	14.5
12 months	8.5	10.0	12.0	15.0
Savings deposits	8.0	8.0	10.0	13.0
Deposits of pension and provident funds	4.0	8.0	10.0	13.0
Foreign currency deposits (U.S. dollars and pounds sterling)	--	Linked to rates in international markets ^{2/}		Inter-national rates
B. Governmental customers				
Demand deposits	--	--	--	--
Fixed deposits (range)	3.0-4.0	--	--	--
Savings deposits	4.0	--	--	--

Source: Bank of Sudan.

^{1/} The structure of interest rates was unchanged between February 1978 and February 1981 and between November 1981 and January 1983.^{2/} Since June 1980.

Table 19. Sudan: Monetary Survey, 1978-82

(In millions of Sudanese pounds)

End of Period	June	Dec.	June	Dec.	June	Dec.	June	Dec.	June
	1978	1978	1979	1979	1980	1980	1981	1981	1982
Foreign assets (net)	-218.1	-215.9	-201.3	-286.9	-288.9	-336.5	-398.9	-871.2	-893.5
Domestic assets	1,084.3	1,265.5	1,566.6	1,804.4	1,955.1	2,278.7	2,518.6	2,907.4	3,151.7
Claims on Central Government	593.5	672.7	913.7	1,036.9	1,140.8	1,286.1	1,400.0	1,565.7	1,590.8
Claims on public entities	172.4	226.6	245.7	283.6	288.4	376.7	419.9	535.0	624.3
Claims on private sector and specialized banks	318.4	366.2	407.2	483.9	525.9	615.9	698.7	806.7	936.6
Total assets = total liabilities	866.3	1,049.6	1,365.3	1,518.4	1,666.1	1,942.2	2,119.7	2,036.3	2,258.2
Money and quasi-money	669.1	763.8	877.0	995.0	1,047.4	1,274.9	1,488.9	1,802.4	2,028.1
Currency	222.8	279.1	327.8	380.1	388.3	508.2	516.2	629.8	718.3
Private sector demand deposits	259.3	291.6	348.0	390.7	435.2	532.4	624.5	649.6	732.1
Public entities deposits	62.4	57.8	56.0	58.5	45.0	42.8	99.1	232.8	203.3
Private sector savings and time deposits	124.6	135.3	145.2	165.7	179.0	191.5	249.1	290.3	374.4
Deposits of government sector	45.3	81.7	254.0	331.6	412.6	499.7	480.5	526.6	645.4
Central Government	37.3	73.3	53.2	125.3	152.1	210.2	193.7	73.2	146.6
Counterpart fund	0.4	--	0.6	--	--	--	--	--	--
Regional and local governments	7.6	8.4	10.9	10.8	10.5	17.5	20.8	22.3	28.3
Blocked Accounts	--	--	189.3	195.5	250.0	271.9	266.0	431.2	470.5
Account No. 1 ^{1/}	(--)	(--)	(168.8)	(168.8)	(168.8)	(168.8)	(168.8)	(168.8)	(168.8)
Account No. 2 ^{2/}	(--)	(--)	(20.5)	(26.7)	(81.2)	(103.1)	(97.2)	(262.4)	(301.7)
Other items (net)	151.9	204.1	234.3	191.7	206.1	167.6	150.3	-292.8	-415.3

Source: Bank of Sudan.

^{1/} Local currency counterpart of external arrears accumulated prior to April 1, 1979.^{2/} Local currency counterpart of external arrears accumulated since April 1, 1979.

Table 20. Sudan: Composition of Exports, 1977/78-1981/82

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

	1977/78	1978/79	1979/80	1980/81	1981/82
Cotton	295.8	320.7	333.4	182.0	69.4
Groundnuts	80.1	25.5	14.2	65.6	48.1
Sesame	55.4	27.8	40.6	32.2	41.7
Gum arabic	35.3	40.0	43.9	32.6	43.4
Dura (sorghum)	8.6	8.7	68.7	71.4	64.4
Vegetable oil and cakes	17.5	46.5	26.3	33.6	26.1
Castor seeds	3.2	3.5	--	--	0.1
Livestock products	26.7	30.0	35.6	43.7	49.6
Other	9.2	6.8	19.8	17.8	38.8
Subtotal	<u>531.8</u>	<u>509.5</u>	<u>582.5</u>	<u>478.9</u>	<u>381.6</u>
Re-exports <u>2/</u>	19.2	17.5	--	--	--
Total	<u>551.0</u>	<u>527.0</u>	<u>582.5</u>	<u>478.9</u>	<u>381.6</u>

Source: Bank of Sudan.

1/ Converted from data in Sudanese pounds at the following exchange rates: for 1977/78, LSd 1.00 = US\$2.87; for 1978/79, LSd 1.00 = US\$2.50; for 1979/80, LSd 1.00 = US\$2.50, July-September 1979; and for October 1979-September 1980, LSd 1.00 = US\$2.00; October 1980-June 1981, LSd 1 = US\$1.25 or US\$2.00 depending on the commodity; from June 1981 to September 1981, LSd 1 = US\$1.25; from October 1981 to December 1981, LSd 1 = US\$1.18; and from January 1982 to June 1982 LSd 1 = US\$1.11.

2/ Excludes petroleum re-exports.

Table 21. Sudan: Composition of Imports, 1977/78-1981/82

(In millions of U.S. dollars)

	1977/78	1978/79	1979/80	1980/81	1981/82 ^{1/}
Foodstuffs	121.8	98.8	266.2	314.4	371.2
Tea	(33.0)	(27.0)	(20.0)	(27.6)	(25.7)
Coffee	(--)	(2.5)	(6.5)	(11.2)	(4.6)
Sugar	(43.7)	(28.0)	(122.7)	(183.6)	(158.5)
Other ^{2/}	(45.1)	(41.3)	(117.0)	(92.0)	(182.5)
Beverages and tobacco	17.8	12.0	9.8	23.2	23.5
Crude material and petroleum products	124.1	183.9	259.0	404.4	513.7
Of which: petroleum products	(117.8)	(177.6)	(254.0)	(393.0)	(494.8)
Chemicals and medicine	106.8	109.5	122.5	139.6	129.6
Manufactured goods	218.8	218.0	240.5	323.2	294.5
Machinery and equipment	369.3	284.7	234.2	231.2	262.5
Transport equipment	124.9	170.5	137.7	140.0	182.7
Textiles	104.5	60.5	70.0	55.8	44.3
Total	<u>1,188.0</u>	<u>1,137.9</u>	<u>1,339.9</u>	<u>1,631.4</u>	<u>1,822.0</u>

Sources: Bank of Sudan and staff estimates.

^{1/} Because of the application of different exchange rates for customs purposes, the composition of imports in the period January-June 1982 was partly estimated.

^{2/} Mainly wheat and wheat flour, lentils, and dairy products.

Table 22. Sudan: External Public Debt, 1981-82

(In millions of U.S. dollars)

	Debt Outstanding		Debt Service Due		Projected		Debt Outstanding	
	Dec. 31, 1981 1/		1982		1982		Dec. 31, 1982	
	Total	Arrears	Principal	Interest	Debt Service Paid	Debt Disbursed	Total	Arrears
Bilateral	2,956.4	599.1	232.9	131.0	94.0	688.0	4,242.7	1,010.7 2/3/
OECD countries	966.8	274.5	61.9	47.9				
Paris Club I	(517.5)	(87.4)	(38.7)	(34.8)				
Paris Club II	(40.0)	(40.0)	(2.0)	(8.0)				
Other bilateral	(103.6)	(0.1)	(2.1)	(0.9)				
Other suppliers 4/	(179.6)	(55.9)	(1.2)	(0.4)				
Other financial institutions 4/	(126.1)	(91.1)	(17.9)	(3.8)				
Eastern bloc	314.5	53.8	30.2	6.9				
Oil producers	1,675.1	270.8	140.8	76.2				
Multilateral	1,415.6	77.8	95.4	71.9	103.4	169.7	992.5	--
IMF	564.2	--	39.6	54.4	94.0	84.7	609.3	--
Trust Fund	(81.9)	(--)	(--)	(0.4)	(0.4)	(--)	(81.9)	(--)
Other	(482.3)	(--)	(39.6)	(54.0)	(93.6)	(84.7)	(527.4)	(--)
IBRD	48.2	--	3.9	2.7	6.6	--	44.3	--
IDA	254.5	--	0.6	2.2	2.8	85.0	338.9	--
Other 5/	548.7	77.8	51.3	12.6	...	...	...	...
Suppliers	57.9	26.8	8.7	2.0	--	--	59.9	37.5
Financial institutions	1,173.4	188.5	50.0	152.5	52.0	--	1,273.9	339.0
Commercial banks--rescheduling agreement	554.7	--	9.0	92.9	52.0	--	595.6	49.9
Other multiple lenders	294.2	111.8	41.0	17.4	--	--	311.6	170.2
Arab financial institutions 6/	324.5	76.7	--	42.2	--	--	366.7	118.9
Short term	859.0	859.0	--	--	--	--	859.0	859.0
Financial institutions 7/	323.0	323.0	--	--	--	--	323.0	323.0
Suppliers' credit 8/	536.0	536.0	--	--	--	--	536.0	536.0
Imbalances under bilateral agreement with Egypt	88.0	--	--	--	--	--	88.0	--
Military debt	200.0	--	--	--	--	100.0	300.0	--
Total	6,750.3	1,751.2	387.0	357.4	249.4	957.7	7,816.0	2,246.2

Sources: IBRD and staff estimates.

1/ Committed by December 31, 1981; includes arrears on principal and interest. All data converted to U.S. dollars at rates prevailing December 31, 1981. Excludes interest on arrears.

2/ Bilateral includes other multilateral.

3/ US\$40 million in arrears was regularized by the Paris Club rescheduling of March 1982.

4/ Some of this may not be guaranteed by creditor governments.

5/ Includes Arab Monetary Fund, Arab African Bank, Arab Fund for Economic and Social Development, Islamic Development Bank, African Development Bank, OPEC Special Fund, African Development Fund, International Fund for Agricultural Development, and European Development Fund.

6/ Assumes principal payments are rolled over and interest is paid at LIBOR.

7/ Includes Islamic Development Bank.

8/ May include overlap with the OECD and Eastern bloc suppliers' credit listed above.

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 Kostı 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> June 30, 1982	<u>Cumulative Changes over</u> <u>June 30, 1982</u>	
		March 31, 1983	June 30, 1983
<u>(In millions of Sudanese pounds)</u>			
Net domestic assets	3,223.4	610.0	835.0
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.