

**FOR
AGENDA**

EBS/83/174
Supplement 1

CONFIDENTIAL

September 12, 1983

To: Members of the Executive Board

From: The Secretary

Subject: Sudan - Staff Report for the 1983 Article IV Consultation
and Review Under the Stand-By Arrangement

The attached supplement to the staff report for the 1983 Article IV consultation with Sudan and the review under stand-by arrangement has been prepared on the basis of additional information.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion (Wednesday, September 14, 1983), they should contact Mr. Yaqub, ext. (5)7134.

Att: (1)

INTERNATIONAL MONETARY FUND

SUDAN

Staff Report for the 1983 Article IV Consultation
and Review Under the Stand-By Arrangement
Supplementary Information

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the Exchange and Trade Relations Department

Approved by A.K. El Selehdar and Subimal Mookerjee

September 12, 1983

I. Introduction

In EBS/83/174, dated 8/16/83 (Sudan - Staff Report for the 1983 Article IV Consultation and Review Under the Stand-By Arrangement), it was reported that data on monetary and credit developments for the period ended June 30, 1983 was likely to become available by the end of August 1983 and that the Sudanese authorities would soon be implementing certain policy measures in the areas of credit control, the government budget, and the foreign exchange market. This supplement reports on the pertinent developments.

II. Monetary and Credit Developments

Money and quasi-money increased by LSd 705.1 million (37.1 percent) during the year ended June 1983 (Table 1), almost the same increase as had been provisionally estimated in EBS/83/174. However, actual domestic credit expansion turned out to be LSd 38.8 million less than the estimates given in EBS/83/174 with a corresponding reduction in the contractionary impact of the external sector. Net domestic assets of the banking system increased by LSd 796.2 million while net borrowing by the Central Government rose by LSd 66.4 million in 1982/83. After adjusting for the government deposits with the Bank of Sudan for the average level around the end of the month, the increase in net government borrowing and in net domestic assets of the banking system became LSd 69.9 million and LSd 799.7 million, respectively, showing that the ceiling on domestic credit extension and the subceiling on net credit to the Government for the period ended June 30, 1983 were observed (Table 2). The credit control measures described in EBS/83/174 (p. 16) were announced on August 4, 1983.

Table 1. Sudan: Changes in Domestic Liquidity, 1980/81-1982/83

| Changes During the Period | 1980/81 | 1981/82 | Program 1982/83 | Actual 1982/83 |
|--|---------|---------|--------------------|-------------------|
| (In millions of Sudanese pounds) | | | | |
| Money and quasi-money | 489.5 | 349.0 | 575.0 | 705.1 |
| Impact of external sector | -101.9 | -105.2 | -260.0 | -62.5 |
| Foreign assets (net) | -101.9 | -969.6 | ... | -889.8 |
| Devaluation adjustment | -- | 558.6 | ... | 556.1 |
| Rescheduling account | -- | 305.8 | ... | 271.2 |
| Domestic credit extension | 607.4 | 506.7 | 835.0 | 796.2 |
| Claims on government (net) 1/ | 299.1 | 121.3 | 110.0 | 66.4 |
| Claims on public entities | 131.5 | 204.4 | 310.0 | 303.5 |
| Claims on private sector and specialized banks | 172.8 | 237.9 | 405.0 | 365.2 |
| Other items (net) | 4.0 | -56.9 | 10.0 | 61.1 |
| Blocked accounts (-) | -16.0 | -52.5 | -- | -28.6 |
| (Changes in percent) 2/ | | | | |
| Money and quasi-money | 46 | 23 | 28 | 37 |
| Claims on government (net) | 30 | 9 | 8 | 5 |
| Claims on public entities | 46 | 49 | 50 | 49 |
| Claims on private sector and specialized banks | 33 | 34 | 43 | 39 |
| (As percent of broad money at beginning of period) | | | | |
| Impact of external sector | -10 | -7 | -13 | -3 |
| Domestic credit extension | 57 | 33 | 41 | 42 |
| Claims on government (net) | 28 | 8 | 5 | 3 |
| Claims on public entities | 12 | 13 | 15 | 16 |
| Claims on private sector and specialized banks | 16 | 15 | 20 | 19 |
| Other items (net) | 1 | -3 | 1 | 3 |

Source: Bank of Sudan and staff estimates.

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

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

Table 2. Sudan: Performance Under Stand-By
Arrangement Borrowing Ceilings

(Cumulative Changes over June 30, 1982)

| | March 31, 1983 | | June 30, 1983 | |
|---|----------------|------------------|---------------|------------------|
| | Program | Actuals | Program | Actuals |
| (In millions of Sudanese pounds) | | | | |
| Net domestic borrowing | 610 | 593 | 835 | 800 |
| Government (net) | 95 | 78 ^{1/} | 110 | 70 ^{1/} |
| Public entities | 225 | 214 | 310 | 304 |
| Private sector and specialized banks | 300 | 266 | 405 | 365 |
| Other items (net) | -10 | 35 | 10 | 61 |
| (In millions of U.S. dollars) | | | | |
| Nonconcessional public and publicly guaranteed external borrowing | -- | -- | -- | -- |
| Maturity of 1-5 years | -- | -- | -- | -- |
| Maturity of 1-10 years | -- | -- | -- | -- |

Source: Bank of Sudan.

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

III. Budgetary Measures

In addition to the measures that were taken on July 8, 1983 yielding LSd 88.4 million on an annual basis (EBS/83/174, p. 18), the authorities were to take measures amounting to LSd 126 million by August 15, 1983. The staff has been informed that the Government of Sudan has implemented the following budgetary measures: (1) the full excise tax (15 percent) and development tax (5 percent) on sugar produced by the four public sector mills was reinstated as of August 15, 1983 with an estimated yield of LSd 4 million during the 1983/84 fiscal year; collection of these taxes had been suspended on account of the weak cash flow position of the factories but a recent increase of domestic procurement prices from LSd 250 per ton to LSd 400 per ton made the reinstatement possible; (2) the subsidy on imports of pharmaceutical products arising from the pricing of these imports on the basis of the pre-November 15, 1982 exchange rate of LSd 0.9 to the U.S. dollar was eliminated by changing the pricing basis to the present official exchange rate of LSd 1.3 to the U.S. dollar; this measure, implemented on August 15, 1983, is calculated to save LSd 16 million during 1983/84; (3) the additional customs duty on imports has been raised by 3 percentage points to 13 percent as of August 18, 1983 with an expected yield of LSd 51 million; (4) the preferential duty status for raw tobacco; photographic and cinematographic goods; perfumes, toiletries, and soap detergent; paint; food preparation items and confectionaries; certain cars and tires; dry cells and accumulators; household utensils; packing materials; electric appliances and small electronic items; steel structure and engineering equipment; leather articles; chemicals and matches; construction equipment; miscellaneous inputs and spare parts were abolished as of September 3, 1983 with an expected revenue generating effect of LSd 40 million; (5) procedures for the imposition and collection of excise taxes were changed as of September 4, 1983 with an estimated increase of LSd 15 million in tax receipts. In addition, to maintain the price differential relative to domestically produced cigarettes, the duties on imported cigarettes were raised as of September 3, 1983 with an expected revenue increasing effect of LSd 2 million. The combined yield of these above described actions is calculated at LSd 128 million during 1983/84.

IV. Free Foreign Exchange Market

The recent credit control measures, particularly the reserve requirements on commercial bank deposits and higher deposit margins for the opening of import letters of credit and for bank advances against pledges of goods, had a dampening effect on the demand for foreign exchange. Notwithstanding the seasonal demand for foreign exchange on account of the pilgrimage, the Sudanese pound in the "unofficial" market appreciated from US\$1 = LSd 2.17 in early August 1983 to US\$1 = LSd 2.02 by the end of the month. This development prompted the commercial banks to adjust the exchange rate in the free market from US\$1 = LSd 1.98 to US\$1 = LSd 1.90.

It was reported in EBS/83/174 that the authorities had undertaken to announce the procedure for issuing licenses to the private dealers in foreign exchange and initiate licensing by August 31, 1983. The staff has not as yet received information regarding the discharge of this undertaking.