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04

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 83/21

10:00 a.m., January 28, 1983

J. de Larosière, Chairman
W. B. Dale, Deputy Managing Director

Executive Directors	Alternate Executive Directors
	M. K. Diallo, Temporary
	C. Taylor
J. de Groote	H. G. Schneider
B. de Maulde	
	J. Delgadillo, Temporary
R. D. Erb	
	T. Alhaimus
	I. R. Panday, Temporary
	T. Yamashita
	D. I. S. Shaw, Temporary
	J. R. N. Almeida, Temporary
	H. Arias, Temporary
	G. Grosche
	C. P. Caranicas
R. N. Malhotra	
	J. E. Suraisry
	T. de Vries
	K. G. Morrell
	H. Alaoui-Abdallaoui, Temporary
F. Sangare	
M. A. Senior	
	L. Vidvei
	Wang E.

J. W. Lang, Jr., Acting Secretary
K. S. Friedman, Assistant

Also Present

A. de Lattre, External Finance Coordinator for Sudan. African Department: S. M. Nsouli, W. J. Shields, M. Sidibe. Asian Department: K. A. Al-Eyd, C. M. Browne, N. N. Choudhry, S. Ishii. Exchange and Trade Relations Department: S. Mookerjee, Deputy Director; M. Allen, E. H. Brau, H. W. Gerhard, S. Kanesa-Thasan. External Relations Department: A. M. Abushadi. Fiscal Affairs Department: R. O. Khalid, Deputy Director; A. M. Abdel-Rahman, R. D. Kibuka. Legal Department: S. A. Silard. Middle Eastern Department: A. S. Shaalan, Director; A. K. El Selehdar, Deputy Director; R. K. Basanti, S. Geadah, B. A. Karamali, S. Kawar, A. Kayoumy, E. M. Taha. Research Department: L. U. Ecevit. Treasurer's Department: D. Berthet. Personal Assistant to the Managing Director: N. Carter. Advisors to Executive Directors: E. A. Ajayi, C. J. Batliwalla, S. E. Conrado, M. A. Janjua, P. Kohnert, P. D. Péroz. Assistants to Executive Directors: L. Barbone, M. Camara, T. A. Connors, R. J. J. Costa, G. Ercel, C. Flamant, G. Gomel, Jiang H., J. M. Jones, V. K. S. Nair, Y. Okubo, J. G. Pedersen, C. A. Salinas, J. Schuijer, J. C. Williams.

1. SUDAN - STAND-BY ARRANGEMENT, AND EXCHANGE SYSTEM

The Executive Directors considered Sudan's request for a stand-by arrangement (EBS/83/9, 1/11/83; Sup. 1, 1/27/83; and Sup. 2, 1/27/83).

Mr. de Lattre, External Finance Coordinator for Sudan, was present for the discussion.

Mr. Sangare made the following statement:

> I would like to express the appreciation of my Sudanese authorities, as well as my own, to the staff for the informative paper on Sudan's request for a stand-by arrangement. I would also like to thank you, Mr. Chairman, for the constructive role you have played during the negotiations.
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> For the past several years, my authorities have demonstrated a keen awareness of the economic difficulties facing Sudan and have been working relentlessly to redress the situation. This has been manifested in the adoption of successive programs, which have received Fund support under an extended arrangement and a subsequent stand-by arrangement, aimed at, inter alia, establishing the basis for sustained economic growth, improving the financial position of the public sector, and attaining a sustainable balance of payments position. Although some successes were achieved under these programs, the authorities remain mindful of the fact that further corrective actions are necessary.
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> Under the last program, the performance of the domestic economy was encouraging. First, the recovery that began in the previous years was sustained in 1981/82. Real GDP grew by 7 per cent, reflecting increased production in almost all major sectors of the economy. Cotton production, in particular, rebounded sharply with a 44 per cent increase after declining in 1980/81. Second, there was an improvement in the financial position of the Government as a result of new revenue and expenditure-control measures, which included higher import duties and the elimination of budgetary subsidies on most consumer goods. The overall budget deficit declined from 11 per cent of GDP in 1980/81 to 8 per cent in 1981/82, thus enabling the Government to sharply reduce its borrowing from domestic banks. Third, by the middle of 1982 the rate of inflation, although high, had dropped some 10 percentage points below the annual rate that prevailed in late 1981.
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> However, Sudan's external payments position continued to deteriorate in 1982, reflecting, among other things, the continuing weak international demand for cotton--the country's principal export--the increase in imports of refined petroleum products, and the slow disbursement of commodity aid. This has resulted in serious problems with the servicing of external debt and in shortages of essential imports, such as fuel, spare parts, and basic agricultural inputs.

It is against this background that my authorities have adopted a new economic and financial program for 1983 for which they are requesting Fund support under a one-year stand-by arrangement in the amount of SDR 170 million. The program for the coming months will give priority to strengthening the external payments position of Sudan, while at the same time encouraging the importation of capital goods that are needed to revitalize the economy and expand production. It is also aimed at making further progress in correcting structural imbalances in the economy.

A number of short-term objectives have been set, in keeping with the proposed stand-by arrangement. However, a medium-term framework has also been established, which includes annual targets for reducing the budget deficit, the pace of domestic credit expansion and the current account deficit of the balance of payments over the next three years. The medium-term perspective also includes Sudan's agreement with the World Bank on a three-year public investment program.

The commitment of my authorities to the current economic program is reflected in actions already taken in key areas of the economy and in the policy intentions outlined in the memorandum attached to the staff paper.

Efforts to increase agricultural production are continuing, with particular emphasis on the major export crops--cotton, groundnuts, and sorghum. In this connection, procurement prices for cotton lint and cotton seed have been increased as an incentive to farmers, while efforts are under way to expand the acreage under cotton cultivation by 9 per cent in the 1982/83 crop season. With regard to the other two crops, a program has been launched with the aim of reducing transport cost between production centers in western Sudan and the export terminal at the port. Moreover, a portion of the funds provided under the World Bank Agricultural Rehabilitation Program will be used to purchase agricultural equipment, while efforts are being made to minimize the disruptive effects of shortages of fuel and pesticide. For the medium term, the authorities are aware of the fact that increased production of cotton and groundnuts will depend on the rehabilitation of capital stock in the irrigated schemes. Hence, a major share of public investment expenditure during the 1982/83-1984/85 period will be used to extend the rehabilitation work already begun on the New Halfa and Blue Nile schemes and the Gezira scheme.

In the manufacturing sector, the strategy is to expand production of import substitutes, especially sugar and textiles. Accordingly, the managements of the sugar and textile establishments are being strengthened and output prices have been increased. These establishments are also receiving financial assistance from the Government to replenish their working capital. As for private sector firms, which were affected by power shortages, the Government has granted them the authorization to import their own fuel. These firms are also permitted to import power-generating equipment, spare parts, and heavy transport vehicles free of customs duties.

With regard to the energy sector, the policy of encouraging intensive exploration for petroleum deposits has led to the finding of commercially exploitable deposits of light oil capable of sustaining a production level in excess of 100,000 barrels a day. A decision has therefore been made to defer earlier plans of constructing a 25,000 barrels a day refinery and to construct instead an export pipeline. The authorities are in the process of arranging financing for this pipeline, and oil exports are expected to begin in early 1986.

With regard to the budget, new fiscal initiatives were implemented in November and December last year to supplement actions taken when the 1982/83 budget was introduced. These included, among other measures, raising the valuation basis for levying customs duties to take full account of the depreciation in the official exchange rate from LSd 0.90 = US$1 to LSd 1.30 = US$1; converting certain taxes from a specific level of an ad valorem rate and increasing the applicable rate; raising the prices of petroleum products; and eliminating the subsidy on milk powder. The combined effect of the tax and subsidy actions, on an annual basis, is estimated to be LSd 231 million, or more than 2 per cent of the projected GDP for 1983. This will contribute toward lowering the ratio of budget deficit to GDP from 8.2 per cent in 1981/82 to 7.3 per cent in 1982/83. Meanwhile, the authorities intend to improve expenditure control during 1982/83-1983/84 and to take all necessary actions to ensure that changes in the international prices of key imports do not lead to new claims on the budget. Furthermore, the subsidies on wheat, flour, and pharmaceutical products are to be eliminated before the expiration of the stand-by arrangement.

In the area of monetary policy, the authorities intend to reduce the growth in domestic liquidity to 27 per cent in 1983 from 29 per cent in 1982. They believe that this is consistent with the objective of reducing inflation to 25 per cent in 1983 and with the projected real growth rate of 3.5 per cent. A further tightening of monetary expansion is expected in the next fiscal year. In allocating credit, public sector agricultural concerns have been given first priority, including the cotton marketing organization, which has to finance a buildup of stocks caused by the decline in international demand for cotton. Interest rates were increased in early January by amounts ranging from 1.5 to 3 percentage points, and further adjustments will be made on a selective basis in the future. The Bank of Sudan is taking steps to strengthen its control over commercial banks, and the appropriate legislation is being drafted. Meanwhile, the act regulating government domestic borrowing was amended to enable the Government to sell bonds to the nonbank public to further reduce the need to borrow from the banking system.

In the external sector, the Sudanese pound was reduced from LSd 0.90 per U.S. dollar to LSd 1.30 per U.S. dollar on November 15, 1982. This action was considered appropriate given the need to stimulate exports and discourage nonessential imports. With regard to the latter, the price effect of the exchange rate action is being reinforced by temporary restrictions on certain imports. Furthermore, the authorities are studying the possibility of linking the Sudanese pound to a currency basket. Meanwhile, they intend to adopt a flexible exchange rate policy that will take account of factors such as the movement of the U.S. dollar in the foreign exchange market and domestic inflation. The authorities, with Fund technical assistance, are evaluating the operation of the present dual exchange system with a view to making appropriate modifications.

Sudan's balance of payments will continue to be under pressure in 1983, despite the efforts to increase exports and reduce imports. Recent projections indicate an external payments gap of about $752 million in 1983, primarily reflecting the heavy external debt servicing burden. Accordingly, my authorities are in the process of negotiating a comprehensive restructuring of their external obligations involving all creditors, while seeking to increase aid commitments from friendly countries and international organizations.

My authorities intend to take any further measures that may become necessary to achieve the objectives of their program in consultation with the Fund. In the meantime, it is to be noted that the staff is satisfied with the actions already taken and with the overall direction of the program. I therefore urge the Board to accede to my authorities' request for a stand-by arrangement.

Mr. Grosche said that since mid-1978 the authorities had been attempting to improve the previously unsatisfactory performance of the economy by introducing corrective measures in the framework of programs supported by the World Bank and the Fund. The previous two Fund-supported programs had become inoperative, and the proposed stand-by arrangement would be introduced under especially severe constraints. It would actually become effective only when the external financing gap was closed, a procedure that presumably was to be followed only in the present case. The early adoption of the proposed arrangement was crucial to the successful conclusion of the negotiations on measures to close the financing gap, and the draft decisions should be approved.

The information provided by the staff and Mr. Sangare gave him reason to hope that the proposed stand-by arrangement would be successfully implemented, Mr. Grosche went on. During the previous year, the World Bank, the Fund, and the Sudanese Government had been working closely together to devise a strategy that would enable Sudan to deal with the present economic crisis and to begin servicing its external debt on a regular basis. It had been recognized that the problems facing the economy were so grave and fundamental that at least a decade of diligent work and extraordinary external support would be needed before full economic equilibrium could be restored. The Government had already formulated a three-year economic recovery program that focused on all the keys sectors of the economy and seemed to set realistic goals. The success of the program would depend on both the support of the international community and the measures that the Sudanese Government introduced. The authorities were to be commended for having brought the official exchange rate to a more realistic level in the face of considerable resistance, and for having strengthened the budget by introducing new revenue measures and by eliminating certain subsidies.

Unfortunately, Mr. Grosche continued, a further decline in the overall deficit of the Central Government was not expected to be achieved in fiscal year 1982/83 because of rising expenditure. He hoped that a strengthening of expenditure control procedures would enable the authorities at least to keep the deficit in proportion to GDP lower in the present fiscal year than in the previous one. The authorities felt obliged to continue to provide subsidies on wheat and sugar for some time, and their commitment to phasing out those subsidies at the end of the program period was welcome. The unexpectedly good performance of tax revenues had been offset by the low level of nontax revenues that had been caused mainly by the failure of profits transferred from public entities to reach the expected figure. It would be useful to have a further comment on the reasons for the shortfall. Had it been unrealistic to expect a 300 per cent increase in the transfers from public entities to the Government? Realistic pricing could certainly help to improve the performance of nontax revenues.

The further tightening of monetary policy was certainly welcome, Mr. Grosche said, and, given the steep rise in the expansion of domestic credit, particularly in the private sector, it seemed to be urgently required. Active use should be made of the new Banking Control Law, which enabled the Bank of Sudan to restrain credit through minimum reserve requirements. Interest rates were still highly negative in real terms, and he agreed with the staff that the authorities should increase them to an appropriate level soon. Higher rates, together with a realistic exchange rate, could help to increase the flow of workers' remittances.

The recent steps taken toward a more realistic exchange rate were commendable, Mr. Grosche stated, and the authorities' request for technical assistance in the evaluation of the present dual exchange rate system was welcome. Despite the recent devaluation, the spread between the free market and official market rates had not substantially narrowed.

Was the official rate still far from an equilibrium rate? The authorities should be encouraged to link the Sudanese pound to an appropriate currency basket in order to avoid distortions in the rates in the longer run.

The export forecasts seemed to be somewhat overoptimistic, Mr. Grosche considered, particularly in the light of the continued depressed world demand for cotton. However, there seemed to be some room for maneuver in import policy. A paper prepared by the World Bank and Fund staffs for the Consultative Group for Sudan had stated in part that "on the one hand, the present level of imports has not been adequate to prevent disruptions in the transport system and to meet the basic requirements for more parts and industrial raw materials. On the other hand, if one looks at the relative abundance of luxury consumer goods in the shops of Khartoum, it would appear that there is still scope for compression of the import bill."

The new program should be endorsed, Mr. Grosche commented, because it focused on the necessary short-term measures in a medium-term framework, but he harbored some strong doubts about the ability of the authorities to implement it. There was obviously a lack of managerial skills and current data--as was clearly reflected in the large underestimation in the past of the external debt service--and there seemed to be some resistance to the introduction of adjustment measures. Hence, he wondered whether the authorities could maintain a restrictive monetary and fiscal policy stance over time. Any assistance that the World Bank and the Fund could provide in improving the monitoring of the implementation process would certainly be welcome.

Mr. de Vries remarked that he was somewhat puzzled by, and doubtful about, the proposed stand-by arrangement. He was puzzled because, although a number of measures had been adopted and all were in the right direction, the external accounts had not improved. The puzzle was perhaps explained by several factors. First, despite the new measures, the Sudanese economy continued to be highly regulated. A large number of controls were still in place and, in responding to changing circumstances, the authorities had to adopt a number of new measures merely to maintain the status quo. Hence, the number of new measures was in itself not a good indication of the course of recent developments in Sudan. Indeed, eliminating the controls would probably have a greater positive effect than the introduction of a number of new measures. Experience had shown that many highly regulated economies had considerable difficulty in adequately adjusting to rapidly changing circumstances. Those difficulties were particularly great in Sudan because of the close proximity of Saudi Arabia, whose market operated far more freely and made it possible to evade the controls in Sudan.

Previous programs supported by the Fund had not been successfully carried out, Mr. de Vries noted, and it would be useful to know why the staff and Mr. Sangare were confident that the proposed program could be fully implemented. He attached great importance to the full implementation of the new program. The authorities had already acted to improve the budgetary position and strengthen monetary policy, but a great deal more had to be done, as interest rates were still highly negative in real terms and, together with the present exchange rate, seemed to be discouraging Sudanese workers living outside the country from remitting their earnings.

The exchange rate policy had caused exports and imports to move in the wrong direction, Mr. de Vries considered. An important devaluation had occurred, but the disparity between the rates in Sudan's exchange market had remained more or less as it had been before the adjustment and continued to be highly damaging. The exchange rate for nonessential goods seemed to be an equilibrium one, but there was an insufficient supply of foreign exchange to cover essential imports. The authorities had introduced a number of useful internal measures, but exchange rate policy continued to be clearly insufficient. A Fund mission was scheduled to visit Sudan in February 1983 to evaluate the dual exchange market. On previous occasions the Executive Board had taken a clear position on the dual exchange market, and he wondered why a further mission specifically to evaluate the system was required. The new mission could recommend suitable modifications of the dual exchange market, and the climate was perhaps more propitious for having those recommendations accepted than it had been in the past.

The proposed decision on the stand-by arrangement, Mr. de Vries noted, provided, inter alia, that the arrangement would not become operative until the Fund found that satisfactory measures had been agreed for the reduction of Sudan's debt service obligations. How did management intend to carry out that particular provision of the decision? Presumably the Executive Board would have to adopt an additional decision finding that the arrangements for reducing the debt service obligations were satisfactory.

The Fund's policy toward Sudan had not been fully satisfactory, Mr. de Vries considered. Although Sudan had also been expected to request a drawing under the compensatory financing facility which, together with the proposed decision, would bring the country's total access to Fund resources close to the limit of 600 per cent of quota, the staff had concluded on page 38 (EBS/83/9) that "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." The staff had moreover concluded that Sudan would face serious difficulties for a number of years. Such a situation might well be acceptable when a country was beginning the adjustment process, but it was inappropriate when the member had nearly reached the 600 per cent limit on its access to Fund resources. Given the large volume of Fund assistance that had already been given, the prospects for Sudan's economy should be much brighter than they actually were, and he hoped that under the new stand-by arrangement the authorities would take the steps necessary in the interest rate, exchange rate, and other fields.

Mr. Suraisry stated that the proposed decisions were acceptable. The case of Sudan was a particularly difficult one, and the problems facing the authorities were especially challenging.

Sudan, like some other countries, had had difficulty in discharging its external debt obligations in recent years, Mr. Suraisry continued. Sudan's external debt and arrears might well seem small in the context of the global debt situation, but they were enormous in relation to the country's ability to service them. Indeed, its heavy debt burden had been partly responsible for Sudan's unsuccessful attempts to implement previous programs supported by the Fund. The present efforts to complete a global restructuring of Sudan's debt were of paramount importance to the success of the domestic adjustment effort. The Managing Director was to be commended for the role he had played, and was still playing, in securing a comprehensive financing package for Sudan. Tangible progress in the global restructuring effort was needed to ensure the successful implementation of the proposed stand-by arrangement.

Production policy in Sudan, Mr. Suraisry noted, was aimed at further expanding the output of the principal export commodities, particularly cotton, and the sharp decline in cotton output in the previous several years was beginning to be reversed. The authorities were to be commended for having made the administrative changes needed to revive cotton production and exports, but farmers would have to continue receiving adequate financial incentives if the revival of cotton output was to be maintained. The effort to rehabilitate the agricultural schemes would also have to be sustained.

The authorities had introduced a number of measures in the previous two years to strengthen the central government budget, Mr. Suraisry remarked. There had been sharp increases in the prices of a number of consumption items and in various taxes and charges. As a result, the ratio of the budget deficit to GDP was projected to decline from 11.3 per cent in 1980/81 to 7.3 per cent in 1982/83, and the ratio of domestic bank financing of the deficit to GDP was projected to fall from 5.5 per cent in 1980/81 to 0.5 per cent in 1982/83. The authorities were to be commended on the courage they had shown, but it was important to stress that the improvement in the fiscal position would have to be sustained in the future.

Reform of the exchange and trade system would play a crucial role in the adjustment effort, Mr. Suraisry said. Past policy had caused a serious imbalance between the foreign exchange resources and the needs of the private and public sectors. The devaluation of the official exchange rate in 1982 was a courageous move, but the effort to reform the exchange system would have to be continued if the external sector was to be strengthened. The authorities should be encouraged to press ahead with the adjustment effort, so that they could gain additional support from the international financial community.

Mr. Taylor commented that the interruption of the stand-by arrangement in 1982 had obviously been a disappointing setback, but considerable efforts had been made by the authorities, the Fund staff and management, and Sudan's many friends and supporters to place the effort to rehabilitate the economy on a firmer basis. Significant progress had been made since the previous Article IV consultation in providing a medium-term framework for recovery. The agreement with the World Bank on a three-year investment program, the progress on debt relief, the concessionary assistance provided in the context of coordinated assistance, and the formulation of a realistic set of objectives for the 1983 program were especially noteworthy. The authorities were to be commended on the courageous decisions they had adopted in the framework of the new program, and particularly for the difficult but necessary moves they had made in the exchange rate area. Although the performance under the previous stand-by arrangement had been mixed, the authorities had accomplished a great deal in the previous several years with the advice of the Fund, and important improvements in the domestic economy were emerging. The authorities were not to blame for the unexpectedly adverse external developments in 1982.

The Government would have to make a considerable effort to contain the fiscal deficit in 1982, Mr. Taylor remarked. Tax revenue had traditionally been below target and expenditures frequently above the projections, and the deficit programmed for 1982/83 was considerably larger than had been originally budgeted, partly because of the devaluation of the exchange rate. The measures that had been taken in the tax field were welcome, but the authorities should be urged to continue their efforts to improve the tax administration and to broaden the tax base. Nontax revenues were expected to be considerably lower than had been budgeted, thereby suggesting the need for closer supervision of the finances of the parastatal enterprises. It would be important to offset increases in the costs--including those resulting from the devaluation--of the parastatal enterprises by increasing efficiency or by raising prices. The enterprises should not be allowed access to credit on a scale that would permit easy absorption of higher costs.

He agreed with previous speakers that real interest rates were highly negative, and that further increases in the rates were needed, Mr. Taylor said. The rapid credit expansion in the nongovernment sectors expected in the first half of 1983 was a cause for concern. It was true that special factors had caused a temporary boost in the demand by parastatal organizations for credit, but the absence of a separate ceiling on credit to the parastatal sector was surprising. In addition, the projected growth of credit to the private sector seemed excessively rapid, and it would be important to reach an understanding during the May 1983 performance review on the slowdown of credit expansion in the second half of 1983. At the present stage, the rate of growth of liquidity of some 26 per cent seemed rather accommodating; it would do little to reduce inflationary expectations. A fuller discussion in the staff report of the prospects for inflation and of the means for bringing it under control would have been useful.

The Government's commitment to maintaining a more flexible exchange rate policy than hitherto was certainly welcome, Mr. Taylor continued. The official exchange rate should not be allowed to diverge significantly from the rate in the free market, and he hoped that in monitoring the situation in Sudan the Fund would pay particular attention to any gap between those rates.

Past projections by the staff seemed to have repeatedly overestimated Sudan's export receipts, Mr. Taylor noted. Although such projections were difficult to make, they were central to the Executive Board's assessment of the viability of the program, and the staff should therefore attempt to err on the side of caution. He wondered to what extent under-invoicing had affected the level of recorded exports.

Workers' remittances were important to the Sudanese economy, Mr. Taylor commented, and the staff had concluded that the remittances were well below potential, and that every possible step should be taken to increase them. He wondered whether it was wise to reorient the use of remittances in the direction of spending on essential imports. That approach would not necessarily encourage an increase in repatriation. It might nonetheless be helpful on balance to use import duties to enable some free market foreign exchange to be used to finance essential imports for industry. He was pleased that a technical mission would visit Sudan to review the exchange system, and he hoped that the mission would be able to produce concrete proposals for encouraging an increase in remittances and for improving the general efficiency of the exchange market.

The medium-term program described on pages 31-33 of the staff report, Mr. Taylor said, appropriately emphasized the need in the longer run to rehabilitate the capital stock, increase capacity utilization, eliminate the infrastructure bottlenecks, and return some industrial enterprises to the private sector. It was of vital importance to ensure both that the new machinery for monitoring investment worked effectively, and that the investment program was rapidly and effectively adjusted should the fiscal constraints become significant. The development budget would probably have to absorb the bulk of any foreign exchange shortfall that occurred under the new program.

With the various rather mild qualifications that he had mentioned, Mr. Taylor remarked, the new program provided an adequate basis for the further adjustment that was needed in 1983. The program obviously assumed that Sudan would receive major external support in the form of debt relief and further concessional aid, and it was appropriate for the Executive Board's approval of the implementation of the stand-by arrangement to depend on the satisfactory outcome of the coming debt rescheduling negotiations. Precisely what steps would the Fund take in judging the adequacy of the debt arrangements?

The Fund and the World Bank had played a constructive role in coordinating the debt restructuring exercise, Mr. Taylor continued, and they would have to continue playing that role for some time to come. His authorities recognized that, given the large scale and complexity of the debt problems, Sudan constituted a special case that warranted special treatment, but it should not necessarily set a precedent. Recent experience had suggested the existence of a number of general problems that would have to be looked at by the Executive Board in the near future. In particular, the sequence of the various meetings and discussions involved in such difficult cases would have to be examined.

One of the reasons for the interruption of the stand-by arrangement in 1982, Mr. Taylor said, was the underestimation of the size and immediacy of Sudan's debt problem. Improved information was clearly needed and, in circumstances where such action was clearly warranted, Article IV consultations should look at the machinery and arrangements for debt management and control in addition to the official debt projections.

In cases involving bilateral payments arrangements and multilateral debt rescheduling, Mr. Taylor considered, the Fund should try to reach an explicit understanding with the member concerned about the bilateral payments arrangements. There was obviously a danger that the bilateral partners would receive better treatment than the multilateral creditors, and the Fund had a special responsibility to ensure that uniform treatment was given. Under Sudan's financial program for 1980 the Government had been required to eliminate a bilateral payments arrangement with Egypt, but the requirement had been waived and no new understandings on Sudan's bilateral arrangements had been reached. In addition, where countertrade arrangements existed, understandings on such arrangements should also be reached.

Mr. Shaw remarked that the negotiations on the proposed stand-by arrangement had clearly been difficult, particularly in the light of the external financing gap. The success of the new program would depend on actions that were beyond the control of both the staff and the Sudanese authorities.

In his opening statement, Mr. Sangare had underscored the actions that the authorities intended to take under the new program and their commitment to adjustment in the medium term, Mr. Shaw commented. The measures that the Government had introduced since the previous review of the Sudanese economy in September 1982, especially the exchange rate and fiscal policy actions, were fully appropriate, but while substantial progress toward economic recovery had been made, much remained to be done. The emphasis on agricultural production would pay dividends in the coming years and had already been the main cause of the significant progress that had been made in 1982. On the other hand, the preliminary estimate of the real growth of GDP in 1982 of 9 per cent had been revised downward, to 7 per cent, although that figure was much better than the 5.6 per cent actual outturn in 1980/81 and was clear evidence of the recovery that had taken place. Given the substantial foreign exchange constraint that Sudan would face in 1982/83, the projected 3.5 per cent rate of economic growth was realistic; many countries would be pleased to achieve such growth.

The inflation target of 30 per cent was credible, Mr. Shaw continued, but the staff had suggested that the underlying rate of inflation in 1982 might be greater than 30 per cent, and that the lack of data was a hindrance in making reliable estimates. Did the staff still feel that the official inflation target for 1983 was realistic? Inadequate data also made it difficult to determine with any precision the external debt obligations of the Government, and in the past the obligations had been considerably underestimated. Presumably the latest figures, which had been calculated with the assistance of the staff and Mr. de Lattre, gave a good picture of the debt situation.

The authorities were committed to making medium-term adjustments, Mr. Shaw noted, and, with the exception of the large financing gap, the proposed program basically met all the requirements for an extended arrangement. The existence of the gap and the uncertainty about the evolution of the balance of payments meant that Sudan was not in a position to request an extended arrangement.

Steps to reduce the subsidies and to improve expenditure control had been taken by the authorities, Mr. Shaw remarked, but subsidies on wheat and flour had been reintroduced, and wages in the government sector had been increased. Were wages in the government sector expected to increase in nominal terms or in real terms?

The recently introduced revenue measures, and particularly the introduction of the ad valorem tax, were particularly welcome, Mr. Shaw went on. The authorities were also to be commended for the action they had already taken in the exchange rate field. However, only one third of imports were taxed at the free market rate, and there was therefore some room for improvement. The authorities' intention to review the exchange system--including the operation of the dual exchange market--with Fund assistance, in order to make appropriate changes, was certainly welcome. There was no apparent need to evaluate further the operation of the dual market.

The present monetary stance in Sudan was basically appropriate, Mr. Shaw considered, but he was worried about the ability of the authorities to generate sufficient domestic savings, and he felt that a more flexible interest rate policy would be helpful. The recent action on interest rates was welcome and the authorities' commitment to make further adjustments in the future was encouraging. Positive real interest rates would probably encourage savings. The recent policy on interest rates on deposits of foreign currencies was commendable, as those deposits usually consisted of expatriate remittances that had recently been well below potential. In the past, the use of the remittances to finance consumption rather than essential imports had been a significant problem.

He was pleased, Mr. Shaw said, that the proposed performance criteria included a prohibition on the contracting of new public and public-guaranteed debt for maturity periods of one to ten years. Had the staff examined the possibility of including a performance criterion on short-term debt in the proposed arrangement? Short-term maturities had been a problem for Sudan in the past, and a sublimit on such maturities might well have been appropriate. The contracting of additional short-term debt in 1983 would intensify the debt problem in 1984. Although some trade-related financing of a short-term nature had naturally been built into the proposed program, there should be a reasonable limit on it.

Closing the financing gap was the most important and potentially risky part of the proposed program, Mr. Shaw commented, and the draft decision appropriately provided that the stand-by arrangement could not actually be implemented until the financing gap was closed. It was clear from the staff reports that the gap would have to be closed through debt rescheduling, but it should be recognized that the proposed treatment of Sudan's stand-by arrangement was not meant to set a precedent; as a rule, a country's financing gap should not be closed in the way that was being proposed for Sudan. The present situation in Sudan was critical, and the Fund had no alternative other than the one proposed by management and staff.

As he understood it, Mr. Shaw went on, the present financing gap was $752 million, and principal and interest due in 1983 amounted to $810 million. Apparently all of Sudan's creditors--including bilateral lenders, commercial banks, and suppliers--would have to give the country 100 per cent debt relief on principal and interest due in 1983. Commercial banks usually strongly resisted proposals for capitalizing interest for a number of good reasons, although there were precedents for the acceptance of such arrangements; for instance, in the recent case of Nicaragua, the commercial banks had agreed to capitalize interest over a relatively long period. Management and staff should stress that point in their capacity as observers at negotiations on debt rescheduling involving commercial banks. The Paris Club and other bilateral creditors would also have to view the rescheduling of Sudan's debt sympathetically, without necessarily setting a precedent for future negotiations.

Table 6 of EBS/83/9, Mr. Shaw noted, suggested that in 1983 Sudan would have to pay $538.3 million in principal plus $319.2 million in interest. Earlier tables indicated that $492 million in principal and $319 million in interest would be due. What accounted for the difference in the figures? What strategy did the staff intend to apply in its role as observer at the coming debt rescheduling negotiations in Paris? Was the $37 million due to multilateral creditors to be rescheduled? Finally, it would be useful to have a comment on the likely timing of the Executive Board discussion on Sudan's request to use the compensatory financing facility.

Mr. Caranicas commented that the interruption of the stand-by arrangement for Sudan in 1982 had been disappointing, although the Fund had had no alternative in the light of both the accumulated arrears on the servicing of official rescheduled debt and the failure to reach an understanding on exchange rate policy. The proposed stand-by arrangement was welcome, and the authorities were to be commended for the policy commitments they had made. Their assurance that they would introduce additional measures as necessary to achieve the objectives of the proposed program was most encouraging.

Because Sudan's debt service payments were expected to absorb almost all of its export earnings in the coming period, Mr. Caranicas observed, the authorities had little room for maneuver in implementing their strategy for economic recovery. For the time being, Sudan could not adjust sufficiently to generate the resources needed to meet its debt service obligations without intolerably adverse effects on the domestic economic and social systems. He hoped that, once the Government had introduced a credible program, the international community would lend its full support. The commercial banks, bilateral creditors, and participants in the Paris Club meeting to be held shortly would all have a crucial role to play in the debt relief effort.

He basically agreed with the targets under the proposed program, which included both short-term emergency measures and a longer-run strategy, Mr. Caranicas said. The former were directed mainly at improving the balance of payments by encouraging exports and reducing nonessential imports, and at maintaining the imports of intermediate and capital goods needed to expand the country's productive capacity. The authorities also wished to encourage workers living abroad to remit their earnings through the Sudanese banking system. The longer-run strategy included measures in the monetary and fiscal areas, industrial policy, and the external economy, with a view to making some headway in correcting the structural imbalances in the economy and in sustaining a faster real rate of economic growth. The proposed program was consistent with the three-year public investment plan that the Government had formulated with the assistance of the World Bank. The authorities were not in a position to request an extended arrangement, but the consistency of the proposed stand-by arrangement with the desirable medium-term policy framework for Sudan was certainly welcome.

Of the various longer-term measures that the authorities intended to introduce, Mr. Caranicas went on, he attached particular importance to the policies designed to encourage agricultural exports, particularly cotton; import substitutes; and the production of sugar, textiles, and oil. In agriculture, the realignment of the cost and price structure, and the rehabilitation of the stocks of the irrigation schemes, were expected to stimulate output in general, and exports in particular. Sugar and petroleum were Sudan's main commodity imports, and the country had been adversely affected by the price trend for those commodities in 1981/82. Import substitution was therefore crucially important, and the recently introduced policies designed to stimulate domestic production through pricing and budgetary measures seemed to be in the right direction.

Of the various short-term policy measures, Mr. Caranicas commented, he particularly welcomed the steps taken to improve revenue collection and to reduce public spending, although the persistent deficiencies in central administration and control continued to be a cause for concern.

He wondered whether the tax base for incomes could not be broadened, thereby reducing the reliance on trade-based duties, which accounted for more than 50 per cent of central government budget revenues.

The recent correction of the official exchange rate of the Sudanese pound vis-à-vis the U.S. dollar would certainly stimulate exports, Mr. Caranicas remarked. The authorities' intention to reconsider, with the Fund's assistance, both the existing dual exchange system and the possibility of pegging the pound to a currency basket was welcome. The present level of the exchange rate, together with appropriate domestic interest rates, could encourage remittances by Sudanese workers abroad, thereby helping the balance of payments. He was confident that, with the assistance of the Paris Club and as a result of the courageous measures that the authorities had already adopted, Sudan could successfully implement the new adjustment program.

Mr. Wang noted that the case of Sudan was a particularly complex one. The country clearly had a balance of payments need, and continued support by the Fund was urgently required, but Executive Directors seemed to be concerned about the ability of the authorities to implement the new program successfully.

The proposed stand-by arrangement should be approved for several reasons, Mr. Wang stated. Although previous adjustment programs implemented by Sudan had been only partially successful, domestic economic developments in 1981/82 had been encouraging: real GDP had grown by an estimated 7 per cent; cotton output had increased by 44 per cent; and the ratio of the central government budget deficit to GDP had declined from 8.2 per cent to 11.3 per cent. The proposed program provided for a realistic balance between the need to deal with the immediate financial constraints and the need to increase the production of exports. The measures to be introduced under the new program seemed sufficient to enable the authorities to achieve the program objectives. Moreover, the proposed stand-by arrangement was being reinforced by a three-year investment program supported by the World Bank.

Acceptance of the proposed stand-by arrangement, Mr. Wang said, was essential if Sudan was to obtain support from its creditors for a meaningful restructuring of the external debt. Without it, Sudan would be unable to make progress toward achieving a viable external payments position.

The tasks facing the Government were difficult, and the implementation of the adjustment program would not be easy, Mr. Wang commented. However, the statement on economic and financial policies in the letter of intent showed that the Government was determined to make every effort to implement fully the proposed program.

Mr. Morrell considered that the case of Sudan was a particularly difficult one because of the seriousness of the economic problems facing the country. It was unfortunate that Sudan continued to face such problems despite the approval by the Fund of earlier stand-by arrangements.

The Government had made a variety of needed improvements, but additional steps still had to be taken; it was essential that the new program be fully implemented. The program seemed comprehensive and should help Sudan to solve the problems facing the economy. He agreed with the staff that, given the large size of Sudan's foreign debt, no internal adjustment consistent with the continued stability of Sudanese society could be undertaken to reduce the debt obligations; successful global rescheduling of the foreign debt was clearly required.

Executive Directors were in a difficult position, Mr. Morrell commented, as they were being asked to approve the new program even though Sudan had not made final arrangements for funding the large financing gap. Negotiations designed to close the gap had been undertaken, and a further meeting was to be held shortly, but the needed funding was still not assured. The Fund should act cautiously in committing itself to provide financial assistance to a country in such dire straits as Sudan.

The precise meaning of the proposed decision on the stand-by arrangement--particularly paragraph 3--was unclear to him, Mr. Morrell said. He hoped that the text meant to say that the stand-by arrangement would not actually be implemented without the approval of the Executive Board.

Further adjustments of interest rates in Sudan were clearly needed, Mr. Morrell considered, in part to encourage an increase in workers' remittances. Finally, experience underscored the importance of a full commitment by the authorities to the implementation of the program if the stand-by arrangement was to have any chance of being successful. The consequences of inadequate commitment and implementation would be grave for all concerned.

Miss Diallo commented that, as a result of the previous program supported by the Fund, certain sectors of Sudan's economy had improved considerably. Real GDP had increased by 7 per cent in 1981/82, mainly because of the sharp increase in cotton production following the introduction by the authorities of production incentives. In the budgetary field, the overall deficit had declined from 11 per cent of GDP in 1980/81 to 8 per cent in 1981/82, thereby paving the way for an important reduction in borrowing by the Government from the domestic banking system. As a result, the rate of monetary expansion had declined from 50 per cent in 1980/81 to 27 per cent in 1981/82.

Despite the adjustment measures that had been introduced and the increase in external assistance in the previous several years, Miss Diallo remarked, the financial position had progressively weakened. Sudan, like many developing countries, faced uncontrollable variables that made appropriate comprehensive economic management very difficult. The world economic recession, and especially the weakening of the international prices of Sudan's main exports and the high cost of imports needed for domestic production, had been particularly harmful.

The authorities were to be commended for their efforts to correct the economic and financial imbalances, and she was pleased that the measures they had introduced were beginning to pay off, Miss Diallo said. The authorities were fully aware of the problems facing the economy and of the need to continue their adjustment efforts, and they understood that external support would be needed in both the short and long run.

Sudan's economy had faced problems for some time, and the Fund had been involved in the effort to solve them, Miss Diallo recalled. The Fund should continue to study the economy and to guide the authorities in the formulation and implementation of appropriate policies. The proposed program was realistic; it took into account the financial constraints facing the Sudanese authorities. The overall objective of the program was to create the conditions needed for a structural transformation of the economy, and priority was to be given to encouraging the importation of goods needed to improve the economy's productive capacity, thereby enabling Sudan to strengthen its external payments position. The Fund's support was clearly needed to catalyze a meaningful inflow of external assistance, and the proposed decisions should be approved.

Mr. Erb said that he broadly agreed with the staff appraisal and accepted the proposed decisions. The case of Sudan was complex and, given the uncertainty about the eventual outcome of the negotiations in the Paris Club and their effect on Sudan's other important creditors, the proposed decision appropriately provided that the stand-by arrangement would become effective only after the Fund had determined that satisfactory arrangements had been made to reduce the required debt service to a level that was consistent with the underlying assumptions of the proposed program. How was that determination to be made? When was it to be reviewed by the Executive Board?

A minimum payment must be made to Sudan's official and private creditors during the period of the proposed stand-by arrangement, Mr. Erb remarked. The precise amount would be determined in the negotiations to be held soon in Paris, and he did not wish to prejudge the outcome by attempting to quantify a minimum figure. The commercial creditors should share fully and equitably in the provision of debt relief for Sudan. Depending on the outcome of the negotiations in Paris, the Executive Board might have to re-examine the proposed stand-by arrangement, especially as the impact of the settlement in the Paris Club on other classes of creditors might not be fully clear at the outset. In addition, if the negotiations did not fully close the financing gap, larger adjustments by the Government than were now planned, or greater financial assistance, or a combination of the two, would be needed to prevent further arrears from being accumulated.

He agreed with the staff, Mr. Erb continued, that the authorities had made considerable progress as a result of the major adjustment efforts begun in mid-1981, and the proposed program promised to build on it. Under the previous stand-by arrangement the authorities had observed all the performance criteria concerning domestic policy, and the preliminary indications were that the domestic economy had performed considerably better in 1982 than in 1981. The performance of agriculture had been particularly good, while the performance of manufacturing had been disappointing, mainly because of the many bottlenecks, including shortages of power, inputs, and spare parts.

As previous speakers had stressed, Mr. Erb noted, the authorities had introduced a number of important measures, and the budget deficit had been reduced. On the other hand, the external position had deteriorated markedly since 1981 because of factors beyond Sudan's control, including the weak external demand for cotton, the unexpectedly small volume of disbursements of assistance from donor countries, and unforeseen debt service obligations. The case of Sudan underscored the need for the Fund to make a greater effort to improve the data collection capabilities of members. The Central Banking Department had recently circulated a paper describing the efforts it intended to make to provide technical assistance to countries wishing to improve the collection of data on debt.

He was pleased, Mr. Erb said, that the proposed program had been formulated in a medium-term framework, and that it included a three-year public sector investment plan that had been created in close collaboration with the World Bank. The staff's description of the policy actions that were to be taken in the period 1982-85 to strengthen further the economic and financial environment was particularly interesting.

In retrospect, Mr. Erb continued, Sudan's adjustment effort had greatly suffered from the lack of participation by the World Bank, which could have spelled out, at a relatively early date, investments that would have supported the adjustment efforts that the Fund was encouraging. The World Bank's guidance would also have improved the allocation of bilateral financial assistance to sectors of the economy that could have generated a stronger export performance than had actually occurred.

The authorities were to be commended for their success to date in the fiscal area, although a further reduction in the budget deficit beyond the target of 7 per cent of GDP in 1982/83 would be crucial for the ultimate success of the adjustment effort, Mr. Erb remarked. The authorities should be encouraged to eliminate all the remaining subsidies on consumer goods and to persevere in their attempt to strengthen expenditure control. The steps the authorities had taken in the monetary policy area had been in the right direction, but a further tightening of domestic credit expansion would be required over time to achieve the needed reduction in the rate of inflation. Despite recent adjustments, real interest rates remained highly negative and should be further increased as soon as possible.

The recent adjustment of the official rate for the Sudanese pound was a significant step toward the elimination of the pricing distortions in the economy, Mr. Erb considered. The authorities should be urged to maintain their flexible exchange rate policy and to undertake a comprehensive reform of the exchange system with a view to reducing the serious distortions caused by the divergence of the official and parallel market rates.

The ultimate goal of exchange rate policy should be the unification of the two rates at an equilibrium level. Basing the official rate on a currency basket might perhaps be an appropriate intermediate step, depending upon the outcome of the coming examination of the recent exchange rate adjustment. In the footnote on page 27 (EBS/83/9) the staff had noted that "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." He wondered what had caused that shift.

The staff had projected that Sudan would begin to enjoy some revenues from oil exports in the mid-1980s, Mr. Erb observed. He hoped that the expectation of the additional revenues would not discourage the authorities from making the adjustments that were needed between now and the mid-1980s. In the absence of such adjustments, the authorities might well find that the additional revenues would have to be used for some purpose other than financing new investments.

As previous speakers had noted, Mr. Erb said, the Fund had been involved in Sudan for a number of years, and the Fund's holdings of Sudanese pounds were large in relation to the country's quota. The Fund had made some major innovations in its approach to the country, particularly through the use of consultative groups to provide additional financial resources, and through the stress on debt rescheduling. The Fund had a critical role to play in Sudan as a catalyst. That role apparently had not been fully understood by either the Sudanese authorities or the participants in the debt rescheduling negotiations. The authorities had often seemed to feel that the Fund was imposing unpleasant solutions on them when, in fact, it had only been underscoring the realities, including the various uncertainties, of the Sudanese situation.

The Fund had learned a great deal from its experience in Sudan about effectively committing its financial resources, Mr. Erb commented. The staff's emphasis on the need to use Fund resources to build up Sudan's working balances had been particularly appropriate, in part because it ensured that the resources would be put to good use. One of the main problems facing the authorities in the past had been the lack of sufficient operating balances, which had forced the Government to make costly financing arrangements. The resources provided by the Fund were helping to reduce some of the potential uncertainties concerning the evolution of Sudan's balance of payments, and it was best to see their use in that light, rather than as either a substitute for longer-term development assistance from donors, or as a means of reducing payments arrears.

Mr. Alhaimus remarked that there was a need to expand production, improve the budgetary position, further tighten monetary policy, and adjust the exchange rates. Although the previous stand-by arrangements for Sudan had not been fully implemented, the authorities had introduced a wide range of demand management and supply-side measures, and the available evidence suggested that the economy had responded positively. Improvements had been made in the provision of incentives and in the relationship between costs and prices. The proposed program would continue the strong demand management and structural reform measures to increase production, expand exports, increase import substitution, and develop the energy sector.

The weakening of the external sector had been a major constraint on the economy's performance under the 1982 stand-by arrangement, Mr. Alhaimus recalled. Nevertheless, all the performance criteria relating to the domestic economy had been observed, and considerable progress had been made in both the real and financial sectors. The external constraint, together with other developments, indicated the need for a substantial restructuring of the external debt. The magnitude of the debt relief would have to be meaningful, cover an extended period, and provide for net positive inflows of resources. As the staff had concluded, "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."

For Sudan, as well as a number of other countries seeking Fund assistance, Mr. Alhaimus remarked, considerable time would be needed to solve the deep-seated structural problems. One year was clearly an insufficient period in which to achieve positive results. The effort to achieve a viable balance of payments position and to introduce structural reforms should be viewed in a longer-term context. The potential of the Sudanese economy was considerable, and appropriate debt relief, rehabilitation of the capital stock, and the strengthening of the infrastructure could ensure a substantial increase in resource utilization. Finally, the success of the adjustment effort of Sudan, as well as that of several other members, would depend greatly on the coordination between the Fund, the World Bank, and the various other creditors. He hoped that the coordination would not involve any kind of cross conditionality.

Mr. Malhotra stated that his authorities supported the proposed decisions. As previous speakers had stressed, the case of Sudan was a particularly difficult one, and the Fund's response to it had been appropriate. The authorities had made a substantial effort to adjust the domestic economy. The rate of growth of output in 1981/82 had been a healthy 7 per cent, there had been a considerable decline in the rate of inflation, and substantial progress had been made on the budgetary side; the overall budget deficit had been reduced by 3 percentage points of GDP. Moreover, efforts had been made to improve pricing policy, revenue performance, and expenditure control, while important steps had been taken to improve the exchange system.

Nevertheless, Mr. Malhotra continued, the external payments position was still very difficult. The case of Sudan was unique in the sense that, even though adjustments in the domestic economy had been made, the stand-by arrangements had had to be suspended because of the external payments position and the inability of the country to meet its obligations under the debt rescheduling program. Those problems had arisen mainly because Sudan's exports had suffered from the world recession and the consequent deterioration in its terms of trade, both of which were likely to last for some time. It was true that the production of cotton, the main export crop, had increased, but there was no certainty that it would improve the overall export picture. Another major problem was the large debt service burden.

The proposed program was comprehensive, Mr. Malhotra said. As previous speakers had mentioned, a longer-term program would have been a more appropriate response to the structural nature of the problems facing the Sudanese economy, and the staff had in fact helped the authorities to formulate the proposed one-year stand-by arrangement in a three-year perspective. Still, that approach was not tantamount to the introduction of a three-year program. There were understandable constraints on introducing a three-year program forthwith, but a one-year arrangement obviously would not be sufficient, and the Fund would have to provide support to Sudan in the medium term. In addition, it was important to recognize the limitations on the ability of the authorities to improve in the short run their policies affecting the domestic economy. It was difficult to see how the Government's adjustment efforts could yield a healthy external payments position in the coming two or three years alone.

The key to solving the problems facing the Sudanese economy was higher demand for Sudan's exports, something that was beyond the control of the country, Mr. Malhotra commented. Much would depend on the views of Sudan's creditors on the medium-term outlook for the economy. Efforts were being made to consult the creditors in order to restructure Sudan's foreign debt and, given the gravity of the problems facing Sudan's economy, a bold approach--perhaps the conversion of official debt into grants--might be called for in the specific case of Sudan. As for the debt to commercial banks, a long-term rescheduling should be the main objective, and some funding of interest due might become unavoidable. Sudan's creditors, like the Fund, must persevere in providing advice and support to the country in the medium run; a one-year effort would clearly be insufficient.

Mr. de Maulde remarked that the staff report and Mr. Sangare's opening statement had usefully drawn attention to the supply-side aspect of the problems facing the Sudanese economy. The supply-side approach was appropriate, given the structural and deeply rooted nature of the economic problems. It would take a number of years to solve those problems and achieve a sustainable internal and external position.

Progress had already been made toward achieving an economic recovery, Mr. de Maulde continued, as a result of the measures implemented under the previous stand-by arrangement, particularly the increase in producer prices, including cotton prices, which were now reasonably close to international levels. Farmers had responded to the price hikes by increasing the production of cotton in 1981/82 by 44 per cent. Although the yield per acre was still relatively low, the change was encouraging. It was therefore disappointing that, despite the increase in cotton output to 784,000 bales in 1981/82, the export volume had declined from

446,000 bales to 260,000 bales, thereby preventing Sudan from benefiting from the recovery in the international price of cotton from $205 to $268 per bale. The decline in cotton exports had been a major factor in the increase in the current account deficit, and a further comment on the causes and possible steps to prevent its recurrence would be useful. Under the proposed program, the export volume of cotton was to be doubled to 500,000 bales, and the average unit value was expected to increase to $326 per bale. Those assumptions were crucial, and it would be useful to know more about them. They seemed to assume a recovery, something that might well take more time than the staff hoped.

He was pleased to note, Mr. de Maulde said, that most of the policy actions required under the proposed program had already been introduced, including a considerable depreciation of the official exchange rate in November 1982. The depreciation had been fully reflected in the domestic prices of nearly all exports and imports, and he had no difficulty in concurring in the authorities' decision to limit the prices for certain essential goods, such as wheat, flour, and pharmaceuticals. There was a large difference between the standard of living of the urban population and that of the rural population, and it was therefore difficult to distribute the burden of adjustment evenly.

The rehabilitation of the manufacturing sector was clearly needed, but it would probably take some time to achieve, Mr. de Maulde remarked. The objective itself, however, seemed to be adequately addressed in the three-year public investment program that had been formulated in cooperation with the World Bank, and which gave top priority to agriculture. The real GDP growth target for 1982/83 of 3.5 per cent seemed on the conservative side in view of the likely increase in the rate of capacity utilization resulting from the rehabilitation of the existing physical capital. However, the effort to improve the productivity of the various sectors might take a long time, and the limited availability of intermediate and capital goods imports might prove to be a significant constraint. It would be useful to receive further comment on the adjustments that were mentioned on page 41 of the staff report.

The monetary projections were based in part on the assumption that the income velocity of money would fall by 1 per cent, Mr. de Maulde noted. Unless they were sizable and sustained over several months, the variations in the velocity of money should have little bearing on the monetary policy stance. Experience showed that such variations were very difficult to predict and, in any event, a decline of just 1 percentage point would probably have no significant effect. It seemed best to admit the great difficulty in measuring the velocity of money in economies that were not fully monetized and whose statistical base usually was not particularly good. In addition, significant progress had been made on the fiscal side; current expenditures, excluding debt service obligations, were estimated to be less than revenues.

He fully accepted the proposed arrangement, Mr. de Maulde stated. It was to become effective only when the Executive Board found that satisfactory arrangements had been made for the reduction of Sudan's debt service obligations to a level consistent with the proposed program. The information provided during the informal Executive Board meeting on January 21, 1983 had underscored the need for, and complexity of, the effort to assist Sudan.

The Director of the Middle Eastern Department commented that the financing gap had been estimated at some $752 million. The staff had assumed that Sudan would be able to pay $80-100 million in debt servicing in addition to the $154 million that was due to the Fund, the World Bank, and the Arab Monetary Fund. Hence, the total debt servicing that Sudan had been expected to pay in 1983 was approximately $230-250 million, the equivalent of 20 per cent of the receipts for exports of goods and services, and of approximately 37 per cent of export receipts through official channels. The staff doubted whether the creditors would be willing to accept 100 per cent rescheduling of the debt in 1983, and there would be certain risks involved in the failure of Sudan to make any kind of payment to the commercial banks. The $80-100 million that he had mentioned was to cover payments to the Paris Club creditors, the commercial banks, the Arab oil producing governments, and international organizations. The debt due to the international organizations was critical in that, once paid, it would generate other resources for Sudan; priority was therefore being given to reaching an agreement with those agencies. Of the $80-100 million, some $40 million would be needed to pay suppliers in order to avoid drying up that source of credit for the country in 1983. The figures that he had mentioned showed that Sudan was in a position only to pay a relatively small amount to all its various creditors, and that the coming meeting of the Paris Club would be crucial. It would be the first formal major rescheduling involving Sudan's main creditors and could set the stage for the negotiations with other creditors, on the assumption that all the various creditors would wish to be treated equally.

The staff believed, the Director said, that the Fund should not provide resources to a country whose financing gap would not be filled during the period of its Fund-supported program. Any assumptions behind a program would necessarily be unrealistic if a financing gap was not expected to be filled during the program period. The previous stand-by program for Sudan had become inoperative because the authorities had been unable to meet their obligations under the previous debt reschedulings by the Paris Club and the commercial banks. They had negotiated a series of debt reschedulings and the sum of them had become unmanageable. The staff obviously wished to avoid any recurrence of unrealistic debt rescheduling.

After the coming meeting of the Paris Club, the Director explained, and after other possible meetings with the commercial banks, the staff would report to the Executive Board on the status of Sudan's debt situation. At that time, the Executive Board could decide whether or not the stand-by arrangement should be implemented.

Table 6 in the staff report, the Director remarked, showed payments of principal of $538 million and interest payments of $319 million. In a recently circulated table the staff had shown a figure for payments of principal of $492 million. That figure, together with $46 million in Fund repurchases, accounted for the total figure of payments of principal of $538 million.

The staff, like Mr. Erb, was puzzled by the jump in the free market exchange rate between November 15 and 16, 1982, the Director of the Middle Eastern Department said. The staff was concerned about the development, because it could not be accounted for by any important changes in the economic conditions in Sudan. It was possible that psychological factors accounted for the adjustment. A staff mission was examining the exchange market arrangements and possible reforms of the exchange system to prevent the gap between the official and free market rates from adding to the difficulties of implementing the proposed program.

The staff representative from the Middle Eastern Department remarked that the authorities provided budgetary subsidies for wheat, wheat flour, and pharmaceuticals following the exchange rate depreciation of November 1982, but that there was no subsidy on sugar in view of the large domestic retail price increase of January 1982 and the prevailing low international price. The authorities felt that they had already made major adjustments in the price of bread in April and July 1982, and that additional adjustments after the devaluation would be difficult to introduce for political reasons. The staff felt, therefore, that the authorities should be given additional time to remove the remaining subsidies. On the other hand, the staff was of course concerned about the effect of the remaining subsidies on the budget deficit and had secured the authorities' assurance that increases in the international prices of the subsidized commodities would be passed on to consumers in the form of higher prices so that the subsidies would not cause an increase in the budget deficit. The subsidies were to be removed before the end of the program period.

Responding to a question on the budget estimates, the staff representative said that for many years the original budget estimates on the revenue side had proved to be quite optimistic. In formulating the proposed program, the staff had scrutinized the detailed revenue components in the light of the actual outcome of the previous year and, as a result, had made substantial revisions in the official estimates. Hence, it was best to compare the figures in the program both with the figures in the budget and with the provisional actual data for 1981/82. That examination showed that there would be a substantial increase in revenues in 1982/83 compared with 1981/82. Mr. Grosche had drawn attention in particular to the budgeted estimated profits of the public entities. That figure--LSd 94.4 million--included LSd 21 million in sugar monopoly profits, and the staff had reclassified them in the program as tax revenue. The reclassification, together with the staff's more cautious estimates, helped to explain why the staff estimate of public entity profits (LSd 41.4 million) was different from the budgeted estimate (LSd 94.4 million).

The staff expected some compression of imports in 1983, the staff representative said. Luxury imports in Sudan were financed essentially by remittances, and attempts to reduce those imports would in all likelihood lead to a decline in remittances. The Government hoped that the relaxation of price controls, the more flexible setting of profit margins, and changes in the licensing system would induce private sector importers to move away from luxury imports and toward more essential imports.

Table 1 (EBS/83/9), the staff representative noted, showed, inter alia, that total Fund holdings of Sudanese pounds, excluding holdings under the compensatory financing facility, at the end of the program would be the equivalent of 485.7 per cent of the present quota. That figure, however, included 100 per cent of the currency subscription; hence, total use of Fund resources at the expiration of the proposed stand-by arrangement would be the equivalent of about 386 per cent of quota.

The staff agreed with Mr. Taylor, the staff representative commented, that the export projections might prove somewhat optimistic. There was evidence of underinvoicing of exports to escape the surrender requirements of the Bank of Sudan, and it was known that considerable smuggling across Sudan's borders--amounting to roughly $50-55 million a year in sheep and cattle--took place. Those factors were reflected in the positive entry for the "errors and omissions" item of the balance of payments, but the export shortfall in 1982 had occurred largely because of the continued weakness in the world cotton market and the inability of Sudan to increase its cotton shipments. In addition, transportation bottlenecks had prevented much of the increased output of groundnuts and sorghum from reaching the ports. The authorities were taking steps to improve the capacity of the rail system to transport those commodities. The staff report had not tackled the issue of the bilateral payments arrangement with Egypt because the authorities felt that the arrangement was historically and politically important and provided an outlet for Sudanese products--such as melon seeds--for which there was little demand in other markets. The proceeds from those exports were used essentially to cover the costs of Sudanese citizens studying in Egypt or using Egyptian medical facilities. Because of their special relationship with Egypt and their wish to increase the integration of the Sudanese and Egyptian economies, the Sudanese authorities believed that it would be difficult for them to eliminate the bilateral arrangement with Egypt.

The staff expected prices to increase substantially in the first part of 1983 as a result of the various measures that had been introduced in November 1982, the staff representative explained. At the same time, however, the staff anticipated that the underlying rate of inflation would fall later in the year. Still, the staff did not expect a major reduction in inflation for 1983 as a whole. The rate was projected at about 25 per cent for 1983, compared with 30 per cent in 1982.

The LSd 29 million increase in government employee compensation, the staff representative said, was equivalent to approximately 4.7 per cent of the wage and salary bill for 1983. It was therefore clearly no more than a token increase.

The paper containing Sudan's request for a purchase under the compensatory financing facility was expected to be circulated shortly, the staff representative advised. The circulation had been unavoidably delayed by the need to clarify certain pieces of data.

The technical assistance report prepared by staff members from the Fiscal Affairs Department contained several recommendations for improving income tax collections, the staff representative remarked. For instance, the authorities had been urged to change the tax base of the corporate income tax from the previous year's income and profits to the current year's, to increase the penalties for late tax payments, and to introduce standard tax assessments to improve tax collection from professionals, such as doctors, lawyers, and accountants. All the proposals were being studied by a committee in the Ministry of Finance that was reviewing the entire revenue structure, and the staff hoped that some of the recommendations would be implemented in the near future.

The 44 per cent increase in cotton production in 1981/82 would be reflected in exports in 1982/83, the staff representative said, since the crop was harvested too late in the year to result in any significant exports during the crop year. There was a significant gap between the time of the harvest and the subsequent exports. Part of the decline in cotton exports in 1982 had been due to the continued weakness in the international market, but the staff had projected a gradual recovery in international demand. Cotton exports in the second half of 1982 had amounted to about 200,000 bales, and 300,000 bales and 400,000 bales were expected to be shipped in the first and second halves of 1983, respectively.

The 7 per cent increase in real GDP in 1982 had been caused mainly by the 44 per cent increase in cotton production, the staff representative explained. Cotton output was expected to rise by only 16 per cent in 1983, when real GDP was expected to grow by just 3.5 per cent. The staff's original projection of real GDP growth for 1982 (9 per cent) had proved to be overoptimistic, and the staff, in cooperation with the World Bank, had taken particular care in making the growth projection for 1983.

The staff had projected a decline of 1 per cent in the income velocity of money, the staff representative commented. Such projections were of course difficult to make. The latest projection reflected the staff's feeling that the desire to hold cash balances would be greater as a result of the recent increase in deposit rates.

Regarding the ability of the authorities to implement the proposed program, the staff representative said that the staff had attempted to ensure that most of the necessary measures would have already been undertaken by the time the stand-by arrangement was considered by the Board. In addition, the new program was fully supported by every level of the Sudanese Government. Still, given Sudan's track record, there were naturally some uncertainties about the Government's ability to implement a program. Weather and other natural factors obviously played an important role in agricultural output, and the realization of the export projections would depend to an important extent on the recovery of international demand for primary commodities. Much would also depend on the volume and timing of external cash and commodity aid, the extent to which unforeseen budgetary expenditures for defense were needed, and the influx of foreign refugees.

There was a clear need to monitor the implementation of the proposed financial program more closely than the previous programs had been monitored, the staff representative went on, and the Sudanese delegation to the recent Paris meeting of the Consultative Group for Sudan had agreed to establish a Joint Monitoring Committee to be chaired by a senior official of the Sudanese Ministry of Finance and Economic Planning and to include the resident representatives of the Fund and the World Bank as well as representatives from members of the Consultative Group and other creditors. The Committee was to hold its first meeting soon, and the Fund's resident representative would try to ensure that it exercised timely and effective surveillance over various elements of the new program. The Committee was to report periodically--probably every three months--to the Consultative Group on the progress in implementation and on any problems that had arisen, and it would be calling on the Fund and the World Bank for additional technical assistance in areas relevant to the new program.

A member of the Fiscal Affairs Department's panel of experts had already been assigned to the Ministry of Finance to advise on expenditure reporting and control, and on the accounting of aid disbursements, the staff representative from the Middle Eastern Department explained. A member of the Central Banking Department's panel of experts would shortly take up residence in Khartoum to advise on bank supervision. Fund assistance might well be needed in the setting up of an expenditure control unit in the Ministry of Finance. The World Bank also intended to increase its technical assistance to Sudan. Moreover, the Fund staff intended to increase the number of its visits to Khartoum to maintain a continuous dialogue with the authorities on their progress in implementing the program and to press for corrective adjustments at a sufficiently early stage. Every effort would be made to ensure the successful implementation of the program. Given Sudan's precarious foreign exchange situation, there was little room for maneuver or for slippage.

The Deputy Director of the Exchange and Trade Relations Department commented that the removal of the subsidies on wheat and pharmaceuticals was a performance criterion for the final drawing under the proposed stand-by arrangement. As for the large spread between the official and free exchange rates, one reason for it might well be the effect of the limited supply of foreign exchange in the official market, which had led to a diversion of imports to the free market. The authorities had undertaken to maintain a flexible exchange rate policy with a view to reducing the spread between the two rates. The staff felt that the authorities might also have to reconsider the organization of the two markets. The staff mission in Khartoum was examining with the authorities possible guidelines for a flexible exchange rate policy, and a possible reorganization of the exchange markets in order to reduce the spread between the two exchange rates.

He agreed with Mr. Taylor, the Deputy Director said, that foreign debt should be an important topic of surveillance under Article IV consultations and that, wherever necessary, the surveillance should include debt management and coordination. As Mr. Erb had noted, the attention given by the staff to debt management and coordination during consultation discussions might well pave the way for subsequent technical assistance from the Central Banking Department.

The overall credit ceiling included indicative targets for the public entities and the private sector, the Deputy Director explained. The staff had not gone further and made the indicative target for the public entities an actual ceiling because those entities had not made excessive use of credit in 1981/82; they had used LSd 204 million in credit, compared with the target of LSd 295 million. However, the staff would be monitoring developments closely and, if necessary, would consider adding a separate ceiling for public entities in any subsequent arrangement.

As a general rule, the Deputy Director of the Exchange and Trade Relations Department said, debt ceilings excluded debts of less than one year, mainly because it was extremely difficult to monitor short-term facilities that were used extensively in trade financing. The staff appreciated that ways of monitoring short-term debt should be developed, so that such debt could be included under debt ceilings. In the case of Sudan, the Joint Monitoring Committee would have a foreign exchange advisor who would monitor foreign exchange budgeting and other related matters, including all aspects of debt policy.

Mr. de Vries remarked that the complexity of the various arrangements that seemed necessary for Sudan was disappointing, especially as relatively simple actions apparently would suffice. The staff had suggested that, as long as the present policies and exchange system prevailed, operators in the free market would wish to maintain a gap between the free market and official exchange rates. The flexible exchange rate policy that the authorities were to implement was likely to be effective if it was combined with a change in the exchange system. Some adjustments in the exchange rates would probably be unavoidable, but unless the exchange system was modified, uncertainties about the system would persist and the large gap between the two exchange rates would be likely to continue.

The Deputy Director of the Exchange and Trade Relations Department said that the staff agreed with Mr. de Vries.

Mr. Erb commented that portions of his opening statement might have been misunderstood by some Executive Directors. He understood why the authorities wished to provide subsidies on certain commodities in the light of the effects of the devaluation. At the same time, the authorities should be encouraged to phase out the subsidies during the period of the proposed program. Experience had shown that a subsidy that was originally meant to be temporary sometimes became both permanent and sizable.

He also understood, Mr. Erb said, that the effective use of resources by Sudan would amount to the equivalent of 386 per cent of quota, and not a much higher figure, but 386 per cent was relatively substantial; as the Fund was likely to be involved in Sudan for another two or three years, it would probably need to provide additional resources. The Fund must be cautious in the amount of resources that it committed under each year of a stand-by arrangement, so that it could be certain to have sufficient resources for longer adjustment periods. That position was fully consistent with the rationale for the enlarged access policy that had been enunciated in December 1980 (EBS/80/262, 12/4/80). At that time, the staff had specifically noted that, in cases in which an adjustment might have to be stretched out over time, the enlarged access policy would permit a longer period of involvement by the Fund, but that the amount of resources available each year might have to be less than 150 per cent of quota. It was important to maintain a balance between annual commitments and the length of the period of adjustment.

Mr. Shaw remarked that he had not meant to say in his initial statement that he necessarily supported full rescheduling of Sudan's foreign debt. He had meant to express his doubt about the ability of the authorities to close the financing gap without near or, perhaps, full rescheduling of the debt and, indeed, the information provided by the staff showed that the authorities intended to reschedule nearly all the foreign debt. He had also meant to stress the need for an equitable sharing of the debt rescheduling burden. The official creditors should not be asked to assume all of the burden; the commercial creditors would have to shoulder their fair share. Finally, while he understood the considerable difficulty in collecting accurate data on short-term debt, that form of debt was important in the case of Sudan and in other similar cases, and he was pleased that the Sudanese authorities' new committee intended to monitor the accumulation of short-term debt.

Mr. de Lattre stated that coordination among Sudan's various creditors was essential. Much would depend upon their reaction to Sudan's rescheduling request, and the more they knew about the economic and financial conditions and negotiations, the more positive their response was likely to be. Recent statements by Fund representatives to the bankers had been particularly helpful.

There was in practice a significant difference between full debt rescheduling and the payment of $80-100 million that the authorities intended to make, Mr. de Lattre commented. That payment was to be financed by funds provided by the creditors themselves. All of the various creditors wished to receive some payment for different valid reasons. A payment of $100 million was not in itself significant compared with the total external debt of about $8 billion, the annual debt service of approximately $1 billion, and the accumulated arrears of $2.4 billion. Hence, the commercial banks insisted on a payment not because they hoped to receive a considerable sum, but rather because they wished to avoid seeing Sudan default on its loans, a development that was fraught with considerable danger. Similarly, the Paris Club insisted that Sudan make a payment not because the participants expected to receive large sums of money, but rather because the lack of any payment at all would set a dangerous precedent. In the same vein, the international organizations would have to receive at least token payments if they were to be in a position to provide fresh financial assistance. He had encouraged the various creditors to accept the small sums that had been mentioned in order to encourage confidence in, and to assure additional support for, Sudan.

The country's debt was of course substantial, Mr. de Lattre said, but it should not be a stumbling block in Sudan's efforts to make the needed adjustments in its economy. It seemed best not to aim for a fully comprehensive debt rescheduling in 1983. Sudan should attempt to make at least some payment to creditors, who would probably apply the payments to interest due. Thereafter, the authorities could meet regularly with the creditors, who would benefit from the work of, and information accumulated by, the new debt monitoring committee in Sudan, and who would be able to observe the implementation of the new adjustment program. Those steps would pave the way for a new debt coordination exercise early in 1984. By then, reports by the Fund and the World Bank should be able to impress upon creditors the progress that Sudan was making in implementing the necessary adjustment measures.

Mr. Sangare remarked that there seemed to be some concern among Executive Directors about the size of the budget deficit, which had been the equivalent of 7 per cent of GDP in 1982. It was important to remember that the ratio of the deficit to GDP had been 11 per cent in 1980/81. The decrease of 4 percentage points in just one year was clear evidence of the effort that the authorities were making to implement the needed adjustment measures. The reduction had occurred only because the authorities had taken courageous steps to increase resources and to curtail expenditure, and the authorities fully intended to continue their efforts in the coming period. The remaining subsidies on wheat, flour, and pharmaceutical products were to be eliminated before the end of the program period. However, one had to be careful to avoid killing the patient while trying to cure his disease. As the economy rebounded because of the structural adjustment measures, revenues were also expected to increase, thereby strengthening the financial position of the Government.

The authorities were attempting to address the problem of the continued highly negative real interest rates, Mr. Sangare said. Interest rates had been increased in January 1981, some by as much as 3 percentage points, but any assessment of interest rate policy must take into account the important efforts that were being made to reduce the rate of inflation. Controlling inflation seemed to be the most constructive way of solving the problem of negative real interest rates, particularly in the long run. A policy of increasing interest rates to catch up with inflation could of course have devastating effects on an economy.

The cumulative limit on access of 600 per cent of quota only covered purchases in the credit tranches and under the extended Fund facility, Mr. Sangare commented. It excluded purchases under the special facilities, such as the oil facility and the compensatory financing facility. When such purchases were excluded, Sudan's access to Fund resources, even with the approval of the proposed decision, was not close to 600 per cent of quota.

In assessing the ability of a country to implement fully its financial program, Mr. Sangare remarked, one should bear in mind that any successful program was based on assumptions that proved to be fully accurate. Some of the assumptions had to do with efforts by the country itself, but others had to do with external factors. Under previous stand-by arrangements, the Sudanese authorities had made a considerable effort to implement appropriate measures, and significant progress on the domestic front had been achieved. The failure to achieve the external targets had occurred because some of the relevant assumptions had not proved to be accurate. For instance, some of the external assistance that donors had promised to provide had not actually been released, thereby preventing Sudan from being in a position to meet its external debt obligations.

As the staff had noted, Mr. Sangare said, the proposed program was pragmatic and was based on realistic assumptions. The authorities had agreed to establish a Joint Monitoring Committee consisting, in part, of representatives of the Fund, the World Bank, and the Consultative Group. The authorities had requested Fund technical assistance in the areas of expenditure control and foreign exchange budgeting, and they intended to maintain close contact with the staff in order to formulate corrective measures in the event of slippages. Moreover, the statistics on external debt obligations were much more reliable than they had been at the time of the previous program, when the considerable underestimation of the magnitude of the obligations falling due in 1982 had been one of the factors in the difficult debt servicing situation. In addition, there was every reason to hope that the work of the External Finance Coordinator would be very helpful.

One of the main problems facing Sudan was the weak external payments position, Mr. Sangare remarked, and the overall thrust of the new program reflected the authorities' full awareness of the difficulty. To improve the situation, the authorities were introducing measures to increase exports and curtail imports, including a substantial depreciation of the exchange rate, and, over time, the measures should prove to be helpful. However, the heavy debt servicing burden was clearly a more immediate threat to the success of any short-term or medium-term program aimed at achieving a sustainable balance of payments position. Accordingly, under the proposed decision, the Fund's financial support for Sudan was contingent upon the satisfactory conclusion of the debt restructuring negotiations. His authorities hoped that an agreement would be reached in the near future with the major groups of creditors, beginning with the Paris Club, which was to meet on February 3-4, 1983. A substantial pledge, $539 million, had been made by the Consultative Group to support projects under the three-year public investment program. Some donors had also made commitments that were not tied to projects. Many developing countries faced problems similar to those that Sudan was trying to deal with, and he hoped that the Fund would show them the same understanding and goodwill that it had shown the Sudanese authorities and would do everything possible to support their adjustment efforts.

The Deputy Managing Director said that the words "the Fund" in paragraph 3 of the decision on the stand-by arrangement meant "the Executive Board." Accordingly, management would make a proposal to the Executive Board on the basis of the staff's analysis. The Executive Board would be asked to find either that the financing gap had been filled by further assistance and debt renegotiation, or that the shortfall was still significant and that further discussions with the authorities should be held. The comments by Executive Directors had strengthened the hands of the staff and Mr. de Lattre for the coming discussions on Sudan's debt. The staff would push for the rapid action that was obviously required, but if more time was needed, the Executive Board might wish to take another look at Sudan's financial program. The objective was to be certain that the program was appropriate and fully financed at the time when the stand-by arrangement became effective.

The Chairman remarked that the authorities should clearly understand that the new program would have to be strengthened. It was true that a number of measures had already been introduced, but much remained to be done. As long as the dual exchange rate system was maintained, Sudan would continue to experience smuggling, distortions, underinvoicing, and discrepancies between the exchange rates. The reform of the exchange system was a fundamental issue that had not yet been resolved. Nor was the interest rate situation fully satisfactory: real interest rates were highly negative and could not give the needed encouragement to savings. Moreover, some subsidies still existed. Corrections in all those areas would have to be made. Meanwhile, the country's creditors would be monitoring the authorities' performance. At the present stage, a comprehensive rescheduling exercise seemed unlikely to succeed. Sudan's creditors would be willing to undertake such an exercise only after they had evidence of the implementation of the new financial program. Hence, slippages in implementation could not be afforded, and the staff would have to monitor the implementation closely.

The Executive Board then turned to the proposed decisions, which it approved.

The decisions were:

Stand-By Arrangement

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

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

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

Decision No. 7316-(83/21), adopted
January 28, 1983

Exchange System

1. The Fund approves the restriction on payments and transfers for current international transactions arising from payments arrears, as described in EBS/83/9 (1/11/83), until the expiration of the stand-by arrangement set forth in EBS/83/9, Supplement 3.

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

Decision No. 7317-(83/21), adopted
January 28, 1983

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/83/20 (1/26/83) and EBM/83/21 (1/28/83).

2. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/83/33 (1/25/83) is approved.

APROVED: July 6, 1983

LEO VAN HOUTVEN
Secretary