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CONFIDENTIAL

September 25, 1997

To: Members of the Executive Board

From: The Secretary

Subject: **Sudan—Staff-Monitored Program—Report on Developments  
Through August 1997**

Attached for the information of the Executive Directors is a report on developments through August 1997 of the staff-monitored program for Sudan.

Mr. Sundararajan (ext. 38573), Mr. Shabsigh (ext. 35364), or Mr. Treichel (ext. 34045) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Unless the Documents Preparation Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Friday, October 3, 1997; and to the African Development Bank (AfDB), the Arab Monetary Fund (AMF), the European Commission (EC), and the Islamic Development Bank (IsDB), following its consideration by the Executive Board.

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INTERNATIONAL MONETARY FUND

SUDAN

**Staff-Monitored Program—Report on Developments Through August 1997**

Prepared by the Middle Eastern and Policy Development  
and Review Departments

Approved by P. Chabrier and T. Leddy

September 25, 1997

1. This note provides information on recent developments in economic performance and policies under Sudan's staff-monitored program, and reports on compliance with the quantitative benchmarks through end-July 1997 and the structural benchmarks for August 1997. Three monthly reports on developments through April, May, and June 1997, have been issued to date for the information of the Executive Board. In addition, a staff report,<sup>1</sup> which reviewed performance under the program during the first half of 1997 and reported on compliance with the quantitative benchmarks through end-June 1997 and the structural benchmarks for July 1997, was considered by the Executive Board on August 29, 1997.
2. Payments to the Fund through September were effected as committed, for a total of US\$45.4 million.
3. Data and economic information have been reported to the Fund as specified under the program.
4. The structural benchmarks for the month of August were met, as detailed in Table 2.
5. The authorities prepared, in mid-August 1997, a draft plan for the liberalization of gasoline as part of the oil sector reform plan that will be adopted by end-September 1997. The prepared plan envisages, inter alia, allowing the private sector to directly import and market (at the wholesale and retail levels) gasoline. The plan is currently being reviewed and discussed with the authorities, with a view to broadening its scope and identifying the practical steps necessary for its implementation.

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<sup>1</sup>See EBS/97/151, 8/15/97, considered at EBM/97/89, 8/29/97.

6. Inflation (year-on-year) continued to decline, reaching 32 percent in August as compared to 114 percent in December 1996, reflecting in good part the tightening of monetary conditions. Inflation on a monthly basis, however, accelerated in August to 6.2 percent reflecting the sharp increase in electricity tariffs in late July and the seasonal increase in the prices of several important food stuff items (e.g., meat).

7. With the exchange rate in the free accounts-to-accounts market remaining stable in August, the spread between the official dealer and free market exchange rates declined to 8.6 percent by end-August, compared to 11 percent programmed for end-September. Real effective exchange rate appreciated by about 3.2 percent during January-August 1997 on an average basis, and by about 8.3 percent on an end-period basis (reflecting the acceleration of inflation in August).

8. Preliminary data indicate that exports of goods fell by 6.2 percent in U.S. dollar terms during the first seven months of 1997, compared with the same period a year earlier, while imports of goods remained at about the same level as in the previous year. The decline in exports was mostly attributable to continued low international prices for traditional exports (cotton, groundnut, sesame, and gum arabic). Nevertheless, the overall balance of payments is estimated to have improved somewhat, reflecting favorable remittances and private capital inflows.

9. Fiscal developments through July were broadly on target, despite slightly lower-than-expected revenue (mainly owing to lower than projected receipts from fees and profit transfers), and borrowing from the Bank of Sudan was LSd 2 billion less than programmed.

10. The monetary accounts for July show that banking system credit to the government and private sector was below the programmed level. However, the programmed ceiling on the net domestic credit of the banking system for July was exceeded (by LSd 11 billion or 0.8 percent of end-July stock of broad money), primarily on account of a sharp drawdown of deposits of two public companies (the Government Petroleum Company and the Public Company for Sugar), which maintain their accounts at the Bank of Sudan. The drawing down of these deposits was related to large import purchases by these two companies. The authorities indicated that the decline in deposits would be temporary, as they are expected to be rebuilt from incoming proceeds of the sale of these imports. The authorities are monitoring the situation carefully, and preliminary estimates for August suggest that the decline in deposits is being reversed and that credit to nongovernment sectors is being sufficiently restrained below the program target to ensure that net domestic credit will be in line with program target in August 1997. The authorities also plan to strengthen the institutional arrangements to manage these deposits.

Table 1. Sudan: Quantitative Benchmarks, July 1997

(In billions of Sudanese pounds, except if indicated otherwise)

	Cumulative Change 1/		
	June Actual	July Prog.	Actual
<b>Benchmarks</b>			
Ceiling on the net domestic credit of the banking system	881	24	35
Ceiling on net credit to government 2/	634	9	7
Ceiling on new nonconcessional borrowing contracted or guaranteed by the government	0	0	0
Floor on NFA of the Bank of Sudan (in millions of US\$) 3/ 4/	-2,653	0	2
Payments to the Fund (in millions of US\$) 5/	4.3	4.3	4.3
<b>Memorandum items</b>			
Reserve money	690	16	43
Central government revenue	480	101	92

Sources : Bank of Sudan; and staff estimates.

1/ Outstanding stocks in June 1997; cumulative since June 30, 1997.

2/ Excluding changes in government deposits with the Bank of Sudan.

3/ Liabilities to the Fund are valued at the constant end-December 1996 US\$/SDR exchange rate.

4/ NFA data were revised, so as to exclude nonresident foreign time liabilities.

5/ Monthly flows.

Table 2. Sudan. Status of End-August Structural Benchmarks

Benchmarks	Implementation
Prepare draft prudential regulations on commercial banks' foreign exchange exposure	issued on August 14, 1997 for staff comments
Reduce the surrender requirement on 13 specific items from the present 45 percent to 40 percent while allowing exporters to retain the remaining 60 percent of export proceeds	completed on August 14, 1997
Prepare draft action plan relating to oil sector liberalization and surrender/retention reforms.	received on August 12, 1997 for staff comments

Table 3. Sudan: Selected Economic and Financial Indicators, 1994-95/1997 1/

	1994/95	1995	1996	1997		
				Staff Mon. Prog. 2/	July Actual	Aug. Prel.
(Annual changes in percent)						
National income, prices and exchange rate						
Real GDP (at factor cost)	4.5	4.4	4.7	5.5	...	...
Consumer prices (month on year ago month)	57	71	118	55	37	32
Consumer prices (period average)	85	68	133	53	...	...
Official exchange rate end of period (LSd/US\$)	524	838	1,460	...	1,615	1,635
Real effective exchange rate (period average: depreciation -)	-18.4	-22.9	-0.4	...	2.5 3/	3.2 3/
(end period: depreciation -)	-39.7	-24.2	14.5	...	3.8 3/	8.3 3/
Central government operations 4/						
Total revenue	117.6	75.5	72.3	85.2	49.1 5/	...
Total expenditure (including interest arrears)	88.5	95.7	171.6	8.0	...	...
Expenditure (excluding interest arrears)	69.9	87.7	94.6	34.2	50.3 5/	...
External sector						
Exports, f.o.b.	-16.1	31.8	11.6	-2.3	-6.2 6/	...
Imports, c.i.f.	-16.6	19.1	26.9	-4.2	0.0 6/	...
(In percent of GDP)						
Central government operations						
Total revenue	9.4	8.7	6.2	7.0	...	...
Total expenditure (including interest arrears)	22.0	24.0	26.7	17.6	...	...
Expenditure excluding interest arrears	11.1	12.1	9.6	7.8	...	...
Overall balance (on an accrual basis)	-12.7	-15.3	-20.5	-10.6	...	...
Overall balance (on a cash basis)	-1.7	-3.2	-3.4	-0.9	...	...
Primary balance	-0.9	-2.3	-2.4	-0.2	...	...
Balance of payments and external debt						
Current account deficit	-20.1	-20.8	-25.0	-23.1	...	...
Exports, f.o.b.	6.0	7.8	8.1	7.5	...	...
Imports, c.i.f.	14.4	17.2	20.2	18.2	...	...
External debt	263.9	272.0	267.5	262.6	...	...
External interest due	13.1	12.9	13.5	13.3	...	...
External debt paid 7/	0.9	1.0	0.7	0.8	...	...
(Changes as percent of beginning stock of broad money)						
Money and credit						
Net foreign assets	...	-462.9	-267.3	-161.2	-30.4	...
Net domestic assets	...	137.7	56.1	14.6	10.6	...

Table 3. Sudan: Selected Economic and Financial Indicators, 1994-95/1997 1/

	1994/95	1995	1996	1997		
				Staff Mon. Prog. 2/	July Actual	Aug. Prel.
Net domestic credit	18.6	46.4	59.3	14.5	8.5	...
Net credit to the central government	5.5	31.2	31.7	4.8	4.3	...
Claims on nongovernment sector	13.1	15.2	27.5	9.7	4.1	...
Other items (net)	...	91.3	-4.7	0.0	2.1	...
Counterpart to valuation changes	...	472.4	281.1	182.7	40.6	...
Money and quasi-money	54.2	147.2	65.2	36.1	20.8	...
Reserve money	...	76.7	81.8	15.0	12.9 3/	...
Velocity (GDP/average M2)	7.6	7.5	10.6	12.1	...	...
(As percent of total current account receipts, unless otherwise indicated)						
Total external debt service						
Commitment basis	215.1	160.6	185.5	181.1	...	...
Actual payments 7/	11.6	9.7	8.0	8.5	...	...
Memorandum item:						
Nominal GDP (annual; in billions of Sudanese pounds)	3,050	4,179	10,203	16,700	...	...

Sources: Fund staff estimates and projections based on information provided by the Sudanese authorities.

1/ Starting in 1996, all official accounts moved from a fiscal year (July-June) to a calendar year basis.

2/ EBS/97/151.

3/ Cumulative percent change during 1997.

4/ Revenue and expenditure data for 1996 and 1997 exclude taxes collected on behalf of and transferred to the States.

5/ Cumulative percent change during 1997 relative to program target.

6/ Percent change during 1997 over the same period in 1996.

7/ Including payments of arrears to the Fund and burden sharing refunds.