

**FOR
AGENDA**

EBS/04/72
Correction 1

June 15, 2004

To: Members of the Executive Board

From: The Secretary

Subject: **Sudan—Report on Final Review of the 2003 Staff-Monitored Program
and the 2004 Staff-Monitored Program**

The attached corrections to EBS/04/72 (6/3/04) have been provided by the staff:

Page 11, footnote 9, line 3: for “0.3 percent of GDP” read “0.2 percent of GDP;”
typographical error corrected to be consistent with the information on the Memorandum of
Economic and Financial Policies.

Page 22, Table 1: reformatted to fix indentions.

Pages 24–33, Tables 3–10: reformatted to fix indentions.

Pages 50–57: renumbered paragraphs to have Attachment I (Memorandum of Economic and
Financial Policies) begin with para. 1 instead of para. 50.

Questions may be referred to Mr. Shabsigh, MCD (ext. 35364).

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lesser extent, by project loan disbursements. Official reserves are targeted to rise by \$280 million to \$807 million, equivalent to 2.5 months of next year's imports, compared with 1.8 months at end-2003 (Table 4).

Fiscal Policy

16. **The fiscal stance will remain prudent.** The overall fiscal deficit is expected to be about 1.2 percent of GDP (2.3 percent of GDP excluding OSA), largely on account of foreign-financed development expenditures on the Merowe dam,⁸ while the non-oil domestic deficit is projected to rise by 1.5 percentage points to 8.8 percent of GDP in 2004 (Table 5). The domestically financed fiscal deficit (excluding the OSA) will be contained at about 1.0 percent of GDP, consistent with a restrained monetary program.

17. **Overall revenues are expected to increase in 2004 from both non-oil and oil sources (Table 5).** Non-oil revenues are estimated to rise by 1 percentage point of GDP to close to 9 percent in 2004, reflecting the adoption of a set of new revenue measures that were approved in the 2004 budget (MEFP, ¶12).⁹ Oil revenue will also increase by 1 percentage point of GDP, reaching 9.8 percent in 2004, on account of higher price and production of Sudanese oil.¹⁰

18. **The benchmark price, above which oil revenues accumulate in the OSA, will be raised slightly in light of the higher international oil price.** Consistent with the need for more flexible OSA rules to balance the fiscal security provided by the OSA with poverty alleviation and development needs, the mission agreed with the authorities on the appropriateness of raising the OSA benchmark price by \$2 per barrel to \$24 in light of the projected high oil prices. The extra revenues will be spent on additional social and development programs (MEFP, ¶21). Despite the benchmark price increase, the OSA is expected to accumulate an additional SDD 55.5 billion (1.1 percent of GDP) in 2004.¹¹ The OSA benchmark price will be kept under review during the year and adjusted, if necessary, in light of unexpected movements in oil prices.

⁸The 2004 budget will record a surplus of about 1 percent of GDP excluding foreign-financed development spending.

⁹To support the post conflict needs, the authorities identified a number of revenue measures that will be enacted once a peace agreement is reached (MEFP, ¶13). The revenues resulting from these measures were not included in the program projections, but could generate about 0.2 percent of GDP in the second half of 2004.

¹⁰The program assumes an average annual price of Sudanese oil of \$28.2 per barrel.

¹¹The OSA's projected balance by end-2004 should be sufficient to finance 12-month spending levels similar to those in 2004 in case Sudanese crude oil price drops to \$20 per barrel from the program's assumption of \$28.2 per barrel.

Table 1. Sudan: Quantitative Indicative Targets, 2003

(In billions of Sudanese dinars; unless otherwise indicated)

	Dec. 2002 Actual 2/	Cumulative Change During 2003 1/						
		1st	2nd	2nd	3rd	4th	4th	4th
		Quarter	Quarter	Quarter	Quarter	Quarter	Quarter	Quarter
		Actual	Midyear Program	Actual	Actual	End-year Program	Program Adjustor	Actual
BOS net domestic assets 3/	225.3	-8.2	150.5	-32.3	9.6	16.5	4.5	-1.6
Domestic financing of the fiscal deficit 4/	...	6.4	22.3	-0.8	22.4	28.1	16.1	3.1
Contracting or guaranteeing of external nonconcessional debt by the government and the BOS 5/	0.0	0.0	0.0	147.0	147.0	0.0		147.0
BOS gross usable reserves (in millions of U.S. dollars) 6/	243.6	96.0	116.0	172.3	169.3	140.0	186.1	283.3
Payments to the Fund (in millions of U.S. dollars)	...	6.0	12.8	12.8	19.9	27.0	...	27.0
Memorandum items:								
Broad money 3/	563.3	33.8	57.7	48.2	104.0	131.0	...	170.8
Central government social expenditure 7/	...	13.1	24.5	26.6	38.8	53.0	...	53.0
Oil savings account (OSA)	10.1	18.9	23.1	32.2	40.0	23.1	...	35.1

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ Cumulative change from the end of the previous year.

2/ Outstanding stock at end-of-year.

3/ Based on new presentation of the monetary data, consistent with Fund guidelines, adopted in January 2000. Net BOS financing is defined as borrowing by the government from the BOS (including GMCs) minus central government deposits at the BOS (excluding deposits accumulated in the OSA).

4/ Defined as total net borrowing by the government, including net borrowing from the BOS (including GMCs and changes in deposits of the central government with the BOS), net sales of GMCs outside the BOS, revenues from privatization, and repayments of internal domestic debts.

5/ This indicative target applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274 - (00/85), August 24, 2000), but also to commitments contracted or guaranteed, for which value has not been received. Debt will be deemed to be concessional when the currency-specific discount rate (determined by the market-related "commercial interest reference rates" as published by the OECD) applied to the contractual schedule of charges and principal payments, indicates a grant element of at least 35 percent. The indicative target excludes the financing of the Merowe hydropower project.

6/ In the new presentation of the Monetary Authorities' Accounts, gross usable reserves include foreign banknotes in the vaults of the BOS.

7/ Central government expenditure on medical care, health services, poor students' support, supplement to poor consumers of electricity, social and health insurance, and water, health, and education development.

Table 3. Sudan: Selected Economic and Financial Indicators, 2001–04

	Actual 1/			Projections
	2001	2002	2003	2004
(Annual changes in percent; unless otherwise indicated)				
National income, production, and prices				
Nominal GDP (in billions of Sudanese dinars)	3,376	3,876	4,426	5,024
Real GDP growth	6.1	6.0	6.0	6.6
Real non-oil GDP growth	4.8	5.0	5.5	5.8
Average CPI inflation	4.9	8.3	7.7	6.5
12-month CPI inflation (end of period)	7.4	8.3	8.3	6.5
(In percent of GDP)				
Investment and savings				
Gross domestic investment	18.3	19.1	19.1	21.6
Government sector	2.3	3.1	3.1	5.6
Nongovernment sector	16.0	16.0	16.0	16.0
Gross domestic savings	10.3	12.8	14.6	16.3
Government sector	2.2	3.5	5.7	5.7
Nongovernment sector	8.1	9.2	8.9	10.7
Net exports of goods and nonfactor services	-8.0	-6.3	-4.4	-5.3
Central government operations				
Total revenue	11.0	12.1	16.8	18.7
Total expenditure	11.9	13.0	15.8	19.9
Overall balance (cash) 2/	-0.9	-0.8	1.0	-1.2
(Changes in percent of beginning broad money stock)				
Money and credit 3/				
Net foreign assets (excluding valuation changes)	-8.6	23.2	13.7	12.4
Net domestic assets	33.3	7.2	16.6	9.6
Net domestic credit	25.9	8.7	16.7	8.3
Net claims on central government	9.0	-1.5	-3.4	-3.1
Claims on nongovernment sectors	16.9	10.2	20.1	11.4
Other items (net)	7.4	-1.5	-0.1	1.3
Broad money	24.7	30.3	30.3	22.0
Reserve money (change in percent)	3.7	22.0	26.6	20.2
Velocity (average)	7.7	7.6	6.9	5.6
(In millions of U.S. dollars; unless otherwise indicated)				
External sector				
Exports, f.o.b.	1,699	1,949	2,577	3,001
Imports, f.o.b.	-2,031	-2,153	-2,536	-3,032
External current account balance 4/	-1,289	-918	-827	-1,000
In percent of GDP	-9.9	-6.2	-4.9	-5.2
Terms of trade (non-oil exports/non-oil imports)	-3.0	-3.6	13.7	-2.2
Real effective exchange rate (end of period, change in percent)	8.0	-2.0	-4.5	...
Official exchange rate (end of period, SD/US\$)	261.4	261.7	260.4	...
Total external debt service (percent of current receipts)				
Commitment basis	38.4	24.1	24.2	22.9
Actual payments	5.1	3.9	6.1	6.5
External debt (in billions of U.S. dollars)	20.9	23.6	24.1	25.3
BOS gross usable reserves (in millions of U.S. dollars)	44.9	243.6	526.9	806.9
In months of next year's imports	0.2	1.0	1.8	2.5
Crude oil export price (US\$ per barrel)	22.0	23.0	27.0	28.2

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

1/ National accounts data for 2001–03 are Fund staff estimates.

2/ Including the oil savings account (OSA).

3/ Definition of broad money in 2001 is based on the new presentation of monetary aggregates, adopted in January 2000.

4/ On cash basis.

Table 4. Sudan: Summary Balance of Payments, 2000–05

	Act.			Est.	Prog.	Proj.	Proj.
	2000	2001	2002	2003	2003	2004	2005
(In millions of U.S. dollars)							
Current account balance	-1,840	-2,116	-1,472	-1,457	-1,602	-1,649	-1,695
(Cash basis)	-632	-1,289	-918	-827	-1,065	-1,000	-1,003
Trade balance	230	-332	-204	40	0.4	-31	-70
Exports, f.o.b.	1,864	1,699	1,949	2,577	2,324	3,001	3,197
Crude oil	1,298	1,268	1,397	1,968	1,694	2,339	2,413
Petroleum products	110	109	114	114	116	116	203
Non-oil products	456	322	438	494	514	546	581
Imports, f.o.b. 1/	-1,634	-2,031	-2,153	-2,536	-2,323	-3,032	-3,268
Foodstuffs	-340	-416	-388	-370	-445	-412	-426
Machinery and transport equipment	-482	-679	-771	-992	-821	-1,234	-1,364
Manufactured goods	-294	-359	-488	-641	-555	-823	-883
Other	-411	-447	-390	-402	-379	-457	-534
Services (net)	-527	-714	-724	-794	-796	-972	-1,067
Receipts	28	15	47	36	52	38	40
Payments	-555	-729	-771	-831	-848	-1,011	-1,107
Of which: oil transportation costs	-251	-367	-414	-395	-453	-471	-521
Income (net)	-1,887	-1,443	-1,210	-1,422	-1,397	-1,466	-1,524
Receipts	5	18	19	10	19	18	31
Payments	-1,269	-892	-599	-691	-637	-725	-787
Of which: public interest due 2/	-1,253	-880	-583	-690	-627	-714	-776
Of which: interest cash payments	-45	-53	-29	-60	-90	-65	-84
Oil-related expenses 3/	-623	-568	-631	-740	-778	-759	-768
Current transfers (net)	344	373	666	718	590	821	967
Private transfers	315	366	634	708	557	761	817
Public transfers	29	6	32	10	33	60	150
Capital account	21	2	2	0	0	0	0
Financial account (net)	3	522	556	1,072	1,092	1,219	1,295
Disbursements	41	22	30	85	144	370	365
Amortization	-265	-157	-166	-239	-215	-280	-290
Of which: cash payments	-51	-53	-84	-161	-90	-201	-295
Short-term capital flows (net) 4/	117	120	222	139	129	28	56
Commercial banks NFA (increase -)	-18	-37	-163	-5	-34	-35	0
FDI and portfolio (net)	128	574	633	1,092	1,068	1,136	1,164
Errors and omissions	594	712	481	89	0	0	0
Overall balance	-1,223	-881	-433	-296	-511	-430	-399
Change in official reserves (increase -)	-109	0	-244	-434	-153	-298	-287
IMF (net)	-28	-24	-8	-12	-13	-18	-37
Total payments to the Fund	-63	-55	-24	-26	-27	-30	-50
Change in arrears on charges	35	31	16	14	14	12	13
Usable foreign reserves (increase -)	-82	90	-199	-283	-140	-280	-250
Other foreign reserves (increase -)	0	-66	-37	-139	...	0	0
Exceptional financing	1,332	881	677	730	663	728	687
Change in non-Fund arrears	1,332	881	636	708	648	728	0
Debt relief	0	0	0	0	0	0	687
Privatization receipts	0	0	41	22	15	0	0
Financing gap	0	0	0	0	0	0	0

Table 4. Sudan: Summary Balance of Payments, 2000–05 (concluded)

	Act.			Est.	Prog.	Proj.	Proj.
	2000	2001	2002	2003	2003	2004	2005
(In percent of GDP)							
Memorandum items:							
Current account	-15.1	-16.2	-10.0	-8.6	-10.5	-8.7	-7.9
(Cash basis)	-5.2	-9.9	-6.2	-4.9	-7.0	-5.2	-4.7
Current transfers (net)	2.8	2.9	4.5	4.2	3.9	4.3	4.5
Of which: private transfers	2.6	2.8	4.3	4.2	3.7	4.0	3.8
Gross usable reserves (in millions of U.S. dollars)	135	45	244	527	384	807	1,057
(In months of next year's imports)	0.7	0.2	1.0	1.8	1.7	2.5	2.9
(Percent change)							
Exports (value)	139.0	-8.9	14.7	32.2	20.6	16.5	6.6
Non-oil export (value)	-9.6	-29.3	36.0	12.8	17.5	10.4	6.5
Non-oil export (volume)	-5.8	-23.0	40.1	-8.2	5.0	6.4	7.4
Imports (value)	8.9	24.3	6.0	17.8	7.9	19.5	7.8
Import volume	4.2	35.4	4.7	6.5	0.9	13.5	11.3
Import volume (excluding petroleum products)	18.8	31.6	5.6	9.2	0.2	15.2	9.1
Terms of trade (non-oil exports/non-oil imports)	-0.7	-3.0	-3.6	13.7	3.8	-2.2	-1.1
Crude oil exports (volume, in thousands of barrels)	49,242	56,152	62,179	72,921	62,179	82,940	95,740
Crude oil price (US\$ per barrel)	27.2	22.0	23.0	27.0	...	28.2	25.2

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ Import figures were revised up to reflect improved coverage.

2/ Includes estimates of late interest accrued during the year and Fund special charges.

3/ Includes payments to oil companies related to profit-sharing arrangements.

4/ Net short-term trade and other credit facilities of the BOS and commercial banks.

Table 5. Sudan: Central Government Operations, 1999–2004

	Actual				Program	Actual	Program
	1999	2000	2001	2002	2003	2003	2004
(In billions of Sudanese dinars)							
Total revenues	205.5	326.3	370.0	470.7	598.5	741.9	937.1
Tax revenue	153.3	157.4	188.7	213.4	260.9	270.0	372.2
Direct taxes	36.1	37.4	41.5	41.2	46.6	52.3	68.5
Indirect taxes	117.2	120.0	147.2	172.2	214.3	217.7	303.7
Taxes on international transactions	84.4	69.6	77.1	97.6	103.8	112.7	128.6
Excise duties	32.8	34.3	32.5	33.2	48.5	49.3	102.5
VAT	0.0	16.1	37.7	41.4	62.0	55.7	72.6
Nontax revenue	52.2	169.0	181.3	257.2	337.6	471.9	564.9
Departmental fees	9.4	9.2	10.3	13.0	18.4	10.7	20.0
National revenues	42.8	159.7	171.0	244.2	319.2	461.2	544.9
Non-oil	27.1	18.9	21.3	33.5	50.6	38.7	54.8
Oil	15.7	140.9	149.7	210.7	268.6	422.6	490.1
Crude Oil	...	...	148.9	182.9	241.8	389.0	490.1
<i>Of which: OSA</i>	...	...	...	10.1	23.1	36.0	55.5
Profits from sales of petroleum products	...	...	0.8	27.7	26.8	33.5	0.0
Total expenditure	227.2	349.9	401.1	503.4	596.9	699.1	999.4
Current expenditure	195.0	275.4	322.5	384.8	472.9	563.8	717.6
Chapter one (wages, salaries, and pensions)	80.4	105.9	131.6	165.1	196.5	191.1	264.2
Chapter two (other current spending)	101.8	142.8	165.9	186.8	219.3	321.3	354.4
Debt service paid	20.2	34.6	26.2	51.1	65.2	73.0	65.2
Goods and services	37.9	53.3	48.8	50.5	53.0	54.5	83.2
General reserve	24.9	36.8	59.5	50.4	45.7	104.0	119.7
Other	18.9	18.0	31.3	34.8	55.5	89.8	86.3
Chapter three (current transfers to states)	12.8	26.8	25.0	32.9	57.1	51.4	99.0
Capital expenditure	32.2	74.5	78.7	118.6	124.0	135.2	281.8
Domestically financed 1/	25.7	67.1	73.3	108.9	99.4	112.8	173.0
Foreign financed	6.5	7.4	5.4	9.6	24.6	22.4	108.7
Overall deficit (cash basis)	-21.7	-23.6	-31.2	-32.7	1.6	42.8	-62.3
Financing	21.7	23.6	31.2	32.7	-1.6	-42.8	62.3
Foreign financing 1/	8.5	11.7	5.4	9.6	1.0	-15.2	73.7
Domestic financing	26.6	8.3	39.3	8.4	-2.6	-29.0	-11.5
BOS	28.2	6.1	28.8	-22.0	-13.1	-31.9	-45.4
GMCs (net)	0.0	1.2	20.1	-17.4	3.3	-1.0	5.0
Temporary advances	30.8	8.2	10.0	12.9	6.7	6.6	5.0
Deposits	-2.7	-3.3	-1.3	-17.6	-23.1	-37.5	-55.5
<i>Of which: OSA</i>	...	...	...	-10.1	-23.1	-36.0	-55.5
Deposit Money Banks (DMBs)	-3.0	1.2	2.4	15.5	5.5	15.8	22.0
Advances	-0.1	0.0	0.0	0.1	0.0	3.0	0.0
GMCs (net)	0.1	4.0	3.2	13.4	5.5	14.2	22.0
Deposits	-3.1	-2.8	-0.7	2.0	0.0	-1.4	0.0
Nonbanks	1.5	1.0	12.7	12.2	8.0	15.0	21.0
Domestic arrear repayments	...	...	-7.0	-8.4	-9.0	-30.0	-15.0
Privatization	...	...	2.5	11.1	6.0	2.1	6.0
Floats and discrepancies	-13.4	3.6	-13.6	13.9	0.0	1.4	0.0
Memorandum items:							
Non-oil revenue 2/	189.8	185.5	221.1	287.7	356.7	352.9	447.0
Crude oil revenue (excluding the OSA)	15.7	140.9	148.9	172.9	218.7	353.1	434.6
Non-oil domestic deficit	-30.9	-157.0	-174.6	-206.0	-215.6	-323.8	-443.6
Domestic financing excluding OSA	26.6	8.3	39.3	18.4	20.5	7.0	44.0
Nominal GDP (at factor cost)	2,627	3,034	3,376	3,876	4,426	4,426	5,024

Table 5. Sudan: Central Government Operations, 1999–2004 (concluded)

	Actual				Program	Actual	Program
	1999	2000	2001	2002	2003	2003	2004
(As percent of GDP)							
Total revenues	7.8	10.8	11.0	12.1	13.5	16.8	18.7
Tax revenue	5.8	5.2	5.6	5.5	5.9	6.1	7.4
Direct taxes	1.4	1.2	1.2	1.1	1.1	1.2	1.4
Indirect taxes	4.5	4.0	4.4	4.4	4.8	4.9	6.0
Taxes on international transactions	3.2	2.3	2.3	2.5	2.3	2.5	2.6
Excise duties	1.3	1.1	1.0	0.9	1.1	1.1	2.0
VAT	0.0	0.5	1.1	1.1	1.4	1.3	1.4
Nontax revenue	2.0	5.6	5.4	6.6	7.6	10.7	11.2
Departmental fees	0.4	0.3	0.3	0.3	0.4	0.2	0.4
National revenues	1.6	5.3	5.1	6.3	7.2	10.4	10.8
Non-oil	1.0	0.6	0.6	0.9	1.1	0.9	1.1
Oil	0.6	4.6	4.4	5.4	6.1	9.5	9.8
Crude oil	...	...	4.4	4.7	5.5	8.8	9.8
<i>Of which</i> : export	...	...	1.9	2.2	3.4	6.7	7.4
Total expenditure	8.6	11.5	11.9	13.0	13.5	15.8	19.9
Current expenditure	7.4	9.1	9.6	9.9	10.7	12.7	14.3
Chapter one (wages, salaries, and pensions)	3.1	3.5	3.9	4.3	4.4	4.3	5.3
Chapter two (other current spending)	3.9	4.7	4.9	4.8	5.0	7.3	7.1
Debt service paid	0.8	1.1	0.8	1.3	1.5	1.6	1.3
Goods and services	1.4	1.8	1.4	1.3	1.2	1.2	1.7
General reserve	0.9	1.2	1.8	1.3	1.0	2.3	2.4
Other	0.7	0.6	0.9	0.9	1.3	2.0	1.7
Chapter three (current transfers to states)	0.5	0.9	0.7	0.8	1.3	1.2	2.0
Capital expenditure	1.2	2.5	2.3	3.1	2.8	3.1	5.6
Domestically financed 1/	1.0	2.2	2.2	2.8	2.2	2.5	3.4
Foreign financed	0.2	0.2	0.2	0.2	0.6	0.5	2.2
Overall deficit (cash basis)	-0.8	-0.8	-0.9	-0.8	0.0	1.0	-1.2
Financing	0.8	0.8	0.9	0.8	-0.1	-1.0	1.2
Foreign financing 1/	0.3	0.4	0.2	0.2	0.0	-0.3	1.5
Domestic financing	1.0	0.3	1.2	0.2	-0.1	-0.7	-0.2
BOS	1.1	0.2	0.9	-0.6	-0.3	-0.7	-0.9
DMBs	-0.1	0.0	0.1	0.4	0.1	0.4	0.4
Nonbanks	0.1	0.0	0.4	0.3	0.2	0.3	0.4
Domestic arrear repayments	...	...	-0.2	-0.2	-0.2	-0.7	-0.3
Privatization	...	...	0.1	0.3	0.1	0.0	0.1
Floats and discrepancies	-0.5	0.1	-0.4	0.4	0.0	0.0	0.0
Memorandum items:							
Non-oil revenue 2/	7.2	6.1	6.5	7.4	8.1	8.0	8.9
Crude oil revenue (excluding OSA)	0.6	4.6	4.4	4.5	4.9	8.0	8.7
Non-oil domestic deficit	-1.2	-5.2	-5.2	-5.3	-4.9	-7.3	-8.8
Domestic financing (excluding OSA)	1.0	0.3	1.2	0.5	0.5	0.2	0.9

Sources: Sudanese authorities; and Fund staff estimates and projections.

1/ Repayments for oil projects for 2003 and 2004 hitherto classified as capital participation in refinery have been reclassified as principal payments.

2/ Total revenues less crude oil revenues.

Table 6. Sudan: Monetary Survey, 2000-04 1/

(In billions of Sudanese dinars)

	Dec.			Actual			Actual			Program		
	2000	Dec. 2001	Dec. 2002	Dec. 2002	Mar. 2003	Jun. 2003	Sep. 2003	Dec. 2003	Jan. 2004	Mar. 2004	Jun. 2004	Dec. 2004
Net foreign assets	-677.5	-696.5	-627.0	-620.2	-620.2	-606.2	-594.8	-570.0	-549.6	-519.6	-526.5	-508.4
BOS	-747.3	-777.1	-741.2	-722.8	-706.1	-706.1	-710.2	-685.4	-669.9	-639.8	-643.3	-626.1
Commercial banks	69.8	80.6	114.2	102.6	100.0	100.0	115.3	115.5	120.2	120.2	116.8	115.5
Counterpart to valuation changes 2/	777.0	766.1	796.8	796.6	801.1	801.1	808.2	817.0	813.7	812.5	824.0	834.0
Net foreign assets (excluding valuation adjustment)	99.5	69.7	169.9	176.5	195.0	195.0	213.3	247.1	264.1	292.9	297.6	337.9
Net domestic assets	247.1	362.5	393.4	415.9	416.5	416.5	454.8	487.0	524.4	512.6	493.1	557.7
Net domestic credit	202.5	292.2	329.7	325.3	331.6	331.6	380.8	423.8	432.5	439.6	420.1	444.4
Net claims on central government	106.1	137.3	130.8	117.7	97.9	97.9	114.9	111.7	109.9	92.2	103.1	97.6
BOS	108.2	137.0	115.0	103.6	77.7	77.7	95.3	83.1	81.6	63.9	55.8	47.0
Claims	116.7	146.7	142.2	148.4	146.3	146.3	167.8	147.9	148.9	148.9	152.9	155.9
Deposits	8.4	9.7	27.3	44.8	68.6	68.6	72.5	64.8	67.3	85.0	97.0	108.9
Of which: OSA	...	...	10.1	18.9	42.3	42.3	50.1	45.2	35.9	54.3	77.4	89.3
Commercial banks	-2.1	0.3	15.8	14.1	20.2	20.2	19.7	28.6	28.3	28.3	47.3	50.6
Claims on nongovernment sectors	96.4	154.9	198.9	207.6	233.7	233.7	265.9	312.1	322.6	347.4	316.9	346.8
Other items (net)	44.7	70.3	63.7	90.5	84.9	84.9	74.0	63.2	92.0	73.0	73.0	73.0
Broad money	346.7	432.2	563.3	592.3	611.5	611.5	667.2	734.1	788.4	805.6	790.6	839.1
Currency outside banks	142.1	153.8	193.6	198.2	193.8	193.8	207.3	240.2	277.1	254.8	253.0	286.6
Deposits	204.6	278.4	369.7	394.1	417.6	417.6	459.9	493.9	511.3	550.8	537.6	609.0
Memorandum items:												
Reserve money (in billions of Sudanese dinars)	221.5	229.8	280.3	289.9	286.8	286.8	332.1	354.8	386.5	380.2	380.1	399.6
Reserve money (annual percentage change)	35.3	3.7	22.0	16.5	10.5	10.5	28.1	26.6	36.4	31.1	32.5	20.3
Broad money (annual percentage change)	34.6	24.7	30.3	24.8	22.1	22.1	25.3	30.3	35.5	36.0	29.3	25.8
Credit to nongovernment (annual percentage change)	72.4	60.7	28.5	30.9	37.6	37.6	50.9	56.9	57.4	67.3	35.6	30.4
Currency to broad money (in percent)	41.0	35.6	34.4	33.5	31.7	31.7	31.1	32.7	35.1	32.5	32.0	32.0
Currency to dinar broad money (in percent)	52.7	47.9	46.4	45.1	43.5	43.5	42.1	43.6	47.0	...	...	...
Excess reserves to reserve money (in percent)	18.2	16.5	14.2	13.6	14.4	14.4	18.0	12.6	11.8	11.6	14.2	13.9
Excess reserves to broad money (in percent)	11.6	8.8	7.1	6.5	6.7	6.7	7.0	6.1	5.8	5.5	6.8	6.6
Foreign currency deposits to total deposits (percent)	37.8	39.8	39.6	38.7	39.6	39.6	38.1	37.2	39.0	...	...	...
Broad money multiplier	1.6	1.9	2.0	2.0	2.1	2.1	2.0	2.1	2.0	2.1	2.1	2.1
Velocity (average)	9.2	7.7	7.6	...	...	...	...	6.9	5.6	...	...	...
Usable international reserves/broad money (in percent)	10.0	2.7	11.3	15.1	17.7	17.7	16.2	18.7	20.5	22.5	23.0	23.9
Usable international reserves (in millions of US\$)	135	45	244	342	416	416	413	527	619	698	687	752
Usable international reserves excluding OSA (in millions of US\$)	...	...	205	270	254	254	221	353	481	488	393	413

Sources: Sudanese authorities; and Fund staff estimates.

1/ Revised presentation, consistent with the Fund guidelines adopted in January 2000.

2/ In 2004, calculated using the exchange rate projected for end-December.

Table 7. Sudan: Monetary Authorities' Accounts, 2000-04 1/
(In billions of Sudanese dinars)

	Dec. 2000	Dec. 2001	Dec. 2002	Actual				Actual				Program		
				Dec.	Mar.	Jun.	Sep.	Dec.	Mar.	Jun.	Sep.	Jan.	Jun.	Dec.
				2002	2003	2003	2003	2003	2004	2004	2004	2004	2004	2004
Net foreign assets	-747.3	-777.1	-741.2	-722.8	-706.1	-710.2	-685.4	-669.9	-639.8	-643.3	-626.1	-611.6		
Foreign assets	73.1	41.2	119.8	134.7	157.6	167.7	229.7	226.5	256.6	271.9	289.0	303.5		
Foreign liabilities	820.4	818.3	861.0	857.5	863.8	877.9	915.2	896.4	896.4	915.2	915.2	915.2		
Counterpart to valuation changes 2/	776.2	766.0	796.1	795.6	799.9	808.0	816.6	812.6	812.4	823.6	829.6	833.6		
Net domestic assets	192.6	240.8	225.3	217.1	193.0	234.9	223.7	243.9	207.6	199.7	196.1	204.5		
Net domestic credit	133.1	163.8	137.1	130.4	109.5	150.6	131.2	132.3	115.9	94.7	91.1	99.5		
Net claims on central government	108.2	137.0	115.0	103.6	77.7	95.3	83.1	81.6	63.9	55.8	47.0	38.4		
Claims	116.7	146.7	142.2	148.4	146.3	167.8	147.9	148.9	148.9	152.9	155.9	157.9		
Temporary advances	8.0	18.0	30.9	34.2	32.8	42.5	37.5	37.5	37.5	28.0	30.0	31.0		
Government securities	1.2	21.3	3.9	6.8	6.1	17.8	2.9	3.9	3.9	17.4	18.4	19.4		
Long-term claims	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5	107.5		
Deposits	8.4	9.7	27.3	44.8	68.6	72.5	64.8	67.3	85.0	97.0	108.9	119.4		
OSA	...	...	10.1	18.9	42.3	50.1	45.2	35.9	54.3	77.4	89.3	99.8		
Other deposits	...	...	17.2	25.9	26.3	22.4	19.6	31.4	30.7	19.6	19.6	19.6		
BOS claims on public enterprises	17.1	14.8	5.7	5.7	8.6	17.6	17.3	17.3	18.0	13.3	13.3	13.3		
BOS claims on banks	8.8	12.6	17.1	23.7	30.1	38.7	33.5	35.6	34.4	26.1	31.3	49.2		
Money market instruments (CMCs)	-1.1	-0.6	-0.8	-2.7	-6.8	-0.9	-2.8	-2.2	-0.4	-0.5	-0.5	-1.5		
Other items (net)	59.5	77.0	88.2	86.7	83.6	84.3	92.5	111.6	91.7	105.0	105.0	105.0		
Reserve money	221.5	229.8	280.3	289.9	286.8	332.1	354.8	386.5	380.2	380.1	399.6	426.5		
Currency outside banks	142.1	153.8	193.6	198.2	193.8	207.3	240.2	277.1	254.8	253.0	268.5	286.6		
Reserves of commercial banks	65.7	64.7	75.0	75.3	80.2	100.3	87.2	83.5	85.6	93.1	97.1	105.9		
Required reserves 1/	25.5	26.8	35.2	36.0	38.9	40.7	42.5	38.5	41.5	39.2	41.7	44.5		
Excess reserves	40.3	37.9	39.8	39.3	41.4	59.7	44.7	45.0	44.1	53.9	55.4	61.5		
Deposits at BOS included in broad money	13.7	11.3	11.7	16.4	12.7	24.4	27.4	25.9	39.8	34.0	34.0	34.0		

Sources: Sudanese authorities; and Fund staff estimates.

1/ Revised presentation, consistent with Fund guidelines, adopted in January 2000.

2/ In 2004, calculated using the program exchange rate.

Table 8. Sudan: Medium-Term Macroeconomic Scenario, 2001-09

	Actual 1/			Projections					
	2001	2002	2003	2004	2005	2006	2007	2008	2009
	(Change in percent)								
Production and prices									
Nominal GDP (SD billions)	3,376	3,876	4,426	5,024	5,730	6,607	7,423	8,347	9,378
Real GDP	6.1	6.0	6.0	6.6	7.6	9.3	7.0	7.1	7.0
Non-oil	4.8	5.0	5.5	5.8	6.2	6.5	7.2	7.3	7.3
Oil	23.7	24.7	13.0	14.4	20.0	38.9	5.0	5.0	3.0
Inflation (period average)	4.9	8.3	7.7	6.5	6.0	5.5	5.0	5.0	5.0
	(In percent of GDP)								
Investment and savings									
Gross domestic investment	18.3	19.1	19.1	21.6	23.8	23.8	23.7	23.5	22.0
Government sector	2.3	3.1	3.1	5.6	7.0	6.8	6.5	6.3	4.5
Nongovernment sector	16.0	16.0	16.0	16.0	16.8	17.0	17.2	17.2	17.5
Gross domestic savings	10.3	12.8	14.6	16.3	18.5	21.2	19.9	18.7	16.9
Government sector	2.2	3.5	5.7	5.7	8.0	10.4	9.7	9.0	4.5
Nongovernment sector	8.1	9.2	8.9	10.7	10.5	10.8	10.2	9.8	12.4
Net exports of goods and nonfactor services	-8.0	-6.3	-4.4	-5.3	-5.3	-2.6	-3.8	-4.8	-5.2
Central government operations									
Total revenue	11.0	12.1	16.8	18.7	20.0	21.7	20.6	19.4	18.6
Oil revenue	4.4	5.4	9.5	9.8	10.4	12.2	11.3	10.2	9.4
Non-oil revenue	6.5	6.7	7.2	8.9	9.6	9.5	9.4	9.2	9.2
Total expenditure	11.9	13.0	15.8	19.9	20.7	19.6	18.7	17.9	17.2
Current expenditure	9.6	9.9	12.7	14.3	13.8	12.8	12.2	11.7	11.2
Capital expenditure	2.3	3.1	3.1	5.6	7.0	6.8	6.5	6.3	6.0
Overall deficit (cash basis)	-0.9	-0.8	1.0	-1.2	-0.7	2.1	1.9	1.5	1.4
Foreign financing	0.2	0.2	-0.3	1.5	1.7	1.6	1.5	1.5	1.4
Domestic financing	1.2	0.2	-0.7	-0.2	-1.0	-3.7	-3.4	-3.0	-2.8
External sector									
External trade balance	-2.5	-1.4	0.2	-0.2	-0.3	1.6	1.2	0.1	-0.1
Exports	13.0	13.2	15.2	15.7	14.9	16.7	16.4	15.3	14.8
Imports	-15.6	-14.6	-15.0	-15.9	-15.2	-15.1	-15.2	-15.2	-14.9
Gross official reserves (months of imports)	0.2	1.0	1.8	2.5	2.9	3.1	3.2	3.3	3.5
Export volume (change in percent) 2/	-27.1	41.7	-9.0	6.1	6.9	7.0	7.1	7.2	7.2
Import volume (change in percent) 2/	31.6	5.6	9.2	15.2	9.1	13.2	10.2	9.2	4.4
Terms of trade (change in percent) 2/	-3.0	-3.6	13.7	-2.2	-1.1	-1.5	-1.6	-0.8	0.7
Memorandum items:									
Current account on a cash basis (in percent of GDP)	-9.9	-6.2	-4.9	-5.2	-4.7	-3.9	-4.0	-4.7	-5.0
Crude oil export price (US\$ per barrel)	22.0	23.0	27.0	28.2	25.2	24.2	23.7	23.0	23.0

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

1/ National accounts data for 2000-02 are Fund staff estimates.

2/ Non-oil transactions.

Table 9. Sudan: Indicators of Debt Service Capacity, 2000–04

(In millions of U.S. dollars; unless otherwise indicated)

	Actual			Est.	Proj.
	2000	2001	2002	2003	2004
Total debt service paid	158	160	137	247	297
Payments to the Fund	57	55	26	28	30
Charges and interest falling due	33	27	17	14	13
Charges settled	3	3	3	1	2
Reduction in overdue obligations	54	52	23	26	28
Overdue obligations to the Fund	1,451	1,371	1,475	1,462	1,445
Total debt service paid, in percent of:					
Exports of goods and nonfactor services	8.4	9.3	6.8	9.5	9.8
Net current receipts 1/	13.3	13.0	11.7	15.6	14.8
Gross official reserves	117	357	56	47	37
GDP	1.3	1.2	0.9	1.5	1.6
Payments to the Fund, in percent of:					
Exports of goods and nonfactor services	3.0	3.2	1.3	1.1	1.0
Net current receipts 1/	4.8	4.4	2.2	1.7	1.5
Gross official reserves	42.0	122.4	10.5	5.3	3.7
GDP	0.5	0.4	0.2	0.2	0.2
Quota 2/	25.6	25.8	11.1	11.7	11.0
External debt service	35.8	34.3	18.8	11.2	10.1
Overdue obligations to the Fund, in percent of:					
Exports of goods and nonfactor services	77	80	74	56	48
Net current receipts 1/	122	111	126	92	72
Gross official reserves	1,076	3,056	606	277	179
GDP	11.9	10.5	10.0	8.6	7.6
Quota 2/	855	808	869	861	852
External debt	7.3	6.5	6.2	6.1	5.7
Memorandum items:					
Exports of goods and services	1,891	1,713	1,996	2,613	3,039
Net current receipts 1/	1,187	1,235	1,167	1,590	1,999
Gross official reserves	135	45	244	527	807
In months of next year's imports	0.7	0.2	1.0	1.8	2.5
GDP (in millions of U.S. dollar)	12,191	13,049	14,720	16,959	19,059
Quota (in millions of SDRs) 2/	169.7	169.7	169.7	169.7	169.7
External debt (including arrears)	19,974	20,948	23,609	24,067	25,279
Exchange rate (U.S. dollar/SDR, end of period)	1.3029	1.2567	1.3595	1.3935	1.6000

Source: Fund staff estimates.

1/ Current receipts adjusted for oil-related payments for services and transfers to foreign investors, and net of change in reserves.

2/ As percent of Eighth Review Quota.

Table 10. Sudan: External Financing Requirements and Sources, 2001–04

(In millions of U.S. dollars)

	Actual		Est.	Proj.
	2001	2002	2003	2004
Gross financing requirements	2,213	1,877	2,001	2,286
External current account deficit (excluding interest payments and official transfers)	2,122	1,504	1,467	1,709
Debt service payments (interest and principal)	157	166	239	280
Medium- and long-term debt	157	166	239	280
Public sector	106	166	239	280
Multilateral 1/	55	57	70	54
Bilateral	51	109	168	226
Commercial banks	0	0	0	0
Private sector	51	0	0	0
Short-term debt 2/	0	0	0	0
Repayment of arrears	0	0	0	0
Gross reserves accumulation	-90	199	283	280
IMF repurchases and repayments	24	8	12	18
Expected financing	2,213	1,877	2,001	2,286
Official transfers and grants	8	34	10	60
Debt financing	22	30	85	370
Official creditors	22	30	85	370
Multilateral	22	17	37	155
Bilateral	0	13	48	215
Foreign direct investment, and errors and omissions	1,286	1,155	1,203	1,136
IMF purchases and disbursements	0	0	0	0
Accumulation of arrears (exceptional)	881	636	708	728
Debt relief	0	0	0	0
Other flows 3/	16	22	-5	-7
Financing gap	0	0	0	0

Source: Fund staff estimates.

1/ Excluding the IMF.

2/ Original maturity of less than one year. Stock at the end of the previous period.

3/ Includes all other net financial flows.

SUDAN

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

1. This memorandum reviews the outcome of the 2003 Staff-Monitored Program (SMP), outlines the economic program for 2004, and sets out our medium-term policy objectives.

I. RECENT MACROECONOMIC AND POLICY DEVELOPMENTS

2. The economic outcome in 2003 was broadly in line with program projections, and all quantitative targets for end-December (except for that on nonconcessional external borrowing) were met. Rapid growth in agriculture (6 percent), utilities (electricity and water at 4.9 percent), and services (6.2 percent) contributed to the slightly higher-than-projected real GDP growth of 6 percent. Growth in the oil sector remains strong (13 percent), though slightly lower than previously projected (13.3 percent). Consumer price inflation fell from 8.3 percent in 2002 to 7.7 percent in 2003, but was above the program target of 7 percent.

3. The balance of payments strengthened substantially in 2003, with the current account deficit (on a cash basis) falling to 4.9 percent of GDP, compared with 6.2 percent in 2002. The strong growth in investment goods imports was more than offset by the increase in export receipts, especially from petroleum, cotton, and hides. Remittances and private capital inflows, including foreign direct investments (FDI), increased sharply, thereby financing the current account deficit and allowing a significant buildup of international reserves. The Bank of Sudan's (BOS) usable reserves rose to \$527 million (equal to 1.8 months of imports), well above the program target of \$456 million. The foreign exchange market remained stable in 2003, and the nominal exchange rate appreciated by 1 percent.

4. The fiscal outcome in 2003 was better than expected. The overall fiscal balance—excluding the Oil Savings Account (OSA)—was +0.2 percent of GDP. Non-oil revenues were broadly in line with the program projections. Higher-than-expected production and prices drove oil revenues above program projections by 3.3 percent of GDP. Total expenditures exceeded the program target because of emergency spending for flood relief in eastern Sudan and humanitarian aid and security-related outlays in western Sudan during the second half of the year. Higher oil prices also allowed faster accumulation of reserves in the OSA which rose by \$135 million in 2003 to \$175 million.

5. Broad money growth accelerated in the latter part of 2003 and reached 30 percent by the end of the year, compared with the program target of 23 percent. Reserve money also rose at a strong pace of 27 percent, despite substantial open-market sales of government securities and foreign exchange by BOS toward the end of 2003. The rapid monetary growth was fueled by large capital inflows, higher-than-expected government spending, and increased lending by BOS in support of agriculture finance.

6. With respect to structural reforms in the fiscal area, progress was achieved in strengthening the tax system, including launching a program to reform the direct tax system and establishing a large taxpayer unit. In addition, a number of steps were taken to reform the tax incentive regime of the Investment Encouragement Act (IEA), including tightening exemption criteria, centralizing the authority to grant exemptions, and setting limits on renewing exemptions. Some progress was also achieved in developing a medium-term budget framework and a consolidated three-year rolling budget that was prepared in the context of the 2004 budget. However, progress with respect to improving expenditure management and fiscal reporting was limited, in part because of capacity constraints. Technical difficulties also prevented the timely audit of the Sudan Petroleum Corporation (SPC) subsidiaries and the consolidation of their accounts.

7. All monetary structural reform measures were implemented in 2003. A monetary operation unit (MOU) was established at the BOS to conduct open market operations; a new government security, the Government Investment Certificates (GICs), was launched; the laws governing the central bank and banking activities were amended by parliament to, among other things, establish central bank independence and strengthen banking regulations; and an anti-money laundering law was enacted. With Fund technical assistance, a study examining the possibility of introducing market-based agricultural finance hedging instruments was completed.

II. OUTLOOK AND POLICIES FOR 2004

8. The program and structural reform agenda for 2004 will build on the considerable success of the past seven years in achieving and maintaining macroeconomic stability. The envisaged policies and structural reforms are also intended to strengthen the policy stance, and the conduct of economic policy institutions is intended to better meet the challenges of the post-conflict environment.

9. The program envisages 6.6 percent of real GDP growth in 2004 supported by a strong expansion in the oil, construction, and utilities sectors. Inflation is expected to fall to 6.5 percent. Continued high capital inflows and strong export performance will further improve the external position, allowing the international reserve buildup to reach \$807 million (2.5 months of imports), including \$210 million of additional OSA accumulation. The external current account deficit (on a cash basis) is expected to increase slightly to 5.2 percent of GDP in 2004, reflecting a rapid growth in project-related imports, which will be partly offset by a continued expansion of oil exports and the recovery of non-oil exports.

Fiscal

10. We will continue to pursue prudent fiscal policy in 2004. The overall deficit is expected to reach 1.2 percent of GDP, reflecting an increase in foreign-financed development projects, including the Merowe dam project. Despite the continued savings of oil revenues in the OSA and strengthened tax revenue, the non-oil domestic budget deficit is expected to rise

moderately because of an increase in oil production and higher international oil prices. Domestic financing of the deficit (excluding the accumulation of deposits in the OSA), will be limited to SDD 44 billion (0.9 percent of GDP), consistent with the restrained monetary program.

11. Expenditure policy in 2004 will aim to increase social outlays by 54 percent to SDD 86 billion (1.7 percent of GDP) in 2004, especially in the area of health, education, water, and agriculture. Military spending is budgeted to remain broadly unchanged in 2004 compared with 2003 at about 2.5 percent of GDP. The 2004 budget also envisages a wage increase of 50 percent, which includes an increase in the minimum wage from SDD 7,500 per month to SDD 12,500 per month. We believe that this step is necessary as public sector wages have lagged considerably behind the private sector in recent years, affecting the ability of the public sector to attract qualified staff. Furthermore, we expect the increase in the minimum wage to contribute to poverty reduction.

12. As part of our continued efforts to raise non-oil revenue and streamline tax exemptions, we undertook several measures in the 2004 budget that we expect to yield SDD 44.7 (0.9 percent of GDP). These measures include (i) applying an excise tax on petroleum products; (ii) raising the excise tax on sugar from 14 percent to 17 percent; (iii) introducing steps to enforce the collection of departmental fees; (iv) raising the selling price of crude oil to refineries; and (v) abolishing the corporate tax exemptions for rehabilitation purposes.

13. To ensure the availability of adequate resources to support the peace, we will submit to parliament, following the conclusion of the peace agreement, an amended budget for 2004 that will mobilize the necessary resources to meet the obligations of the agreement. We intend to reduce immediately the wage bill in 2004 by SDD 22 billion (0.4 percent of GDP) and propose the following additional revenue measures, which we expect to generate more than SDD 10 billion (0.2 percent of GDP) on half-year basis:

- a. raising the petroleum excise tax;
- b. imposing a turnover development tax of 1 percent on all tax-exempt entities with no exemptions provided;
- c. considering applying an excise tax on mobile communication services and eliminating all other fees and charges;
- d. applying the value-added tax (VAT) on capital goods imports and domestic sales;
- e. eliminating the 10 percent privilege tax rate on the income of professionals.

14. In the event that some or all of the revenue measures are not approved by parliament, we intend to further reduce expenditures across most budget sectors to generate the savings

necessary to cover the revenue shortfall, while protecting social and key development programs as approved in the 2004 budget.

15. As part of our continued efforts to streamline tax exemptions, we intend to enforce a ban, through a ministerial decree distributed to all line ministries, on all discretionary tax exemptions by end-April. In addition, we intend to complete a review of all regulations and agreements, which result in tax exemptions, and develop an action plan to streamline them in the context of the 2005 budget by end-December 2004. In addition, the tax privileges of the four major oil distribution companies will not be renewed after they lapse at the end of 2004, and no new exemptions will be granted to other companies.

16. With respect to improving expenditure management and fiscal reporting, we will concentrate in 2004 on establishing an effective cash management system at the ministry of finance, improving fiscal reporting, and initiating the process of adopting a functional and economic budget classification system. We believe that these steps are essential to improve fiscal performance and that they would support the post-conflict fiscal environment.

17. To improve the cash management system, we intend, by end-April 2004, to fully constitute the cash management unit (CMU) (including issuing the relevant ministerial decree for the respective institutional and regulatory changes), appoint a cash release committee, and draft an action plan based on the recommendations of the upcoming Fund technical assistance mission. By end-June 2004, the CMU will prepare a fiscal budget cash plan on a monthly basis for the second half of the year, approve the cash plan by the cash release committee, and present the approved cash plan to the BOS. To ensure the transparency and effectiveness of cash management, we will abolish all tax netting operations related to direct taxes and VAT certificates by end-June. With regards to the VAT collected by the customs, we will make the necessary administrative changes so that payments are made to the taxation chamber and transferred on a weekly basis by end-April and on a daily basis by end-June.

18. An action plan to strengthen the fiscal reporting system will be developed by end-April 2004. As a first step, we will begin preparing monthly fiscal reports within 2-3 weeks after the end of each month. To keep the process of timely reporting sustainable, we will incorporate in the action plan concrete measures for improving overall coordination in preparing monthly accounts, further computerization of the government accounting system, and training of budgetary accountants.

19. A two-year program to align the budget classification with the government finance statistics (GFS) will be adopted by end-April 2004. The program will entail the following key benchmarks: (a) classifying, as a technical exercise, the 2004 budget sectors into the GFS functions by end-June 2004; (b) preparing the 2005 budget presentation according to the functional classification of expenditures in addition to the traditional presentation by sectors; (c) implementing the 2005 budget in some pilot ministries on the base of the old and the new classification; and (d) fully adopting the GFS classification with the 2006 budget.

20. Tax administration reforms will focus on three areas: (a) ensuring that the large taxpayer unit will be fully operational by end-June 2004 and broadening the definition of large taxpayers to include individuals by end-2004; (b) adopting a universal taxpayer identification number, including on excise duties by end-June 2004; and (c) launching a pilot project in audit enforcement to increase field audits. In the area of customs reform, a more selective risk-based verification system will be implemented through the nationwide coverage of the Automated System for Customs Data (ASYCUDA)++ system.

21. The OSA mechanism has been instrumental in building up international reserves and rationalizing the use of oil revenues. The 2004 budget was prepared based on an OSA oil price benchmark of \$22 per barrel. However, given that Sudan oil export prices are now projected to average over \$28 per barrel, we will raise the benchmark price to \$24 per barrel and save the oil revenues arising from international oil prices above benchmark. We are committed to allocating SDD 11 billion from the extra revenue generated by raising the OSA benchmark price on additional social spending programs.

Monetary and exchange system

22. Monetary policy will target a broad money growth rate target of 22 percent for 2004, which is consistent with the GDP growth and inflation objectives, as well as some decline in velocity. The monetary target and the projected buildup in foreign reserves should allow for an appropriate growth rate of credit to the nongovernmental sector. Additional attention will be focused on BOS's lending to banks to ensure that it is consistent with the monetary target. In addition, the BOS will assist, if necessary, in managing, but not extending, the financial support provided by the government to agriculture, given the underdevelopment of the agriculture finance infrastructure in Sudan at present. The conduct of monetary policy will continue to rely on indirect monetary instruments, and no restrictions will be imposed on market financing rates and banks' credit allocations. The broad money growth target will be reassessed during the program reviews to ensure that it remains in line with the program's macroeconomic objectives.

23. To improve the conduct of monetary policy, the recently established MOU will be transformed by end-September 2004, with Fund technical assistance, into a monetary operations division (MOD)—to execute the policy guidelines established by the monetary policy committee (MPC). In coordination with the planned CMU of the ministry of finance, the MOD will issue daily instructions to the relevant BOS operations departments (foreign exchange, government securities, and standing credit facilities) on the extent of foreign exchange and securities transactions, as well as the size of liquidity emissions from the standing credit facilities.

24. To support the operations of the MOD and enhance the flash reporting system, a database will be established and maintained on a daily basis. The database will include, inter alia, daily bank deposits; required reserves and excess reserves; banks' foreign exchange positions; estimates of banks' vault cash, currency in circulation and bank float; government accounts held with the central bank; bank holdings of government and BOS securities; bank

lending; and the various rates in the market. Only with such a database can the BOS begin to forecast these items daily for the two-week period that the MPC can review in forming its directions for indirect monetary operations.

25. We will continue to maintain a foreign exchange system that is free from restrictions on current account transactions in accordance with our acceptance of the obligations of Article VIII, Sections 2, 3, and 4 of the Fund's Articles of Agreement. We remain committed to implement a managed-float exchange rate regime. The exchange rate will be allowed to adjust reflecting prevailing economic conditions, and the BOS's intervention will be limited to ensuring a stable foreign exchange market and orderly exchange rate adjustment. However, we recognize the need to increase the flexibility of the exchange system and to better align foreign exchange operations within the money-targeting framework. Accordingly, the intraday market exchange rates will be allowed, by end-December 2004, to fluctuate within ± 3 percent from the previous day average market rate instead of the present ± 2 percent. In addition, the BOS's foreign exchange interventions will be primarily guided by monetary policy considerations during periods when exchange rate movements remain within the permitted daily fluctuations range.

Trade and external debt

26. We intend to maintain our current open nontariff trade system. We will also develop, by end-December 2004, a new three-year tariff reform program that will be implemented in the context of the 2005 budget. The new program will aim at reducing the average tariff rate and the number of tariff bands. Given the substantial resources needed to support peace and poverty reduction, the tariff reforms will be coordinated with the ongoing efforts to improve tax revenue.

27. Sudan's progress toward WTO accession has been significant, as noted by members of the Second Working Party (WP) during the March 10, 2004 meeting. All necessary documents have been submitted to the WTO, except the initial offer documents on goods and services, which we expect to submit by May 2004. As a least developed country, Sudan has asked for special and differential treatment on various accession issues, including on the granting of transitional periods and the provision of technical assistance. We have requested the WTO Secretariat to start preparing the factual summary that would form the basis of the draft WP report and consolidate the progress achieved.

28. Strengthening external debt management capacity will be an important objective for this year. Accordingly, by end-December 2004, an external debt policy of the public sector will be formulated and approved by the cabinet of ministers, and a three-year rolling ceiling on the contracting of new external debt will be prepared, in the context of the 2005 budget, in line with the repayment capacity and overall debt sustainability objective in the context of the debt relief under the HIPC Initiative. In addition, a Debt Policy and Monitoring Committee will be established by end-April 2004 to guide the formulation and implementation of the debt policy and to evaluate all new loans before they are approved by the ministry of finance. Furthermore, the technical and human resources of the BOS's External Debt Unit will be

strengthened in order to enhance Sudan's preparedness for negotiating and implementing debt rescheduling and relief operations in the context of the HIPC Initiative.

Other reforms

29. To improve the transparency of the oil sector, we plan to audit and consolidate the accounts of all SPC subsidiaries and launch a program to align their accounting systems with international standards. To facilitate this plan, an action timetable will be prepared by end-April 2004.

30. The privatization program has been proceeding at a reasonable speed and has been attracting the interest of foreign investors. Gross privatization proceeds are expected to reach SDD 15.7 billion in 2004 compared with SDD 9 billion in 2003, reflecting a government sale of part of its shares in the Bank of Khartoum and Sudan Airways Company, and the sale of the Rabak Cement Factory.

III. MEDIUM-TERM OUTLOOK

31. With the overall objective of achieving robust post-conflict growth and poverty reduction over the medium term, we plan to pursue prudent macroeconomic policies and structural reforms that will lead to private sector-led non-oil growth. The medium-term strategy aims at achieving 6–7 percent of GDP growth and targets an inflation rate of 5-6 percent. The current account deficit is expected to average about 6 percent of GDP, and international reserves are targeted to rise to about 3–4 months of imports. The domestically-financed budget deficit will be kept at or below 1 percent of GDP, consistent with the overall macroeconomic framework. Monetary policy will aim to support the inflation target, and a flexible managed-float exchange rate will be maintained.

32. With peace, we foresee a resolution to Sudan's external debt problems and an improvement in our relations with the international community. The relaxation of external financing constraints, in conjunction with an expected increase in oil production and higher FDI along with new revenue measures, will enable the country to undertake a higher level of investments. These positive factors will more than offset the following constraints arising from the peace agreement over the medium term. First, transfers to the South would have to be increased in line with its share of oil revenues, resulting in a net increase in transfers from the federal budget to states of about 12 percent of total revenues. Secondly, the demobilization of armed forces following the peace agreement will require net budgetary expenditures in the first three years before savings accrue on account of downsizing of the military. The challenge over the medium term would be to ensure sufficient private sector-led growth and employment generation, while allowing adequate budgetary allocations for poverty reduction.

IV. RELATIONS WITH THE FUND AND OTHER CREDITORS

33. We remain committed to regularizing relations with all our creditors, and, in particular, strengthening Sudan's relations with the Fund. Sudan made regular payments to

the Fund as committed to under the 2003 SMP (\$27 million), and we hope that our record of cooperation will be fully recognized. Notwithstanding that the demands of peace in 2004 will likely place a considerable burden on the resources of the government of Sudan and balance-of-payments uncertainties, we will increase our payments to the Fund to \$30 million in 2004.

34. We made significant progress in regularizing relations with external creditors. Agreements have been reached with a number of bilateral Arab funds and most of the multilateral creditors, including the World Bank, African Development Bank, Islamic Development Bank, International Fund for Agricultural Development, Arab Fund for Economic and Social Development, OPEC Fund for International Development, and Arab Monetary Fund. These agreements have resulted, in most cases, in net financing inflows. We will also intensify our efforts towards reaching an agreement with the remaining multilateral creditors. Finally, we will work closely with a support group of creditors led by the United Kingdom to secure the support of donors for resolving our external debt problem under the HIPC Initiative.

V. PROGRAM MONITORING

35. Proposed semiannual quantitative indicative targets for the periods of end-June and end-December 2004 are set forth in Table 1, and the structural benchmarks are detailed in Table 2. We will closely monitor financial and economic developments in the coming months and will, in consultation with Fund staff, implement any measures that may be needed to safeguard macroeconomic stability.