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CONFIDENTIAL

October 24, 1997

To: Members of the Executive Board

From: The Secretary

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

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

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 Monday, November 3, 1997; and to the African Development Bank (AfDB), the Arab Monetary Fund (AMF), the European Commission (EC), and the Islamic Development Bank (IsDB).

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INTERNATIONAL MONETARY FUND

SUDAN

Staff-Monitored Program—Report on Developments Through September 1997

Prepared by the Middle Eastern and Policy Development
and Review Departments

Approved by P. Chabrier and T. Leddy

October 24, 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–August 1997 and the structural benchmarks for September 1997. Five monthly reports on developments from April through August 1997, have been issued to date for the information of the Executive Board. In addition, the staff report,¹ 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. Recent developments in Sudan are in line with the objectives for the staff-monitored program; specifically, payments to the Fund through October were effected as committed, for a total of US\$50.4 million since the start of the year;² the structural benchmarks for the month of September were met, as detailed in Table 2, and further discussed in paragraphs 7 to 10; and data and economic information have been reported to the Fund as specified under the program.
3. Macroeconomic indicators have continued to improve. Inflation fell to 27 percent (year-on-year) in September 1997, compared to 114 percent in December 1996, as the CPI declined in September by 1.9 percent. The deceleration of inflation reflected both policy tightening as well as recent declines in food prices. The exchange rate in the accounts-to-accounts market has remained stable since the beginning of the year. The spread between the official exchange rate and the accounts-to-accounts rate declined further, reaching 7.6 percent in early October (compared to 23 percent at end–December 1996 and the program ceiling of

¹See EBS/97/151, 8/15/97, considered at EBM/97/89, 8/29/1997.

²In October, the authorities paid US\$5.0 million, higher than the committed US\$4.3 million, with the view to ensuring that there will be no build-up of arrears in SDR terms in 1997.

8 percent for end-1997). The real effective official exchange rate at end-September 1997 appreciated by 4.1 percent from December 1996 and the average real rate for the period January-September appreciated by 3.3 percent over the same period in 1996.

4. Monetary and fiscal developments remain in line with program targets. The budget deficit for August was slightly below the program target despite an 8 percent shortfall in revenue, reflecting continued restraint on operational budgets of ministries. Preliminary data indicate that bank credit to nongovernment sectors was reduced significantly in August, resulting in a decline in the banking system's net domestic credit by about LSd 6 billion (in that month), or 2 percent below the program ceiling, reversing, as expected, the sharp increase in net domestic credit in the previous month. A slight rebuilding of government deposits with the Bank of Sudan (BOS) also contributed to the decline in net domestic credit. In addition, reserve money fell slightly in August by about 0.5 percent, owing mostly to a decline in currency in circulation. The growth of the broad money supply also decelerated during the first eight months of 1997 to about 24 percent compared to 49 percent over the same period in 1996. In addition, some reintermediation in the financial sector seems to have taken place, as reflected by the decline of the cash-deposit ratio from 107 percent in December 1996 to 100 percent in August on account of a sizeable increase of demand and investment deposits.

5. Data for August also point to continued inflows of foreign exchange. Foreign currency deposits at commercial banks rose by US\$6 million to about US\$270 million (US\$210 million in December 1996), while net foreign assets of commercial banks increased by about US\$13 million to US\$227 million (US\$176 million in December 1996). Net foreign assets of the BOS (valued at the December 1996 US\$/SDR exchange rate and excluding nonresident foreign time liabilities) improved by about US\$13 million.

6. Export performance continues to be affected by the sharp decline in the prices of key export goods. Following a decrease by 6.2 percent (U.S. dollar terms) through July compared to the same period in 1996, exports through August fell by 3 percent over the same period in 1996.

7. The authorities are continuing to make significant progress toward adopting a VAT system. A draft law was completed by September 9, 1997 (a mid-September benchmark), and on September 17, 1997, an administrative decree was issued establishing a VAT administration unit within the taxation department.

8. After taking into account staff comments on an earlier draft, the authorities adopted in end-September 1997, a plan for liberalizing gasoline imports and distribution, and phasing out surrender requirements to the BOS in coordination with the shift to the private sector of gasoline imports during 1998. In addition, the authorities are considering a further liberalization of activities relating to the remaining petroleum goods (diesel, crude oil), in coordination with the reform of the exchange system.

9. Proposals for the introduction of new market-based instruments of government finance were submitted to the High Shariaa Supervisory Council in September. One of the proposals was rejected on the basis of its consistency with religious principles. Other alternatives are currently being considered by the Council.

10. A consolidated statement for all government operations (an end-September benchmark)—federal, state, and local—was prepared in mid-September 1997, based on the 1997 budget.

11. The staff will further review economic developments and prospects during a staff visit in October and will undertake a comprehensive review and assessment in the context of the Article IV consultation discussions in November. It will also assist in further refining and implementing policy measures in coordination with the planned technical assistance on tax, exchange, and trade system reforms.

Table 1. Sudan: Quantitative Benchmarks, August 1997
(In billions of Sudanese pounds, except if indicated otherwise)

	Cumulative Change 1/				
	June	July		August	
	Actual	Prog.	Actual	Prog.	Prel.
Benchmarks					
Ceiling on the net domestic credit of the banking system	881	24	35	49	29
Ceiling on net credit to government 2/	634	9	7	15	14
Ceiling on new nonconcessional borrowing contracted or guaranteed by the government	0	0	0	0	0
Floor on NFA of the Bank of Sudan (in millions of U.S. dollar) 3/ 4/	-2,653	0	2	0	13
Payments to the Fund (in millions of US\$) 5/	4.3	4.3	4.3	4.3	4.3
Memorandum items					
Reserve money	690	16	43	25	39
Central government revenue	480	101	92	210	194

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 U.S. dollar/SDR exchange rate.

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

5/ Monthly flows.

Table 2. Sudan: Status of September Structural Benchmarks

Benchmarks	Implementation
September payment to the Fund of US\$4.3 million.	Received on September 9, 1997.
Prepare first draft of law on VAT	Completed on September 9, 1997.
Adjustment in domestic petroleum prices to eliminate any remaining subsidization and ensure the budgeted contribution.	Domestic petroleum prices remain higher than international prices. Price of gasoil raised by 11 percent in September 1997.
Adopt the final action plan developed in mid-August relating to oil sector liberalization.	Plan for liberalization of gasoline imports and distribution adopted. Action plan regarding remaining petroleum products will be further elaborated in the context of reforms of exchange system.
Submit the proposal on the new market-based instruments of government funding to Bank of Sudan's High Shariaa Supervisory Council for consideration and decision.	Done. Initial proposal rejected and other alternatives are being considered.
Examine banks' 1996 statements (including banks' risk-weighted capital ratios), and agree with banks that do not meet capital adequacy requirements on a program with a timetable of steps for full compliance.	Done. Banks have up to December 1997 to comply with specified capital standards.
Set up a consolidated statement of federal, state, and local government fiscal operations.	Completed in mid-September.
Statistical reporting.	Observed.

Table 3. Sudan: Selected Economic and Financial Indicators, 1994-97 1/

	1995	1996	1997			
			Staff Mon. Prog. 2/	July Actual	Aug. Prel.	Sept. Prel.
(Annual changes in percent)						
National income, prices and exchange rate						
Real GDP (at factor cost)	4.4	4.7	5.5	...	...	...
Consumer prices (month on year ago month)	71	114	55	37	32	27
Consumer prices (period average)	68	133	53	...	...	...
Official exchange rate end of period (LSd/US\$)	838	1,460	...	1,615	1,635	1,655
Real effective exchange rate						
(period average: depreciation -)	-22.9	-0.4	...	2.5 3/	3.2 3/	3.3 3/
(end period: depreciation -)	-24.2	14.5	...	3.8 3/	8.3 3/	4.1 3/
Central government operations 4/						
Total revenue	75.5	72.3	85.2	49.1 5/	57.9 5/	...
Total expenditure (including interest arrears)	95.7	171.6	8.0	...	...	...
Expenditure (excluding interest arrears)	87.7	94.6	34.2	50.3 5/	58.8 5/	...
External sector						
Exports, f.o.b.	31.8	11.6	-2.3	-6.2 6/	...	...
Imports, c.i.f.	19.1	26.9	-4.2	0.0 6/	...	...
(In percent of GDP)						
Central government operations						
Total revenue	8.7	6.2	7.0	...	...	...
Total expenditure (including interest arrears)	24.0	26.7	17.6	...	...	...
Expenditure excluding interest arrears	12.1	9.6	7.8	...	...	...
Overall balance (on an accrual basis)	-15.3	-20.5	-10.6	...	...	...
Overall balance (on a cash basis)	-3.2	-3.4	-0.9	...	...	...
Primary balance	-2.3	-2.4	-0.2	...	...	...
Balance of payments and external debt						
Current account deficit		-25.0	-23.1	...	...	...
Exports, f.o.b.	7.8	8.1	7.5	...	...	...
Imports, c.i.f.	17.2	20.2	18.2	...	...	...
External debt	272.0	267.5	262.6	...	...	...
External interest due	12.9	13.5	13.3	...	...	...
External debt paid 7/	1.0	0.7	0.8	...	...	...

Table 3. Sudan: Selected Economic and Financial Indicators, 1994-97 1/

	1995	1996	1997			
			Staff Mon. Prog. 2/	July Actual	Aug. Prel.	Sept. Prel.
(Changes as percent of beginning stock of broad money)						
Money and credit						
Net foreign assets	-462.9	-267.3	-161.2	-30.4	-30.3	...
Net domestic assets	137.7	56.1	14.6	10.6	10.2	...
Net domestic credit	46.4	59.3	14.5	8.5	8.0	...
Net credit to the central government	31.2	31.7	4.8	4.3	4.2	...
Claims on nongovernment sector	15.2	27.5	9.7	4.1	3.8	...
Other items (net)	91.3	-4.7	0.0	2.1	2.2	...
Counterpart to valuation changes	472.4	281.1	182.7	40.6	43.9	...
Money and quasi-money	147.2	65.2	36.1	20.8	23.8	...
Reserve money	76.7	81.8	15.0	12.9 3/	12.3 3/	...
Velocity (GDP/average M2)	7.5	10.6	12.1	...	...	...
(As percent of total current account receipts unless otherwise indicated)						
Total external debt service						
Commitment basis	160.6	185.5	181.1	...	...	...
Actual payments 7/	9.7	8.0	8.5	...	...	...
Memorandum item:						
Nominal GDP (annual; in billions of Sudanese pounds)	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.

