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CONFIDENTIAL

December 22, 1997

To: Members of the Executive Board

From: The Secretary

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

Attached for the information of the Executive Directors is a report on developments through November 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.

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, January 5, 1998; 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 November 1997**

Prepared by the Middle Eastern and Policy Development  
and Review Departments

Approved by P. Chabrier and T. Leddy

December 19, 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-October 1997 and the structural benchmarks for November 1997.<sup>1</sup> Seven monthly reports on developments from April through October 1997 have been issued to date for the information of the Executive Board. In addition, a staff report,<sup>2</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. Recent developments are in line with the objectives for the Staff-Monitored Program; specifically, payments to the Fund through November were made as committed, for a total of US\$55.4 million since February 1997 (excluding the amount of US\$1.6 million that had been frozen as a result of the recently imposed U.S. sanctions). Data and economic information have been reported to the Fund as specified under the program. The quantitative benchmarks at end-October were met (Table 1), and the structural benchmarks for the month of

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<sup>1</sup>The staff team that visited Khartoum during the period November 25–December 5, 1997, comprised Messrs. Sundararajan (Head), Shabsigh, Treichel (all MED), Ha (FAD), and Thugge (PDR). In addition to the monthly monitoring, the team also held Article IV consultation discussions with Sudan and coordinated with a Monetary and Exchange Affairs Department (MAE) mission headed by Mr. Marston to assist in the development of foreign exchange markets and of new instruments of monetary management. Mr. Agbonyitor (World Bank) also participated in the discussions. The mission met with His Excellency Abdel-Wahab Osman, Minister of Finance and National Economy, the Honorable Abdallah Hassan Ahmed, Governor of the Bank of Sudan, Dr. Sabir Mohamed Al-Hassan and Dr. Izz-Eldeen Ibrahim, State Ministers of Finance, and other senior officials.

<sup>2</sup>See EBS/97/151, 8/15/97, considered at EBM/97/89, 8/29/97.

November were also complied with, as detailed in Table 2, and further discussed in paragraphs 10 to 12. The November payment was effected in Swiss francs through the Swiss National Bank for an amount equivalent to US\$5 million, following the announcement of economic sanctions against Sudan by the United States on November 4, 1997. The U.S. sanctions led to the freezing of Sudan's financial assets in the United States, and the prohibition of U.S. trade and financial transactions with Sudan. As a result, balances in the account of the Bank of Sudan (BOS) at the Federal Reserve Bank of New York in the amount of US\$1.6 million have been frozen, and an instruction for payments to the Fund from the account has not been executed. Sudan has applied for a license from the Office of Foreign Assets Control (OFAC) at the Department of the Treasury to unblock these funds, and a decision is expected in a few weeks. The Fund staff in consultation with management has sent a written communication to OFAC in support of the Sudanese request for unblocking of the frozen funds. Discussions with the authorities suggest that the U.S. sanctions would result in higher transaction costs on account of delays and the conversion of some export receipts and import payments into currencies other than U.S. dollar.

3. Progress on macroeconomic stabilization remains good. Inflation reached 27 percent in November (year on year), substantially higher than the inflation rate in October of 19 percent but well below the 114 percent rate in December 1996. The acceleration of the monthly inflation rate in November to over 6 percent following the decline of the CPI in September and October reflected the liberalization of sugar prices to eliminate subsidies, and seasonal increases in the prices of meat and vegetables.<sup>3</sup> Other nonfood prices remained roughly stable. The exchange rate in the accounts-to-accounts market depreciated slightly in October and November 1997, but has remained roughly stable since the beginning of the year. The spread between the official exchange rate and the accounts-to-accounts rate declined further to 6.7 percent in early December (compared with 23 percent at end-December 1996 and the program ceiling of 8 percent for end-1997) partly reflecting a recent acceleration of the adjustment of the official exchange rate. The real effective official exchange rate at end-November 1997 appreciated by 5.3 percent from December 1996 and the average real rate for the period January–November appreciated by 3.2 percent.

4. The fiscal performance in October continued to be mixed. Although revenue fell short of the programmed level by some LSd 20 billion (or 0.1 percent of estimated annual GDP), the budget was in surplus and the government did not borrow from the Bank of Sudan, reflecting a further compression of expenditures, in particular of operational budgets of ministries and capital expenditures. The revenue shortfall was mainly due to the less than projected impact of the revenue measures taken in the second half of 1997, reflecting some administrative delay of revenue transfers from state enterprises, as well as lower-than-expected imports. In addition, the lower-than-programmed inflation and exchange rate

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<sup>3</sup>Of the November inflation of 6.3 percent, 2 percentage points can be attributed to the liberalization of sugar prices, 1.25 percentage points to the increase of meat prices, and 2.85 percentage points to increases in vegetable prices.

ownership in commercial banks, and used for managing liquidity through open market operations. The BOS will share with the investor the profits from its holdings of commercial banks. The precise operational modalities of the new instrument for monetary purposes will be further elaborated in the near future, based on the recommendations of Fund technical assistance. Insofar as public sector commercial banks are restructured and privatized, it is expected that new market-based instruments of monetary and budget management would be developed. In this context, the mission also continued to discuss the options for the design of a general government funding instrument with the HSSC, along the lines of previous recommendations. The discussions continued to focus on the appropriate definition of the rate of return on such an instrument to fund general government operations.

12. With support from MAE technical assistance, the authorities reviewed the current exchange system regulations and exchange market arrangements (an end-November benchmark) and the next steps in exchange system unification were discussed. These steps include the following: the continued reduction of the exchange rate spread; rapid introduction of flexible instruments to manage domestic liquidity; further reductions of export surrender requirements to the BOS in coordination with the transfer of public sector imports to the private sector; the adoption of a transparent regulatory framework for the unified markets, which preserves the existing liberal exchange arrangements for private individuals and does not impose any new restrictions on current and capital transactions of others; and an appropriate and uniform code of conduct for market practices and trading arrangements that would facilitate market unification. The sequencing and timing of these measures will be discussed with the authorities during the negotiation of the Staff-Monitored Program in January 1998. The authorities have expressed support for further exchange market reform and noted that the improvement of the functioning of existing monetary instruments, as well as the introduction of more flexible instruments was a prerequisite for liberalization of the exchange market. The authorities will continue to speed up the convergence of the official exchange rate to the free accounts-to-accounts exchange rate, by introducing more frequent changes of the official exchange rate. In addition, the authorities have begun the technical preparations for streamlining the regulatory and operational framework of foreign exchange markets.

13. During the staff visit in January 6-17, 1998, the staff team will continue the comprehensive review and assessment of performance under the 1997 program, and seek to conclude the discussions on a Staff-Monitored Program for 1998. The outcome of these discussions and the report on the Article IV consultation discussions with Sudan will be presented for the consideration of the Executive Board on February 27, 1998. At the same time, the Executive Board will also further consider the complaint of the Managing Director with respect to Sudan's compulsory withdrawal.

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<sup>7</sup>(...continued)  
negotiated formula.

Table 1. Sudan: Quantitative Benchmarks, October 1997

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

	Cumulative Change 1/								
	June	July		Aug.		Sept.		Oct.	
	Act.	Prog.	Act.	Prog.	Act.	Prog.	Act.	Prog.	Prel.
<b>Benchmarks</b>									
Ceiling on the net domestic credit of the banking system	881	24	35	49	29	81	49	88	67
Ceiling on net credit to government 2/	634	9	7	15	14	20	20	25	20
Ceiling on new nonconcessional borrowing contracted or guaranteed by the government	0	0	0	0	0	0	0	0	0
Floor on NFA of the Bank of Sudan (in millions of US\$) 3/ 4/	-2,653	0	2	0	13	0	13	0	6
Payments to the Fund (in millions of US\$) 5/	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	5.0
<b>Memorandum items</b>									
Reserve money	690	16	43	25	39	33	56	41	93
Central government revenue	480	101	92	210	194	334	282	446	377

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-November Structural Benchmarks

Benchmarks	Implementation
November payment to the Fund of US\$4.3 million.	Swiss Franc equivalent of US\$5 million received on November 28 1997. Since October, the authorities have increased their payments to the Fund over the generally committed amount in order to ensure stabilization of Sudan's arrears to the Fund in SDR terms.
Adjustment in domestic petroleum prices to eliminate any remaining subsidization and ensure the budgeted contribution.	Domestic petroleum prices remain higher than international prices. LPG prices raised in October by 40 percent.
Plan to abolish export taxes in the context of the 1998 budget, pending the completion of a review by the committee on supply-side.	Review of export taxes by committee on supply-side policies completed. Lowest tax bracket eliminated and other tax rates reduced by 3 percentage points. Elimination of export taxes is being considered in the context of the tariff reform.
Review with Fund technical assistance the technical preparations to strengthen the present rules governing market practices and trading arrangements of authorized foreign exchange operations.	Review completed. Details will be elaborated in the forthcoming MAE report.
Statistical reporting.	Observed

Table 3. Sudan: Selected Economic and Financial Indicators, 1995-97 1/

				1997					
	1995	1996	Mon. Prog. 2/	July Act.	Aug. Act.	Sept. Act.	Oct. Prel.	Nov. 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	19	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	1,660	1,670	
Real effective exchange rate									
(period average: depreciation -)	-22.9	-0.4	...	2.5 3/	3.2 3/	3.3 3/	3.0 3/	3.2 3/	
(end period: depreciation -)	-24.2	14.5	...	3.8 3/	8.3 3/	4.1 3/	0.4 3/	5.3 3/	
Central government operations 4/									
Total revenue	75.5	72.3	85.2	49.1 5/	57.9 5/	65.5 5/	73.6 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/	66.1 5/	73.2 5/	...	
External sector									
Exports, f.o.b.	31.8	11.6	-2.3	-6.2 6/	-3.1 6/	-9.4 6/	-8.0 6/	...	
Imports, c.i.f.	19.1	26.9	-4.2	0.0 6/	-13.8 6/	-1.9 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, 1995-97 1/ (concluded)

			1997					
	1995	1996	Mon. Prog. 2/	July Act.	Aug. Act.	Sept. Act.	Oct. Prel.	Nov. Prel.
(Changes as percent of beginning stock of broad money)								
Money and credit								
Net foreign assets	-462.9	-267.3	-161.2	-30.4	-31.8	-39.0	-38.9	...
Net domestic assets	137.7	56.1	14.6	10.6	10.2	13.8	15.3	...
Net domestic credit	46.4	59.3	14.5	8.5	8.0	9.6	11.3	...
Net credit to the central government	31.2	31.7	4.8	4.3	4.2	5.6	6.0	...
Claims on nongovernment sector	15.2	27.5	9.7	4.1	3.8	3.9	5.2	...
Other items (net)	91.3	-4.7	0.0	2.1	2.2	4.2	4.0	...
Counterpart to valuation changes	472.4	281.1	182.7	40.6	45.4	52.3	53.7	...
Money and quasi-money	147.2	65.2	36.1	20.8	23.8	27.1	30.0	...
Reserve money	76.7	81.8	15.0	12.9 3/	12.3 3/	14.9 3/	20.5 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.

